PRELIMINARY OFFICIAL STATEMENT DATED MAY 27, 2015

NEW ISSUE - BOOK-ENTRY ONLY
CUSIP No: 796813___

Ratings:
Moody's: "MIG1"
Standard & Poor's: "SP-1+"
See "RATINGS" herein.

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the County of San Bernardino, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series A Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. The amount treated as interest on the Series A Notes and excluded from gross income may depend upon the taxpayer's election under Internal Revenue Notice 94-84. In the further opinion of Bond Counsel, interest on the Series A Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series A Notes. See "TAX MATTERS" herein.

SAN BERNARDINO COUNTY

$90,000,000*
COUNTY OF SAN BERNARDINO
2015-16 Tax and Revenue Anticipation Notes, Series A
Interest Rate: ___% Yield: ___%

Dated Date: July 1, 2015 | Maturity Date: June 30, 2016

The County of San Bernardino (the "County") is issuing $90,000,000* aggregate principal amount of its County of San Bernardino 2015-16 Tax and Revenue Anticipation Notes, Series A (the "Series A Notes"), for the purpose of financing seasonal cash flow requirements for its General Fund expenditures during the Fiscal Year ending June 30, 2016. The Series A Notes are being issued to provide monies to help meet Fiscal Year 2015-16 County General Fund Expenditures, including current expenses, capital expenditures and the discharge of other obligations or indebtedness of the County. The Series A Notes are being issued pursuant to Article 7.6, Chapter 4, Part 1, Division 2, Title 5, Sections 53850 *et seq.* of the California Government Code (the "Act"), a Resolution adopted by the Board of Supervisors of the County on May 19, 2015 (the "Resolution") and a Financing Certificate Providing for the Terms and Conditions of Issuance and Sale of County of San Bernardino 2015-16 Tax and Revenue Anticipation Notes (the "Financing Certificate") to be delivered on the date of issuance of the Series A Notes. The County may issue additional series of tax and revenue anticipation notes on parity with or subordinate to the Series A Notes upon satisfaction of certain conditions in the Resolution and the Financing Certificate. See "THE SERIES A NOTES – Additional Notes" herein.

Pursuant to the Financing Certificate, the County pledges from all taxes, income, revenue (including, but not limited to, revenue from the State and federal governments), cash receipts and other monies, intended as receipts for the General Fund of the County attributable to its Fiscal Year 2015-16 and that are generally available for the payment of current expenses and other obligations of the County, as security for the Series A Notes, the amounts, as of any date, required by the Financing Certificate to be set aside and deposited in the TRANs Repayment Fund (as defined herein) on or prior to such date (the "Pledged Revenues"). As provided in the Financing Certificate, the Series A Notes and the interest thereon shall be a first lien and charge against, and shall be payable from the first monies received by the County from, the Pledged Revenues. In accordance with the Act, notwithstanding the foregoing, the Series A Notes are general obligations of the County and, to the extent not paid from the Pledged Revenues, shall be paid with the interest thereon from any other monies of the County lawfully available therefor. The County is not authorized, however, to levy or collect any tax for the repayment of the Series A Notes. Amounts for repayment of the Series A Notes will be deposited in the TRANs Repayment Fund, which is held in trust by the Auditor-Controller/Treasurer/Tax Collector of the County. The County expects that the amounts required to be deposited in the TRANs Repayment Fund from Pledged Revenues will be sufficient to repay the Series A Notes and interest thereon. See "THE SERIES A NOTES – Security and Sources of Payment for the Series A Notes" herein.

The Series A Notes will be issued in fully registered form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Series A Notes. Purchases of beneficial interests in the Series A Notes will be made in book-entry only form, in denominations of $5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interests in the Series A Notes purchased. The Series A Notes will bear interest from their dated date. Principal of and interest on the Series A Notes are payable on the maturity date thereof directly to DTC by the Auditor-Controller/Treasurer/Tax Collector of the County, as Paying Agent. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Series A Notes. See APPENDIX E - "BOOK-ENTRY ONLY SYSTEM" attached hereto.

The Series A Notes are not subject to redemption prior to maturity.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

The Series A Notes will be offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to the County. Certain legal matters will be passed upon for the County by its Disclosure Counsel, Hawkins Delafield & Wood LLP, Los Angeles, California, and by the County Counsel. Certain legal matters will be passed upon for the Underwriter by Norton Rose Fulbright US LLP, Los Angeles, California. It is expected that the Series A Notes will be available for delivery through the facilities of DTC on or about July 1, 2015.

Wells Fargo Securities

Date: June __, 2015

* Preliminary, subject to change.

COUNTY OF SAN BERNARDINO BOARD OF SUPERVISORS

James Ramos, *Chair*
Third District

Robert A. Lovingood, *Vice Chair*
First District

Janice Rutherford
Second District

Curt Hagman
Fourth District

Josie Gonzales
Fifth District

COUNTY OF SAN BERNARDINO OFFICIALS

Gregory C. Devereaux, *Chief Executive Officer*
Larry Walker, *Auditor-Controller/Treasurer/Tax Collector*
Jean-Rene Basle, *County Counsel*

BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

DISCLOSURE COUNSEL

Hawkins Delafield & Wood LLP
Los Angeles, California

FINANCIAL ADVISOR

Public Resources Advisory Group
Los Angeles, California

PAYING AGENT

Auditor-Controller/Treasurer/Tax Collector of the County
San Bernardino, California

No dealer, broker, salesperson or other person has been authorized by the County or the Underwriter to give any information or to make any representations in connection with the offer or sale of the Series A Notes other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the County or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series A Notes by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or owners of the Series A Notes. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been obtained from the County and sources which the County believes to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or any other parties described herein since the date hereof. All summaries of the Resolution, the Financing Certificate or other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the County for further information in connection therewith.

Certain statements included or incorporated by reference in the Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are believed to be reasonable, there can be no assurance that such expectations will prove to be correct. The County is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur, whether or not they prove to be correct.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

In connection with the offering of the Series A Notes, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of such notes at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Series A Notes to certain dealers and dealer banks and banks acting as agents at prices lower than the public offering price stated on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

CUSIP data set forth herein are for convenience of reference only. Neither the County nor the Underwriter assumes any responsibility for the accuracy of such data.

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OFFICIAL STATEMENT

$90,000,000*
COUNTY OF SAN BERNARDINO
2015-16 Tax and Revenue Anticipation Notes, Series A

INTRODUCTION

This Official Statement, including the cover and the Appendices attached hereto (the "Official Statement"), provides certain information concerning the sale and delivery of the County of San Bernardino 2015-16 Tax and Revenue Anticipation Notes, Series A (the "Series A Notes") in the aggregate principal amount of $90,000,000*. The County of San Bernardino (the "County") is issuing the Series A Notes for the purpose of financing seasonal cash flow requirements for its General Fund expenditures during the Fiscal Year ending June 30, 2016. The Series A Notes are being issued to provide monies to help meet Fiscal Year 2015-16 County General Fund Expenditures, including current expenses, capital expenditures and the discharge of other obligations or indebtedness of the County. The Series A Notes are issued under the authority of Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the California Government Code, a Resolution adopted by the Board of Supervisors of the County on May 19, 2015 (the "Resolution") and a Financing Certificate Providing for the Terms and Conditions of Issuance and Sale of County of San Bernardino 2015-16 Tax and Revenue Anticipation Notes (the "Financing Certificate") to be delivered on the date of issuance of the Series A Notes. Capitalized undefined terms used herein have the meanings ascribed thereto in the Financing Certificate.

Subject to the restrictions contained in the Resolution and the Financing Certificate, the County may issue additional series of tax and revenue anticipation notes ("Additional Notes") on parity with or subordinate to the Series A Notes upon satisfaction of certain conditions in the Resolution and the Financing Certificate. The Series A Notes and any Additional Notes are collectively referred to as the "Notes." Pursuant to the Resolution, the aggregate principal amount of the Notes may not exceed $145,000,000. See "THE SERIES A NOTES – Additional Notes" attached hereto.

The Series A Notes and the interest thereon are payable from certain taxes, income, revenue (including, but not limited to, revenue from the State and federal governments), cash receipts and other monies, intended as receipts for the General Fund of the County (the "General Fund") attributable to its Fiscal Year 2015-16 and that are generally available for the payment of current expenses and other obligations of the County. See "THE SERIES A NOTES – Security and Sources of Payment for the Series A Notes" herein.

The Series A Notes are being issued to finance the County's General Fund cash flow requirements during Fiscal Year 2015-16. The proceeds received from the sale of the Series A Notes will allow the County to cover periods of deficits resulting from an uneven flow of revenues. County General Fund expenditures tend to occur in relatively level amounts throughout the year, while receipts follow an uneven pattern. Cash receipts from secured property tax installment payments primarily occur in December and April, while payments from other government agencies occur at irregular intervals. As a result, the General Fund's cash balance falls below the calculated working capital reserve of 5% of General Fund expenditures or shows a deficit during parts of the fiscal year. The Series A Notes are intended to finance certain working capital expenditures for Fiscal Year 2015-16.

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* Preliminary, subject to change.

The descriptions herein of the Resolution, the Financing Certificate and the Continuing Disclosure Certificate are qualified in their entirety by reference to such documents, and the descriptions herein of the Series A Notes are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. Copies of the Resolution, the Financing Certificate and the Continuing Disclosure Certificate are on file and available for inspection at the County from the Office of the Clerk of the Board of Supervisors at 385 North Arrowhead Avenue, San Bernardino, California 92415, Attention: Clerk of the Board of Supervisors.

COUNTY INFORMATION

The County

The County is located in the southern region of the State of California (the "State") and was established by an act of the State Legislature on April 23, 1853, which formed the County from the eastern part of the County of Los Angeles. The County encompasses an area of over 20,000 square miles and includes twenty-four incorporated cities. The County is the largest county in the State in terms of geographical area.

County Economic and Demographic Information

For economic and demographic information with respect to the County, see APPENDIX B – "COUNTY OF SAN BERNARDINO DEMOGRAPHIC AND ECONOMIC INFORMATION" and APPENDIX C – "COUNTY OF SAN BERNARDINO EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2014" attached hereto.

The County's Cash Management Program

The County implemented a cash management program in 1981 to finance cash flow shortages in the General Fund occurring periodically during its fiscal year (July 1 through June 30). Since 1981 the County has regulated its cash flow primarily by issuing tax and revenue anticipation notes. The County has never defaulted on the payment of principal of or interest on any of its short-term or long-term obligations. The Resolution authorizes the County to issue up to $145,000,000 aggregate principal amount of Notes in one or more series.

THE SERIES A NOTES

General

The Series A Notes will be dated July 1, 2015, will mature on June 30, 2016, and will bear interest from their date of original issuance payable at maturity and calculated at the rate per annum shown on the cover page hereof, on the basis of a 360-day year comprised of 12 months of 30 days each. Principal of and interest on the Series A Notes will be payable on June 30, 2016.

The Series A Notes will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series A Notes. Individual purchases of the Series A Notes will be made in book-entry form only, in denominations of $5,000 or any integral multiple thereof. Beneficial Owners of the Series A Notes will not receive physical certificates representing the Series A Notes purchased. The principal of and interest on the Series A Notes will be paid on June 30, 2016 by the Paying Agent to DTC, which will in turn remit such principal and interest to its participants for subsequent distribution to the Beneficial Owners. See APPENDIX E – "BOOK-ENTRY ONLY SYSTEM" attached hereto.

The Series A Notes are not subject to redemption prior to maturity.

Security and Sources of Payment for the Series A Notes

Subject to the restrictions contained in the Resolution and the Financing Certificate, following the delivery of the Series A Notes, the County may issue one or more series of Additional Notes. If issued, such Additional Notes will be secured by a pledge of and lien on Pledged Revenues, and may be issued on a parity with the Series A Notes (such Additional Notes, together with the Series A Notes, the "Senior Notes") or subordinate to the Senior Notes (such Additional Notes, the "Subordinated Notes"). See "THE SERIES A NOTES – Additional Notes" herein.

Pursuant to the Act, the County pledges from the Unrestricted Revenues, as security for the Notes, the amounts, as of any date, required by the Financing Certificate to be set aside and deposited in the TRANs Repayment Fund (as defined below) on or prior to such date (the "Pledged Revenues"). The term "Unrestricted Revenues" is defined in the Financing Certificate to mean all taxes, income, revenue (including, but not limited to, revenue from the State and federal governments), cash receipts and other monies, intended as receipts for the General Fund of the County attributable to its Fiscal Year 2015-16 and that are generally available for the payment of current expenses and other obligations of the County. As provided in the Act, the Senior Notes and the interest thereon shall be a first lien and charge against, and shall be payable from the first monies received by the County from, the Pledged Revenues and the Subordinate Notes and the interest thereon are a lien and charge against, and are payable from the monies received by the County from, such Pledged Revenues following payment of any amounts with respect to all Senior Notes. In accordance with the Act, notwithstanding the foregoing, the Notes are general obligations of the County and, to the extent not paid from the Pledged Revenues, shall be paid with the interest thereon from any other monies of the County lawfully available therefor. The County is not authorized, however, to levy or collect any tax for the repayment of the Notes.

Amounts for repayment of the Series A Notes will be deposited in the TRANs Repayment Fund (the "TRANs Repayment Fund"), which is held in trust by the Auditor-Controller/Treasurer/Tax Collector of the County, acting in his capacity as the Auditor-Controller of the County (the "County Controller"). The County has covenanted to transfer Unrestricted Revenues to the TRANs Repayment Fund by the following dates and in the following percentages (the "Set Aside Schedule"): (i) not later than January 30, 2016, an amount equal to 25% of the principal and interest due on all Series A Notes at the maturity thereof, (ii) not later than March 31, 2016, an amount equal to 25% of the principal and interest due on all Series A Notes at the maturity thereof, (iii) not later than April 30, 2016, an amount equal to 25% of the principal and interest due on all Series A Notes at the maturity thereof, and (iv) not later than May 29, 2016, an amount equal to 25% of the principal and interest due on all Series A Notes at the maturity thereof.

In accordance with the terms of the Resolution and the Financing Certificate, the County Controller will deposit Unrestricted Revenues in the TRANs Repayment Fund in accordance with the Set Aside Schedule. To the extent that any amounts actually received are less than the amount designated for a deposit pursuant to the Set Aside Schedule, the County Controller shall deposit into the TRANs Repayment Fund additional Unrestricted Revenues as and when available. In addition, the portion of the proceeds of the sale of the Series A Notes upon original issuance equal to the premium above the principal amount thereof at which the Series A Notes were sold (net of costs of issuance and any underwriter's discount) shall be deposited in the TRANs Repayment Fund. See table entitled "COUNTY OF SAN BERNARDINO ESTIMATED MONTHLY CASH FLOW SUMMARY" on page 10 hereof.

The County Controller will hold such Pledged Revenues until the Series A Notes are paid in full. The Resolution and the Financing Certificate provide that such amounts may not be used for any other purpose and may be invested in Permitted Investments. Earnings on amounts in the TRANs Repayment Fund will be deposited as and when received into the General Fund of the County. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE FINANCING CERTIFICATE – Permitted Investments" herein.

As more particularly described under the heading "Interfund Borrowing, Intrafund Borrowing and Cash Flow," the County may, under certain circumstances, undertake interfund borrowing to finance its General Fund cash flow requirements. While the County does not expect to undertake any such interfund borrowing, Section 6 of Article XVI of the California Constitution requires that any such borrowing be repaid from revenues before any other obligation of the County (including the Series A Notes) is paid from such revenues.

Additional Notes

Subject to the restrictions contained in the Resolution and the Financing Certificate, following the delivery of the Series A Notes, the County may issue one or more series of Additional Notes, which may be Senior Notes or Subordinated Notes. No additional Senior Notes may be issued until (i) the County has received confirmation from each Rating Agency rating the Outstanding Series A Notes that the issuance of such additional Senior Notes will not cause a reduction or withdrawal of such Rating Agency's rating on the Outstanding Series A Notes, and (ii) the maturity date of such additional Senior Notes shall be later than the maturity date of the Series A Notes. The aggregate principal amount of the Series A Notes and all additional Senior Notes and Subordinated Notes may not exceed $145,000,000.

Any series of Subordinated Notes will have a lien on all amounts legally available for payment thereof on a basis junior and subordinate in all respects to the lien of the Senior Notes. Subordinated Notes may not mature or be subject to redemption by the County prior to the maturity date of the Senior Notes. Further, no deposit to any account established with respect to any Subordinated Notes will be made on any date until all deposits scheduled to be made by the County up to and including such date of deposit have been made with respect to the TRANs Repayment Fund for the Senior Notes pursuant to the Financing Certificate; provided, that if in any month the County fails to make a deposit required pursuant to the Financing Certificate with respect to the Senior Notes, the County Controller will transfer from any account established for any Subordinated Notes to the TRANs Repayment Fund, such monies as are necessary to effect the required deposits therein. The County does not currently anticipate issuing Additional Notes in Fiscal Year 2015-16.

The County covenants under the Financing Certificate that it will not issue any notes or otherwise incur any indebtedness pursuant to the Act with respect to its Fiscal Year 2015-16 in an amount which, when added to the interest payable thereon, shall exceed 85% of the estimated amount of the then-uncollected taxes, income, revenue, cash receipts, and other monies of the County which will be available for the payment of said notes or other indebtedness and the interest thereon; provided, however, that to the extent that any principal of or interest on such notes or other indebtedness is secured by a pledge of the amount in any inactive or term deposit of the County, the term of which will terminate during said fiscal year, such principal and interest may be disregarded in computing said limit.

Investment of Series A Note Proceeds and Amounts in the TRANs Repayment Fund

The principal amount of the Series A Notes will be deposited in the TRANs Proceeds Fund and invested as authorized by the Resolution and the Financing Certificate until used and expended by the County for any purpose for which it is authorized to expend funds from the General Fund of the County. The Treasurer presently intends to invest amounts in the TRANs Proceeds Fund and the TRANs Repayment Fund in the County's Investment Pool. For information concerning other Permitted

Investments, see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE FINANCING CERTIFICATE – Permitted Investments" herein. For certain information concerning the County's pooled cash portfolio, see APPENDIX A – "COUNTY OF SAN BERNARDINO COUNTY FINANCIAL INFORMATION – County of San Bernardino Treasury Pool" attached hereto.

Available Sources of Payment

The Series A Notes, in accordance with California law, are obligations of the County payable only out of the taxes, income, revenue, cash receipts and other monies received for the General Fund of the County attributable to Fiscal Year 2015-16 and legally available for payment thereof. Pursuant to the Act, the County may not issue notes thereunder in any fiscal year in an amount which, when added to the interest payable thereon, exceeds 85% of the estimated amount of the then uncollected taxes, income, revenue, cash receipts and other monies of the County which will be available for the payment of said notes and the interest thereon; provided, however, that to the extent that any principal of or interest on such notes is secured by a pledge of the amount in any inactive or term deposit of the County, the term of which will terminate during said fiscal year, such principal and interest may be disregarded in computing said limit.

The County estimates that the total Unrestricted Revenues available for payment of principal of and interest on the Series A Notes will be in excess of $3.3 billion, as indicated in the following table. Except for Pledged Revenues, these monies will be expended during the course of the fiscal year, and no assurance can be given that any monies, other than the Pledged Revenues, will be available to pay the Series A Notes and the interest thereon.

COUNTY OF SAN BERNARDINO
ESTIMATED GENERAL FUND UNRESTRICTED CASH RECEIPTS
Fiscal Year 2015-16
Based on Fiscal Year 2015-16 Recommended Budget
($ in Thousands)

Source	Amount
Estimated Unrestricted Available Cash Balance at July 1, 2015	$ 545,728
State and Federal Aid	1,427,973
Property Taxes	545,458
Sales and Use Taxes	178,692
Use of Money and Property	31,517
Licenses, Permits and Franchises	22,113
Fines, Forfeitures and Penalties	7,411
Other Taxes	9,790
Charges for Current Services	398,874
Other Unrestricted Revenue	39,525
Other Cash Receipts	138,160
Total:	$3,345,241
Less amount pledged for payment of the Series A Notes[(1)]:	(90,360)
Net excess of pledged revenues:	$3,254,881

Source: County of San Bernardino.
(1) Preliminary, subject to change. Net of the premium on the Series A Notes, less Underwriter's discount and costs of issuance, which will be deposited in the TRANs Repayment Fund on or about the date of issuance of the Series A Notes.

Interfund Borrowing, Intrafund Borrowing and Cash Flow

County General Fund expenditures tend to occur in level amounts throughout the fiscal year. However, revenues are received during the fiscal year by the County in uneven amounts, primarily as a result of the receipt of secured property tax installment payments in December and April and delays in payments from other governmental agencies, the two largest sources of County revenues. The County has managed its General Fund cash flow deficits and certain working capital needs by using one or more of the following strategies: (i) borrowing from funds held in trust by the County (so-called "intrafund borrowing") or (ii) issuing tax and revenue anticipation notes for the General Fund, which started in 1981 because General Fund interfund borrowings (as described below) caused disruptions in the County's management of the General Fund's pooled investments and (iii) borrowing from specific funds of other governmental entities whose funds are held in the County Treasury (so called "interfund borrowing") pursuant to Section 6 of Article XVI of the California Constitution. The County uses interfund borrowing only when necessary, after note proceeds have been exhausted. The County has not engaged in interfund borrowing for the General Fund in the last five fiscal years and does not intend to engage in such borrowing in the upcoming fiscal year. All notes issued in connection with the County's cash management program, with the exception of $130,000,000 in aggregate principal amount of tax and revenue anticipation notes issued in Fiscal Year 2014-15 which are due June 30, 2015 (the "2014-15 Notes"), have been repaid on their respective maturity dates. Sufficient revenues have been reserved in a repayment fund held by the County, separate from the General Fund, to repay the 2014-15 Notes at maturity.

Cash Flow Projections

The County Controller has prepared the following two-year summary of month-end cash balances in the General Fund (which includes actual figures for the first ten months of Fiscal Year 2014-15). The County's historical and projected fiscal year end balances in funds with which it may undertake intrafund borrowing ("Intrafund Borrowing Capacity") are also presented.

COUNTY OF SAN BERNARDINO
GENERAL FUND
MONTH-END CASH BALANCES AND INTRAFUND BORROWING CAPACITY[(1)]
Fiscal Years 2013-14 and Fiscal Year 2014-15
($ In Thousands)

Accounting Month	Fiscal Year 2013-14[(2)]	Fiscal Year 2014-15[(3)]
July	$223,870	$268,324
August	163,093	165,218
September	118,458	142,025
October	67,385	105,582
November	100,000	215,111
December	178,811	312,361
January	307,629	407,119
February	349,017	427,699
March	316,027	455,686
April	315,902	486,107
May	396,456	572,731[(4)]
June	472,887	545,728[(4)]
Intrafund Borrowing Capacity at June 30	$335,030[(5)]	368,000[(4)(6)]

Source: County of San Bernardino.

(1) Period-end balances excludes the effects of any intrafund borrowing and includes deposits to the TRANs Repayment Funds relating to the short-term notes. See "THE SERIES A NOTES – Interfund Borrowing, Intrafund Borrowing and Cash Flow" herein. "Intrafund Borrowing Capacity" reflects borrowable balances as of June 30 of each fiscal year.

(2) Includes receipt in July 2013 of proceeds from sale of $150 million of Fiscal Year 2013-14 Notes.

(3) Includes receipt in July 2014 of proceeds from sale of $130 million of Fiscal Year 2014-15 Notes.

(4) Estimated.

(5) Includes $59.9 million related to special districts within the County that have the same governing board as the County but are separate legal entities.

(6) Includes $66.7 million related to special districts within the County that have the same governing board as the County but are separate legal entities.

On the next two pages are monthly cash flow statements prepared by the County Controller covering Fiscal Year 2014-15 (which includes actual figures for the first ten months of Fiscal Year 2014-15) and projected monthly cash flow statements prepared by the County Controller covering Fiscal Year 2015-16. The projected 2015-16 cash flow is based upon, among other things, the County's 2015-16 Recommended Budget.

The estimates of amounts and timing of receipts and disbursements in the cash flow tables are based on certain assumptions, including historical information and the County's analysis of expected revenues and expenses, and should not be construed as statements of fact. The assumptions are based on present circumstances and currently available information and are believed to be reasonable. The cash flow may be affected by numerous factors, including the final County Budget, actual revenues and expenses and the impact on the County of State budgetary actions, and there can be no assurance that such estimates will be achieved.

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COUNTY OF SAN BERNARDINO
ACTUAL MONTHLY CASH FLOW SUMMARY
(IN THOUSANDS)
FOR THE PERIOD JULY 1, 2014 THROUGH JUNE 30, 2015

	ACTUAL										ESTIMATED		
	Jul-2014	Aug-2014	Sep-2014	Oct-2014	Nov-2014	Dec-2014	Jan-2015	Feb-2015	Mar-2015	Apr-2015	May-2015	Jun-2015	TOTAL
BEGINNING CASH BALANCE	$ 472,887	$ 268,324	$ 165,218	$ 142,025	$ 105,582	$ 215,111	$ 312,361	$ 407,119	$ 427,699	$ 455,686	$ 486,107	$ 572,731	$ 472,887
RECEIPTS:													
1 Property Taxes	$ 7,819	$ (532)	$ -	$ -	$ 24,027	$ 109,347	$ 123,537	$ 12,044	$ 3,480	$ 74,235	$ 148,067	$ -	$ 502,024
2 Property Taxes - Teeter Collection	3,806	-	-	-	11,411	1,815	2,466	1,090	817	2,362	2,198	-	25,965
3 Sales Tax	16,363	13,788	11,828	15,239	18,342	13,589	13,170	18,303	13,925	12,325	15,585	14,023	176,480
4 Other Taxes	1,098	762	728	1,005	1,202	763	826	1,106	735	1,186	801	635	10,847
5 Licenses, Permits and Franchises	3,132	2,180	1,197	2,359	1,225	1,534	2,314	1,528	2,779	2,531	1,334	1,319	23,432
6 Fines, Forfeitures and Penalties	915	595	318	584	593	527	614	691	645	1,095	684	605	7,866
7 Use of Money and Property	6,316	1,276	1,273	2,341	4,487	1,619	2,911	1,756	1,292	4,301	2,103	166	29,841
8 Aid from Other Governmental Agencies	110,910	66,729	68,779	139,673	148,932	133,437	152,735	89,156	146,825	107,967	110,495	139,428	1,415,066
9 Charges for Current Services	18,746	15,626	49,543	43,348	33,261	13,175	23,819	55,808	18,970	62,373	25,665	22,455	382,789
10 Other Revenues	2,983	1,007	1,635	2,705	1,259	4,438	199	1,059	1,735	19,931	508	579	38,038
11 Repayments from Other Funds	72	-	-	700	511	6,382	-	-	-	6,567	-	-	14,232
12 POB Debt Service Reimbursement	6,689	6,689	6,689	10,034	6,689	-	13,378	6,689	6,689	10,034	6,689	6,689	86,958
13 Transfers In	(4,589)	113	2,784	240	408	616	121	535	628	1,051	492	11,754	14,153
14 Note Proceeds	130,000	-	-	-	-	-	-	-	-	-	-	-	130,000
TOTAL RECEIPTS	$ 304,260	$ 108,233	$ 144,774	$ 218,228	$ 252,347	$ 287,242	$ 336,090	$ 189,765	$ 198,520	$ 305,958	$ 314,621	$ 197,653	$ 2,857,691
DISBURSEMENTS:													
15 Salaries and Benefits	$ 276,361	$ 75,256	$ 71,332	$ 111,693	$ 74,941	$ 78,211	$ 76,090	$ 71,200	$ 73,550	$ 114,131	$ 76,452	$ 76,369	$ 1,175,586
16 Services and Supplies	54,679	30,148	43,251	43,982	37,269	35,561	38,225	38,654	28,658	45,464	34,496	39,813	470,200
17 Public Assistance	44,263	92,351	27,091	91,468	26,623	63,056	79,331	46,206	20,952	70,555	71,374	53,590	686,860
18 Other Charges	2,746	3,721	7,556	741	917	7,237	407	869	8,161	5,191	1,711	1,425	40,682
19 Pension Obligation Bond Debt Service	86,958	-	-	-	-	-	-	-	-	-	-	-	86,958
20 Capital Outlay	6,155	3,675	18,442	6,363	2,736	3,827	14,674	7,658	6,607	6,912	11,359	16,073	104,481
21 Loans to Other Funds	12,764	-	-	-	-	200	-	-	-	-	-	700	13,664
22 Transfers Out	4,369	6,188	295	424	332	1,900	-	4,598	-	679	-	36,686	55,471
23 Teeter Buyout	20,528	-	-	-	-	-	-	-	-	-	-	-	20,528
24 Note Principal Repayment	-	-	-	-	-	-	32,500	-	32,500	32,500	32,500	-	130,000
25 Note Interest	-	-	-	-	-	-	105	-	105	105	105	-	420
TOTAL DISBURSEMENTS	$ 508,823	$ 211,339	$ 167,967	$ 254,671	$ 142,818	$ 189,992	$ 241,332	$ 169,185	$ 170,533	$ 275,537	$ 227,997	$ 224,656	$ 2,784,850
ENDING CASH BALANCE	$ 268,324	$ 165,218	$ 142,025	$ 105,582	$ 215,111	$ 312,361	$ 407,119	$ 427,699	$ 455,686	$ 486,107	$ 572,731	$ 545,728	$ 545,728
INTRAFUND BORROWING CAPACITY	$ 357,735	$ 358,112	$ 351,267	$ 354,307	$ 363,352	$ 375,111	$ 375,000	$ 374,641	$ 373,350	$ 397,004	$ 368,000	$ 368,000	$ 368,000
ENDING CASH BALANCE, INCLUDING INTRAFUND BORROWING CAPACITY	$ 626,059	$ 523,330	$ 493,292	$ 459,889	$ 578,463	$ 687,472	$ 782,119	$ 802,340	$ 829,036	$ 883,111	$ 940,731	$ 913,728	$ 913,728
1991 REALIGNMENT CASH BALANCE	$ 205,153	$ 212,530	$ 221,519	$ 211,602	$ 235,386	$ 216,146	$ 223,625	$ 239,309	$ 223,148	$ 226,062	$ 230,986	$ 214,239	$ 214,239
2011 REALIGNMENT CASH BALANCE	$ 63,785	$ 66,243	$ 81,726	$ 75,173	$ 79,824	$ 69,986	$ 74,795	$ 78,795	$ 62,619	$ 62,608	$ 66,219	$ 60,992	$ 60,992

COUNTY OF SAN BERNARDINO
ESTIMATED MONTHLY CASH FLOW SUMMARY
(IN THOUSANDS)
FOR THE PERIOD JULY 1, 2015 THROUGH JUNE 30, 2016

ESTIMATED

		Jul-2015	Aug-2015	Sep-2015	Oct-2015	Nov-2015	Dec-2015	Jan-2016	Feb-2016	Mar-2016	Apr-2016	May-2016	Jun-2016	TOTAL
	BEGINNING CASH BALANCE	$ 545,728	$ 236,656	$ 232,716	$ 151,869	$ 102,057	$ 165,376	$ 241,532	$ 366,320	$ 389,013	$ 318,835	$ 375,139	$ 530,388	$ 545,728
	RECEIPTS:													
1	Property Taxes	$ 8,288	$ -	$ -	$ -	$ 25,580	$ 113,723	$ 128,479	$ 12,572	$ 3,619	$ 77,230	$ 153,990	$ -	$ 523,481
2	Property Taxes - Teeter Collection	3,806	-	-	-	9,358	1,488	2,022	893	671	1,937	1,802	-	21,977
3	Sales Tax	16,289	14,055	13,259	14,552	15,730	14,507	12,694	19,225	13,970	12,871	16,636	14,904	178,692
4	Other Taxes	856	747	612	870	1,190	794	868	874	620	877	855	627	9,790
5	Licenses, Permits and Franchises	2,948	2,193	1,199	1,678	1,237	1,046	2,131	1,413	1,499	3,975	1,494	1,300	22,113
6	Fines, Forfeitures and Penalties	687	649	538	553	588	533	521	600	662	816	677	587	7,411
7	Use of Money and Property	5,741	2,196	2,135	2,226	4,519	1,894	2,741	1,883	1,567	3,713	2,223	679	31,517
8	Aid from Other Governmental Agencies	99,031	109,282	88,918	129,024	124,544	123,575	132,464	122,364	126,198	116,220	111,118	145,235	1,427,973
9	Charges for Current Services	12,384	19,197	37,443	39,353	42,715	25,601	26,990	44,144	20,578	59,021	35,706	35,742	398,874
10	Other Revenues	790	591	4,853	1,066	947	1,171	821	508	822	26,468	558	930	39,525
11	Repayments from Other Funds	-	-	-	-	700	4,607	-	-	-	4,607	-	284	10,198
12	POB Debt Service Reimbursement	7,063	7,063	10,596	7,063	7,063	7,063	7,063	7,063	10,596	7,063	7,063	7,064	91,823
13	Transfers In	-	3,100	998	454	497	679	1,090	5,814	1,082	2,911	4,791	14,723	36,139
14	Note Proceeds	90,000	-	-	-	-	-	-	-	-	-	-	-	90,000
	TOTAL RECEIPTS	$ 247,883	$ 159,073	$ 160,551	$ 196,839	$ 234,668	$ 296,681	$ 317,884	$ 217,353	$ 181,884	$ 317,709	$ 336,913	$ 222,075	$ 2,889,513
	DISBURSEMENTS:													
15	Salaries and Benefits	$ 287,966	$ 77,854	$ 116,616	$ 77,634	$ 77,545	$ 77,456	$ 77,366	$ 77,275	$ 115,742	$ 77,047	$ 76,955	$ 76,861	$ 1,216,317
16	Services and Supplies	53,936	35,699	43,791	56,517	45,625	34,909	42,260	44,520	34,729	52,531	36,026	46,897	527,440
17	Public Assistance	78,669	33,614	63,706	88,368	36,690	84,072	37,376	61,337	61,390	86,801	37,990	64,044	734,057
18	Other Charges	1,375	3,391	7,300	1,927	791	7,339	1,081	565	9,884	6,782	1,193	1,778	43,406
19	Pension Obligation Bond Debt Service	91,823	-	-	-	-	-	-	-	-	-	-	-	91,823
20	Capital Outlay	12,620	10,059	9,637	16,875	9,634	15,022	7,556	9,369	7,240	7,364	6,641	12,465	124,482
21	Loans to Other Funds	9,214	-	-	-	-	-	-	-	-	-	-	700	9,914
22	Transfers Out	6,336	2,396	348	5,330	1,064	1,727	4,867	1,594	487	8,290	269	27,567	60,275
23	Teeter Buyout	15,016	-	-	-	-	-	-	-	-	-	-	-	15,016
24	Note Principal Repayment(a)	-	-	-	-	-	-	22,500	-	22,500	22,500	22,500	-	90,000
25	Note Interest(b)	-	-	-	-	-	-	90	-	90	90	90	-	360
	TOTAL DISBURSEMENTS	$ 556,955	$ 163,013	$ 241,398	$ 246,651	$ 171,349	$ 220,525	$ 193,096	$ 194,660	$ 252,062	$ 261,405	$ 181,664	$ 230,312	$ 2,913,090
	ENDING CASH BALANCE	$ 236,656	$ 232,716	$ 151,869	$ 102,057	$ 165,376	$ 241,532	$ 366,320	$ 389,013	$ 318,835	$ 375,139	$ 530,388	$ 522,151	$ 522,151
	INTRAFUND BORROWING CAPACITY	$ 368,000	$ 368,000	$ 368,000	$ 368,000	$ 368,000	$ 368,000	$ 368,000	$ 368,000	$ 368,000	$ 368,000	$ 368,000	$ 368,000	$ 368,000
	ENDING CASH BALANCE, INCLUDING INTRAFUND BORROWING CAPACITY	$ 604,656	$ 600,716	$ 519,869	$ 470,057	$ 533,376	$ 609,532	$ 734,320	$ 757,013	$ 686,835	$ 743,139	$ 898,388	$ 890,151	$ 890,151
	1991 REALIGNMENT CASH BALANCE	$ 221,600	$ 217,977	$ 217,829	$ 219,626	$ 221,420	$ 221,364	$ 221,250	$ 225,007	$ 224,448	$ 224,168	$ 232,848	$ 223,497	$ 223,497
	2011 REALIGNMENT CASH BALANCE	$ 74,482	$ 60,777	$ 71,719	$ 82,994	$ 86,812	$ 84,828	$ 85,418	$ 93,174	$ 87,300	$ 87,450	$ 93,561	$ 88,005	$ 88,005
	NET CHANGE IN CASH	$ (309,072)	$ (3,940)	$ (80,847)	$ (49,812)	$ 63,319	$ 76,156	$ 124,788	$ 22,693	$ (70,178)	$ 56,304	$ 155,249	$ (8,237)	

(a) The County deposits premium on the Series A Notes (net of costs of issuance and underwriter's discount) in the TRANs Repayment Fund for repayment of the Series A Notes.
(b) Note interest is shown net of premium available to repay the Series A Notes.

STATE OF CALIFORNIA BUDGET INFORMATION AND FEDERAL STIMULUS INFORMATION

State of California Budget Information

The following information concerning the State's budgets has been obtained from publicly available information which the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information. Information about the State Budget is regularly available at various State-maintained websites. Text of the State budget may be found at the Department of Finance website, www.dof ca.gov, under the heading "California Budget." An impartial analysis of the State's budget is posted by the Legislative Analyst's Office (the "LAO") at www.lao.ca.gov. In addition, certain State official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov and the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System, emma.msrb.org. The information referred to on the website of the State Treasurer is prepared by the State and not by the County or the Underwriter, and the County and the Underwriter take no responsibility for the continued accuracy of the internet address of the State Treasurer or for the accuracy, if any, or timeliness of information posted there, and such information is not incorporated herein by these references.

State Budget for Fiscal Year 2014-15

Fiscal Year 2014-15 State Budget Act. On June 20, 2014, the Governor approved the State Budget Act for Fiscal Year 2014-15 (the "2014 15 State Budget Act"), which projects Fiscal Year 2013-14 general fund revenues and transfers of $102.2 billion, total expenditures of $100.7 billion and a year-end surplus of $3.90 billion (inclusive of the $2.4 billion fund balance in the General Fund from fiscal year 2012-13), of which $955 million would be reserved for the liquidation of encumbrances and $2.95 billion would be deposited in a reserve for economic uncertainties. The 2014-15 State Budget Act projects Fiscal Year 2014-15 General Fund revenues and transfers of $105.5 billion, total expenditures of $108.0 billion and a year-end surplus of $1.40 billion (inclusive of the projected $3.90 million State General Fund balance as of June 30, 2014 which would be available for Fiscal Year 2014-15), of which $955 million would be reserved for the liquidation of encumbrances and $449 million would be deposited in a reserve for economic uncertainties. The 2014-15 State Budget Act projects that the State's multi-year budget will be balanced for the foreseeable future, but cautions that the unprecedented level of debts, deferrals, and budgetary obligations accumulated over the prior decade contribute to the State's fiscal challenges.

The Fiscal Year 2014-15 State Budget included the State constitutional amendment which was approved at the November 2014 Statewide election ("Proposition 2"). Proposition 2 changes the formula by which the State's Rainy Day Fund is funded and establishes certain accounts therein. The Governor expects that the constitutional amendment will help the State minimize the volatility of future budgetary surplus and deficit cycles.

Features of the 2014-15 State Budget Act affecting counties in general include, but are not limited to, the following:

1. The 2014-15 State Budget Act continues to suspend all mandates suspended in the current year. The State estimates that it owes to counties, cities, and special districts approximately $900 million relating to mandate costs which were incurred prior to 2004. In accordance with State law, the State must repay such amounts by Fiscal Year 2020-21. The 2014-15 State Budget Act appropriates $100 million to local governments in Fiscal Year 2014-15. The State expects to allocate approximately 73% of

this amount to counties, 25% to cities and 2% to special districts. The State expects that these amounts will be applied to fund local government services such as public safety and the implementation of the 2011 Public Safety Realignment. In addition, the 2014-15 State Budget Act provides that additional funds, in an amount not to exceed $800 million, will be provided if the State's estimated General Fund revenues for Fiscal Years 2013-14 and 2014-15 exceed the estimate set forth in the 2014-15 State Budget Act and sufficient moneys remain after payment of the Proposition 98 minimum guarantee for schools. The Fiscal Year

2. The 2014-15 State Budget Act includes an appropriation of approximately $351 million for loan repayments from the State's General Fund. The appropriation includes approximately $100 million for cities and counties for local streets and roads. The State expects that the majority of the remaining repayments will be allocated to pavement rehabilitation, maintenance projects on the State highway system and traffic management projects.

3. The 2014-15 State Budget Act estimates that in Fiscal Years 2011-12 and 2012-13 combined, cities received $620 million, counties receives $875 million, and special districts received $310 million in connection with the dissolution of redevelopment agencies in the State. The 2014-15 State Budget Act estimates that cities will receive approximately $593 million, counties will receive approximately $731 million and special districts will receive approximately $227 million in general purpose revenues in Fiscal Year 2013-14 and 2014-15 combined.

4. In connection with the State's water shortage, the 2014-15 State Budget Act notes that the State Legislature enacted emergency legislation in February 2014 to assist communities impact by the drought and improve management of water supplies. The State's legislation included, among other things, an allocation of approximately $549 million of bond proceeds for infrastructure grants for local and regional projects. In addition, the State has approved approximately $21 million of special funds and federal funds for the Department of Housing and Community Development and $25 million for the Department of Social Services for housing assistance and food assistance, respectively, to individuals impacted by the drought.

5. In connection with the 2014-15 State Budget Act, the Governor approved a trailer bill which authorizes approximately $500 million of lease revenue bond financing authority for the acquisition, design, and construction of local criminal justice facilities. Such authority will supplement the existing lease revenue bond authority provided by Assembly Bill 900 (2007) and Senate Bill 1022 (2012). The Governor expects these bond proceeds to be used for housing and to expand program and treatment space for the adult offender population. Recipients of the bond proceeds may use such amounts to replace existing housing capacity subject to certain conditions.

6. In connection with the 2014-15 State Budget Act, the Governor approved legislation which makes a "split-sentence" the default sentence for realigned offenders unless a court finds, in the interest of justice, that it is not appropriate in a particular case. Under a split-sentence, offenders serve a portion of their terms outside of jail. By increasing the number of offenders who receive split sentences, the State expects that probation departments will have a greater number of offenders under their supervision.

7. The State expects that there will be a temporary increase in the average daily population of offenders on post-release community supervision due to, among other things, additional credits earned by certain offenders. Accordingly, the 2014-15 State Budget Act allocates approximately $11.3 million for county probation departments to supervise such offenders. Pursuant to the 2011 Public Safety Realignment, the Governor expects that many of these offenders will be released to post-release community supervision which is a responsibility of county probation departments.

8. The 2014-15 State Budget Act provides funding for the Community Corrections Performance Incentive Grant Program in the amount of $124.8 million. The grant program will provide funds for county probation departments that have reduced the number of adult felony probationers going to county jail or State prison. In addition, the 2014-15 State Budget Act includes $8 million in one-time funding for each county relating to recidivism reduction (the "Community Recidivism Reduction Grants"). The State will require counties that receive such funds to provide Community Recidivism Reduction Grants to nongovernmental entities engaged in these areas less administrative costs.

9. The 2014-15 State Budget Act allocates $20 million for community reentry programs for mentally ill offenders who are within six to twelve months of release. These programs provide services to assist such offenders as the reintegrate into the community. Programs include, among other things, work training, education, living skills and substance use disorder and mental health treatment. In addition, the 2014-15 State Budget Act allocates $18 million for a competitive grant program seeking to reduce crimes committed by mentally ill individuals.

10. In connection with the State's 2011 Public Safety Realignment program, the State shifted the responsibility for trial court security costs to counties and allocated funding based on historical court security expenditures. The 2014-15 State Budget Act appropriates approximately $1 million of General Fund moneys for increased trial security costs, if any, relating to certain new court facilities if such facility requires an increased level of security compared to the former facility.

State Budget for Fiscal Year 2015-16

Fiscal Year 2015-16 Proposed State Budget. On January 9, 2015, the Governor released the 2015-16 Proposed State Budget (the "Fiscal Year 2015-16 Proposed State Budget"), which projects Fiscal Year 2014-15 State General Fund revenues and transfers of $108.0 billion, total expenditures of $111.7 billion and a year-end surplus of $1.4 billion (inclusive of the $5.1 billion fund balance in the State's General Fund from Fiscal Year 2013-14), of which $971 million would be reserved for the liquidation of encumbrances and $452 million would be deposited in a reserve for economic uncertainties. In addition, the Fiscal Year 2015-16 Proposed State Budget projects a deposit to the Budget Stabilization Account in the amount of $1.6 billion during Fiscal Year 2014-15. The Fiscal Year 2015-16 Proposed State Budget projects Fiscal Year 2015-16 State General Fund revenues and transfers of $114.8 billion, total expenditures of $113.3 billion and a year-end surplus of $1.5 billion (inclusive of the projected $1.4 billion State General Fund balance as of June 30, 2015 which would be available for Fiscal Year 2015-16), of which $971 million would be reserved for the liquidation of encumbrances and $534 million would be deposited in a reserve for economic uncertainties. In addition, the Fiscal Year 2015-16 Proposed State Budget projects a deposit to the Budget Stabilization Account in the amount of $2.8 billion during Fiscal Year 2015-16. The Fiscal Year 2015-16 Proposed State Budget projects that the State's multi-year budget will be balanced for the foreseeable future, but cautions that the State continues to significant existing liability including deferred maintenance on roads and other infrastructure and the unfunded liability for future retiree health care benefits for state employees and various pension benefits which need to be addressed.

Features of the Fiscal Year 2015-16 Proposed State Budget affecting counties in general included, but were not limited to, the following:

1. The Fiscal Year 2015-16 Proposed State Budget proposes funding for various water, flood prevention and local groundwater development projects. The Fiscal Year 2015-16 Proposed State Budget includes approximately $533 million in bond proceeds to address water storage, water quality, flood protection, watershed protection and restoration projects pursuant to the Water Quality, Supply, and Infrastructure and Improvement Act of 2014, approximately $1.1 billion in bond proceeds to finance

flood prevention projects pursuant to the Disaster Prepared and Flood Prevention Bond Act of 2006, approximately $21 million of Proposition 1E (2006) funds to finance the development and implementation of local groundwater plans and approximately $6 million of State General Fund moneys to develop groundwater sustainability plans and implement specific requirements of groundwater legislation.

2. The Fiscal Year 2015-16 Proposed State Budget projects that the State's Economic Recovery Bonds will be paid during Fiscal Year 2015-16 and the "triple flip" will end. According to the LAO, in order to ensure that cities and counties are made whole for the entire triple flip, current law requires the State to transfer to cities and counties in Fiscal Year 2015-16 an amount equal to the sales tax generated during the first two quarters of Fiscal Year 2015-16 (the "Fiscal Recovery Countywide Adjustment Settle-Up"). Accordingly, the Fiscal Year 2015-16 Proposed State Budget proposes approximately $845 million for the Fiscal Recovery Countywide Adjustment Settle-Up. In the event revenues in the special fund for the Economic Recovery Bonds are not sufficient to finalize the triple-flip, the State is expected to impose an additional cycle of the triple-flip.

3. Due to the increase in the Medi-Cal caseload for county workers since the implementation of the Patient Protection and Affordable Care Act of 2010 (the "Affordable Care Act"), the Fiscal Year 2015-16 Proposed State Budget proposes to allocate an additional $150 million, including approximately $48.8 million from the State General Fund, in Fiscal Year 2014-15 for county administration. In addition, the Fiscal Year 2015-16 Proposed State Budget proposes an increase of $240 million, including approximately $78 million from the General Fund, from the Fiscal Year 2014-15 State Budget Act to Fiscal Year 2015-16 for Medi-Cal program administration.

4. The Governor projects that county costs and responsibilities for indigent health care will decrease in connection with the Affordable Care Act and indigent care costs will shift from counties to the State in connection with the State's Medi-Cal expansion. The Governor estimates that county savings will be approximately $724.9 million in Fiscal Year 2014-15 and $698.2 million in Fiscal Year 2015-16. The Fiscal Year 2015-16 Proposed State Budget proposes to redirect such savings to counties for the California Work Opportunity and Responsibility to Kids program.

5. In connection with the Fiscal Year 2014-15 State Budget Act, the State appropriated approximately $100 million to counties, cities and special districts as a repayment for unreimbursed mandates. In the event General Fund revenues for Fiscal Years 2013-14 and 2014-15 exceeded the estimated amount set forth in the May Revision to the Fiscal Year 2014-15 Proposed State Budget, the Fiscal Year 2014-15 State Budget Act authorized additional revenues for mandate reimbursement. The Department of Finance estimates that the State will make an additional payment to counties, cities and special districts in the amount of $533 million for mandate reimbursements.

6. In connection with the dissolution of redevelopment agencies in the State, the Fiscal Year 2015-16 Proposed State Budget estimates that property tax revenues in excess of $900 million will be distributed to cities, counties, and special districts annually. The State Legislature is expected to introduce legislation in connection with the State's budget for Fiscal Year 2015-16 in order to reduce the State's role in the dissolution process, minimize losses of the property tax residuals being returned to the local affected taxing entities and clarify various provisions in State law relating to the dissolution. In addition, each county's auditor-controller's office would serve as staff for countywide oversight boards.

LAO Analysis of the Fiscal Year 2015-16 Proposed State Budget. On January 13, 2015, the LAO released a report entitled "The 2015-16 Budget: Overview of the Governor's Budget" (the "2015 LAO Budget Overview"), which provides an analysis by the LAO of the Fiscal Year 2015-16 Proposed State Budget. The 2015-16 LAO Budget Overview states that the Governor's budgeting philosophy is largely prudent and projects that the presence of few significant new program commitments outside of Proposition 98 may help the State avoid returning to the boom and bust budgeting used in prior years. The LAO states that although a recession does not appear imminent, an economic downturn could cause budgetary deficits. Further, the LAO cautions that the array of complex budget formulas adopted into State law may complicate budget planning and could exacerbate the State's vulnerabilities in the event an economic downturn occurs.

May Revision to the Fiscal Year 2015-16 Proposed State Budget. On May 14, 2015, the Governor released the 2015-16 May Revision to the Fiscal Year 2015-16 Proposed State Budget (the "May Revision"), which projects Fiscal Year 2014-15 State General Fund total available resources of \$116.9 billion (being revenues and transfers of \$111.3 billion and prior year's balance of \$5.6 billion), total expenditures of \$114.5 billion and a year-end surplus of \$2.4 billion (\$971 million of which would be reserved for the liquidation of encumbrances and \$1.4 billion of which would be deposited in a reserve for economic uncertainties), and a deposit to the Budget Stabilization Account in the amount of \$1.6 billion. The May Revision projects Fiscal Year 2015-16 State General Fund total available resources of \$117.4 billion (being revenues and transfers of \$115.0 billion and prior year's balance of \$2.4 billion), total expenditures of \$115.3 billion and a year-end surplus of \$2.1 billion (\$971 million of which would be reserved for the liquidation of encumbrances and \$1.1 billion of which would be deposited in a reserve for economic uncertainties), and a deposit to the Budget Stabilization Account in the amount of \$3.5 billion. While the May Revision assumes the continued growth of the State's economy, it also states that keeping the State budget balanced over time requires fiscal restraint and prudence. The May Revision continues to focus on implementing the local control funding formula for public schools, federal health care reform, public safety realignment, the State's water action plan and the State's cap and trade expenditure plan.

Features of the May Revision affecting counties in general included, but were not limited to, the following:

1. The May Revision includes an additional \$2.2 billion of one-time resources to protect and expand local water supplies, conserve water and respond to emergency conditions.

2. The May Revision includes various amendments to the proposed legislation relating to redevelopment agency dissolution, including modifications to (i) facilitate findings of completion to provide successor agencies with reduced State oversight, (ii) facilitate the spending of redevelopment bond proceeds, and (iii) permit agreements between the former redevelopment agency and its sponsoring entity that relate to state highway infrastructure improvements to be an enforceable obligation of the successor agency.

3. The May Revision includes \$5.8 million to reimburse cities and counties for prior years' vehicle license fee swap and "triple flip" funding shortfalls.

4. The May Revision includes an additional \$232 million (for a total of \$765 million) to reimburse counties, cities and special districts for pre-2004 mandate debt. Counties are expected to receive approximately 77% of the total reimbursements.

LAO Analysis of the May Revision. On May 15, 2015, the Legislative Analyst's Office released a series of analyses of the May Revision entitled "The 2015-16 May Revision: LAO Analyses" (as originally released, the "LAO Analyses of the May Review"). The LAO Analyses of the May Review states that the State has a very volatile revenue system that can quickly reverse course with a stock market or economic downturn, although there is little indication that such a downturn will occur soon. The LAO Analyses of the May Review also states that, in light of the changes effected by Proposition 2 and

Proposition 98, which depend heavily on variables that cannot be reliably modeled into the future, estimates of future state budget surpluses or deficits should be viewed with caution and the LAO suggests that the Legislature carefully consider authorizing new spending commitments or tax reductions.

Future State Budgets

The County receives a significant portion of its funding from the State. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the County and other counties in the State.

The County cannot predict the extent of the budgetary problems the State will encounter in this Fiscal Year or in any future fiscal years, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the County cannot predict the final outcome of current and future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors over which the County has no control. See "COUNTY FINANCIAL INFORMATION – County's 2014-15 Adopted Budget and the Operational Plan" herein.

Impacts on the County

The County relies significantly upon State and Federal payments for reimbursement of various costs for programs that the County administers on behalf of the State and the Federal government. Following are certain of the anticipated impacts of the 2015-16 Proposed State Budget and the May Revision.

Health and Human Services – The May Revise includes an estimate of $7.5 million for the County for mandated Health and Human Services program restoration. The County will use this funding to support Medi-Cal operations and administration.

Pre-2004 Mandate Debt – The County estimates its share at approximately $19.2 million of the $765 million owed to local governments.

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION AND THE FINANCING CERTIFICATE

The following is a summary of certain provisions of the Resolution and the Financing Certificate. This summary is not to be considered a full statement of the terms of the Resolution or the Financing Certificate and accordingly is qualified by reference thereto and is subject to the full text thereof.

Resolution and Financing Certificate to Constitute Contract

In consideration of the purchase and acceptance of any and all of the Notes authorized to be issued under the Resolution and the Financing Certificate by those who will own said Notes from time to time, each of the Resolution and the Financing Certificate constitutes a contract between the County and the Owners of the Notes. The pledge made in the Resolution and the Financing Certificate and the covenants and agreements contained in the Resolution and the Financing Certificate to be performed by and on behalf of the County will be for the equal benefit, protection and security of the Owners of any and all Senior Notes, all of which will be of equal rank without preference, priority or distinction of any of the Senior Notes over any other thereof, except as expressly provided in or permitted by the Financing

Certificate. See “THE SERIES A NOTES – Additional Notes” herein for a description of the provisions in the Financing Certificate permitting the issuance of Subordinated Notes.

Covenants of the County

In order to maintain the exclusion from gross income for federal income tax purposes of interest on the Series A Notes, the County covenants to comply with each applicable requirement of the Internal Revenue Code of 1986, as amended, necessary to maintain the exclusion of interest on the Series A Notes from gross income for federal income tax purposes in that the County agrees to comply with the covenants contained in, and the instructions given pursuant to, the Tax Certificate prepared for the County by Bond Counsel, as such Tax Certificate may be amended from time to time. The County further covenants that it will make all calculations relating to any rebate of excess investment earnings on the Series A Note proceeds due to the United States Department of the Treasury in a reasonable and prudent fashion and will segregate and set aside the amounts such calculations indicate may be required to be paid to the United States Department of the Treasury.

Notwithstanding any other provision of the Financing Certificate to the contrary, upon the County’s failure to observe or refusal to comply with the foregoing tax covenants, the Owners of the Series A Notes, and any adversely affected former Owners of the Series A Notes, will be entitled to exercise any right or remedy provided such Owners under the Financing Certificate.

Paying Agent and Note Registrar

Pursuant to the Financing Certificate, the County Auditor-Controller/Treasurer/Tax Collector has been appointed to act as the initial Paying Agent and as Note Registrar for the Series A Notes. In the event that a successor Paying Agent other than the County Auditor-Controller/Treasurer/Tax Collector is appointed, such Paying Agent may at any time resign and be discharged of the duties and obligations created by the Financing Certificate by giving at least 60 days’ written notice to the County. Such Paying Agent may be removed at any time by an instrument filed with such Paying Agent and signed by the County. In the event of the resignation or removal of such a Paying Agent, the County may appoint a successor Paying Agent in accordance with the terms of the Financing Certificate. A successor Paying Agent (other than the County Auditor-Controller/Treasurer/Tax Collector) will be a commercial bank with trust powers or a trust company organized under the laws of any state of the United States or a national banking association, having capital and surplus aggregating at least $100,000,000. Resignation or removal of a Paying Agent will be effective upon appointment and acceptance of a successor Paying Agent. In no event shall the resignation or removal of the Paying Agent become effective prior to the assumption of such resigning or removed Paying Agent’s duties and obligations by a successor Paying Agent.

Negotiability and Transfer of the Series A Notes

The Owners of the Series A Notes which are evidenced by registered certificates may transfer such Notes upon the books maintained by the Series A Note Registrar, in accordance with the Financing Certificate.

The County and any Paying Agent may deem and treat the Owner of any Note as the absolute owner of such Note, regardless of whether such Note is overdue, for the purpose of receiving payment thereof and for all other purposes, and all such payments so made to any such Owner or upon his or her order will satisfy and discharge the liability upon such Note to the extent of the sum or sums so paid, and neither the County nor any Paying Agent will be affected by any notice to the contrary. Cede & Co., as nominee of DTC, or such other nominee of DTC or any successor securities depository or the nominee thereof, will be the Owner of the Series A Notes as long as the beneficial ownership of the Series A Notes is held in book-entry form in the records of such securities depository. See APPENDIX E – "BOOK-ENTRY ONLY SYSTEM" attached hereto.

Permitted Investments

Monies on deposit in the TRANs Repayment Fund will be retained therein until applied to the payment of the principal of and interest on the Senior Notes. Such amounts may not be used for any other purpose, although they may be invested in Permitted Investments ("Permitted Investments"). Permitted Investments are investments approved in writing by the County Treasurer as prudent and appropriate for the funds to be invested and permitted by law and any policy guidelines promulgated by the County. In addition, the Financing Certificate specifically designates the following investments as Permitted Investments, subject to certain limitations more fully described in the Financing Certificate:

1. (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

2. Obligations of instrumentalities or agencies of the United States of America. These are specifically limited to:

(i) Federal Home Loan Mortgage Corporation Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts) Debt Obligations;

(ii) Federal Home Loan Banks Consolidated debt obligation; and

(iii) Federal National Mortgage Association Debt obligations Mortgage backed securities (Excluded are stripped mortgage securities-which are purchased at prices exceeding their principal amounts).

Book entry securities listed in 1 and 2 above must be held in a trust account with the Federal Reserve Bank or with a clearing corporation or chain of clearing corporations which has an account with the Federal Reserve Bank.

3. Federal Housing Administration debentures.

4. Commercial paper, payable in the United States of America, having original maturities of not more than 92 days and which are rated "A+" by S&P and "Prime-1" by Moody's.

5. Interest bearing demand or time deposits issued by state banks or trust companies, savings and loan associations, federal savings banks or any national banking associations, the deposits of which are insured by the Bank Insurance Fund (BIF) or the Savings Association Insurance Fund of the

Federal Deposit Insurance Corporation (SAIF) or any successors thereto. These deposits: (a) must be continuously and fully insured by BIF or SAIF, or (b) must have maturities of less than 366 days and be deposited with banks the short term obligations of which are rated "A+" by S&P and "P-1" by Moody's.

6. Money market mutual funds or portfolios investing in short-term US Treasury securities rated "AAAm" or "AAAm-G" by S&P and "Aaa" by Moody's.

7. Investment agreements approved that are with investment institutions, or with a financial entity whose obligations are guaranteed or insured by a financial entity, having long-term obligations which are rated "AA" or higher by S&P and "Aa" or higher by Moody's as to long term instruments and which are approved by S&P and Moody's; provided that if such rating falls below "AA-" or "Aa3", by S&P or Moody's, respectively, the investment agreement shall terminate or shall provide for the investment agreement to be collateralized at levels and under such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach).

8. The Local Agency Investment Fund administered by the State of California.

9. Investment Trust of California, doing business as CalTRUST.

10. The investment pool maintained by the County.

Supplemental Resolutions and Supplemental Financing Certificates

Any amendment of or supplement to the Resolution or the Financing Certificate and of the rights and obligations of the County and of the Owners of the Series A Notes may be made by a Supplemental Resolution or Supplemental Financing Certificate of the County, with the written consent of the Owners of at least a majority in principal amount of the Series A Notes Outstanding at the time such consent is given; provided, however, that if such supplement or amendment will, by its terms, not take effect so long as any particular Series A Notes remain Outstanding, the consent of the Owners of such Series A Notes will not be required. No such supplement or amendment may (i) permit a change in the terms of maturity of the principal of any Series A Notes or of the interest rate thereon or a reduction in the principal amount thereof without the consent of the Owners of such Series A Notes, or (ii) change the dates or amounts of the pledge set forth in the Resolution or the Financing Certificate, or (iii) reduce the percentage of the Owners of the Series A Notes required to approve such Supplemental Resolution or Supplemental Financing Certificate without the consent of all of the Owners of the affected Series A Notes, or (iv) change or modify any of the rights or obligations of the Paying Agent, if applicable, without its written consent thereto.

Additionally, a Supplemental Resolution of the County may be adopted or a Supplemental Financing Certificate may be executed, without the consent of the Owners, (i) to add covenants and agreements in the Resolution or the Financing Certificate to be observed by the County which are not contrary to or inconsistent with the Resolution or the Financing Certificate, (ii) to add limitations and restrictions in the Resolution or the Financing Certificate to be observed by the County which are not contrary to or inconsistent with the Resolution or the Financing Certificate, (iii) to confirm as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by the Resolution or the Financing Certificate, of any monies, securities or funds, or to establish any additional funds or accounts to be held under the Resolution or the Financing Certificate, (iv) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution or the Financing Certificate, (v) to supplement or amend the Resolution or the Financing Certificate as required to obtain a rating for the Series A Notes, or any portion thereof, from any rating agency, provided that the

County obtains an opinion of bond counsel to the effect that such Supplemental Resolution or Supplemental Financing Certificate does not adversely affect the interests of the Owners, (vi) to supplement or amend the Resolution or the Financing Certificate, as the case may be, in order to provide for the issuance of and security for the repayment of any Additional Notes pursuant to the provisions of the Resolution and the Financing Certificate, or (vii) to supplement or amend the Resolution or Financing Certificate in any other respect, provided that the County obtains an opinion of bond counsel to the effect that such Supplemental Resolution or Supplemental Financing Certificate does not adversely affect the interests of the Owners; *provided*, *however*, that no supplement or amendment to the Resolution or the Financing Certificate for the purpose described in clause (vi) above shall be effective until the County has provided the following: (A) a written certificate executed by the County providing that: (x) no event of default under the Financing Certificate has occurred and is continuing, (y) all deposits required by the Financing Certificate into the TRANs Repayment Fund prior to the date of issuance of the Additional Notes have been timely made, and (z) upon issuance of the Additional Notes, the limitation described herein under "THE SERIES A NOTES - Available Sources of Payment" shall not be exceeded; and (B) an Opinion of Bond Counsel to the effect that such Supplemental Resolution or Supplemental Certificate will not adversely affect the exclusion from gross income for federal income tax purposes or the exemption from State personal income taxation of interest on any of the Series A Notes Outstanding theretofore issued.

Events of Default

Any one or more of the following will constitute an "Event of Default" under the Resolution and the Financing Certificate:

(1) default in the due and punctual payment of the principal of, or interest on, any Senior Notes when and as the same become due and payable;

(2) default in the performance or observance by the County of any other of the covenants, agreements or conditions required to be performed or observed by the County pursuant to the Financing Certificate, the Resolution or any of the Senior Notes and the continuation of such default for a period of 60 days after written notice thereof to the County by the Owners of not less than 10 percent in principal amount of the Outstanding Senior Notes; or

(3) filing by the County of a petition for relief under the federal bankruptcy laws.

Whenever any Event of Default shall have happened and be continuing, the Owners of the Senior Notes will be entitled to take any and all actions available at law or in equity to enforce the performance of the covenants in the Financing Certificate and in the Act. Nothing in the Financing Certificate will preclude an individual Owner from enforcing such Owner's rights to payment of principal of and interest on such Owner's Senior Notes.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIII A of the State Constitution

Section 1(a) of Article XIII A of the State Constitution ("Article XIII A") limits the maximum *ad valorem* tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to (1) *ad valorem* taxes to pay interest or redemption charges on indebtedness approved by the voters prior to July 1, 1978, or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition, or (3) any bonded indebtedness incurred by a school district, community college district or county office of education for the construction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities approved after November 8, 2000 by 55% of the voters of the district or county, as appropriate, voting on the proposition. Section 2 of Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment" ("Full Cash Value"). The Full Cash Value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Taxpayers in the County may appeal the determination of the County Assessor of the Full Cash Value of their property. At any given point in time, thousands of appeals are pending in the County. The assessed value of property in the County decreased by 0.5% from Fiscal Year 2010-11 to Fiscal Year 2011-12, increased by 0.8% from Fiscal Year 2011-12 to Fiscal Year 2012-13, increased by 3.0% from Fiscal Year 2012-13 to Fiscal Year 2013-14 and increased by 6.0% from Fiscal Year 2013-14 to Fiscal Year 2014-15. The County estimates that the assessed value of property in the County will increase by 4.0% for Fiscal Year 2015-16.

Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above.

The voters of the State subsequently approved various measures that further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first $1,000,000 of the Full Cash Value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reappraisal under Article XIII A. Other amendments permitted the State Legislature to allow persons over the age of 55 who meet certain criteria or "severely disabled homeowners" who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Other amendments permit the State Legislature to allow persons who are either 55 years of age or older, or who are "severely disabled," to transfer the old residence's assessed value to their new residence located in either the same or a different county and acquired or newly constructed within two years of the sale of their old residence. On October 21, 2014, the Board of Supervisors of the County adopted an ordinance implementing the Proposition 90 and Proposition 110 tax relief programs providing for the transfer of the base year value of an existing home in another county to a newly purchased or constructed home within the County. Implementation of these programs are expected to result in revenue loss to the County as it will reduce the property taxes that would have otherwise been received from the eligible homeowners who have relocated to the County. However, based on information received from an independent consultant, the financial impact is not expected to be material as research shows the percentage of exemptions issued in nearby counties in the last three years is less than 4% of the eligible demographic moving into the County.

In the November 1990 election, the voters approved an amendment of Article XIII A to permit the State Legislature to exclude from the definition of "new construction" certain additions and improvements, including seismic retrofitting improvements and improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also been amended to provide that there would be no increase in the Full Cash Value base in the event of reconstruction of property damaged or destroyed in a disaster.

Section 4 of Article XIII A provides that cities, counties and special districts cannot, without a two-thirds vote of the qualified electors, impose special taxes, which has been interpreted to include special fees in excess of the cost of providing the services or facility for which the fee is charged, or fees levied for general revenue purposes.

Article XIII B of the State Constitution

State and local government agencies in the State are each subject to annual "appropriations limits" imposed by Article XIII B of the State Constitution ("Article XIII B"). Article XIII B prohibits government agencies and the State from spending "appropriations subject to limitation" in excess of the appropriations limit imposed. The base year for establishing such appropriations limit is fiscal year 1978-79. "Appropriations subject to limitation" are generally authorizations to spend "proceeds of taxes," which include all, but are not limited to, tax revenues, and the proceeds from (i) regulatory licenses, user charges or other user fees to the extent that such proceeds exceed "the cost reasonably borne by that entity in providing the regulation, product, or service" (ii) the investment of tax revenues, and (iii) certain subventions received from the State. No limit is imposed on appropriations of funds which are not "proceeds of taxes," appropriated for debt service on indebtedness existing prior to the passage of Article XIII B or authorized by the voters or appropriations required to comply with certain mandates of courts or the federal government.

As amended at the June 5, 1990 election by Proposition 111, Article XIII B provides that, in general terms, a county's appropriations limit is based on the limit for the prior year adjusted annually to reflect changes in cost of living, population and, when appropriate, transfer of financial responsibility of providing services from one governmental unit to another. Proposition 111 liberalized the aforementioned adjustment factors as compared to the original provisions of Article XIII B. If county revenues during any two consecutive fiscal years exceed the combined appropriations limits for those two years, the excess must be returned by a revision of tax rates or fee schedules within the two subsequent fiscal years.

Section 7900, et seq. of the California Government Code defines certain terms used in Article XIII B and sets forth the methods for determining the appropriations limits for local jurisdictions.

The following is a comparison of the County's appropriation limit to actual proceeds of taxes for Fiscal Years 2010-11 through 2014-15.

COUNTY OF SAN BERNARDINO
APPROPRIATIONS LIMITS FOR THE GENERAL FUND

Fiscal Year	Appropriations Limit	Actual Proceeds of Taxes	Margin
2010-11	$ 7,973,309,481	$568,948,250	$7,404,361,231
2011-12	8,261,704,085	582,083,147	7,679,620,938
2012-13	10,017,068,352	660,943,033	9,356,125,319
2013-14	11,534,654,207	659,776,918	10,874,877,289
2014-15(1)	13,467,862,252	597,186,392	12,870,675,860

Source: County of San Bernardino, Auditor-Controller/Treasurer/Tax Collector.
(1) Reflects actual Appropriations Limit and estimated Actual Proceeds of Taxes and Margin.

Articles XIII C and XIII D of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of the County to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C of the State Constitution ("Article XIII C") requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the County require a majority vote and taxes for specific purposes, even if deposited in the general fund, require a two-thirds vote. The voter approval requirements of Article XIII C reduce the County's flexibility to deal with fiscal problems by raising revenue through new or extended or increased taxes and no assurance can be given that the County will be able to raise taxes in the future to meet increased expenditure requirements.

Article XIII D of the State Constitution ("Article XIII D") contains several provisions making it generally more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. The County has several County service areas in discrete unincorporated communities that pay for services that otherwise would have to be funded, if they are funded at all, through the general fund. If the County is unable to continue to collect assessment revenues for these programs, the programs might have to be curtailed and/or funded by amounts in the general fund. The County is unable to predict whether it will be able to continue to collect assessment revenues for these programs in light of Article XIII D. If such assessment revenues cannot be collected, the County is unable to predict whether or to what extent it would use any general fund monies to maintain which affected programs. The provisions of Article XIII D will also make it more difficult for the County to establish assessment-based programs in the future.

Article XIII D also contains several provisions affecting a "fee" or "charge," defined for purposes of Article XIII D to mean "any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service." All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) with respect to any parcel or person, exceed the proportional cost of the service attributable to the parcel, (iv) are for a service not actually used by, or immediately available to, the owner of the property in question, or (v) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The County must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the County may not impose or increase the fee or charge. In *Morgan et al., v. Imperial Irrigation District and Imperial County Farm Bureau*, the appellate court held that Proposition 218 does not require the agency to conduct a separate protest election for each different rate class comprised of owners of identified parcels. Instead, the agency need only conduct a single a protest election for a collection of rate increases involving all its customers. Moreover, except for fees or charges for sewer, water and refuse collection services (or fees for electrical and gas service, which are not treated as "property related" for purposes of Article XIII D), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The County has one enterprise fund that is self supporting from fees and charges, which could, depending upon judicial interpretation of Proposition 218, ultimately be determined to be property related for purposes of Article XIII D. In the event that fees and charges cannot be appropriately increased, or are reduced pursuant to exercise of the initiative power (described in the following paragraph), the County may have to decide whether to support any deficiencies in this enterprise fund with monies from the general fund or to curtail service, or both.

In addition to the provisions described above, Article XIII C removes prohibitions and limitations on the initiative power in matters of any "local tax, assessment, fee or charge." Consequently, the voters of the County could, by future initiative, repeal, reduce or prohibit the future imposition or increase of any local tax, assessment, fee or charge. "Assessment," "fee" and "charge," are not defined in Article XIII C and it is not clear whether the definitions of these terms in Article XIII D (which are generally property-related as described above) would limit the scope of the initiative power set forth in Article XIII C. If the Article XIII D definitions are not held to limit the scope of Article XIII C initiative powers, then the Article XIII C initiative power could potentially apply to revenue sources that currently constitute a substantial portion of general fund revenues. No assurance can be given that the voters of the County will not, in the future, approve initiatives that repeal, reduce or prohibit the future imposition or increase of local taxes, assessments, fees or charges.

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIIC of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. In 2011, the County inventoried all of its then-current fees and did not find any significant number of fees that needed to be reduced or eliminated as a result of Proposition 26. Passage of Proposition 26 has not adversely affected the County's ability to pay when due its debt obligations, including the Series A Notes.

Proposition 1A

As part of then-Governor Schwarzenegger's agreement with local jurisdictions, Senate Constitutional Amendment No. 4 was enacted by the State Legislature and subsequently approved by the voters as Proposition 1A ("Proposition 1A") at the November 2004 election. Proposition 1A amended the State Constitution to, among other things, reduce the State Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales, and vehicle license fee revenues as of November 3, 2004.

Proposition 1A prohibits the State from mandating activities on cities, counties or special districts without providing for the funding needed to comply with the mandates. If the State does not provide funding for the mandated activity, the requirement on cities, counties or special districts to abide by the mandate would be suspended. In addition, Proposition 1A expanded the definition of what constitutes a mandate on local governments to encompass State action that transfers to cities, counties and special districts financial responsibility for a required program for which the State previously had partial or complete responsibility. The State mandate provisions of Proposition 1A do not apply to schools or community colleges or to mandates relating to employee rights.

Proposition 1A of 2004 also allowed the State to borrow up to 8% of local property tax revenues, beginning with Fiscal Year 2008-09, but only if the Governor proclaimed such action was necessary due to a severe State fiscal hardship and two-thirds of both houses of the State Legislature approved the borrowing. The amount borrowed was required to be paid back within three years. The 2009-10 State budget authorized the State to exercise its Proposition 1A borrowing authority. This borrowing generated $1.998 billion that was used to offset State general fund spending. The diverted revenues have been repaid in full. The enabling legislation also created a securitization program for local governments to sell their right to receive the State's payment obligations to a local government-operated joint powers agency. The joint powers agency sold bonds and used the proceeds of such bonds to pay the local agencies their property tax allocations when they would otherwise receive them.

The County participated in the securitization program pursuant to which the County sold its receivable (the State payment obligation) and, in return, received payments equal to 100% of the amount of the County's property tax reduction (approximately $34 million), thereby eliminating the impact of the property tax revenue reduction due to the suspension of Proposition 1A. The financing was done at no cost to the County, and the County has no obligation to the holders of such bonds payable from such receivable.

On November 2, 2010, State voters adopted Proposition 22 ("Proposition 22"), which further restricts the ability of the State to use or borrow money from local governments. Proposition 22 supersedes the provisions of Proposition 1A of 2004 that allow the State to borrow money from local governments and prohibits any future such borrowings by the State from local government funds. However, the Proposition 1A borrowing completed in 2009 is grandfathered.

Statutory Limitations

A statutory initiative ("Proposition 62") was adopted by State voters at the November 4, 1986 General Election, which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity voting in such election, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction voting in such election, (3) restricts the use of revenues from a special tax to the purpose or for the service for which the special tax was imposed, (4) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after August 1, 1985 be ratified by a majority vote of the electorate voting in such election within two years of the adoption of the initiative or be terminated by November 15, 1988. Proposition 62 requirements are generally not applicable to general taxes and special taxes levied prior to its November 4, 1986 effective date.

On September 28, 1995, the California Supreme Court filed its decision in S*anta Clara County Local Transportation Authority v. Carl Guardino*, 11 Cal. 4th 220 (1995) (the "*Santa Clara decision*"), which upheld a Court of Appeal decision invalidating a 1/2-cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote of the electorate for the levy of a "special tax," as required by Proposition 62. The *Santa Clara* decision did not address the question of whether or not it should be applied retroactively.

In deciding the *Santa Clara* case on Proposition 62 grounds, the Court disapproved the decision in *City of Woodlake v. Logan*, 230 Cal. App. 3d 1058 (1991) ("*Woodlake*"), where the Court of Appeal had held portions of Proposition 62 unconstitutional as a referendum on taxes prohibited by the State Constitution. The State Supreme Court determined that the voter approval requirement of Proposition 62 is a condition precedent to the enactment of each tax statute to which it applies, while referendum refers to a process invoked only after a statute has been enacted. Numerous taxes to which Proposition 62 would apply were imposed or increased without voter approval in reliance on *Woodlake*. The Court notes as apparently distinguishable, but did not confirm, the decision in *City of Westminster v. County of Orange*, 204 Cal. App. 3d 623 (1988), which held unconstitutional the provision of Proposition 62 requiring voter approval of taxes imposed during the "window period" of August 1, 1985 until November 5, 1986. Proposition 62 as an initiative statute does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature. After the passage of Proposition 218, certain provisions of Proposition 62 (e.g. voter approval of taxes) are governed by the State Constitution.

Following the *Guardino* decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the State Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra*, *et al.* ("*La Habra*"). In this case, the court held that a public agency's continued imposition and collection of a tax is an ongoing violation upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought. The County believes that the portion of the County's taxes subject to Proposition 62, including the County's transient occupancy tax, is in compliance with Proposition 62 requirements.

Future Initiatives

Article XIII A, Article XIII B and Propositions 62, 218 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the County or local districts to increase revenues or to increase appropriations which may affect the County's revenues or its ability to expend its revenues.

ENFORCEABILITY OF REMEDIES

The rights of the owners of the Series A Notes are subject to the limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Series A Notes, and the obligations incurred by the County, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Series A Notes to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of monies held in a county investment pool upon bankruptcy of the county, but was not required to directly address the State statute that provides for the lien in favor of holders of tax and revenue anticipation notes. The County is in possession of the taxes and other revenues that will be set aside and pledged to repay the Series A Notes and, following payment of these funds to the Paying Agent, these funds will be invested in the name of the Paying Agent, which in this case, is the County, for a period of time in the County Investment Pool. In the event of a petition for the adjustment of County debts under Chapter 9 of the Bankruptcy Code, a court might hold that the Owners of the Series A Notes do not have a valid and/or prior lien on the Pledged Amounts where such amounts are deposited in the County Investment Pool and may not provide the Series A Note owners with a priority interest in such amounts. In that circumstance, unless the Owners could "trace" the funds from the TRANs Repayment Fund that have been deposited in the County Investment Pool, the Owners would be unsecured (rather than secured) creditors of the County. There can be no assurance that the Owners could successfully so "trace" the pledged taxes and other revenues.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the County ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series A Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. The amount treated as interest on the Series A Notes and excluded from gross income may depend upon the taxpayer's election under Internal Revenue Notice 94-84. Bond Counsel is of the further opinion that interest on the Series A Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of the opinion of Bond Counsel is set forth in APPENDIX D – "PROPOSED FORM OF OPINION OF BOND COUNSEL" hereto.

Notice 94-84, 1994-2 C.B. 559, states that the Internal Revenue Service (the "IRS") is studying whether the amount of the payment at maturity on debt obligations such as the Series A Notes that is excluded from gross income for federal income tax purposes is (i) the stated interest payable at maturity, or (ii) the difference between the issue price of the Series A Notes and the aggregate amount to be paid at maturity of the Series A Notes (the "original issue discount"). For this purpose, the issue price of the Series A Notes is the first price at which a substantial amount of the Series A Notes is sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Until the IRS provides further guidance, taxpayers may treat either the stated interest payable at maturity or the original issue discount as interest that is excluded from gross income for federal income tax purposes. However, taxpayers must treat the amount to be paid at maturity on all tax exempt debt obligations with a term that is not more than one year from the date of issue in a consistent manner. Taxpayers should consult their own tax advisors with respect to the tax consequences of ownership of the Series A Notes if original issue discount treatment is elected.

Series A Notes purchased, whether at original issuance or otherwise, for an amount higher than the principal amount payable at maturity ("Premium Notes") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Notes, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Note, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Notes should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series A Notes. The County has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series A Notes will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series A Notes being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series A Notes. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series A Notes may adversely affect the value of, or the tax status of interest on, the Series A Notes. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

One of the covenants of the County referred to above requires the County to reasonably and prudently calculate the amount, if any, of excess investment earnings on the proceeds of the Series A Notes which must be rebated to the United States, to set aside from lawfully available sources sufficient monies to pay such amounts and to otherwise do all things necessary and within its power and authority to ensure that interest on the Series A Notes is excluded from gross income for federal income tax purposes. Under the Code, if the County spends 100% of the proceeds of the Series A Notes within six months after issuance, there is no requirement that there be a rebate of investment profits in order for interest on the Series A Notes to be excluded from gross income for federal income tax purposes. The Code also provides that such proceeds are not deemed spent until all other available monies (less a reasonable working capital reserve) are spent. The County expects to satisfy this expenditure test or, if it fails to do so, to make any required rebate payments from monies received or accrued during the 2015-16 Fiscal Year. To the extent that any rebate cannot be paid from such monies, California law is unclear as to whether such covenant would require the County to pay any such rebate. This would be an issue only if it were determined that the County's calculation of expenditures of Series A Notes proceeds or of rebatable arbitrage profits, if any, was incorrect.

Although Bond Counsel is of the opinion that interest on the Series A Notes is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series A Notes may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series A Notes to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. For example, the Obama Administration's budget proposals in recent years have proposed legislation that would limit the exclusion from gross income of interest on the Series A Notes to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series A Notes. Prospective purchasers of the Series A Notes should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series A Notes for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the County, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The County has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series A Notes ends with the issuance of the Series A Notes, and, unless separately engaged, Bond Counsel is not obligated to defend the County or the beneficial owners regarding the tax-exempt status of the Series A Notes in the event of an audit examination by the IRS. Under current procedures, parties other than the County and its appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the County legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series A Notes for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series A Notes, and may cause the County or the beneficial owners to incur significant expense.

FINANCIAL STATEMENTS

Excerpts from the County's comprehensive annual financial report for the Fiscal Year ended June 30, 2014 and the Independent Auditor's Report regarding the financial statements are included as Appendix C. The financial statements for the Fiscal Year ended June 30, 2014 have been audited by Vavrinek, Trine, Day & Co., LLP, independent certified public accountants, as stated in its report. Vavrinek, Trine, Day & Co., LLP was not requested to consent to the inclusion of its report as Appendix C and it has not undertaken to update the financial statements included as Appendix C or its report.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, sale, execution and delivery by the County of the Series A Notes are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to the County. A complete copy of the proposed form of opinion of Bond Counsel is contained in Appendix D hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the County by its Disclosure Counsel, Hawkins Delafield & Wood LLP, Los Angeles, California, and by the

County Counsel. Certain legal matters will be passed upon for the Underwriter by Norton Rose Fulbright US LLP, Los Angeles, California.

LEGALITY FOR INVESTMENT IN CALIFORNIA

Under provisions of the California Financial Code, the Series A Notes are legal investments for commercial banks in the State to the extent that the Series A Notes, in the informed opinion of the investor bank, are prudent for the investment of funds of its depositors and, under provisions of the California Government Code, are eligible to secure deposits of public monies in the State.

FINANCIAL ADVISOR

Public Resources Advisory Group has served as Financial Advisor to the County in connection with the issuance of the Series A Notes. The Financial Advisor has not been engaged, nor has it undertaken, to make an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

LITIGATION

No litigation is pending or threatened concerning the validity of the Series A Notes, and an opinion of the County Counsel (based upon its best knowledge after reasonable investigation) to that effect will be furnished to the purchaser at the time of the original delivery of the Series A Notes. The County is not aware of any litigation pending or threatened questioning the political existence of the County or contesting the County's ability to levy and collect *ad valorem* taxes or contesting the County's ability to issue and pay the Series A Notes.

There are a number of lawsuits and claims pending against the County and its former and current officials. The County does not believe that any of these proceedings could have a material adverse impact upon the financial condition of the County. See APPENDIX A – "COUNTY OF SAN BERNARDINO COUNTY FINANCIAL INFORMATION – Litigation and Investigation" attached hereto.

RATINGS

Moody's Investors Service and Standard & Poor's Ratings Service, a division of the McGraw-Hill Companies, Inc., have assigned the Series A Notes the ratings of "MIG1" and "SP-1+," respectively. Certain information was supplied by the County to the rating agencies to be considered in evaluating the Series A Notes. Such ratings reflect only the views of the rating agencies, and are not a recommendation to buy, sell or hold any of the Series A Notes. Any explanation of the significance of each such rating should be obtained from the rating agency furnishing the same. There can be no assurance that any such rating will remain in effect for any given period of time or that any such rating will not be revised downward or withdrawn entirely by the rating agency furnishing the same if, in its judgment, circumstances so warrant. Any downward revision or withdrawal of ratings may have an adverse effect on the market price of the affected Series A Notes.

UNDERWRITING

The Series A Notes are being purchased by Wells Fargo Bank, National Association as the Underwriter of the Series A Notes (the "Underwriter"). The Underwriter has agreed to purchase the Series A Notes at a purchase price of $_______________ (representing the principal amount of the Series A Notes of $_______________, plus original issue premium of $_______________, less Underwriter's discount of $_______________). The Note Purchase Agreement provides that the Underwriter will purchase all of the Series A Notes if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Note Purchase Agreement.

The Underwriter may offer and sell the Series A Notes to certain dealers and others at prices lower than the public offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

The following sentences were provided by Wells Fargo Bank, National Association: Wells Fargo Bank, National Association ("WFBNA"), the sole underwriter of the Series A Notes, has entered into an agreement (the "Distribution Agreement") with its affiliate, Wells Fargo Advisors, LLC ("WFA"), for the distribution of certain municipal securities offerings, including the Series A Notes. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation, as applicable, with respect to the Series A Notes with WFA. WFBNA also utilizes the distribution capabilities of its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Series A Notes. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company. Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

CONTINUING DISCLOSURE

The County will agree to provide notices, during the time the Series A Notes are Outstanding, of the occurrence of certain enumerated events, in compliance with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the "Rule"). The specific nature of the notices of these events and certain other terms of the continuing disclosure obligation are described in APPENDIX F – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying wit31h the Rule. In the last five years, there have been some incomplete and late continuing disclosure filings made by the County's Redevelopment Agency and for the County's Special District (Mello-Roos) Bonds and Single Family Housing Bonds. The County has filed the necessary information to complete those reports.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. This Official Statement is not to be construed as a contract or agreement between the County and the Owners or Beneficial Owners of any of the Series A Notes. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs in the County since the date hereof.

The execution and delivery of this Official Statement have been duly authorized by the County.

COUNTY OF SAN BERNARDINO

By: ________________________
County Chief Financial Officer

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APPENDIX A

COUNTY OF SAN BERNARDINO
COUNTY FINANCIAL INFORMATION

APPENDIX A

COUNTY OF SAN BERNARDINO
COUNTY FINANCIAL INFORMATION

County Budget

The County General Fund revenues are derived from such sources as taxes, licenses and permits, fines, forfeitures and penalties, use of money and property, aid from other governmental agencies, charges for current services and other revenue. General Fund expenditures and encumbrances are classified by the functions of general government, public protection, health and sanitation, public assistance, education, recreation and cultural services, public ways and facilities, capital outlay, and debt service.

The County is required by law to adopt a fiscal line-item budget annually such that appropriations during the fiscal year will not exceed total means of financing. The Auditor-Controller/Treasurer/Tax Collector is responsible for controlling expenditures within the budgeted appropriations.

County Financial Policies

The County has adopted a budgeting policy, a contingency policy, a fund balance and reserve policy, a capital budget policy and a debt policy. Each of these policies is briefly described below.

Budgeting Policy. The budgeting policy provides that the County will not use one-time funds to fund ongoing operations of the County, except as part of a multi-year plan to balance expenditures and revenues. The budgeting policy (previously the budget financing policy), which was last amended in July 2012, provides for an operating budget to be adopted each fiscal year for all Governmental Funds, with expenditures controlled at the appropriation unit level (*i.e.*, salaries and benefits, services and supplies, fixed assets, etc.) within budget units. Departments are expected to maintain expenditures within their budget authority as adopted by the Board of Supervisors of the County (the "Board of Supervisors"). Under the budgeting policy, any increases in appropriation in a budget unit after adoption of the budget will be included in the quarterly budget report and must be approved by a four-fifths vote of the Board of Supervisors. The budgeting policy also includes provisions relating to transfers of appropriation within the same budget unit for transfers of salaries and benefits appropriation and transfers of fixed asset appropriations. Transfers of appropriation within the same budget unit may be approved by the County Administrative Office depending upon the appropriation unit.

The budgeting policy includes the following language: "Careful management of financial resources available to pay retirement costs is critical to the County's long-term financial health. Accordingly, for any savings resulting from negative Unfunded Accrued Actuarial Liability (the "UAAL") (also referred to as the unfunded accrued actuarial liability pursuant to the Retirement Law; sometimes referenced as the "unfunded actuarial accrued liability" herein) contribution rates, the Board of Supervisors will first consider setting aside these savings in a reserve for reduction of any existing pension obligation bonds or as a reserve against future rate increases." The term "Retirement Law" refers to the County Employee's Retirement Law of 1937.

In addition, the budgeting policy includes provisions for revenue stabilization that apply to property tax revenues and sales tax revenues derived from Proposition 172 (a proposition approving a one-half percent State sales tax increase effective January 1, 1994 to fund local public safety activities ("Proposition 172") received by the General Fund. For both of these revenue sources, revenues in excess of the lesser of 8% or the average annualized rate of growth of actual revenues will be deposited into a revenue stabilization contingency set-aside. Such amounts will be available to be appropriated during years in which revenue growth is anticipated to be less than the average annualized rate of growth.

The budgeting policy also provides that the County will maintain an 80% confidence level in all Risk Management self-insurance funds as determined by a yearly actuarial study.

Contingency Policy. The objective of the contingency policy is to help protect the County from unforeseen increases in expenditures or reductions in revenues, or from extraordinary events that might otherwise substantially harm the fiscal health of the County. The County's contingency policy provides for an appropriated contingency reserve equal to 1.5% of locally funded appropriations. In addition, it includes contingency targets for the restricted financing funds related to Proposition 172 and Realignment (defined herein), as well as the tobacco master settlement agreement fund (see "—Tobacco Settlement" herein). The contingency policy also provides for the setting aside of ongoing contingencies for future debt obligations or planned future ongoing program or operational needs. The contingency policy (previously the reserve and contingency policy) was last amended in June 2011.

Fund Balance and Reserve Policy. In June 2011, the County adopted a fund balance and reserve policy which includes reserve-related policies that were previously found in the County's reserve and contingency policy, and implements required changes to fund balance reporting based on Governmental Accounting Standards Board (GASB) Statement No. 54. In addition to providing for the five new classifications of fund balance, the policy provides for an increase in the general purpose reserve target to 20% (the "20% Target") from 10% of locally funded appropriation based on adopted budget and provides that one-time sources will be used to increase this reserve until the 20% Target is attained. The policy also states that in the event the locally funded appropriation declines from the previous fiscal year, the general purpose reserve shall have no downward adjustment. The County's fund balance and reserve policy also permits a specific purpose reserve to be established and augmented using the respective department's annual local cost savings for departmental projects that would not normally be feasible without reserving funding over a multiple year period. The fund balance and reserve policy was last amended in July 2012.

The following table details the portion of the County General Fund's fund balance that is identified as general and specific purpose reserves, for the Fiscal Years 2010-11 through 2013-14, and the County's estimated general and specific purpose reserves for Fiscal Year 2014-15. For Fiscal Years 2010-11 through 2014-15, GASB 54 fund balance classification(s) are also provided.

TABLE 1
COUNTY OF SAN BERNARDINO
GENERAL FUND RESERVES
FISCAL YEARS 2010-11 THROUGH 2014-15
(in millions)

COUNTY GENERAL FUND RESERVES	GASB 54	2010-11[2]	2011-12[2]	2012-13[2]	2013-14[2]	2014-15[2][3]
General Purpose	Unassigned	$59.7	$65.2	$70.8	$82.4	82.4
Specific Purpose						
Medical Center Debt Service	Committed	32.1	32.1	32.1	32.1	32.1
Asset Replacement	Committed	0.0	0.0	0.0	0.0	1.9
Business Process Improvement	Committed	1.2	0.0	0.0	0.0	0.0
Future Space Needs	Committed	22.9	22.9	22.9	0.0	0.0
Computer Systems:						
Property Tax System	Committed	0.0	9.0	20.0	20.0	20.0
New Financial Accounting System	Committed	0.0	0.0	0.0	13.0	13.0
Permit Systems Upgrade	Committed	0.0	0.0	0.0	2.0	2.4
Retirement	Committed	8.5	8.5	8.5	8.5	8.5
Teeter	Restricted/Committed	24.7	24.7	24.7	11.7	11.7
Insurance	Committed	3.0	3.0	3.0	3.0	3.0
Earned Leave	Committed	0.0	3.6	3.6	10.6	15.5
Labor	Committed	0.0	0.0	0.0	0.0	7.3
Workers Compensation Rebate	Committed	0.0	0.0	0.0	16.7	0.0
Property Tax Admin Fee Litigation	Committed	0.0	14.2	0.0	0.0	0.0
Transportation Projects						
Glen Helen Parkway Bridge	Committed	3.0	4.0	0.0	0.0	1.8
Rock Springs Bridge	Committed	0.0	0.0	0.0	0.0	2.1
National Trails Highway	Committed	0.0	0.0	0.0	0.0	5.0
Land Use Services General Plan/Code Amendments	Committed	0.0	0.0	0.0	5.4	4.6
Restitution	Committed	1.5	1.5	1.5	1.5	1.5
Capital Projects						
Animal Shelter	Committed	4.0	0.0	0.0	10.0	10.0
County Buildings and Acquisition Retrofit Project		0.0	0.0	0.0	4.0	4.0
303 Building Renovations	Committed	0.0	0.0	0.0	4.0	0.0
Lake Gregory Dam	Committed	0.0	0.0	0.0	0.0	5.0
Rim Forest Drainage	Committed	0.0	0.0	0.0	5.9	5.9
Glen Helen Grade Separation	Committed	0.0	0.0	0.0	5.3	0.0
Jail Upgrades:						
Glen Helen Rehabilitation	Committed	0.0	0.0	0.0	22.5	22.5
Adelanto Rehabilitation Center	Committed	0.0	0.0	0.0	10.0	10.0
West Valley Detention Center	Committed	0.0	0.0	0.0	7.0	7.0
Justice Facilities	N/A	0.0	0.0	0.0	0.0	0.7
Cal Fresh Waiver Discontinuance	Committed	0.0	0.0	0.0	5.0	5.0
Redevelopment Agency Overpayment	Committed	0.0	0.0	0.0	3.8	3.8
Subtotal – Specific Purpose [1]		$100.9	$123.5	$116.3	$202.0	$204.3
Total Reserves [1]		**$160.7**	**$188.7**	**$187.1**	**$284.4**	**$286.7**

Source: County of San Bernardino.

(1) Subtotal and Total may not add due to rounding.

(2) Reflects fund balance categories for Fiscal Years 2010-11 through 2014-15 pursuant to GASB 54 effective June 30, 2011. Certain fund balance classifications may differ from the CAFR for financial reporting purposes.

(3) Estimated.

As reflected in Table 1 above, amounts in the County's General Fund reserves increased by approximately $97.3 million, from $187.1 million at the end of Fiscal Year 2012-13 to $284.4 million at the end of Fiscal Year 2013-14. This increase includes an $11.6 million contribution to the general purpose reserve, bringing the balance to $82.4 million or 13.9% of locally funded appropriation and included an early contribution for Fiscal Year 2014-15. There was an additional contribution to the Earned Leave reserve of $7.0 million. The County also established in Fiscal Year 2013-14 a reserve for a new financial accounting system of $13.0 and a reserve for an upgrade to Permit Systems of $2.0 million. The future space needs reserve of $22.9 million was released to fund reserves for specific capital projects totaling $29.2 million. Other reserves were established for the following uses: jail upgrades totaling $39.5 million, a Land Use Services General Plan/Code amendments of $5.4 million, Cal Fresh Waiver Discontinuance of $5.0 million, a redevelopment overpayment of $3.8 million and a Worker's Compensation rebate of $16.7 million. These increases were offset by the release of $13.0 million of the Teeter reserve, which is the amount that this reserve is funded in excess of the legal requirement.

For Fiscal Year 2014-15, the County projects that total reserves will increase by approximately $2.3 million, from $284.4 million at the end of Fiscal Year 2013-14 to $286.7 million at the end of Fiscal Year 2014-15. Projected increases to reserves reflect amounts approved in the 2014-15 Adopted Budget, including a contribution of $4.9 million to the earned leave reserve and $0.4 million to the permit system upgrade reserve. Approved contributions for new reserves for Fiscal Year 2014-15 include a labor reserve of $7.3 million, a reserve for improvements to justice facilities of $0.7 million, Transportation projects totaling $8.9 million, and an asset replacement reserve of $1.9 million. Fiscal year 2014-15 reserve decreases reflect the uses of the capital projects reserves of $4.3 million, the Land Use Services General Plan Amendment of $0.8 million, and the Worker's Compensation rebate of $16.7 million.

The County's Fiscal Year 2015-16 Recommended Budget (the "2015-16 Recommended Budget") includes the current year contribution of $6.3 million to the General Purpose reserve, bringing it to $88.8 million or 14.0% of locally funded appropriation and bringing the County within 70% of its targeted amount. New contributions for 2015-16 include $14.3 for Fire facilities; new Transportation projects including $8.2 million for the Cedar Avenue Interchange, $0.8 million for the Green Tree Boulevard Connection and $0.4 for the Stanfield Cutoff Road Repair and Bridge Replacement; $4.4 million for litigation; $0.2 million for the Give Big campaign; and $6.7 million for new unspecified capital projects. Additional contributions to previously established reserves include $2.5 million for labor, $7.9 million for earned leave, $5.0 million for the Property Tax system, $1.5 million for the Land Use Services General Plan/ Code amendments, $3.8 million to the Lake Gregory Dam capital project, and a total of $6.4 million for Transportation projects, including the Glen Helen and Rock Springs bridges replacement projects and the National Trails Highway project. Recommended uses include the use of $0.3 of the Permit Systems upgrade reserve, $0.3 million of the Rancho Courthouse remodel reserve, $0.9 of the Rim Forest Drainage reserve, $1.3 million of the Cal Fresh Waiver Discontinuance reserve.

Capital Budget Policy. The County's capital budget policy is designed to ensure that the County maintains its public infrastructure in the most cost efficient manner and includes requirements for the approval process for capital project proposals, including the requirement that the source of funding be identified for future staffing, operational, maintenance, and utility costs. The County's capital budget policy was last amended in February 2007.

Debt Policy. The Debt Advisory Committee, which was established by the Board of Supervisors, is responsible for oversight and review of all debt policy and debt issuance activities and for making recommendations to the Board of Supervisors regarding appropriate actions with respect to debt matters. The County's debt policy generally provides that the County will manage liabilities prudently, and whenever possible, pursue alternative sources of funding, when cost effective, to minimize the level of debt of the County. The debt policy also addresses structuring considerations, investment of proceeds, and the overall management of the County's debt portfolio. The County's debt policy was last amended in November 2002.

County Fiscal Year 2014-15 Adopted Budget

The County's Fiscal Year 2014-15 Budget was adopted on June 24, 2014 (the "2014-15 County Adopted Budget") and is approximately $4.21 billion, of which $2.57 billion relates to the County's General Fund budget. The 2014-15 County Adopted Budget reflects a net decrease of $130.3 million in spending authority for the General Fund compared to the 2013-14 County Final Budget.

For Fiscal Year 2014-15, the decrease in appropriation for the General Fund was primarily the result of decreased contingencies due to movement of contingencies to specific reserves. During Fiscal Year 2013-14, $101.8 million of General Fund contingencies was used to fund General Fund reserves for specific purposes. Previous General Fund contingencies transferred to reserves included amounts for computer systems including the new financial accounting system of $13.0 million and the Permit Systems upgrade of $2.0 million; amounts for Land Use Services General Plan/Code amendments of $5.4 million; amounts for capital improvement projects, including the Animal Shelter of $10.0 million, the County Buildings and Acquisition Retrofit project of $4.0 million, the Rim Forest Drainage project of $5.9 million, and the Glen Helen Grade Separation of $5.3 million; jail upgrades, including the Glen Helen Rehabilitation Center of $22.5 million, the High Desert Detention Center (formerly Adelanto Detention Center) of $10.0 million, the West Valley Detention Center of $7.0 million; and the Worker's Compensation rebate of $16.7 million.

The 2014-15 Adopted Budget anticipated the use of the full amount of the Glen Helen Grade Separation of $5.3 million and $0.3 million of the General Plan Update reserve.

Potential impacts of the State's Fiscal Year 2014-15 Budget, which were unknown at the time of approval of the 2014-15 County Adopted Budget, were not included.

Financial Events Impacting the County Subsequent to Adoption of the Fiscal Year 2014-15 County Adopted Budget

The County provides quarterly budget reports to the Board of Supervisors. These reports include recommendations for budget adjustments and personnel actions and are presented at a regularly scheduled Board meeting. A brief summary of certain approved budget adjustments through March 3, 2015 (Quarter 2) of Fiscal Year 2014-15 (the "Second Quarter Report") is presented below.

Release of Reserves As part of the budget report through the first quarter of Fiscal Year 2014-15, the Board of Supervisors approved the release of Worker's Compensation Rebate reserve in the amount of $16.7 million and uses the Labor reserve in the amount of $5.7 million to fund costs under Memoranda of Understanding ("MOUs") resultant from negotiations as well a portion of the Earned Leave Reserve of $0.5 million, a portion of the Permit Systems upgrade in the amount of $1.8 million, and a portion of the Land Use Services General Plan/Code amendments reserve in the amount of $0.5 million, and the Capital Projects reserve of $4.2 million to fund the 303 Building upgrade and the Public Defender Rancho Courthouse remodel.

As part of the Second Quarter Report, additional use of the Earned Leave reserve was approved in the amount of $1.4 million, $6.3 million of the Capital projects reserve to fund the Rancho Courthouse remodel and the Sheriff's Narcotics Building, and an additional use of the Labor reserve in the amount of $2.1 million to fund MOU costs.

Countywide Discretionary Revenue Adjustments to Countywide Discretionary revenue approved with the second quarter budget report included $21.8 million of additional property tax due to primarily to revenue resulting from the dissolution of the former Community Redevelopment Agencies ("RDAs") pursuant to ABx1 26.

For Fiscal Year 2014-15, the County anticipates positive results in discretionary operations of $105.4 million as a result of approximately $85.8 million in unspent contingencies, $10.1 million in departmental savings, $1.5 million for an SB90 repayment, $1.5 million for additional revenue from the RDA dissolution, $4.4 million returned earned leave appropriation, and $2.0 million of excess Proposition 172 revenue.

Long Term Financial Planning

Long-term financial planning is an effective tool for creating sustainable budgets and providing fiscal stability beyond the annual budget horizon. Long-term financial planning is a strategic process that provides governments with the insights and information needed to establish multi-year budget solutions and financial policies and actions that maintain good fiscal health. The County creates a five-year operating forecast for the purpose of providing the Board of Supervisors with a framework for use in decision-making in order to maintain and continue the fiscal health of the County to ensure and enable a plan for the provision of services and capital assets.

The forecast is updated annually and is not a budget. It does not establish policy or priorities; it simply summarizes fiscal capacity. The forecast identifies key factors that affect the County's fiscal outlook and assesses how difficult balancing the budget may be in the future. It helps the County to understand the fiscal challenges ahead and the need to establish priorities.

The forecast is developed using a baseline environment, in which revenues and expenditures are projected based primarily on trend analysis, specific circumstances and present level of services provided by the County. The forecast is not a prediction of what is certain to happen but rather a projection of what will occur in the absence of any mitigating actions or changing circumstances. As such, this plan highlights significant issues or problems that must be addressed in order to maintain a structurally balanced budget.

The following table summarizes the County's five-year financial forecast as it relates to ongoing expenditures funded with ongoing discretionary revenue in the County's General Fund.

TABLE 2
COUNTY OF SAN BERNARDINO
FIVE-YEAR FINANCIAL FORECAST[(1)]
FISCAL YEARS 2015-16 THROUGH 2019-20
(dollars in millions)

	2015-16	2016-17	2017-18	2018-19	2019-20
Ongoing Revenue Change:					
Property Tax	$40.4	$14.2	$12.1	$12.3	$12.4
Proposition 172	8.8	4.7	4.0	3.8	1.7
AB109 High Desert Detention Center	9.1	0.0	0.0	0.0	0.0
Other Revenue	(1.9)	0.7	1.5	1.5	1.5
Total Ongoing Revenue Change	**$56.4**	**$19.6**	**$17.6**	**$17.6**	**$15.6**
Ongoing Costs Change:					
Retirement	(11.9)	(5.3)	(4.5)	(3.2)	(4.5)
Other MOU Costs	(6.0)	(0.2)	0.0	0.0	0.0
County Fire Subsidy Costs	(2.1)	0.0	0.0	0.0	0.0
Other Costs	(4.4)	(2.7)	(2.2)	(1.6)	4.2
Total Change in Costs	(24.4)	(8.2)	(6.7)	(4.8)	(0.3)
New Ongoing Costs					
High Desert Detention Center Staffing	(0.0)	0.0	(13.0)	(14.6)	0.0
Glen Helen Housing Program	0.0	0.0	0.0	(1.2)	0.0
Transportation Operations	(8.8)	(5.4)	0.0	0.0	0.0
Total New Ongoing Costs	**($8.8)**	**($5.4)**	**($13.0)**	**($15.8)**	**0.0**
Annual Deficit/Surplus	**$23.2**	**$6.0**	**($2.1)**	**($3.0)**	**15.3**
New Other Ongoing Departmental Costs					
2015-16 Funding Requests	(12.4)	0.0	0.0	0.0	
Total Other New Ongoing Costs	0.0	0.0	0.0	0.0	
Yearly Annual (Deficit)/Financing Available	**$10.8**	**$6.0**	**($2.1)**	**($3.0)**	**$15.3**
Cumulative Ongoing Excess/(Deficit)	**$10.8**	**$16.8**	**$14.7**	**$11.7**	**$27.0**

Source: County of San Bernardino Administrative Office.
(1) The Five-Year Financial Forecast represents future incremental costs and changes in revenues for the referenced fiscal year.

In May 2011, the Chief Executive Officer ("CEO") implemented the use of multi-year forecasting to address the cumulative five-year structural deficit forecast, initially, through Fiscal Year 2015-16. This five-year financial forecast is updated annually.

As reflected in the table above, the forecast illustrates that revenues are beginning to increase due to projected growth in assessed valuation, Proposition 172 sales tax revenue, and AB109 revenue. Cost increases continue to cause structural issues that that have been addressed by prioritizing new costs and delaying others when possible. While the County maintains conservative forecasting and budgeting of future revenues, if the revenues are not achieved as planned, other mitigations may need to be considered as the ongoing costs are fixed. This five year forecast represents a plan that is subject to external impacts beyond the County's control. These external factors present potential risks that must be considered.

Significant Factors Impacting the General Fund

Increased Reliance on Sales Tax Revenue for Mandated Health, Safety and Welfare Programs – Prior to the implementation of 2001 Realignment, the County was funded approximately 6.3% by sales tax revenue including Proposition 172, 1991 Realignment, and Countywide sales and use tax. Beginning in 2011-12, total Countywide requirements were funded nearly 12% by sales tax revenue, and in 2014-15, slightly over 14%. With the shifts in costs funded with sales tax revenue, the County has increased exposure to mandates that have been permanently shifted to the County funded by revenue that tends to be more volatile than property tax.

Retirement and Other MOU Costs – Retirement increases are based on year to date shortfall of earnings and amortization of prior year gains and losses. Further, the impact of assumption changes has been incorporated.

Proposed High Desert Detention Center Staffing Mitigations – The County currently estimates that the ongoing cost of staffing the expanded High Desert Detention Center (formerly the Adelanto Detention Center) is $39.1 million. The recommended funding deferral grows staffing in phases, moving Phase 2 to Fiscal Year 2017-18 and Phase 3 to Fiscal Year 2018-19, to mitigate costs. The deferral postpones $13.0 million to Fiscal Year 2017-18 and $14.6 million to Fiscal Year 2018-19.

Transportation Operations – The County currently estimates that the ongoing cost to maintain its current road system to Pavement Condition Index is $8.8 million.

Increased Departmental Costs – Each year during the budgeting process, the County Administrative Office (CAO) asks for departments' increased costs that cannot be absorbed into their current allocations. Of the $23.2 million in requests, after a prioritization of requests, the CAO only recommended $12.4 million of these requests be funded on an ongoing basis.

Other Costs – San Bernardino County is experiencing increases in various Risk management/insurance costs. For self-insured programs, the County sets rates intended to achieve an 80% confidence level based on annually conducted actuarial studies.

County Fiscal Year 2015-16 Recommended Budget

General. The County will release its Fiscal Year 2015-16 Recommended Budget in June 2015 (the "2015-16 Recommended Budget"). The 2015-16 Recommended Budget hearing and adoption is scheduled for June 16, 2015.

Summary of the County's 2015-16 Recommended Budget. The 2015-16 Recommended Budget is structurally balanced and results in an operating surplus of $10.8 million, as shown in the table entitled "Five-Year Financial Forecast" (Table 2 above). The tables below detail the revenue and expenditure assumptions that are included in the Five-Year Financial Forecast (Table 2 above) for Fiscal Year 2015-16. The tables below also address one-time sources and uses for Fiscal Year 2015-16. The ongoing budget information below is presented on an incremental basis using the 2014-15 Adopted Budget as the base. The one-time information below is presented in actual amounts (rounded).

Table 3 below reflects changes in financing sources available for the 2015-16 Recommended Budget.

TABLE 3
COUNTY OF SAN BERNARDINO
CHANGES IN DISCRETIONARY FUNDING AVAILABLE FOR FISCAL YEAR 2015-16
(in millions)

	Ongoing	One-Time
Adjusted Ongoing Discretionary Sources:		
Property Tax	$40.4[1]	
Sales Tax	1.3[2]	
Property Transfer Tax	0.2	
Interest Revenue	0.0	
Property Tax Administration Fee	0.0	
Other	(3.4)	
Adjusted Ongoing Proposition 172 Revenue	8.8[3]	
Adjusted AB109 Base Increase	9.1	
Estimated One-Time Discretionary Sources:		
Use of Reserves		2.9[4]
Operating Transfers In		12.0
2014-15 Discretionary Results		105.4[5]
Changes in Available Financing	**$56.4**	**$120.3**

Source: County of San Bernardino Administrative Office.

(1) The $40.4 million increase in property tax revenue is based on an assessed valuation increase of 3.0%. Beginning with Fiscal Year 2015-16, the County has budgeted $12.5 million of additional property tax revenue related to the dissolution of Redevelopment Agencies pursuant to ABx1 26 and continues to budget for pass-through payments consistent with the legislation

(2) The $1.3 million estimated increase in sales tax revenue is based on estimates of a local economist and increased revenue trends in Fiscal Year 2014-15.

(3) The County receives Proposition 172 revenue, which is derived from a half-cent sales tax that provides funding for public safety services. The County allocates its Proposition 172 revenues as follows: 70.0% to the Sheriff/Coroner/Public Administrator, 17.5% to the District Attorney and 12.5% to the Probation Department. The Fiscal Year 2015-16 Proposition 172 increase of $8.8 million includes $5.6 million of current year revenues in excess of the amount included in the 2014-15 Adopted Budget and growth of $3.2 million projected for Fiscal Year 2015-16.

(4) The following uses reserves have been included in the 2015-16 Recommended Budget: Land Use Services General Plan/Code Amendments in the amount of $0.2 million, Permit Systems upgrade in the amount of $0.3 million, Cal Fresh Waiver Discontinuance in the amount of $1.3 million, Rim Forest Drainage in the amount of $0.9 million, and the District Attorney Courthouse Remodel in the amount of $0.3 million.

(Table continued on next page.)

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(5) Projected Fiscal Year 2015-16 discretionary General Fund results include:

(a) Appropriation savings of $95.9 million. This is comprised of $85.8 million in unspent contingency appropriations, and projected departmental savings of $10.1 million.

(b) Revenue in excess of budgeted amounts of $9.4 million. This is due to increased property tax revenues of $1.5 million resulting from residual property tax increment not required for the current payment obligations of the dissolved redevelopment agencies. Additionally, excess Proposition 172 revenues total $2.0 million. The unbudgeted SB90 Repayment resulted in additional revenue of $1.5 million, and returned Earned Leave appropriation resulted in additional revenue of $4.4 million.

As shown in Table 4 below, the County anticipates ongoing cost increases of $45.6 million and $120.3 million in one-time costs and contingency appropriations.

TABLE 4
COUNTY OF SAN BERNARDINO
CHANGES IN COSTS FUNDED WITH DISCRETIONARY REVENUE
FOR FISCAL YEAR 2015-16
(in millions)

	Ongoing	One-Time
Increase in Ongoing Costs		
Retirement Increases	$11.9[(1)]	
Other MOU Costs	6.0[(2)]	
County Fire Subsidy Costs	2.1[(3)]	
Transportation Operations	8.8[(4)]	
High Desert Detention Center Staffing	0.0	
Other Costs	4.4[(5)]	
Departmental Allocations	12.4[(6)]	11.5[(7)]
One-Time Costs		
Operating Transfers Out		22.8[(8)]
Contingency Appropriation		21.0[(9)]
Reserve Contributions		65.0[(10)]
	45.6	**120.3**

Source: County of San Bernardino Administrative Office.

(1) Estimated increases in retirement costs caused primarily by market losses incurred by the retirement system.

(2) Approved compensation changes pursuant to negotiated MOU with employee groups of the County.

(3) Increased subsidy to County Fire to maintain needed services in light of fire district property tax revenue allocation.

(4) Costs associated with ongoing maintenance of County roads system to the Pavement Condition Index.

(5) Other costs include $1.6 million in funding to Human Services for increased costs of foster care and California Children's Services, $1.4 million in funding allocations to departments for Worker's Compensation increases, an additional $7.3 million for insurance and central services costs, $0.5 million for utilities offset by cost savings resulting from the payoff of the Justice Center debt in the amount of $6.4 million.

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(6) New departmental requests recommended for 2015-16 including $0.3 million for the Board of Supervisors' Community Outreach program, $0.1 million for the Clerk of the Board clerical support and videoconferencing costs, $0.3 million for the addition of a Deputy Executive Officer for Community Services, $0.2 million for the addition of a Law and Justice Finance Analyst for Finance and Administration, $0.2 million for Human Resources for reorganization funding, $0.2 million for Information Services for audio/visual activities, $0.1 million for full year funding of a Staff Analyst for Purchasing, $10.4 million primarily for inmate medical costs for the Sheriff, $0.1 million for the addition of a Biology Curator for the County Museum, $0.1 for mandated corner records functions for the Surveyor, and $0.4 million for new positions for the Auditor-Controller/Treasurer/Tax Collector.

(7) One-time department allocations include $0.1 million for the Give Big campaign, $3.4 million in expenditure authority to Economic Development from revenue the department generated in Fiscal Year 2014-15, $1.3 million for the Cal Fresh Waiver Discontinuance, $0.3 million to Trial Courts Indigent Defense for Prop. 47 caseload increases, $0.4 million to the District Attorney for lease space and extra help employee for Prop.47, $0.8 million to the Public Defender for Prop.47 caseload increases, $0.2 million for Sheriff Detention sergeants, $0.6 million for the Sheriff's recruitment program, $0.6 million to the Museum for operations costs, $0.8 million to Land Use Services for the General Plan/Code amendments and Permit Systems upgrades along with other costs, $0.1 million to the Surveyor for completion of old surveys, $0.1 million to Regional Parks for the Lake Gregory management fee, $3.5 million to Register of Voters for one-time elections offset by $-0.7 of one time negative experience modification insurance.

(8) Includes $6.4 million to Transportation for various projects, $28.1 million to the Capital Improvement Program for various projects, $0.9 million to Flood Control for the Rim Forest Drainage project, $0.2 to Community Development and Housing for dissolution work, and a one-time reduction of $12.8 million in support to County Fire.

(9) Includes $9.5 million allocated to mandatory contingencies (14.0% of locally funded appropriation), and $11.5 million of unallocated contingencies.

(10) Recommended reserve contributions include $6.3 million for the General Purpose reserve, $4.4 million for Earned Leave, $2.5 million for Labor, $14.3 for County Fire facilities, $0.2 million for the Give Big campaign, $4.4 million for litigation, $3.8 million for the Lake Gregory project, $5.0 million for the Property Tax System, $6.7 million for capital improvement projects, $15.8 million for Transportation projects, and $1.5 million for the Land Use Services General Plan/Code amendments reserve.

Table 5 summarizes the County's Fiscal Year 2015-16 financial plan for discretionary sources and uses:

TABLE 5
COUNTY OF SAN BERNARDINO
SUMMARY OF COUNTY'S FISCAL YEAR 2015-16 FINANCIAL PLAN
DISCRETIONARY SOURCES AND USES
(in millions)

	Ongoing	One-Time
Ongoing Carryover from Prior Years	$0.0	$0.0
Change in Available Financing[1]	56.4	120.3
less: Change in Ongoing Costs/One-Time Costs Funded with Discretionary Revenue	45.6	120.3
Mitigations	0.0	0.0
2015-16 Unallocated	**$10.8**	**$0.0**

Source: County of San Bernardino Administrative Office.

(1) See Table 3 entitled "County of San Bernardino Changes in Discretionary Funding Available for Fiscal Year 2015-16" above.

Summary of Recent County Budgets

The following table summarizes the County's adopted budgets for selected funds for Fiscal Years 2009-10 through 2013-14 and the 2014-15 Recommended Budget.

TABLE 6
COUNTY OF SAN BERNARDINO
ADOPTED BUDGETS FOR GENERAL FUND[1]
FISCAL YEARS 2010-11 THROUGH 2014-15
AND THE 2015-16 RECOMMENDED BUDGET
(in thousands)

	2010–11 Adopted Budget	2011–12 Adopted Budget	2012–13 Adopted Budget	2013–14 Adopted Budget	2014–15 Adopted Budget	2015–16 Recommended Budget
FINANCING REQUIREMENTS						
General Government	$175,393	$192,251	$210,356	$201,124	$188,713	$191,370
Public Protection	736,705	756,857	824,643	841,957	875,695	919,606
Public Ways and Facilities	2,813	2,946	2,800	2,911	2,810	2,958
Health and Sanitation[5]	331,721	325,290	330,653	401,111	386,630	416,094
Public Assistance	970,182	934,090	952,250	999,751	1,040,234	1,103,993
Education	18,469	17,389	17,483	21,644	23,486	24,989
Recreation and Cultural Services	12,559	14,750	14,069	13,513	14,511	13,739
Debt Service[6]	54,640	16,258	13,053	13,013	13,017	12,941
Capital Outlay[9]	121,989	248,513	193,644	187,366	205,418	214,468
Contingencies	57,685	40,096	34,536	189,362	54,440	32,922
Restricted General Fund Contingencies[2]	140,137	185,078	178,014	243,834	263,696	286,741
Increases in Reserves/Designations	1,000	26,502	6,595	12,668	48,227	68,515
Total Financing Requirements[3][8]	2,623,293	$2,760,021	$2,778,095	$3,128,254	$3,116,877	$3,288,336
AVAILABLE FINANCING						
Property Taxes	$414,563	$418,283	$412,646	$424,238	$451,390	$493,014
Other Taxes[4]	150,980	151,934	173,319	184,390	195,070	205,162
Licenses, Permits and Franchises	19,585	18,849	20,423	20,717	22,462	22,113
Fines, Forfeitures and Penalties	10,731	9,615	8,692	7,332	7,376	7,411
Revenue from the Use of Money and Property	41,114	36,651	33,157	33,105	32,998	33,101
Aid from Other Govt. Agencies[10]	1,253,849	1,284,327	1,318,182	1,397,347	1,433,358	1,490,253
Charges for Services[8]	332,426	368,364	345,227	388,695	393,810	407,014
Other Revenues	18,209	18,328	22,859	32,311	26,942	22,816
Operating Transfers In[5]	33,751	85,584	49,988	60,735	32,544	66,706
Cancellation of Reserves/Designations[7]	63,454	4,864	5,000	35,919	5,637	2,922
Restricted General Fund—Fund Balance[2]	164,473	206,966	189,236	261,667	255,342	301,923
Fund Balance Available	120,157	156,256	199,368	287,797	259,948	235,901
Total Available Financing[3]	2,623,293	$2,760,021	$2,778,095	$3,128,254	$3,116,877	$3,288,336

Source: County of San Bernardino Administrative Office, Adopted Budgets for Fiscal Years 2010-11 through 2014-15 and 2015-16 Recommended Budget.

(1) The County budgets included within this schedule are the General Fund, Library Fund and Capital Improvement Fund. Amounts shown do not include operating transfers between these funds.

(2) The requirements of GASB 33 and GASB 34 are reflected in this schedule. In the Financing Requirements section, the Restricted General Fund Contingencies represents projected fund balance in State Realignment Revenue and Public Safety (Proposition 172) Sales Tax Revenue at June 30 for each fiscal year. In the Available Financing section, Restricted General Fund–Fund Balance, represents the beginning fund balance of State Realignment Revenue and Public Safety (Proposition 172) Sales Tax Revenue at July 1 of each fiscal year.

(3) Totals may not add due to rounding.

(4) Other taxes include sales and use taxes, property transfer taxes, supplemental property taxes, hotel/motel, race horse and aircraft taxes.

(Table continued on next page.)

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(5) Beginning in Fiscal Year 2010-11, includes the impacts of the implementation of GASB 54 for the 2010-11 Fiscal Year, which has resulted in a reduction of budgeted expenditures in the General Fund, and a corresponding reduction in Operating Transfers In. These expenditures will now be recorded in a special revenue fund.

(6) For Fiscal Year 2010-11, includes amounts budgeted for the optional redemption of approximately $38 million of General Fund Certificates of Participation.

(7) For Fiscal Year 2010-11, includes the use of $38 million of reserves to optionally prepay approximately $38 million of General Fund Certificates of Participation and the use of $24.8 million for the purchase and improvement of a new Sheriff's Crime Lab. For Fiscal Year 2013-14, includes the use of Glen Helen Grade Separation reserve of $5.3 million and the Land Use Services General Plan/Code amendments reserve of $0.3 million.

(8) Beginning in Fiscal Year 2011-12, includes County cost allocation plan revenue charged to General Fund departments. Related expenditures are included in the Financing Requirements section of the schedule. These costs are being allocated to assist departments in developing fees based on full cost of providing service, including county overhead.

(9) For Fiscal Year 2011-12, increase includes $79 million in appropriation for expansion of the High Desert Detention Center (formerly Adelanto Detention Center) which is funded primarily with a State grant pursuant to the Public Safety and Offender Rehabilitation Services Act of 2007 ("AB900"); and $24.0 million for a new 800 MHz radio system and $30.0 million for the County Building program both funded primarily with County discretionary resources.

(10) Beginning in Fiscal Year 2012-13 includes AB 109 funding from State.

1991 Realignment

In 1991 the State shifted responsibility for a number of mental health, social services and health programs to counties. This shift is known as "Realignment" and resulted in the creation of two dedicated funding streams to pay for the services shifted by Realignment. The first is a 1/2 cent sales tax and the second is a change in the depreciation schedule for vehicles which resulted in a 24.33% increase in Vehicle License Fee ("VLF") revenues collected by the State. Pursuant to SB 1096, Chapter 21, Statutes of 2004, the VLF was reduced from 2.0% of the market value of a vehicle to 0.65% of the market value. SB 1096 also changed the percentage of the VLF revenue allocated to Realignment from 24.33% to 74.9%, although this change did not result in increased VLF revenues to Realignment, but reflected the same funding amount expressed as a percentage of the reduced revenue collected. Each of the mental health, social services and health programs areas was required to have its own separate account established and each of those service areas receive a different share of statewide Realignment revenues.

Certain features of the Realignment program adversely impact County revenues, including changes to programmatic cost sharing ratios. For example, prior to Realignment, Foster Care costs were funded 95% by State resources and 5% by County resources. Now Foster Care is funded 40% by State resources and 60% by County resources, which is a significant impact to the County. Also, the County receives a smaller share of revenues than other counties based on population and estimated poverty population, which makes the County an "under equity county." Revenue distributions among counties were determined by expenditures in the programs that were transferred by the State just prior to the adoption of Realignment. The County was under equity in those programs. In connection with Realignment, the State attempted to address the inequity issue between counties. However, the County continues to be under equity at this time and, without legislative correction, the amount of inequity will increase over time. Revenue increases are distributed based on existing sharing arrangements between the counties. Counties that are already over equity receive a higher percentage of such revenue increases, while those counties that are under equity receive less revenue.

2011 Realignment

In 2011, the State addressed prison over-crowding by shifting custodial responsibility of non-violent, non-sex, and non-sex-against-children offenders to local jails. In addition, the parole function of the State was delegated to county probation departments, parole revocation hearings were shifted to the local jurisdictions and cases were assigned to the District Attorney and Public Defender. The State also realigned Juvenile Re-Entry and Trial Court Security by placing 100% of the financial responsibility for those programs on the county. This realignment is referred to collectively as the "2011 Realignment".

In conjunction with the 2011 Realignment, the State also shifted to the counties, including the County, full financial responsibility of many social service and mental health programs, including Adult Protective Services, Foster Care, Child Welfare Services, Child Abuse Prevention and Intervention, Drug Court, Medi-Cal substance abuse treatment programs, and the Maintenance-of-Effort ("MOE") for the CalWORKs. Subsequent to the 2011 Realignment and as a result of Proposition 30 approved by California voters in November 2012, such programs are financed from a dedicated portion of the State sales tax revenue (1.0625%) and a portion of vehicle license fees for these realigned programs, which are subject to the cycles of the State's economy. Demand for such services traditionally is highest when there is a downturn in the economy and revenues from taxes and fees are lower.

In addition, the State has redirected funding from 1991 Realignment for Mental Health Services to the CalWORKs MOE portion of 2011 Realignment. As a result, sales tax and vehicle license fee revenue that used to be directed to the fund for Mental Health matching funds is now going to the CalWORKs MOE fund. The Mental Health funding now comes in the form of a defined monthly amount taken off the top of 2011 Realignment revenues. State law establishes a statewide amount of $1.121 billion per year directed to the Mental Health Fund with future growth in the CalWORKs MOE fund to be directed to Mental Health as well.

The three services areas affected by the 2011 Realignment include the Law Enforcement Services, the CalWORKs MOE account, and the Support Services account. Within the Law Enforcement Services area are subaccounts administered locally as follows: the Trial Court Security subaccount administered by Sheriff/Coroner/Public Administrator's Department, the Juvenile Justice subaccount administered by the Probation Department, the District Attorney and Public Defender subaccount administered by the respective departments, and the Community Corrections subaccount administered by the Local Community Corrections Partnership. The Local Community Corrections Partnership determines how to allocate funding for the Community Corrections subaccount in response to proposals submitted by various departments to fund positions and/or programs beneficial to the implementation of the 2011 Realignment. The CalWORKs MOE account is administered locally by Human Services for CalWORKs. Finally, the Support Services account is administered locally by the Department of Behavioral Health (for the Drug Court and Medi-Cal substance abuse treatment programs) and Human Services (for its appropriate social service programs). Departments that receive funding may vary from year to year and funding levels can differ depending on needs and available resources. Efficient management of funding will remain a high priority as the formulas for determining allocations are still yet to be determined for future years.

***Ad Valorem* Property Tax**

Since Fiscal Year 1981-1982, all property has been assessed by the State Board of Equalization and the Assessor using full cash value. The State Constitution and various statutes provide exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, nonprofit hospitals and charitable institutions.

State law allows exemptions from *ad valorem* property taxation of $7,000 of full value of owner occupied dwellings. However, the State reimburses all local taxing authorities for the loss of revenues imputed to these exemptions. In addition, although business inventories were removed from the tax rolls beginning with Fiscal Year 1980-1981, State subvention was provided on a calculated base to reimburse local taxing agencies for this reduction of taxable properties, through Fiscal Year 1983-1984. Beginning with Fiscal Year 1984-1985, local taxing agencies began receiving revenue from Supplemental Taxes generated by provisions of SB 813.

Taxes are levied for each fiscal year on taxable real and personal property, which is situated in the County as of the preceding January 1. Real property that changes ownership or is newly constructed is revalued at the time the change in ownership occurs or the new construction is completed. The current year property tax rate will be applied to the reassessment and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The secured roll is that part of the assessment roll containing State-assessed property and property the taxes on which are a lien on real property sufficient in the opinion of the County Assessor to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments on November l and February 1 of each fiscal year and, if unpaid, become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to sale by the Auditor-Controller/Treasurer/Tax Collector.

Property taxes on the unsecured roll are due as of the January l lien date and become delinquent if unpaid on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (i) bringing a civil action against the taxpayer; (ii) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (iii) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (iv) seizing and selling personal property improvements or possessory interests belonging or assessed to the delinquent taxpayer.

Assessed Valuations. The following table sets forth information relating to assessed valuations in the County for Fiscal Years 2010-11 through 2014-15.

TABLE 7
COUNTY OF SAN BERNARDINO
DETAIL OF ASSESSED VALUATIONS[(1)]
FISCAL YEARS 2010-11 THROUGH 2014-15
(in thousands)

Fiscal Year	Common Property	Public Utility	Total Secured	Unsecured Valuations	Total Assessed Value	Increase/Decline
2010-11	$152,572,762	$5,467,323	$158,040,085	$10,073,682	$168,113,767	(4.3)%
2011-12	151,687,122	6,104,180	157,791,303	9,533,907	167,325,210	(0.5)
2012-13	152,735,549	6,066,845	158,802,394	9,765,041	168,567,434	0.7
2013-14	157,299,449	6,354,644	163,654,093	10,042,150	173,696,244	3.0
2014-15	167,308,229	6,545,686	173,853,916	10,389,487	184,243,402	6.1

Source: County of San Bernardino, Auditor-Controller/Treasurer/Tax Collector, Disbursements Division Property Tax Section.
(1) Reflects exclusion of business inventory valuations. Property assessed at taxable full cash value.

Property Tax Levies and Collections. The following table sets forth property tax levies and collections for the County General Fund for the Fiscal Years 2010-11 through 2014-15.

TABLE 8
COUNTY OF SAN BERNARDINO
PROPERTY TAX LEVIES AND COLLECTIONS[(1)]
COUNTY GENERAL FUND
FISCAL YEARS 2010-11 THROUGH 2014-15

Fiscal Year	Tax Levy	Collections Through June 30	Delinquent Balance as of June 30	Ratio of Delinquency to Tax Levy
2010-11	$177,106,077	$170,494,363	$6,611,714	3.73%
2011-12	178,443,842	171,276,966	7,166,876	4.02
2012-13	181,215,248	173,240,980	7,947,268	4.40
2013-14	187,782,567	182,825,603	4,956,964	2.64
2014-15[(2)]	198,297,979	193,063,435	5,234,544	2.64

Source: County of San Bernardino, Auditor-Controller/Treasurer/Tax Collector, Controller Division Property Tax Section.
(1) Does not include the property taxes received pursuant to VLF/Property Tax Swap.
(2) Estimated based on prior year delinquency rate.

Allocation of Property Taxes Among Local Governments. The following table summarizes the allocation of property taxes for Fiscal Year 2014-15 among the types of local governments within the County.

TABLE 9
COUNTY OF SAN BERNARDINO
ALLOCATION OF AGGREGATE 2014-15 PROPERTY TAXES[(1)(2)]

Governmental Unit	Percent of Total
Schools	40.92%
Redevelopment Property Tax Trust Fund[(3)]	29.80
Special Districts	9.36
County Government	10.22
Cities	9.10
Library	0.59
Total	100.00%

Source: County of San Bernardino, Auditor-Controller/Treasurer/Tax Collector, Controller Division Property Tax Section.
(1) Average tax rate 1.147404% per $100 assessed value.
(2) Does not include the property taxes received pursuant to VLF/Property Tax Swap.
(3) In previous versions of this table, the Governmental Unit receiving this percentage of the property tax dollar was RDAs. On January 31, 2012 RDAs were dissolved pursuant to ABX1 26. Property Tax increment is still calculated as if the RDAs existed, however, the money is now held in trust for the County Auditor-Controller/Treasurer/Tax Collector to administer in accordance with the RDA dissolution bills.

Largest Assessees. The ten largest secured assessees in the County for Fiscal Year 2014-15 are listed below. These assessees accounted for 4.94% of the secured roll in the County.

TABLE 10
COUNTY OF SAN BERNARDINO
LARGEST SECURED ASSESSEES
FISCAL YEAR 2014-15

	Business Type	Assessed Value
Southern California Edison	Utility	$3,454,027,760
Rare Earth Acquisitions LLC	Financial	1,010,696,903
Prologis[(1)]	Distribution Facilities	899,526,740
Majestic Realty Co	Real Estate	529,005,587
Verizon California	Telecommunications	516,275,817
California Steel Industries	Manufacturer	482,500,000
Target Corporation	Retail	452,696,223
Catellus[(1)]	Distribution Facilities	429,816,430
Wal-Mart	Retail	418,252,495
Teachers Insurance & Annuity Association	Financial Services	388,000,199
Total		$8,580,798,154

Sources: County of San Bernardino, Assessor and Auditor-Controller/Treasurer/Tax Collector, Controller Division Property Tax Section.
(1) Prologis has acquired a controlling interest in the voting stock of Catellus. These entities will continue to appear as separate taxpayers on this schedule until the County Assessor is officially notified of this change by the State Board of Equalization.

Secured Assessed Valuation by Base Year; Secured Assessed Valuation by Land Use. Under Proposition 13, which added Article XIIIA to the State Constitution, the assessed value of all real property in the State was established as the Fiscal Year 1975-76 value, or thereafter, as the market value of such property when purchased, newly constructed, or a change in ownership occurs. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS— Article XIIIA of the State Constitution" in the body of the Official Statement. Assessed value of property that has not changed ownership may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction, market forces or other factors. As a result, property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than the market value of the property, while similar property that has recently been acquired may have a substantially higher assessed value, reflecting the recent acquisition price. The following tables set forth information relating to the assessed valuation by base year and the distribution of taxable property by land use located in the County for Fiscal Year 2014-15.

TABLE 11
COUNTY OF SAN BERNARDINO
SECURED ASSESSED VALUATION BY BASE YEAR
FISCAL YEAR 2014-15

Base Year	2014-15 Assessed Valuation[1] (in billions)	% of Total	No. of Parcels	% of Total
1975-1995	$29.1	17.6%	227,856	29.5%
1996-2002	24.0	14.5	120,044	15.5
2003-2007	42.8	25.8	159,194	20.6
2008-2014	69.7	42.1	265,552	34.4
Total[2]	$165.6	100.0%	772,646	100.0%

Source: County of San Bernardino, Assessor's Office.
(1) Local secured assessed valuation, excluding homeowners' exemptions.
(2) Totals may not be exact due to rounding.

TABLE 12
COUNTY OF SAN BERNARDINO
SECURED ASSESSED VALUATION BY TYPE
FISCAL YEAR 2014-15

Land Use	2014-15 Assessed Valuation(1) (in billions)	% of Total	No. of Parcels	% of Total
Residential	$115.2	69.6%	710,270	91.9%
Commercial	23.6	14.3	36,293	4.7
Industrial	24.8	14.9	19,573	2.5
Agricultural	2.0	1.2	6,510	0.8
Total(2)	$165.6	100.0%	772,646	100.0%

Source: County of San Bernardino, Assessor's Office.
(1) Local secured assessed valuation, excluding homeowners' exemptions.
(2) Totals may not be exact due to independent rounding.

Under the provisions of Proposition 8, property owners may apply for a temporary reduction in the assessed value of their real property when the market value of the real property, as of January 1 of the applicable tax year, falls below its assessed value. The Assessor may also proactively initiate Proposition 8 reviews. Once reduced, the Assessor must annually review the value of the property until the factored Proposition 13 value is fully restored (adjusted with the annual consumer price index, not to exceed 2%). If a property owner is not satisfied with the Proposition 8 reduction amount approved by the Assessor, or if they do not agree with the base year value of their property, set at completion of construction or change in ownership, the property owner may appeal the assessed value of their property.

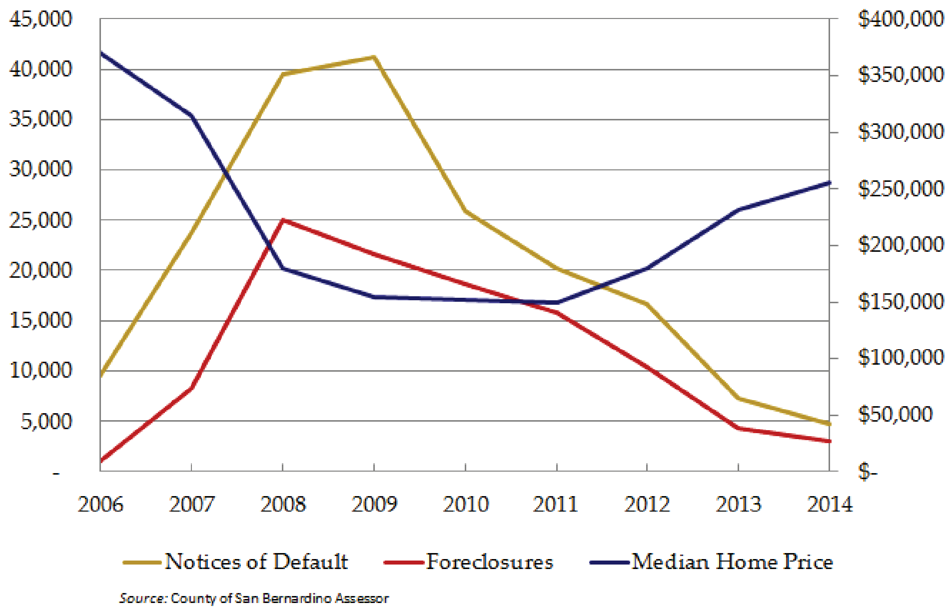
The following Table 13 sets forth the number of appeals filed with the Clerk of the Board of Supervisors for roll years 2010-11 to 2014-15, as of April 6, 2015, and the status of the appeals that have been filed. Numbers under the heading 'Resulted in Change in Value/Stipulation' represent appeals where a change in value occurred based on negotiations between the Assessor and the property owner, and not based on the decision of the assessment appeals board.

TABLE 13
COUNTY OF SAN BERNARDINO
ASSESSMENT APPEALS
Fiscal Years 2010-11 through 2014-15

				Resulted in Change in Value			
Roll Year	**Total Number Filed**	**Withdrawn or Failed to Appear**	**Denied**	**Stipulation**	**Decision of Appeals Board**	**Active - Pending Litigation**	**Active – Actively Working**
2010-11	9,079	3,676	1,688	3,344	340	31	31
2011-12	7,350	3,370	1,127	2,548	242	63	63
2012-13	6,225	3,100	922	1,888	278	22	37
2013-14	4,902	1,155	673	745	29	24	2,300
2014-15(1)	3,800	141	507	15	0	0	3,137
	31,356	**11,442**	**4,917**	**8,540**	**889**	**140**	**5,568**

Source: County of San Bernardino Clerk of the Board of Supervisors.
(1) As of May 5, 2015.

Median Home Prices; Notices of Default; Foreclosures. Property values within the County have also returned to pre-recession levels with median home price rebounding from a low of $150,000 in 2009 to $240,000 in 2014. The median existing house remained affordable to 45% of families within the County despite the rise in prices. The rise in the number of defaults and foreclosures that had been attributed to the prevalence of subprime home mortgage loans during the recession have decreased to levels experienced before the recession.



The Teeter Plan

In 1949, the California Legislature enacted an alternative method for the distribution of secured property taxes to local agencies. This method, known as the Teeter Plan, is set forth in Sections 4701 to 4717 of the California Revenue and Taxation Code. Generally, the Teeter Plan provides for a tax distribution procedure by which secured roll taxes are distributed to taxing agencies within a county included in the Teeter Plan on the basis of the tax levy, rather than on the basis of actual tax collections. Under the Teeter Plan, the county receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all participating taxing agencies is avoided. The county bears the risk of loss on delinquent taxes but it benefits from the penalties associated with these delinquent taxes when they are paid. In turn, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk. The constitutionality of the Teeter Plan was upheld in Corrie v. County of Contra Costa, 110 Cal. App. 2d 210 (1952).

In 1993, the California Legislature enacted SB 742 (effective July 19, 1993), which, among other things, provided counties with a one-time credit against the transfer of uncollected property taxes to school districts if the transfer occurred under a Teeter Plan election. The County implemented the Teeter Plan in Fiscal Year 1993-1994.

Pursuant to the County's Teeter Plan, the County purchases the risk of loss on certain secured property taxes that remain unpaid at the end of the fiscal year. The County purchases this risk by advancing to each participant in the Teeter Plan (including the County General Fund) an amount equal to such participant's Teeter Secured Levy (herein defined) that remains unpaid at the end of the fiscal year. The Teeter Secured Levy (the "Teeter Secured Levy") includes each participant's share of the 1% *ad valorem* secured levy plus any *ad valorem* levy for the debt service of voter-approved general obligation bonds. Not included in the Teeter Secured Levy are any special assessments, supplemental roll revenues or utility roll revenues. Also, redevelopment increment is not included in the Teeter Secured Levy. In return, the County receives the participating agencies' share of penalties and interest that are collected when, and if, the delinquent property taxes are paid. To account for properties sold at tax sale for non-payment of taxes for an amount less than the amount sufficient to cover the unpaid property taxes, the County has established a Teeter Reserve as detailed in the paragraph below. Substantial delinquencies in the payment of property taxes by the owners of taxable secured property within the County, including delinquencies or defaults relating to the prevalence of subprime home mortgage loans, could delay receipt by the County of these property taxes advanced to the Teeter participants.

Under the Teeter Plan, the County is required to establish a tax losses reserve fund to cover losses that may occur in the amount of tax liens as a result of special sales of tax-defaulted property (i.e., if the sale price of the property is less than the amount owed). The appropriate amount in the fund is determined by one of two alternatives: (i) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the Teeter Plan, or (ii) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the fiscal year for entities participating in the Teeter Plan. As of June 30, 2014, the County had reserved a total of 11.7 million for the Teeter Plan representing the legally restricted set aside.

The County has also established an apportioned tax resources fund to account for losses that may occur as a result of uncollected current property taxes.

The County General Fund participates in the County's Teeter Plan. Accordingly, the General Fund receives the entire share of its property tax portion secured under the Teeter Plan regardless of any delinquencies, interest or penalties relating to the County's levies. For the Fiscal Year 2014-15, the General Fund's portion of the levy secured by the Teeter Plan is $169.5 million. The General Fund's total tax levy for the Fiscal Year 2014-15 includes, in addition to the Teeter Secured Levy, the unsecured tax roll, the Unitary roll, homeowners' exemptions, and the secured and unsecured portions of certain redevelopment agency pass-throughs (the "Non-Teeter Secured Levies"), none of which are part of the Teeter Plan. Amounts to be received by the General Fund with respect to the Non-Teeter Secured Levies may vary in accordance with the delinquency rate and the penalties that attach to delinquent taxes. The

General Fund receives all of the delinquencies, interest and penalties relating to its Non-Teeter Secured Levies. Although the County has elected to use the Teeter Plan in each fiscal year since its adoption, the County may elect to terminate the Teeter Plan at any time and there can be no assurance that the County will continue to elect to utilize its Teeter Plan in the future.

Subsequent to the release of the assessment roll in July 2014, negative corrections have resulted in declines from the original roll (which includes corrections to both secured and unsecured values) of approximately 0.22%. As a result, the General Fund's portion of the levy secured by the Teeter Plan is expected to decline slightly from the $169.5 million.

Financial Statements

Excerpts from the County's audited financial statements for the Fiscal Year ended June 30, 2014, are included as Appendix C, and should be read in their entirety.

The Governmental Accounting Standards Board ("GASB") issued Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," which requires estimating pollution remediation outlays to remediate the effects of a pollution event. Those outlays include remedial investigation, site assessment, corrective measures feasibility studies, remediation work, equipment and monitoring of the polluted site. As of July 1, 2008, the County adopted the provisions of GASB Statement No. 49, and the County reported a total of $58.3 million of pollution remediation obligations as of June 30, 2014, in its audit report for the Fiscal Year ended June 30, 2014. See Note 11 to the County's Audited Financial Statements for the Fiscal Year Ended June 30, 2014 set forth in Appendix C to this Official Statement.

The following table sets forth the Comparison of Revenues, Expenditures and Fund Balances for selected funds for Fiscal Years 2009-10 through 2013-14.

TABLE 14
COUNTY OF SAN BERNARDINO
SELECTED FUNDS[1]
COMPARISON OF REVENUES, EXPENDITURES AND FUND BALANCES
FOR FISCAL YEARS 2009-10 THROUGH 2013-14
(in thousands)

	Fiscal Years				
SOURCES OF FUNDS	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
REVENUES					
Taxes	$ 583,494	$ 568,399	$ 588,610	$ 626,679	$ 660,574
Licenses, Permits and Franchises	16,264	18,568	21,515	21,556	23,965
Fines, Forfeitures and Penalties	11,224	10,104	9,418	8,527	8,243
Revenues From Use of Money and Property	39,650	36,057	26,778	42,009	34,436
Aid From Other Governmental Agencies	1,143,630	1,201,200	1,270,108	1,300,373	1,415,189
Charges for Current Services	299,087	274,367	282,968	275,723	286,522
Other Revenues	20,523	18,956	24,308	20,544	26,288
TOTAL REVENUES	$2,113,872	$2,127,651	$2,223,705	$2,295,411	$2,455,217
EXPENDITURES					
General Government	$ 152,903	$ 142,675	$ 134,790	$ 169,459	$ 156,934
Public Protection	685,841	685,951	721,589	750,524	792,714
Public Ways and Facilities	2,476	2,593	2,707	2,617	2,690
Health and Sanitation	317,729	191,120	187,566	203,303	205,800
Public Assistance	829,729	893,748	865,668	897,694	952,638
Education	18,858	17,827	15,824	15,304	17,295
Recreation and Cultural Services	11,999	11,111	14,043	13,232	13,181
Debt Service					
Principal	589	512	461	7,119	7,260
Interest and Fiscal Charges	1,103	1,128	926	2,214	1,586
Capital Outlay	97,852	90,663	99,726	97,261	60,467
TOTAL EXPENDITURES	$2,119,079	$2,037,328	$2,043,300	$2,158,727	$2,210,565
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	$ (5,207)	$ 90,323	$ 180,405	$ 136,684	$ 244,652
OTHER FINANCIAL SOURCES (USES)					
Transfers To Other Funds	$ (167,242)	$ (210,373)	$ (228,788)	$ (213,917)	$ (219,231)
Transfers From Other Funds	143,887	115,244	126,240	167,556	110,480
Inception of Capital Lease Obligations	418	0	0	0	0
Sale of Capital Assets	772	607	910	3,600	671
TOTAL OTHER FINANCING SOURCES (USES)	$ (22,165)	$ (94,522)	$ (101,638)	$ (42,761)	$ (108,080)
NET CHANGE IN FUND BALANCE BEFORE EXTRAORDINAY ITEM	$ (27,372)	$ (4,199)	$ 78,767	$ 93,923	$ 136,572
EXTRAORDINARY ITEM	$ 0	$ 0	$ 0	$ 37,595	$ 10,415
NET CHANGE IN FUND BALANCE	$ (27,372)	$ (4,199)	$ 78,767	$ 131,518	$ 146,987
FUND BALANCE, JULY 1	$ 636,765	$ 609,393	$ 605,194	$ 683,961	$ 815,479
FUND BALANCE, JUNE 30	$ 609,393	$ 605,194	$ 683,961	$ 815,479	$ 962,466

Source: County of San Bernardino, Auditor-Controller/Treasurer/Tax Collector.
(1) Includes General Fund, Library Fund and Capital Improvement Funds.

Tobacco Settlement

On November 23, 1998, the attorneys general of 46 states (including the State of California), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American

Samoa, and the Commonwealth of the Northern Mariana Islands and the four largest United States tobacco manufacturers agreed to settle more than forty pending lawsuits brought by these public entities. The settlement requires the tobacco companies to make payments to the states in perpetuity, with the payments totaling an estimated $206.0 billion through the year 2025.

The County began to receive proceeds of the Tobacco Settlement Revenues ("TSRs") in Fiscal Year 1999-00. Certain amounts have been allocated annually for the payment of principal and interest with respect to the certificates of participation for the Arrowhead Regional Medical Center (the "ARMC"). The residual amounts have been allocated to other health-related programs, or remain unspent. Other major health related program expenditures funded with TSR's included $4.0 million in 2006-07 for enhancement of the nursing program at Chaffey College, and $17.1 million in 2009-10 to fund a portion of a new medical office building that was constructed on the site of the ARMC.

The following table sets forth the TSRs received by the County and its uses since Fiscal Year 2004-05.

TABLE 15
COUNTY OF SAN BERNARDINO
TOBACCO SETTLEMENT REVENUES
FISCAL YEARS 2004-05 TO 2014-15

Fiscal Year	TSRs Received[(1)]	TSRs Applied to ARMC Debt Service
2004-05	$18.5	$10.7
2005-06	17.0	10.7
2006-07	17.8	10.7
2007-08	18.9	10.7
2008-09	20.8	10.7
2009-10	17.3	10.7
2010-11	17.7	10.7
2011-12	18.1	10.7
2012-13	27.3	10.7
2013-14	18.0	10.7
2014-15[(2)]	17.8	10.7

Source: The County.
(1) Amounts in millions. Includes settlement payments released to the County.
(2) Estimated.

The 2014-15 County Adopted Budget anticipated receipt of $17.5 million in TSRs. Of this amount, $10.7 million is allocated to the payment of debt service on ARMC and $4.3 million is allocated to fund the 1991 Realignment local match requirement. The County currently anticipates actual TSRs for 2014-15 to total $17.8 million. Historically, the County has allocated TSR to health-related programs. The 2015-16 Recommended Budget projects TSRs in the amount of $17.8 million and again allocates $15.0 million of TSRs for debt service on ARMC and to the1991 Realignment Health match.

Employee Relations

As of April 2015, there are approximately 16,000 regular County employees represented by five employee groups. The following table sets forth information regarding the County's employee's unions and the respective expiration dates of their existing bargaining contracts.

TABLE 16
COUNTY OF SAN BERNARDINO
EMPLOYEE CONTRACTS
MEMBERSHIP AS OF APRIL 2015

Association	Number of Members[1]	Contract Expiration Date
San Bernardino Public Employees Association[2]	11,000	June 23, 2017
SEIU - Service Employee Internationl Union - Professional Unit	900	Currently in Negotiations[3]
San Bernardino County Safety Employees Benefit Association ("SEBA"):		
Safety	1,800	September 17, 2016
Safety Management	200	Currently in Negotiations[3]
Specialized Peace Officer and Supervisory Units	500	Currently in Negotiations[3]
San Bernardino County Public Attorneys Association	300	January 20, 2017
California Nurses Association	900	July 21, 2017
San Bernardino County Probation Officers' Association	400	Currently in Negotiations[3]
Total	16,000	

Source: The County.
(1) There are approximately 2,600 regular County employees who are not represented by an employee group.
(2) Includes eight units: clerical, administrative services, craft/labor/trade, management, professional, supervisory, technical and inspection, and supervisory nurses.
(3) The terms of expiring contracts will continue to be observed until new contracts become effective.

San Bernardino County Employees' Retirement Association

The following information concerning the San Bernardino County Employees' Retirement Association (the "Retirement Association") has been excerpted from publicly available sources, which the County believes to be accurate, or otherwise obtained from the Retirement Association. The Retirement Association is not obligated in any manner for payment of debt service on the Tax and Revenue Anticipation Notes described in the forepart of the Official Statement, and the assets of the County's pension plan are not available for such payment. The Retirement Association issues publicly available reports, including its financial statements, required supplementary information and actuarial valuations for the herein described pension plan and retiree health plan.

Comprehensive Annual Financial Reports and Actuarial Valuation and Reviews of the Retirement Association for the Fiscal Years ended June 30, 2010 through June 30, 2014 are available from the Retirement Association at 348 West Hospitality Lane, Third Floor, San Bernardino, CA 92415-0014, Attention: Julie Underwood, Chief of Fiscal Services and are also available on line at www.sbcera.org, which website is not incorporated herein.

General. The Retirement Association was established on January 1, 1945 and operates under the County Employee's Retirement Law of 1937 (the "Retirement Law"). The plan covers substantially all employees of the County, the Barstow Fire Protection District, the California Electronic Recording Transaction Network Authority, the California State Association of Counties, the City of Big Bear Lake, the City of Chino Hills, the Crestline Sanitation District, the Department of Water and Power of the City of Big Bear Lake, the Hesperia Recreation and Park District, the Inland Library System, the Law Library for San Bernardino County, the Local Agency Formation Commission, the Mojave Desert Air Quality Management District, the San Bernardino Associated Governments, the Retirement Association, the South Coast Air Quality Management District and the Superior Court of California County of San Bernardino (collectively, the "Participating Members" or "Employers"). The County active employees account for approximately 89.3% of the employees of the Participating Members in the Plan. The Retirement Association is not a component unit of the County.

Since June 2012, the San Bernardino International Airport Authority (the "Airport Authority"), the Inland Valley Development Agency (the "Development Agency") and Rim of the World Recreation and Park District (the "Recreation and Park District") have withdrawn from the Retirement Association. The three withdrawn employers remain liable for their unfunded actuarial liability. In September 2013, the Airport Authority and the Development Agency entered into a payment agreement with the Retirement Association to pay their unfunded actuarial liability of \$3.6 million and \$4.4 million, respectively, by making payments of principal only in the amount of \$801,098 commencing October 2013, with the second payment due February 2014 and subsequent payments due at six month intervals thereafter, for a period of five years until the liabilities are paid in full in February 2018. The Airport Authority and the Development Agency requested the payments be first applied to the Airport Authority until their liability is paid in full. In February 2014, the Recreation and Park District entered into a payment agreement with the Retirement Association to pay its unfunded actuarial liability of \$669,000 by making monthly payments of principal only in the amount of \$2,788.35 commencing in January 2014 for a period of twenty years until the total amount is paid in full in December 2033. All three withdrawn employers have made their agreed upon payments through June 30, 2014. As of June 30, 2014, the Airport Authority remained liable for \$1.992 million, the Development Agency remained liable for \$4.417 million and the Recreation and Park District remained liable for \$652,000.

On July 13, 2013, all active members of participating employer Crest Forest Fire Protection District (the "Fire Protection District") transferred to the County pursuant to an agreement between the two agencies. All unfunded actuarial liabilities associated with Fire Protection District were transferred to the County as of June 30, 2013 for actuarial purposes of determining contribution rates for fiscal year ended June 30, 2015. Pursuant to the agreement between the County and Fire Protection District, the County will pay the Retirement Association \$410,437 plus 4% compounded annually for twenty years commencing December 2013, to offset the cost increase in contribution rates that would occur within the County Safety cost pool due to this transfer. Since these payments are considered as actuarially determined contributions, there is no separate contract between the Retirement Association and the County related to it. If the County does not pay the lump sum in any given year, then the contribution rates will be adjusted in the actuarial valuation to reflect the increase associated with the transfer, just as the payments received are reflected in the actuarial valuation to offset the cost increase related to the transfer. For Fiscal Year 2013-14, the Retirement Association received \$410,437.

The retirement system of the Retirement Association consists of a cost-sharing multiple-employer defined benefit plan (the "Benefit Plan") funded in advance by employer and employee contributions.

The Association provides for pension, death, disability and survivor benefits for employees participating in the Benefit Plan. The Association is a legally separate entity from the County and is controlled by its own board, the San Bernardino County Employees' Retirement Association Board (the "Retirement Board"). The Retirement Board consists of nine members and two alternates. Four members are appointed by the County's Board of Supervisors, four members and the alternates are elected by the members of the Retirement Association, and the County Auditor-Controller/Treasurer/Tax Collector serves as an *ex-officio* member.

The following table sets forth the Retirement Association's membership as of June 30, 2014.

TABLE 17
SAN BERNARDINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
MEMBERSHIP AS OF JUNE 30, 2014

	Tier 1			Tier 2			
	General	**Safety**	**Sub-Total**	**General**	**Safety**	**Sub-Total**	**Total**
Active Employees – Vested	12,533	1,826	14,359	14	-	14	14,373
Active Employees – Nonvested	2,727	206	2,933	2,040	151	2,191	5,124
Inactive plan members or beneficiaries currently receiving benefits:							
Retirees currently receiving benefits	7,745	1,410	9,155	-	-	-	9,155
Beneficiaries and dependents currently receiving benefits	1,181	282	1,463	-	-	-	1,463
Inactive plan members entitled to but not yet receiving benefits:							
Inactive members eligible for, but not yet receiving benefits	2,002	127	2,129	1	-	1	2,130
Inactive member eligible for refund value of account only[(1)]	1,988	62	2,050	176	-	176	2,226
Total	28,176	3,913	32,089	2,231	151	2,382	34,471

Source: San Bernardino County Employees' Retirement Association – 2014 Comprehensive Annual Financial Report.

(1) Inactive members with less than 5 years of service are entitled to withdraw their refundable employee contributions made, together with accumulated interest only.

Pension Benefits. Employees who became members of the Retirement Association before January 1, 2013 ("Tier 1" members) are fully vested after five years in the Benefit Plan. General Tier 1 members are eligible for retirement benefits upon completion of 10 years of service credit and attaining age 50, 30 years of service credit regardless of age or age 70 regardless of years of service credit. Safety Tier 1 members have the same eligibility requirements as General members except they are required to complete only 20 years of service credit, regardless of age. Retirement benefits are calculated at 2% for General Tier 1 members and 3% for Safety Tier 1 members of final one-year average compensation earnable, as defined in the Government Code and the Retirement Law, for each completed year of service based on a normal retirement age of 55 for General members and 50 for Safety members. For Tier 1 members, the maximum monthly retirement allowance is 100% of final compensation, and final compensation is capped pursuant to Internal Revenue Code (IRC) section 401(a)(17), which is $260,000 and $255,000 for calendar years 2014 and 2013, respectively. Tier 1 members with 30 or more years of service credit and annual compensation in excess of the IRC 401(a)(17) cap are exempt from paying member contributions (except for the survivor benefit contribution).

California Public Employees' Pension Reform Act of 2012. In September 2012, the Governor signed into law Assembly Bill 340, the California Public Employees' Pension Reform Act of 2012 ("PEPRA"). For current members of the Retirement Association, the provisions of PEPRA terminated the ability of members to purchase additional retirement credits, restricted the ability of a retiree to return to work for a public employer in the same retirement system without reinstatement to active service and suspended the retirement benefit unless certain conditions are met. In addition, PEPRA prohibits Employers such as the County from adopting an enhanced benefit formula and applying it to past service. For new public employees, the provisions of PEPRA result in the establishment of reduced benefit formulas, limits on pensionable income, expansions on the final compensation period from one year to three years, and the requirement that the new employee pay a larger share of normal costs. On September 6, 2013, the Governor approved Assembly Bill 1380 (AB 1380), which makes various technical corrections and conforming changes that align the Retirement Law with the provisions of the PEPRA. In particular, the bill clarifies that Tier 2 members are eligible to retire at age 70, regardless of years of service, that the Board may, but is not required to, round Tier 2 contribution rates to the nearest quarter of one percent, and those rates may be adjusted for any change in the normal cost rate. AB 1380 was effective January 1, 2014.

Pursuant to PEPRA, the Retirement Association has established two new tiers of retirement benefits (one for General members and one for Safety members) for new employees who became members of the Retirement Association on or after January 1, 2013 ("Tier 2" members). For Tier 2 members, the monthly retirement allowance is not capped; however, pensionable compensation for all Tier 2 members is limited each year by an annual cap, which is 120% of the Federal Social Security taxable wage base for the 2013 calendar year, and is adjusted each year thereafter based on changes in the consumer price index. The cap for calendar years 2014 and 2013 is $138,077 and $136,440, respectively. Since pensionable compensation is capped, Tier 2 members are exempt from paying member contributions and participating employers are exempt from paying employer contributions on pensionable compensation paid in excess of the annual cap (except for the Survivor Benefit contribution).

Funding Practices of the Retirement Association

<u>General</u>. The Retirement Law requires the Retirement Association to commission an actuarial valuation and a demographic experience study at least every three years. The Association's practice has been to conduct an actuarial valuation on an annual basis as of June 30 of each year, which is the end of the Retirement Association's fiscal year. The valuation must be completed by an Enrolled Actuary, covering the mortality, service, and compensation experience of the members and beneficiaries, and must evaluate the valuation assets and actuarially determined liabilities of the Retirement Association. The Retirement Law requires the Retirement Board to recommend to the Board of Supervisors such changes in the rate of contribution by the Employers and members, and in the County's and the other Employers' appropriations as necessary. Once the Retirement Board recommends any such changes, the Retirement Law requires the Employers (including the County) to implement such changes. The most recent actuarial valuation is as of June 30, 2014. The last actuarial experience study was completed in 2014 for the three-year period ending June 30, 2013. For the next actuarial experience study, a new 3-year cycle will be used covering the three fiscal years ending June 30, 2014 through 2016.

<u>Normal Cost and UAAL and its Calculation</u>. Currently, the Retirement Association uses the "entry age normal actuarial cost method" to calculate the Employers' annual rates of contribution. The actuarially required contribution has two components, the "normal cost" and the amortized amount of the unfunded actuarial accrued liability ("UAAL"). Normal cost represents the portion of the actuarial present value of the benefits that the Employers and their respective employees will be expected to fund that are attributable to a current year's employment. The normal cost contribution amount is calculated based on a set of actuarial assumptions about future events pertaining to the amount and timing of benefits to be paid and the accumulation of assets to pay the benefits. The UAAL may increase or

decrease as a result of changes in actuarial assumptions, benefit changes and other experience which differs from that anticipated by the actuarial assumptions. There is a lag between the end of the period covered by the actuarial valuation and the date that the contribution rates calculated in the valuation go into effect. This lag is typically 12 months. For example, the recommended contributions contained in the actuarial report as of June 30, 2014 apply to contributions to be made by the County and the other Employers for the Fiscal Year beginning July 1, 2015.

The UAAL calculation is necessary to determine how sufficient the assets in the Retirement Association are to fund, as of the date of calculation, the accrued costs attributable to currently active, terminated vested members and retired members. The funding sufficiency is typically expressed as the ratio of the actuarial value of assets to the actuarial accrued liabilities. If the actuarially calculated funding level of a plan is less than 100%, the plan has a UAAL. The UAAL is determined by comparing the actuarial assumptions made to actual experience. Examples of the data that are used in this process are the assumed versus actual: rates of earnings on the assets of the plan, pay increases for current employees, disability retirements, retirement ages of active employees, and post-employment life expectancies of retirees and beneficiaries.

When measuring assets for determining the UAAL, many pension plans, including the Retirement Association, "smooth" gains and losses to reduce volatility. For example, if in any year the actual investment return on the Retirement Association's assets is lower or higher than the actuarial assumed rate of return (which is currently 7.50%, inclusive of assumed inflation at 3.25% and net of expenses), then the shortfall or excess, is smoothed or spread over a five-year period. The impact of this will result in an actuarial value of assets which is lower or higher than the market value of assets depending upon whether the remaining amount to be smoothed is either a net gain or a net loss. On March 13, 2012, the Board of Retirement approved an ad hoc adjustment to the asset smoothing method to combine the net deferred investment loss from the June 30, 2011 actuarial valuation into a single 4-year smoothing layer to reduce the volatility associated with the deferred loss recognition and provide for more level employer contribution rates. Future deferred gains or losses will be smoothed pursuant to the five-year smoothing methodology described above. The Association tracks the unrecognized gains and losses as described under "Accounting for Unrecognized Gains and Losses" below.

Further, various plans use different amortization periods for paying off (or "amortizing") the UAAL. The amortization of the UAAL represents the current year's portion of the unfunded accrued costs (*i.e.*, the UAAL) attributable to past years' employment. Some plans use different rolling periods and still others use "fixed" periods such as a 30-year fixed period, meaning that the actuarially required contribution in a particular year would be the unfunded actuarial accrued liability amortized over the remaining years in the fixed period. Effective June 30, 2002, the Retirement Board changed the Retirement Association's amortization period to a 20-year fixed layered amortization period.

The 20-year fixed layered method of amortizing the UAAL amortizes each year's change in UAAL over a new 20-year period. Accordingly, the increase or decrease in UAAL from the current year's actuarial valuation began a new 20-year amortization schedule and the prior year increase or decrease in UAAL has 19 years remaining on its 20-year amortization schedule. Commencing with the June 30, 2012 valuation, any increase in UAAL resulting from plan amendments will be amortized over a declining 15-year period (with exception of a change due to retirement incentives, which is amortized over a declining period of up to 5 years). If an overfunding exists (*i.e.*, the total of all UAAL becomes negative so that there is a surplus), such surplus and any subsequent surpluses will be amortized over an "open" amortization period of 30 years. Any prior UAAL amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized over 20 years as the first of a new series of amortization layers. The amortization policy components apply separately to each of the Retirement Association's UAAL cost sharing groups. As with other assumptions, the Retirement Board may change the amortization period from time to time, which would result in the Employer's contributions to the Retirement Association in a particular year being higher or lower.

Investors are cautioned that, in considering the amount of the UAAL as reported by the Retirement Association and the resulting amounts of required contributions by the County and the other Employers, this is "forward looking" information in that it reflects the judgment of the Retirement Board and the Retirement Association's actuary as to the amount of assets which the Retirement Association will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated members and existing retired members. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or be changed in the future, and will change with the future experience of the Retirement Association.

<u>Economic Assumptions</u>. The Retirement Association's actuary prepares a review of economic actuarial assumptions every three years in conjunction with the demographic experience study. The actuarial assumptions have a significant impact on the determination of the ratio of Benefit Plan assets that are set aside to pay plan benefits by the Retirement Association. Significant actuarial assumptions presently include (a) a rate of return on the investment of present and future assets of 7.50% per annum, (b) salary increases of 4.60% to 13.75% for General members and 4.55% to 13.75% for Safety members (including assumed inflation at 3.25%, real across-the-board salary increases of 0.50%, plus merit and promotional increases) and (c) cost of living adjustments contingent upon the consumer price index with a 2% maximum. Changes to assumptions can have substantial impact on the calculation of unfunded actuarial accrued liability and contribution rates. Assumption changes included in this Acutuarial Valuation resulted in an increase in the average employer contribution rate of 3.06% of payroll and an increase in the average member rate of 0.69% of payroll. In addition, as part of the assumption changes, the Retirement Association's actuary no longer develops the investment return assumption as net of administrative expenses, and instead includes an explicit administrative expense load of 0.60% of payroll, which has been allocated to both the employer and member rates based on the components of the total average contribution rate before expenses for the employer and member. This results in an explicit administrative expense load of 0.43% and 0.17% of payroll allocated to the employer and the member rates, respectively. See "– Contributions" below. The next economic assumptions review is expected to be conducted in conjunction with the next demographic experience study, which is expected to occur in 2017 for inclusion in the June 30, 2017 actuarial valuation. The County cannot predict at this time the further recommendations to be made by the Retirement Association's actuary, the Retirement Board's determinations with respect thereto and their potential effects on the Retirement Association's assets and liabilities or the contributions to be made by the County, other employers and their respective employees.

<u>Demographic Assumptions</u>. The Retirement Board and the Retirement Association's actuary review the various demographic assumptions that are employed in calculating the normal cost rates against actual experience at least every three years. The Association's actuary last presented an experience study to the Retirement Association with respect to results for the three-year period ending June 30, 2013. For the next actuarial experience study, a new 3-year cycle will be used covering the three fiscal years ending June 30, 2014 through 2016.

Funding Status of the Retirement Association

<u>Current Status</u>. As of June 30, 2014, the date of the most recent actuarial valuation report, the actuarial value of assets of the Retirement Association was approximately $7.751 billion, and the UAAL on an actuarial value of assets basis was $1.944 billion, resulting in a funding percentage of 80.0%. As a result of the 5-year smoothing mechanism described previously, there are approximately $244 million of additional unrecognized gains that will be recognized over the next four years. If those market gains were to be recognized immediately in the actuarial value of assets, the funding percentage would increase to 82.5%. The County is responsible for approximately 85% of UAAL.

According to the Actuarial Valuation and Review as of June 30, 2014, UAAL rose by $59.8 million, from $1.884 billion to $1.944 billion primarily due to the changes in actuarial assumptions, offset to some degree by lower than expected individual salary increases. The market value of assets earned a return of 12.2% for Fiscal Year 2013-14. The actuarial value of assets earned a return of 7.3% for the same period due to the deferral of most of the current year investment gains and the recognition of prior investment gains and losses. This resulted in an actuarial loss when measured against the assumed rate of return of 7.75% for Fiscal Year 2013-14. This actuarial investment loss increased the average employer contribution rate by 0.20% of payroll. Results from the Retirement Association's most recent review of actuarial assumptions are incorporated in the actuarial valuation report ending June 30, 2014 and contributed to an increase in both actuarial accrued liability ("AAL") and UAAL. The Retirement Association conducts this experience study/review every three years. The last assumption changes occurred in 2014 and included demographic changes, a reduction in the actuarially assumed rate of return from 7.75 to 7.50%, a reduction in the actuarially assumed rate of inflation from 3.50% to 3.25%, and a reduction in the actuarially assumed rate of total payroll growth from 4.25% to 4.00%. See " – Economic Assumptions" herein.

Historical Funding Progress. Funding progress is measured by a comparison of plan assets set aside to pay plan benefits versus plan liabilities. The following tables set forth the funding progress for the actuarial valuation data from June 30, 2005 through June 30, 2014, as well as the funding progress measurement based upon market value data for the same period. The market value represents, as of the date specified, the value of the plan assets if they were to be liquidated on that date.

The County was responsible for approximately 85% of the Total Unfunded Liabilities as of June 30, 2014, which are composed of the UAAL and unrecognized investment losses, as described below under "— Accounting for Unrecognized Gains and Losses" (together, the "Total Unfunded Liabilities"). The funding history also reflects the contribution of pension bond obligation proceeds to the Retirement Association by the County, as summarized under "—County Pension Bond Obligations." The funding history also reflects changes in benefits resulting from the Ventura Litigation settlement, as summarized in "— Litigation" below.

Accounting for Unrecognized Gains and Losses. As previously described, the Retirement Association generally realizes excess earnings and losses/earnings shortfalls in determining the actuarial value of assets using a five year smoothing method. Except for the 2012 ad hoc adjustment to the asset smoothing method described above, yearly changes in actual market gains/excess earnings or losses/earnings shortfalls under this method are recognized equally over a five-year period for actuarial purposes to smooth out annual contribution rates for the participants. Excess earnings or losses/earnings shortfalls are determined by comparing the actuarially assumed rate of return on the investment, which is presently 7.50% per year, to the actual return on the assets. If the assets return is below 7.50%, there are losses/earnings shortfalls that are recognized on a smoothed basis over five years. Conversely, if the return on the assets is greater than 7.50%, there are excess earnings that are recognized on a smoothed basis over five years. Investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses in the current period.

Each year a portion of unrecognized gains and losses becomes recognized in the actuarial valuation of assets. If the cumulative effect of prior year smoothed excess earnings or losses/earnings shortfalls result in a net aggregate loss being recognized, such amount of recognized loss becomes a new UAAL layer, is amortized over a 20-year period and added to any prior year UAAL layers. The balance of unrecognized gains and losses will fluctuate based upon the amount of gains or losses recognized each year and the amount of new gains or losses smoothed and added each year.

The total unrecognized investment gain as of June 30, 2014 is $244 million as compared to an unrecognized loss of $100 million in the June 30, 2013 valuation.. The County's portion of these gains is estimated to be $209.7 million, based on the County's pro rata share of the valuation value of assets. Of the total unrecognized market gains attributable to the County, $23.6 million of unrecognized market loss is scheduled to become recognized for actuarial purposes as of June 30, 2015, with the remaining unrecognized market gain of $233.3 million scheduled to be recognized over the following three fiscal years. See "Investments—Current Fiscal Year's Investment Returns" below. The balance of unrecognized gains and losses and the actual amount of new unfunded actuarial accrued liability are subject to change based upon the current Fiscal Year 2014-15 and future years' investment performance of the Retirement Association's assets. The unrecognized gains and losses must be added to the UAAL to evaluate the County's total unfunded liabilities.

As shown in Tables 19 and 20, if the Retirement Association were to recognize the $244 million of unrecognized gains immediately, the funded ratio of the Plan would increase from 80.0% to 82.5%. Further, based on the Actuarial Valuation and Review as of June 30, 2014, the aggregate Employer contribution rate would decrease from 27.2% to 25.9% if all of these unrecognized market gains were recognized immediately instead of being smoothed over the five-year period. See "—Contributions" below.

TABLE 18
SAN BERNARDINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF FUNDING PROGRESS (ACTUARIAL BASIS)
($ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)[1]	Actuarial Accrued Liability (AAL) (b)[2]	Unfunded/ (Overfunded) UAAL/(AAL) (Actuarial Value) (b-a)	Funded Ratio (Actuarial Value) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll (Actuarial Value) ((b-a)/c)
6/30/05	$4,750,229	$5,215,719	$ 465,490	91.08%	$ 968,674	48.05%
6/30/06	5,175,767	5,624,646	448,879	92.02	1,028,731	43.63
6/30/07	5,797,400	6,227,013	429,613	93.10	1,102,151	38.98
6/30/08	6,341,531	6,773,629	432,098	93.62	1,219,562	35.43
6/30/09	6,383,388	7,013,534	630,146	91.02	1,226,431	51.38
6/30/10[3]	6,367,232	7,444,986	1,077,754	85.52	1,250,193	86.21
6/30/11	6,484,507	8,189,646	1,705,139	79.18	1,244,555	137.01
6/30/12	6,789,492	8,606,577	1,817,084	78.89	1,260,309	144.18
6/30/13[4]	7,204,918	9,088,636	1,883,717	79.27	1,262,752	149.18
6/30/14[5]	7,751,309	9,694,825	1,943,516	79.95	1,267,667	153.31

Source: San Bernardino County Employees' Retirement Association – Actuarial Valuation and Review as of June 30, 2014.

(1) Includes assets for Supplemental Disability, Survivor Benefits, Burial Allowance, General Retiree Subsidy, and Excess Earnings reserves.

(2) Gross of Designation for Ventura Litigation settlement. See "- Litigation" herein. Also includes liabilities held for Supplemental Disability, Survivor Benefits, Burial Allowance, General Retiree Subsidy, and Excess Earnings reserves.

(3) Does not reflect the transfer of $40.6 million from the General Retiree Subsidy reserve to the Current Service reserve.

(4) Does not reflect $5.8 million in connection with the present value of additional future contributions payable from the County to the Association related to the Crest Forest Fire District transfer.

(5) Does not reflect $5.9 million in connection with the present value of additional future contributions payable from the County to the Retirement Association related to the Crest Forest Fire District transfer.

TABLE 19
SAN BERNARDINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF FUNDING PROGRESS (MARKET VALUE BASIS)
($ in thousands)

Actuarial Valuation Date	Market Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)[(1)(2)]	Total Unfunded/ (Overfunded) Liabilities (b-a)	Funded Ratio (Market Value) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll (Market Value) ((b-a)/c)
6/30/05	$4,637,546	$5,215,719	$ 578,173	88.91%	$ 968,674	59.69%
6/30/06	5,219,693	5,624,646	404,953	92.80	1,028,731	39.36
6/30/07	6,295,027	6,227,013	(68,014)	101.09	1,102,151	(6.17)
6/30/08	6,105,480	6,773,629	668,149	90.14	1,219,562	54.79
6/30/09	4,544,420	7,013,534	2,469,114	64.80	1,226,431	201.33
6/30/10	5,029,474	7,444,986	2,415,512	67.56	1,250,193	193.21
6/30/11	6,136,574	8,189,646	2,053,072	74.93	1,244,555	164.96
6/30/12	6,173,334	8,606,577	2,433,243	71.73	1,260,309	193.07
6/30/13	7,104,554	9,088,636	1,984,082	78.17	1,262,752	157.12
6/30/14	7,995,071	9,694,825	1,699,754	82.47	1,267,667	134.09

Source: San Bernardino County Employees' Retirement Association – Actuarial Valuation and Review for the indicated year.

(1) Gross of Designation for Ventura Litigation settlement. See "- Litigation" herein. Also includes liabilities held for Supplemental Disability, Survivor Benefits, Burial Allowance, General Retiree Subsidy, and Excess Earnings reserves.

(2) The Association accounts for the difference between its actuarial value of assets and the market value of assets as described under "Accounting for Unrecognized Gains and Losses" below.

Contributions

General. One of the funding objectives of the Benefit Plan is to establish contribution rates which, over time, will remain level as a percentage of payroll unless the actuarial assumptions or Benefit Plan provisions are changed. Employers and active members are required to contribute a percentage of covered compensation to fund the normal cost of the Benefit Plan. The normal cost is that annual contribution rate that, if paid annually from a member's first year of membership through the year of retirement, would accumulate to the amount necessary to fully fund the member's retirement benefit if all underlying assumptions are met. The employer only pays an additional percentage of covered compensation toward the amortized UAAL, if any. The UAAL is the difference between the actuarial accrued liability and the actuarial value of assets. Employer contributions were $330.3 million for the Fiscal Year ended June 30, 2014. The employer contributions include a "pick-up" a portion of employees' required contributions. Historically, the County has funded or "picked up" a portion of employees' required contribution to the Benefit Plan. In recent rounds of negotiations with bargaining units these pick-ups have been eliminated.

TABLE 20
SAN BERNARDINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
HISTORY OF COUNTY EMPLOYER CONTRIBUTION RATES[1]
FISCAL YEARS 2009-10 THROUGH 2013-14[3]

	2009-10	2010-11[2]	2011-12[2]		2012-13[3]	2013-14[3]
County General				County General Tier 1		
Normal Cost	9.27%	9.41%	9.94%	Normal Cost	10.10%	11.50%
UAAL	5.23	7.71	9.02	UAAL	10.14	10.99
Total	14.50	17.12	18.96	Total	20.24	22.49
County Safety				County General Tier 2		
Normal Cost	19.16	19.24	19.73	Normal Cost	7.88	8.40
UAAL	11.73	17.15	20.26	UAAL	10.14	10.99
Total	30.89	36.39	39.99	Total	18.02	19.39
				County Safety Tier 1		
				Normal Cost	19.88	22.06
				UAAL	23.27	27.03
				Total	43.15	49.09
				County Safety Tier 2		
				Normal Cost	13.75	15.22
				UAAL	23.27	27.03
				Total	37.02	42.25

Source: San Bernardino County Employees' Retirement Association – Comprehensive Annual Financial Reports for the Fiscal Year 2009-10 through 2013-14.

(1) All rates are expressed as a percentage of payroll. These approved rates include a 1 year lag, i.e., June 30, 2012 contribution rates go into effect July 1, 2013. Non-County employer rates are separated from the "County" rates to reflect the differences in rate schedules due to non-participation in the Pension Obligation Bonds issued in 1995 and 2004. Superior Courts employer rates are separated from the "County" rates to reflect the differences in rate schedules due to non-participation in the Pension Obligation Bonds issued in 2004. See "San Bernardino County Employees' Retirement Association—Contributions" herein.

(2) Reflects the result of the three-year phase-in of the changes in the employer contribution rates due to changes in actuarial assumptions.

(3) Reflects membership tiers subsequent to the effectiveness of PEPRA.

Based on the Actuarial Valuation and Review as of June 30, 2014, the aggregate Employer contribution rate would decrease from 27.2% to 25.9% if all of the unrecognized market gains were recognized immediately instead of being smoothed over the five-year period.

Annual Contributions. The following table sets forth the schedule of annual employer contributions for the Fiscal Years 2005-06 through 2013-14. The County was responsible for approximately 82% of total Employer Contributions in Fiscal Year 2013-14. All required annual contributions were fully paid during this period. As shown above in Table 21, contribution rates increased as the market losses experienced in the 2008-09 fiscal year are recognized over the 5-year smoothing period and the actuarial assumption changes of 2011 and 2014 were incorporated.

The contributions do not include debt service on the County's pension obligation bonds.

TABLE 21
SAN BERNARDINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF ANNUAL EMPLOYER CONTRIBUTIONS
FISCAL YEARS 2005-06 THROUGH 2013-14

Fiscal Year	Annual Required Contribution(1) (in thousands)
2005-06	$197,343
2006-07	229,857
2007-08	241,721
2008-09	246,232
2009-10	243,773
2010-11	258,128
2011-12	278,091
2012-13	303,080
2013-14	330,330

Source: San Bernardino County Employees' Retirement Association – Actuarial Valuation and Review as of June 30, 2014.
(1) Excludes SCAQMD's UAAL prepayment deposited during the plan year ended June 30, 2007.

Investments

General. The Retirement Board is authorized to invest in any form or type of investment deemed prudent in the informed opinion of the Retirement Board. The Retirement Law vests the Retirement Board with exclusive control over the Retirement Association's investment portfolio. The Retirement Board has adopted its Investment Plan Policy and Guidelines (the "Investment Guidelines"), which provide the framework for the management of the Retirement Association's investments, in accordance with applicable local, State and federal laws, by establishing the investment program goals, asset allocation policies, performance objectives, investment management policies and risk controls. The Investment Guidelines also define the principal duties of the Retirement Board and investment staff. The Retirement Association's primary investment objective is to efficiently allocate and manage the assets on behalf of the members and beneficiaries. These assets are managed on a total return basis. While recognizing the importance of the "preservation of capital," the Retirement Association also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns in the long term. The total portfolio return, over the long term, is directed toward achieving and maintaining a fully funded status for the pension fund. Prudent risk-taking is warranted within the context of overall portfolio diversification to meet this objective. These activities are executed in a manner that serves the best interest of the Retirement Association's members and beneficiaries.

External, professional investment management firms manage the Retirement Association's assets. The investment staff closely monitors the activity of these managers and assists the Retirement Board with the implementation of investment policies and long-term investment strategies as set forth in the Investment Guidelines described above.

Asset Allocation; Historic Rates of Return. The following table sets forth the asset allocation percentages for the Retirement Association's assets, which was valued at $8.072 billion, as of June 30, 2014:

TABLE 22
SAN BERNARDINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
TARGET VS. ACTUAL ASSET ALLOCATION PERCENTAGES
(as of June 30, 2014)

			Target Ranges	
Type	**Target**	**Actual**	**Minimum**	**Maximum**
Domestic Equity	13.0%	14.8%	8.0%	18.0%
Domestic Fixed Income	15.0	14.6	10.0	20.0
International Equity	15.0	17.5	10.0	20.0
Global Fixed Income	17.0	12.0	12.0	22.0
Short-Term Cash	2.0	5.1	0.0	10.0
Real Estate	9.0	6.2	4.0	14.0
Private Equity	16.0	15.8	11.0	21.0
Absolute Return	7.0	9.1	2.0	12.0
Timber	3.0	2.6	0.0	8.0
Infrastructure	1.0	0.7	0.0	6.0
Commodities	2.0	1.6	(1.0)	7.0

Source: San Bernardino County Employees' Retirement Association – Comprehensive Annual Financial Report for the Fiscal Year 2013-14.

The above table excludes investments of cash collateral received on securities lending transactions, short-term cash held in outside investment pools and allocated commitments. In addition, this chart depicts investment asset classes as the net of physical assets combined with asset class exposure from alpha pool and overlay program exposure.

The following table sets forth the investment results as of June 30, 2014 and the annualized investment results for the three and five year periods, respectively, ending June 30, 2014. Calculations in the following table were prepared using a time-weighted rate of return and are net of fees. Benchmarks against which investment categories are measured are also included.

TABLE 23
SAN BERNARDINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
INVESTMENT RESULTS

	Fiscal Year Ended June 30, 2014	Fiscal Years Ended June 30, 2012 through June 30, 2014	Fiscal Years Ended June 30, 2010 through June 30, 2014
Total Portfolio:	11.51%	8.83%	11.26%
SBCERA Policy Benchmark	14.41	8.53	11.21
Cash Equivalents	(4.38)	(4.64)	(2.76)
91 Day T-Bill Benchmark	0.05	0.07	0.11
Equity Segment:			
Domestic Equity	(4.36)	2.63	7.32
Russell 3000 Benchmark	25.22	16.46	19.33
Emerging Markets Equity	9.66	(0.30)	9.02
MSCI Emerging Markets Benchmark	14.31	(0.39)	9.24
International Equity	16.92	19.57	19.29
MSCI EAFE Benchmark	23.57	8.10	11.77
Fixed Income Segment:			
Domestic Fixed Income	9.24	7.28	14.84
BofAML High Yield Master II Benchmark	11.80	9.27	13.94
Global and Emerging Market Fixed Income	10.75	5.30	8.80
SBCERA Custom BC Global Benchmark	9.42	1.75	4.37
Real Asset Segment			
Real Estate	10.22	9.22	3.22
NCREIF Benchmark	11.18	11.69	7.89
Timber	6.74	5.25	0.34
NCREIF Timberland Index Benchmark	9.78	6.59	2.87
Infrastructure	(18.10)	(3.11)	4.94
CPI + 600BPS	8.19	7.93	8.13
Commodities	4.00	3.96	4.93
Dow Commodity Benchmark	8.21	(5.17)	1.99
Other Alternative Segment			
Private Equity/Venture Capital	19.79	12.44	12.12
Venture ECO Benchmark	18.56	11.48	15.35
Alpha Pool	8.95	8.28	13.20
CPI + 600BPS	7.69	3.33	4.26

Source: San Bernardino County Employees' Retirement Association – Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2014.

The following table sets forth the investment performance based on market value of assets for the Fiscal Years 2004-05 through 2013-14. The annualized rate of return for this ten-year period was 6.31% compared against an actuarial assumed rate of 7.50%.

TABLE 24
SAN BERNARDINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
HISTORY OF PERFORMANCE BASED ON MARKET VALUE
FISCAL YEARS 2004-05 THROUGH 2013-14

Fiscal Year	Rate of Return
2004-05	9.43%
2005-06	11.45
2006-07	19.70
2007-08	(2.52)
2008-09	(24.00)
2009-10	7.91
2010-11	22.59
2011-12	0.46
2012-13	15.05
2013-14	11.51

Source: San Bernardino County Employees' Retirement Association – Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2014.

Current Fiscal Year's Investment Returns. The County is unable to forecast with certainty the amount of any future additional unfunded actuarial accrued liability and the resulting net cost impact to the County. Through the first nine months of Fiscal Year 2014-15 (*i.e.*, July 2014 through March 2015), returns on investments were 2.3%, which were lower than the actuarially expected return of 5.63%, resulting in a current market value of $8.1 billion. If the 2.3% return fiscal year to date were to persist through June 30, 2015, it would represent an approximately $416 million deficit compared to the actuarially assumed 7.50% rate of return.

Net Pension Liability. In 2012, the Governmental Accounting Standards Board ("GASB") issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), which applies to governmental entities such as the County, and Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"). These new statements significantly change current pension accounting and financial reporting requirements by (1) separating pension accounting from the cost of funding pension benefits, (2) requiring the Benefit Plan to calculate the collective net pension liability, and the participating employers to recognize their proportionate share of that liability, and the related pension expense and deferred outflows/inflows of resources, on their basic financial statements; and (3) requiring additional note disclosures and required supplementary information based on the new standards for both the Benefit Plan and their participating employers.

Pursuant to GASB 67, the funded status and UAAL of the Benefit Plan are no longer presented in the notes or required supplementary information. UAAL was determined by subtracting the excess of the actuarial accrued liability (discounted at the Benefit Plan's assumed rate of return) from the actuarial value of assets (determined by smoothing values over a certain number of years to reduce volatility) and represented the costs allocated to date for current Benefit Plan members that are not covered by the actuarial value of assets. The UAAL has now been replaced by the net pension liability ("NPL"), which represents the excess of the total pension liability (using an entry age cost method, discounted at a discount rate that reflects the expected return on assets) over fiduciary net position (valued at fair value). NPL is similar to UAAL but uses market assets, not smoothed assets. SBCERA has complied with GASB

67 for the fiscal year ended June 30, 2014. The provisions in GASB 68, which are effective for the County for fiscal years beginning after June 15, 2015, require the County to recognize its proportionate share of the collective pension amounts of all employers for benefits provided through the cost-sharing pension plan, which is administered by SBCERA. These amounts include a net pension liability, pension expense, and deferred outflows and inflows of resources. The County anticipates complying with the provisions of GASB 68 by its effective date.

The net pension liability of participating employers as of June 30, 2014 and 2013 are $1.70 billion and $1.98 billion, respectively. The Benefit Plan fiduciary net position as a percentage of the total pension liability is 82.47% and 78.17% as of June 30, 2014 and 2013, respectively. The net pension liability as a percentage of covered payroll is 134.61% and 157.43% as of June 30, 2014 and 2013, respectively.

TABLE 25
CHANGES IN NET PENSION LIABILITY
As of June 30, 2014 and 2013
(Amounts in Thousands)

	(a) 2014	(b) 2013	(a-b=d) Amount/Increase/ (Decrease)	(d/b) Percent/Increase/ (Decrease)
Total pension liability	$9,694,826	$9,088,636	$606,190	6.67%
Less plan fiduciary net position	7,995,071	7,104,554	890,517	12.53
NET PENSION LIABILITY	$1,699,755	$1,984,082	$(284,327)	$(14.33)%

County Pension Bond Obligations. In November 1995, the County issued the 1995 Pension Obligation Refunding Bonds (the "Series 1995 Bonds") in the amount of $386.3 million to refund its unfunded actuarial accrued liability as of December 1, 1995. Approximately $333.4 million of the Series 1995 Bonds were outstanding as of June 30, 2004 (excluding accreted interest). In June 2004, the County issued the Pension Obligation Bonds, Series 2004 (the "Series 2004 Bonds"), in the aggregate principal amount of $463.8 million to finance the County's statutory obligation pursuant to the Retirement Law to appropriate and make payments to the Retirement Association for its unfunded actuarial accrued liability as of June 30, 2003, which was determined to be $459.7 million as of such date. The Series 2004 Bonds consisted of Fixed Rate Bonds, Auction Rate Bonds and Index Bonds. In April 2008, the County issued its Pension Obligation Refunding Bonds, Series 2008 in an aggregate principal amount of $160.9 million (the "Series 2008 Bonds") to refund all of the Series 2004 Auction Rate Bonds, a portion of the Series 2004 Series A Fixed Rate Bonds, and a portion of the Series 1995 Bonds. As of April 2015, the Series 1995 Bonds, the Series 2004 Fixed Rate Bonds, the Series 2004 Index Bonds and the Series 2008 Bonds were outstanding in the aggregate principal amounts of approximately $77.2 million (excluding accreted interest), $97.6 million, $125.0 million, and $156.0 million, respectively. Under the Retirement Law, the County is required to appropriate funds from any available source of funds to pay debt service on all of its pension obligation bonds. The County is reimbursed by State and federal programs, certain enterprise funds and certain other local agencies for approximately 66% of such costs that are attributable to agencies operated by the County. Annual debt service on the Pension Obligation Bonds for Fiscal Year 2015-16 is projected to be $91.8 million. See Table 26 below.

Litigation. In the case of Ventura County Deputy Sheriffs' Association v. Board of Retirement of Ventura County Employees' Retirement Association (the "Ventura Litigation"), the California Supreme Court held that certain payments made by a county in excess of basic salary payments to employees are included in the definition of compensation within the meaning of the Retirement Law. The California Supreme Court did not determine whether this holding was to be applied retroactively. Thereafter, additional cases were filed in many counties, including in the County, which sought to make the Ventura Litigation retroactive and to add additional payments made by a county to the definition of compensation (collectively, the "Ventura II cases"). All of the Ventura II cases were coordinated statewide and assigned to the San Francisco Superior Court. The San Francisco Superior Court denied the plaintiff's request to add additional payments made by a county to the definition of compensation. The County is paying all retirement employer contributions associated with the additional "compensation earnable" to the Retirement Association. The Ventura Litigation should not adversely affect the County's ability to pay its financial obligations as and when due.

Post Employment Healthcare Benefits. The Retirement Law does not require the Retirement Association to provide any post-employment health care payments. The County does not presently extend post employment healthcare benefits to employees of the County.

County Debt

Short-Term Borrowings. In July 2014, the County issued Tax and Revenue Anticipation Notes (the "2014–15 TRANs") in an aggregate principal amount of $130.0 million. The 2014–15 TRANs were issued for the purpose of financing seasonal cash flow requirements for General Fund expenditures during Fiscal Year 2014-15 and are payable only out of taxes, income, revenue, cash receipts and other monies of the County attributable to the Fiscal Year 2014–15 and legally available for the payment thereof. The 2014–15 TRANs bear interest at 2.00% per annum with a yield of 0.12%. Standard & Poor's and Moody's assigned the 2014-15 TRANs ratings of "SP-1+" and "MIG1," respectively. The 2014-15 TRANs mature on June 30, 2015. Sufficient revenues have been reserved in a repayment fund held by the County, separate from the General Fund, to pay the principal and interest due on the 2014-15 TRANs on their maturity date. The proceeds of the 2014-15 TRANs were used to meet the County's cash flow needs, including General Fund expenditures (both current and capital expenditures).

Long-Term Debt. The County has no outstanding general obligation bonds. The County has made use of various lease arrangements with joint powers authorities and a nonprofit corporation to finance capital project needs. Under these arrangements, the financing entity usually constructs or acquires capital assets with the proceeds of lease revenue bonds or certificates of participation and then leases the asset or assets to the County. The County has also issued pension obligation bonds to finance certain pension system costs. See "—County Pension Bond Obligations" above for a description of the County's outstanding pension obligation bonds.

General Fund Obligations. The following table sets forth the annual payments required by the County with respect to certificates of participation and other obligations backed by the County General Fund, outstanding as of June 30, 2014.

TABLE 26
COUNTY OF SAN BERNARDINO
LEASE / REVENUE BOND / NOTE PAYMENTS REQUIRED[1]
(As of June 30, 2014)
(in thousands)

	Certificates of Participation		Private Placement Lease	Other Obligations		
Year Ending June 30	**Governmental Activities Amount**	**Business-Type Activities Amount[2]**	**Governmental Activities Amount**	**Revenue Bonds/Pension Obligation[3]**	**Notes Payable Library**	**Total Amount[4]**
2015	$ 6,332	$ 43,038	$ 8,088	$ 87,092	$ 109	$ 144,608
2016	6,409	42,981	8,074	91,823	109	149,396
2017	6,360	42,920	8,070	96,759	109	154,218
2018	-	42,929	8,062	101,951	109	153,051
2019	-	42,956	8,043	107,033	109	158,142
2020-2024	-	215,420	-	482,182	543	698,146
2025-2029	-	211,472	-	-	543	212,015
2030-2034	-	-	-	-	217	217
Total Payments	19,102	641,717	40,337	966,790	1,847	1,669,793
Less Amount Representing Interest	(1,362)	(194,137)	(2,502)	(89,560)	(463)	(288,024)
Total Principal	$ 17,740	$ 447,580	$37,835	$ 877,230	$1,385	$1,381,770

Source: County of San Bernardino, County Administrative Office.

(1) Represents obligations backed by the General Fund of the County. Interest projections for variable rate obligations are based on actual rates paid on June 30, 2014.

(2) Represents Lease Payments for the County Medical Center.

(3) Principal amount includes accreted values of Capital Appreciation Bonds.

(4) Totals may not add due to rounding.

Operating Leases. The following table sets forth the annual rental payments required under operating leases entered into by the County that have initial or remaining non-cancellable lease terms in excess of one year outstanding as of June 30, 2014. All operating leases relate to office space leased within the County.

TABLE 27
COUNTY OF SAN BERNARDINO
OPERATING LEASE PAYMENTS
(As of June 30, 2014)
(in thousands)

Fiscal Year	Amount
2015	$ 74,429
2016	68,535
2017	42,289
2018	31,679
2019	28,185
2020-2024	92,170
Total Minimum Lease Payments	$337,287

Source: County of San Bernardino, Auditor-Controller/Treasurer/Tax Collector, Controller Division Accounting Section.

Capital Leases. The following table sets forth the annual lease payments from the General Fund and certain special revenue funds (Governmental Activities) and payable from enterprise and internal service funds (Business Type Activities) under capital leases outstanding as of June 30, 2014.

TABLE 28
COUNTY OF SAN BERNARDINO
CAPITAL LEASE PAYMENTS
(As of June 30, 2014)
(in thousands)

Fiscal Year	Governmental Activities Amount	Business-Type Activities Amount
2015	$324	$2,896
2016	-	2,528
2017	-	1,590
2018	-	907
2019	-	806
Total Minimum Lease Payments	324	8,727
Less: Amount Representing Interest	(10)	(293)
Present Value of Minimum Payments	$314	$8,434

Source: County of San Bernardino, Auditor-Controller/Treasurer/Tax Collector, Controller Division Accounting Section.

Lease/Leaseback Transaction

In May 1997, the County entered into a lease agreement whereby seven separate County parcels (each a "Parcel" and together, the "Parcels"), including related buildings, valued at a total of approximately $146 million, were leased to a Delaware business trust (the "Trust") formed for a certain lease-leaseback transaction to act in various capacities for the benefit of the investor (the "Investor") as described in the transaction. The County simultaneously entered into a sublease agreement with the Trust to lease the buildings back. With respect to the lease agreement, the County received a prepayment of $25.6 million from the Trust, which was created by the Investor and the trustee for the Trust. The County transferred $17.0 million to a sublease guaranty entity (the "Sublease Guaranty Trust") in order to induce the Sublease Guaranty Trust to provide a guaranty for the County's obligations under the sublease agreement. In order to secure its obligations, the Sublease Guaranty Trust used the monies to cause AIG FP Special Finance (Cayman) Limited and AIG Matched Funding Corp. to deliver a Letter of Credit (Loan) and a Letter of Credit (Equity), respectively, under the terms of a certain Debt Payment Agreement and a certain Equity Payment Agreement. After transaction expenses were paid, the County retained $8.8 million.

The Letter of Credit (Loan) and the Letter of Credit (Equity) provide for the payment of the County's obligation under the sublease and exercise of its purchase option. As a result, obligations under the lease-leaseback arrangement are considered to be economically defeased, although not legally defeased. Therefore, the trust assets and the related debt have been excluded from the County's financial statements. The term of the full lease with the financing institution ends in 2034. However, the sublease provides a procedure whereby the sublease with respect to one Parcel was terminated as of January 2010 and, with respect to another Parcel, will terminate on a certain date specified in 2014 and with respect to five Parcels on a certain date specified in 2021.

The County plans to exercise its purchase options rights as available. On September 12, 2008, American International Group, Inc. ("AIG"), which provided a guarantee with respect to each of the above-mentioned letters of credit, was downgraded by both Moody's and S&P. The downgrade triggered provisions of the lease-leaseback transaction that allows certain parties to demand AIG to collateralize the Letter of Credit (Equity) and allows the replacement of an AIG related entity, AIG-FP Special Finance (Cayman) Limited, as the provider of the Letter of Credit (Loan).

As requested by the Investor, in October 2008, AIG posted collateral to secure its obligations under the Letter of Credit (Equity). The County is analyzing all options relating to this transaction, including the replacement of the provider of the Letter of Credit (Loan). As of June 30, 2014, assuming that the investor would agree to a termination in whole of the lease-leaseback transaction, the County estimated that the cost to terminate would be approximately $21.4 million. If AIG were unable to fulfill its guarantee under the Letter of Credit (Loan), the County estimates that the cost to the County to make the remaining sublease payments and purchase option payments would be approximately $173.5 million over the next 7 years.

AIG is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information can be inspected and copied at public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at http://www.sec.gov, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC. The County takes no responsibility for the accuracy, completeness or timeliness of such reports, proxy statements or other information, and such reports, proxy statements and other information is not incorporated herein by reference.

The Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA"), enacted on May 17, 2006, included excise taxes and disclosure rules that target certain tax shelter transactions to which a tax exempt entity is a party. In August 2006, the County received notice from the lease/leaseback investor that the transaction is a prohibited tax shelter transaction as defined in the new TIPRA legislation. The U.S. Treasury issued proposed, temporary and final regulations related to TIPRA and they provide that disclosure by a tax-exempt entity is not required for any transaction entered into by the entity on or before May 17, 2006. The County is unable to determine at this time whether and/or to what extent excise taxes would be applicable to this transaction.

Capital Projects in the County Fiscal Year 2014-15 Adopted Budget

In the 2014-15 County Adopted Budget, $52.6 million in new projects were funded primarily using County Discretionary General Funding. Major projects included the annual allocation of $20.0 million for the 800 Megahertz (MHz) Upgrade Project; $2.2 million for the acquisition of land in Colton for additional parking or expansion for the Arrowhead Regional Medical Center; and $1.4 million for the Lena Road Complex Repaving project.. In addition, the base budget for the Capital Improvement Program (CIP) of $12.0 million included funding of $3.6 million for deferred maintenance at various County and Regional Park facilities; as well as contributions to ongoing projects including $2.4 million for Heating, Ventilation and Air Conditioning (HVAC) upgrades and maintenance; $1.7 million for interior renovations to improve interior spaces in County buildings; $1.6 million for the County Buildings Acquisition and Retrofit project; $0.7 million for site infrastructure such as replacing sidewalks, vaults, backflow cages, and water lines; $0.6 million for the rehabilitation of parking lots and roadways at various buildings; $0.6 million for replacing domestic water/heating hot water storage tanks at West Valley Detention Center; $0.3 million to repair or replace roofs for the Coroner, 1499 Tippecanoe Warehouse and Barstow Public Health buildings; and $0.3 million for Americans with Disabilities Act (ADA) improvements and for various fire/life safety projects.

Projects approved in prior years but not yet completed total an additional $156.5 million. The major multi-year carryover projects are the 800 MHz Upgrade Project, expansion of the High Desert Detention Center (HDDC - formerly the Adelanto Detention Center), the County Buildings Acquisition and Retrofit Project, Sheriff's Crime Lab Expansion, and Sheriff's Aviation Relocation from Rialto Airport to the San Bernardino International Airport.

The County has several other capital projects that are accounted for in various special revenue funds belonging to the respective project departments, such as Airports, Regional Parks, and the Department of Public Works- Solid Waste Management and Transportation Divisions.

Capital Projects in the County Fiscal Year 2015-16 Recommended Budget

The County 2015-16 Recommended Budget includes $67.7 million of new projects, $58.0 million of which is funded with County General Fund discretionary revenue. The total General Fund contribution is allocated for specific projects, including an additional contribution of $26.4 million toward the 800 MHz Upgrade Project, $11.2 million for the County Buildings Acquisition and Retrofit project; $2.5 million for lead mitigation at the Sheriff's Training Center; $2.7 million for new HVAC and generator at the HDDC; $1.5 million for the demolition of old Central Juvenile Hall buildings on Gilbert Street in San Bernardino; $1.7 million for various building remodels and deferred maintenance projects. In addition to the funding for specific projects, the 2015-16 Recommended Budget includes the following to be funded from the base budget allocation of $12 million: Deferred maintenance of $5.9 million; and contributions to ongoing projects, including $1.8 million for Roofing/Repairs/Replacement program; $1.2 million for the HVAC Repair /Replacement program; $0.9 million for the Infrastructure Improvements program; $0.9 million for the Health/Safety/ADA program; $0.6 million for the Building Systems Improvement program; $0.6 million for the Interior Renovation/Remodels program; and $0.1 million for the Paving program.

Major Capital Projects

General. The County's financing plan for its major capital projects contemplates using cash funding, County reserve funds and ongoing contingency set-asides for most capital projects. In recent years, the County has cash funded a number of major capital projects described below.

County Buildings Acquisition and Retrofit Project (formerly titled Downtown Building Project) (In Progress). In Fiscal Year 2011-12, the Board of Supervisors allocated one-time discretionary general funding of $30.0 million to acquire and complete tenant improvements to existing buildings and to complete the seismic retrofit and modernization of certain existing buildings in San Bernardino. Since that time, additional funding has been added, bringing the total funding to $54.1 million. The 2015-16 Recommended Budget allocates an additional $11.2 million to this project, for a total of $65.3 million. The current estimated total cost of the project is $140.0 million. It is anticipated that $10.0 million will be funded from the annual base allocation for the CIP over the next five years and the sale of general fund surplus properties in the amount of $65.5 million is expected to make additional funding available to complete this project. In Fiscal Year 2015-16, improvements will be completed for the 303 W. 3rd Street and 268 Hospitality Lane buildings; and design will be completed for the 222 Hospitality and 316 Mountain View Avenue buildings and for the County Government Campus street and parking lot improvements.

800 MHz Upgrade Project (In Progress). In Fiscal Year 2011-12, the Board of Supervisors approved an annual set aside to fund an 800 MHz digital radio system upgrade for public safety. The total estimated project cost is $158.2 million. $75.5 million has been funded to date and an additional $26.4 million of additional funding is included in the Fiscal Year 2015-16 Recommended Budget. On December 17, 2013 (Item No. 107), the Board of Supervisors approved Motorola and Aviat Networks' recommended project plans. The agreement with Motorola was amended to a not-to-exceed amount of $95.6 million, an agreement was approved with Aviat Networks in an amount not to exceed $27.7 million for equipment and services, and purchase orders were approved in the amount of $1.5 million annually for maintenance and support. The upgrade project will be implemented in six phases over a seven-year period. The project is in the second year with completion planned for December 2020. Nearly 20% of the existing radio sites have been converted to digital operation and approximately $52.3 million has been expended to date. During Fiscal Year 2015-16, the top priorities of the project center on construction and implementation of new radio equipment buildings and towers in strategic locations to enhance signal coverage, and the installation of upgraded microwave radio equipment to link dispatch centers with public safety agencies and responders throughout the County. Parallel efforts center on reprogramming the existing fleet of mobile and portable radios, preparing them to support full digital operation.

Sheriff/Coroner/Public Administrator Crime Lab (In Progress). In Fiscal Year 2012-13, the Board of Supervisors approved $1.3 million for design to expand the existing Sheriff's Crime Lab of approximately 20,000 square feet located at 200 S. Lena Road in San Bernardino. In Fiscal Year 2013-14, the Board of Supervisors approved an additional $15.7 million. On May 7, 2013 (Item No. 15), the Board of Supervisors approved a contract for design and on October 7, 2014 (Item No. 6), the Board approved a construction contract. Construction commenced November 2014 and is expected to be completed November 2015. Because the project cost was anticipated to cost less than originally budgeted, $1.5 million of the project budget was moved to the Sheriff Aviation Relocation project. Upon completion, estimated operations and maintenance and utility costs are $120,000 annually and will be funded from the Sheriff's Department budget. There are no additional staffing costs associated with this project.

Sheriff/Coroner/Public Administrator Aviation Relocation (In Progress). This project relocates the Sheriff's Aviation Division from Rialto Airport located at 1776 Miro Way to San Bernardino International Airport ("SBIA") and consolidates space currently leased at SBIA into a new facility. The San Bernardino International Airport Authority ("SBIAA") will construct approximately 50,000 square feet of maintenance and hangar space and approximately 11,640 square feet of office space on eight acres of land at SBIA with oversight and inspection by the County's Architecture and Engineering Department. On February 25, 2014 (Item No.45), the Board of Supervisors approved a 25-year lease with SBIAA for total lease cost of $9.6 million for hangar rent funded $4.1 million from the City of Rialto for relocation cost, $1.0 million from the Sheriff's Asset Seizure Fund, and $4.5 million from one-time discretionary general funding approved by the Board of Supervisors in the Fiscal Year 2013-14 budget. On January 6, 2015 (Item No. 36), the Board of Supervisors approved an increase in the project budget of $2.72 million from $9.6 million to $12.32 million due to a new estimate of cost higher than originally anticipated. The increase was funded from cancelling other projects and savings from various projects.

The agreement also provides for ground rent over the 25-year term in the total amount of approximately $2.7 million to be paid from the Sheriff's budget. Annual ground lease payments ($82,196) and operating costs and utility expense ($390,800) for the new space are partially offset by lease and operating cost savings from the termination of the existing Sheriff aviation hangar and office space leases at SBIA and Rialto estimated at $171,500 annually. Other one-time costs associated with this new aviation facility include Architecture and Engineering department project management oversight, Information Services Department charges to establish telephone and data communications, moving expense, and the purchase of furniture, fixture and equipment estimated at approximately $1.0 million that will be paid from the Sheriff's Fiscal Year 2015-16 budget. There are no additional staffing costs associated with this project.

Additional projects the County has cash-funded in the last four years total $174.7 million and include the High Desert Detention Center (formerly Adelanto Detention Center) expansion completed January 2014 with a total project cost of $141.9 million cash-funded $41.9 million by the County and $100 million from the State of California under the Public Safety and Offender Rehabilitation Services Act of 2007 (AB900); the High Desert Government Center Public Safety Operations Center completed in May 2013 with a total project cost of $15.0 million; the New Central Juvenile Hall completed February 2011 with a total project cost of $63.6 million; the High Desert Government Center completed October 2010 with a total project cost of $29.2 million; and the Arrowhead Regional Medical Center Medical Office Building completed September 2010 with a total project cost of $25.0 million.

Anticipated Financings

Other than the proposed issuance of the Series A Notes, the County anticipates refinancing its Certificates of Participation (Medical Center Financing Project), Series 1994 and Series 1996, which are currently outstanding in the principal amount of $112.175 million and $63.205 million, respectively.

Overlapping Debt and Debt Ratios

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. and dated as of May 1, 2015. The Debt Report is included for general information purposes only. Neither the County nor the Underwriters have reviewed the Debt Report for completeness or accuracy and neither the County nor the Underwriters make any representations in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the County in whole or in part. Such long term obligations generally are not payable from revenues of the County (except as indicated) nor are they necessarily obligations secured by land within the County. In many cases, long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency.

TABLE 29
COUNTY OF SAN BERNARDINO
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(As of May 1, 2015)

2014-15 Assessed Valuation: $184,243,472,188 (includes unitary utility valuation)

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	County's Share of Debt 5/1/15
Metropolitan Water District	3.853%	$ 4,254,483
Chaffey Community College District	100.00	159,295,905
San Bernardino Community College District	98.811	430,998,900
Other Community College Districts	Various	154,492,571
Apple Valley Unified School District	100.00	28,638,758
Chino Valley Unified School District	100.00	128,418,434
Colton Joint Unified School District	98.719	171,427,481
Fontana Unified School District	100.00	216,818,223
Redlands Unified School District	100.00	95,797,733
Rialto Unified School District	100.00	102,433,172
San Bernardino City Unified School District	100.00	186,135,738
Upland Unified School District	100.00	93,812,967
Other Unified School Districts	Various	104,176,245
Union High School Districts	100.00	283,517,496
Elementary School Districts	100.00	150,709,786
County Service Areas	100.00	390,000
Mojave Water Agency	100.00	11,685,000
Mojave Water Agency, I.D. M	100.00	20,395,000
County Water Districts	100.00	276,000
Etiwanda School District Community Facilities Districts	100.00	92,390,000
City of Chino Community Facilities Districts	100.00	124,025,000
City of Chino Hills Community Facilities Districts	100.00	39,415,000
City of Fontana Community Facilities Districts	100.00	104,580,000
City of Rancho Cucamonga Community Facilities Districts	100.00	79,049,000
City of Upland Community Facilities Districts	100.00	40,375,000
Other Community Facilities Districts	49.775-100.00	241,628,466
City, County and Special District 1915 Act Bonds (Estimate)	100.00	20,560,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$3,085,696,358

Ratios to 2014-15 Assessed Valuation:
Total Overlapping Tax and Assessment Debt 1.67%

(Continued on next page.)

(Continued from prior page.)

DIRECT AND OVERLAPPING GENERAL FUND DEBT:	% Applicable	County's Share of Debt 5/1/15
San Bernardino County General Fund Obligations	**100.00 %**	**$ 470,135,000**
San Bernardino County Pension Obligation Bonds	**100.00**	**455,796,704**(1)
San Bernardino County Flood Control District General Fund Obligations	100.00	97,230,000
Community College District Certificates of Participation	Various	19,603,666
Chino Valley Unified School District Certificates of Participation	100.00	16,600,000
Fontana Unified School District Certificates of Participation	100.00	46,015,000
Hesperia Unified School District Certificates of Participation	100.00	103,250,000
San Bernardino City Unified School District Certificates of Participation	100.00	47,750,000
Snowline Joint Unified School District Certificates of Participation	98.059	57,398,836
Other Unified School District Certificates of Participation	Various	39,984,358
Union High School District Certificates of Participation	100.00	4,020,000
Cucamonga School District Certificates of Participation	100.00	9,810,000
Oro Grande School District Certificates of Participation	100.00	40,400,000
Other Elementary School District General Fund Obligations	100.00	17,100,000
City of Colton General Fund Obligations and Pension Obligation Bonds	100.00	36,739,400
City of Fontana Certificates of Participation	100.00	43,780,000
City of Hesperia Certificates of Participation	100.00	37,935,000
City of Montclair General Fund Obligations	100.00	45,000,000
City of Ontario General Fund Obligations	100.00	70,625,000
City of San Bernardino General Fund Obligations and Pension Obligation Bonds	100.00	58,361,201
Other City General Fund and Pension Obligation Bonds	100.00	54,162,935
Water District Certificates of Participation	100.00	4,635,000
West Valley Vector Control District Certificates of Participation	100.00	3,130,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$1,779,462,100
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):		$2,211,166,372
COMBINED DEBT		$7,076,324,830(2)

Ratios to 2014-15 Assessed Valuation:
Total Direct Debt ($925,931,704)....................................... 0.50%
Combined Total Debt 3.84%

Ratios to Redevelopment Successor Agency Incremental Valuation ($53,238,181,410):
Total Overlapping Tax Increment Debt................................. 4.15%

Source: California Municipal Statistics, Inc.
(1) Excludes accreted values.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

County of San Bernardino Treasury Pool

General. The County Treasurer is responsible for the investment of the funds of the County, all school districts and community college districts and certain special districts in the County, which are required under State law to be deposited into the County Treasury ("Involuntary Depositors"). In addition, certain agencies invest funds in the County treasury on a voluntary basis ("Voluntary Depositors" and, together with the Involuntary Depositors, the "Depositors"). Deposits made by the County and the various local agencies are commingled in a pooled investment fund, the "County Pool." No particular deposits are segregated for separate investment. As of the quarter ending March 31, 2015, approximately $251 million, or 5% of the total funds in the County Pool, were deposited by Voluntary Depositors. The County does not accept any new voluntary members into the County Pool.

Fitch Ratings has currently assigned the County Pool credit quality ratings of "AAA" (credit quality) and "V1" (volatility rating reflecting 2010 revised ratings methodology).

These ratings are assessments of the overall credit quality of the County Pool's portfolio. The ratings thus reflect the level of protection against losses from credit defaults. These ratings reflect only the views of Fitch Ratings and any explanation of the significance of such ratings may be obtained from Fitch Ratings at: Fitch Ratings, Inc., One State Street Plaza, New York, New York 10004.

Depositors in the County Pool are permitted to withdraw funds that they have deposited, with approval of the Treasurer on 30 days prior notice. The County does not expect that the County Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any losses that may be required to be allocated among all Depositors in the County Pool.

The County has established a Treasury Oversight Committee. The members of the Oversight Committee are the Chief Executive Officer, two members of the public and the Superintendent of Schools or his designee. The role of the Oversight Committee is to review and monitor the Investment Policy (see "– The Investment Policy" below) that is prepared by the County Treasurer.

Authorized Investments. Investments of the County Pool are placed in those securities authorized by various sections of the California Government Code and the County's Investment Policy, which include obligations of the United States Treasury, agencies of the United States Government, Supranational institutions, local bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, joint power authority pools, FDIC insured cash accounts, collateralized negotiable order of withdrawal accounts, and shares of beneficial interest in diversified management companies (mutual funds). Investments in repurchase agreements cannot exceed a term of 180 days and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security. The value of the repurchase agreement shall be adjusted no less than weekly. In addition, reverse repurchase agreements may not exceed 10% of the base value of the portfolio and the term of the agreement may not exceed 92 days. Securities lending transactions are considered reverse repurchase agreements for purposes of this limitation. Base Value is defined as the total cash balance excluding any amounts borrowed (i.e., amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods).

Legislation that would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. Therefore, there can be no assurances that the current investments in the County Pool will not vary significantly from the investments described herein.

The Investment Policy. The County's Investment Policy (the "Investment Policy") currently states the primary goals of the County Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the County Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve a return on the funds under the control of the County Treasurer within the parameters of prudent risk management. The Investment Policy contains a requirement that 40% of the Pool should be invested in securities maturing in one year or less, and the entire portfolio should maintain a duration-to-maturity not exceeding 1.5 years. With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reverse repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements to 10% of the total investments in the County Pool.

The County Pool also does not currently own any reverse repurchase agreements, nor has the County engaged in securities lending. The County Pool has not purchased nor currently owns any asset-backed securities, mortgage-backed securities, collateralized debt obligations, collateralized loan obligations, or any other securities backed by or derived from sub-prime or Alt-A mortgages. FNMA, FHLMC, FHLB, FFCB, IBRD, IFC and IADB holdings are senior unsecured obligations.

Certain Information Relating to County Pool. The following table reflects information with respect to the County Pool as of the close of business March 31, 2015. As described above, a wide range of investments is authorized by State law. Therefore, there can be no assurances that the investments in the County Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the County Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the County Pool will not vary significantly from the values described below. In addition, the values specified in the following tables were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on March 31, 2015, the County Pool necessarily would have received the values specified. The County Pool has no exposure to any defaulted securities, nor does it own any securities of institutions in liquidation.

TABLE 30
COUNTY OF SAN BERNARDINO
County Pool Investments
March 31, 2015

Security Type	Par Value	Amortized Cost	Market Value[(3)]	Market % of Portfolio	Yield to Maturity At Cost	Weighted Avg. Maturity	Modified Duration
Certificates of Deposit	$1,075,000,000	$1,075,000,000	$1,074,144,570	22.6%	0.22%	144	0.39
Commercial Paper	905,000,000	904,867,740	904,925,295	19.1	0.15	22	0.06
Corporate Notes	81,040,000	81,286,319	81,338,729	1.7	0.43	283	0.77
Federal Agencies	1,749,295,000	1,758,142,498	1,762,116,861	37.1	0.72	595	1.60
Money Market Funds[(1)]	25,000,000	25,000,000	25,000,000	0.5	0.01	1	0.01
Repurchase Agreements							
Bank Deposit Account	50,000,000	50,000,000	50,000,000	1.1	0.15	1	0.01
Joint Powers Authority	50,000,000	50,000,000	50,000,000	1.1	0.06	1	0.01
U.S. Treasuries	790,000,000	793,790,874	796,292,170	16.8	0.61	485	1.31
Cash Balance	286,613,194	286,613,194	286,613,194				
Total Investments	5,011,948,194	5,024,700,625	5,030,430,819	100.0%	0.46%	344	0.93
Accrued Interest		7,030,514	7,030,514				
Total Portfolio[(2)]	$5,011,948,194	$5,031,731,139	$5,037,461,333				

Source: County of San Bernardino, Auditor-Controller/Treasurer/Tax Collector.

(1) Yield for the money market funds is a weighted average of the month-end yields for the Federated and Fidelity government money market funds.

(2) Statistics for the total portfolio include money market funds.

(3) Market prices are derived from closing bid prices as of the last business day of the month as supplied by F.T. Interactive Data, Bloomberg, or Telerate. Prices that fall between data points are interpolated.

Litigation and Investigation

Pending Litigation. There are a number of lawsuits and claims pending against the County and its former and current officials. The County does not believe that any of these proceedings could have a material adverse impact upon the financial condition of the County. Following is a summary of the lawsuits and claims that, if determined adversely to the County, would have the most significant impact.

Perchlorate Contamination. In 2001-2002, perchlorate was discovered in groundwater monitoring wells located in the Rialto-Colton groundwater basin on about the property line of the Mid-Valley Sanitary Landfill. Subsequently, the Regional Water Quality Control Board ("RWQCB") adopted a Cleanup and Abatement Order (later amended) (as amended, the "CO") requiring the County to, among other things, investigate and define the lateral and vertical extent of the perchlorate that is alleged to be discharging from or near property owned by the County, implement a remedial plan to cleanup or abate the effects of the perchlorate that is discharging, has been discharged, or threatens to be discharged from such land. The County timely filed an appeal of the CO, which appeal has been placed in abeyance pending the resolution of certain lawsuits. The City of Rialto, Rialto Utility Authority and City of Colton have filed lawsuits in federal and state court asserting claims under federal and State law alleging, in pertinent part, that the County and other named defendants are liable to the plaintiffs for damages, injunctive relief and declaratory relief arising from perchlorate, trichloroethylene and other contamination that has existed or currently exists in the soil, groundwater and vadose zone within the Rialto-Colton Basin, and which they claim has affected or threatens to affect their drinking water supply wells. In October 2009, Goodrich Corporation and Emhart Industries, former occupants of adjacent property, each filed complaints in federal court alleging that the County and other defendants are liable for response costs, for indemnity and declaratory relief arising from perchlorate contamination on adjacent real property listed in September 2009 as a Superfund Site by the United States Environmental Protection Agency. All filed cases were consolidated. The County previously negotiated a settlement agreement with the Cities of Colton and Rialto (the "Cities") pursuant to which each of the settling defendants, including the County, expressly deny any wrongdoing or liability for the contamination or any matter alleged in the lawsuits and deny any wrongdoing or liability with respect to any other litigant. In December 2011, the Court approved the County's settlement with the Cities. That decision was appealed. The County and other parties to the consolidated litigation engaged in settlement discussions throughout Fiscal Year 2012-13 which resulted in executed settlement agreements and at least one other pending settlement that is intended to substantially resolve most, but not all, of the claims in the federal litigation, including dismissals of appeals of the County settlement with the Cities. The executed settlements were approved by the court in July 2013. Other settlements were approved in Fiscal Year 2013-14 essentially ending the federal court litigation and all but one claim in state court to which the County is not yet a party. The appeal of the County settlement with the Cities was dismissed in Fiscal Year 2013-14. The County expects that the obligations resulting from the settlement agreements will not have a material adverse impact on the County's ability to pay when due its debt obligations, including the Series A Notes.

Chino Airport Plume. The County acquired the Chino Airport ("Airport") in 1948. Prior to that time, the federal government owned the site of the Airport for flight training, aircraft storage and sales. In the early 1950's to the late 1960's, the Airport was leased to a private corporation that had the world's largest modification facility for military aircraft. In 1960, the Airport became public. Through the 1960's and 1970's, bombs and incendiary devices were manufactured onsite for the federal government. The Airport has had a variety of tenants from the 1970's through the present time.

In 1986, trichloroethylene ("TCE") was detected above the drinking water standard (5 parts per billion) in private wells down gradient of the Airport. The RWQCB began investigating the potential sources of TCE found in wells in the area. TCE and tetrachloroethylene ("PCE") were commonly used in the aircraft industry as metals stripping solvents. By 1988, results from private wells sampled around the Airport suggested that the TCE was originating from sources at the Airport. The County began investigating TCE and PCE use at the Airport. In 1990, the RWQCB issued Cleanup and Abatement Order No. 90-134 to the County to remove and properly dispose of all wastes that are possibly continuing sources of organic solvent discharges remaining on the Airport site; conduct technical surveys and sampling of specified sites on the Airport to determine lateral and vertical extent of the contamination; propose a soils remediation plan for areas where TCE discharges threatened the groundwater; and provide a work plan for installation of groundwater monitoring wells and mitigation of groundwater contamination attributable to the Airport. The County removed the known sources of organic solvents and investigated 12 sites identified as potential sources and areas of solvents through 1992. TCE and PCE were detected in some areas but no significant source of TCE or PCE was identified. The County installed a number of groundwater monitoring wells to define the potential extent of contamination. In 2004-2005, TCE was detected in 2 of 5 onsite wells in the western portion of the Airport site. The County and its consultant on the cleanup continued to investigate the use of newer technology to detect any further TCE contamination in the soil and potentially in the groundwater as well as any other chlorinated solvents. Additional groundwater wells were installed and sampled. In June 2008, the County received Abatement Order No. R8-2008-0064 with respect to the remediation of the TCE plume offsite of the Airport.

In 2006, the Chino Basin Watermaster introduced a plan for the Chino Creek Desalter Well Field in the area of the offsite plume. The County shifted its focus to the offsite plume by drilling for samples in a number of locations in the offsite plume. The County is working to delineate and remediate the offsite plume and install monitoring wells for long-term monitoring. The Chino Basin Watermaster has asserted a claim against the County regarding the cleanup and remediation of the plume. On January 22, 2010, the Chino Basin Watermaster and the Chino Desalter Authority served the County with a ninety day notice of citizen suit under the Resources Conservation and Recovery Act, 42 USC Section 6972. The ninety-day notice period expired on April 22, 2010 and no lawsuit was filed in the matter. Settlement discussions with the Chino Basin Watermaster and the Chino Desalter Authority were minimal throughout 2012. On March 28, 2012, the RWQCB issued the County a Notice of Violation: Cleanup and Abatement Order No. R8-2008-0064, relating to the County's inability to install certain monitoring wells within a specified time. In January 2013, the County documented that it had achieved compliance with the RWQCB Notice of Violation by its submittal of the VOC Plume Characterization and Monitoring Well Installation Report. On February 20, 2013, the Chino Desalter Authority submitted a request to the Chino Basin Watermaster that it take prompt action to secure an order of the San Bernardino Superior Court directing the County to either remediate or to reimburse the Chino Desalter Authority for its costs incurred and to be incurred to remediate the groundwater contamination plume caused by sudden and accidental releases from the Chino Airport. That request remains pending with the Chino Basin Watermaster. At this time, the amount of costs the County will incur in connection with the remediation of the plume is unknown. However, in early 2012, the County filed a lawsuit against one of the County's insurers, the Insurance Company of the State of Pennsylvania ("ICSOP") to obtain recoupment of the costs of investigating and remediating the groundwater contamination plume. As of June 30, 2014, the amount that ICSOP has reimbursed the County for investigatory costs associated with the groundwater contamination plum is $1,764,134.29. The County expects that any remediation obligations will not have a material adverse effect on the County's ability to pay when due its debt service obligations, including those related to the Series A Notes.

Sheriff Litigation I. In 2014, four lawsuits were served against the County, the County Sheriff's Department (the "Sheriff" or "Department"), the Commander of the West Valley Detention Center

("West Valley") and several deputies alleging that the conduct of the named deputies led to a violation of the civil rights of 13 prisoners being held at West Valley. A fifth lawsuit was filed in February 2015. These incidents are allegedly being investigated by the Sheriff and the Federal Bureau of Investigation ("FBI") as described below under "Investigation." The plaintiffs are seeking approximately $75 million in damages. The County could receive additional complaints seeking declaratory, injunctive, and monetary relief relating to these allegations. Based upon the ongoing investigations described below, the five lawsuits have been stayed until June 30, 2015. If the federal Grand Jury determines to issue criminal indictments against any of the deputies, the County's attorneys intend to seek additional stays in the litigation until any criminal matters are concluded. The County has undertaken a vigorous defense and intends to continue its vigorous defense against the lawsuits and does not anticipate that any obligations that might arise out of the litigation would have a material adverse effect on the County's ability to pay when due its debt service obligations, including those related to the Series A Notes.

Sheriff Litigation II. In 2014, a class action lawsuit was served against the County, the Sheriff and several Sheriff personnel alleging that an "Alternative Lifestyle Tank" ("ALT") exists at West Valley and that all inmates who self-identify as gay, bisexual and/or transgender ("GBT") inmates are automatically transferred to such facility and isolated from the general population. The plaintiffs allege that they suffer discrimination and are denied equal treatment and equal access to services, programs (such as educational and drug treatment programs) and facilities and opportunities to reduce their sentences. They also allege that they serve longer sentences and suffer worse conditions of confinement because they are GBT inmates. The complaint alleges violations of equal protection under the federal and California Constitutions. In addition to seeking damages of an unspecified amount, plaintiffs also seek injunctive relief to prevent the continuation of the alleged unlawful practices. The County intends to undertake a vigorous defense and does not anticipate that any obligations that might arise out of the litigation would have a material adverse effect on the County's ability to pay when due its debt service obligations, including those related to the Series A Notes.

Threatened Litigation

In August 2014, the Sheriff received correspondence from the Prison Law Office ("PLO") alleging concerns regarding conditions for prisoners at West Valley and in the Central Detention Center, High Desert Detention Center and Glen Helen Rehabilitation Center (collectively, the "Jails"). The correspondence alleged four areas of concern: (1) use of force on prisoners, particularly at West Valley; (2) inadequacies in mental, medical and dental care; (3) discrimination against prisoners with disabilities and lack of reasonable accommodations; and (4)failure to classify "at-risk" prisoners and improper placement of classifications of prisoners, leading to violence among prisoners. The PLO expressed a desire to engage in discussions with the County and the Sheriff regarding the allegations.

Since that time, a series of discussions have taken place among the County, Sheriff and the PLO. To date, there has been no resolution of the issues, but the parties are continuing their efforts to address the allegations. There is a potential that if the discussions do not lead to a satisfactory resolution of the allegations raised, the PLO would file a lawsuit. If that occurs, it is not possible at this point to determine the remedies the PLO would seek or the amount of damages that might be sought. Even if litigation is filed within the fiscal year, the County does not anticipate that any obligations that might arise out of any such litigation would have a material adverse effect on the County's ability to pay when due its debt service obligations, including those related to the Series A Notes.

Investigation

On or about March 5, 2014, the Sheriff command staff received information regarding possible misconduct by Department personnel at West Valley, one of the jails operated by the Sheriff. An administrative investigation was commenced and at approximately the same time, the Sheriff learned that the FBI had also begun a similar inquiry. On April 11, 2014, the FBI announced that it had launched a criminal investigation of possible civil rights violations of inmates at West Valley. The Sheriff and the FBI have been cooperating in their respective investigations. A federal Grand Jury began hearing testimony regarding the possible misconduct at the end of January 2015 and its investigation is not yet complete. Since the commencement of the investigations, three Sheriff's personnel are no longer employed by the Department. There are no further details available and no prediction of any outcome.

APPENDIX B

COUNTY OF SAN BERNARDINO, CALIFORNIA
DEMOGRAPHIC AND ECONOMIC INFORMATION

The general information in this section concerning the County is provided as supplementary information only.

County of San Bernardino

The County is located in Southern California and was established by an act of the State Legislature on April 23, 1853, which formed the County from the eastern part of Los Angeles County. The County encompasses an area of over 20,000 square miles and includes twenty-four incorporated cities. The County is the largest county in the State in terms of geographical area and, like all California regions, may be subject to unpredictable seismic activity.

The County is a charter county divided into five supervisorial districts on the basis of registered voters and population. The County is governed by a five-member Board of Supervisors (the "Board of Supervisors") who serve staggered four-year terms. The Chairman is elected by and from the members of the Board of Supervisors. Gregory C. Devereaux serves as the Chief Executive Officer.

County administration includes a number of appointed officials, including ones appointed by or jointly appointed by a combination of the Board of Supervisors, the Chief Executive Officer and the Assistant Executive Officer for Finance and Administration. Certain other officials are appointed by various other officials, including the Assistant Executive Officer for the Human Services System. There are five officials elected by county-wide vote to four-year terms: the Assessor/Recorder/County Clerk, Auditor-Controller/Treasurer/Tax Collector, District Attorney, Superintendent of Schools, and Sheriff/Coroner/Public Administrator. Many boards, commissions and committees assist the Board of Supervisors and County officials.

The County provides a wide range of services to its residents in the areas of police protection, medical and health care, senior citizen assistance, consumer affairs, public libraries, courts support programs, airports, parks and public assistance programs. Other services such as fire protection, lighting, road maintenance and flood control are provided by special districts that are governed by the Board of Supervisors. Some municipal services are provided by the County on a contractual basis to incorporated cities within their boundaries. This allows cities to contract for municipal services without incurring the cost of creating their own city departments and facilities.

Geography

The County is bordered on the west by Los Angeles County, on the east by the State of Arizona and the State of Nevada, on the north by Inyo County and Kern County, and on the south by Orange and Riverside Counties. Composed essentially of three geographic regions—valley, mountain and desert—elevation in the County ranges from a high of 11,502 feet above sea level to a low of 181 feet above sea level.

Population

The following table sets forth the population of the County and the State of California (the "State") for the years 2010 through 2015.

TABLE B-1
COUNTY OF SAN BERNARDINO
Population 2010-2015

Year	County	County Annual Percentage Change	State of California	State Annual Percentage Change
2010[(1)]	2,038,518	0.80%	37,309,382	0.62%
2011[(1)]	2,053,077	0.71	37,570,112	0.70
2012[(1)]	2,063,867	0.53	37,867,483	0.79
2013[(1)]	2,074,080	0.49	38,164,011	0.78
2014[(1)]	2,091,618	0.85	38,499,378	0.88
2015[(2)]	2,104,291	0.61	38,714,725	0.56

Sources: State of California, Department of Finance, California County Population Estimates and Components of Change by Year, July 1, 2010-2014, revised as of December 2014.

(1) Data as of July 1 of given year.

(2) Data as of January 1 of given year.

The following table lists the respective populations of the five largest cities and the unincorporated area in the County.

TABLE B-2
COUNTY OF SAN BERNARDINO
Population of Five Largest Cities and Unincorporated Area
as of January 1, 2015

City	Population
San Bernardino	213,933
Fontana	204,312
Rancho Cucamonga	174,064
Ontario	168,777
Victorville	121,168
Unincorporated Area	299,110
Total	1,181,364

Source: State Department of Finance.

Personal Income

The following table sets forth the per capita personal income in the County and the State for years 2009 through 2014.

TABLE B-3
COUNTY OF SAN BERNARDINO
Per Capita Personal Income
2009-2014

Year	County	State of California
2009	$29,870	$41,587
2010	30,014	42,282
2011	31,241	44,749
2012	32,048	47,505
2013	32,747	48,434
2014	N/A	50,109

Source: U.S. Department of Commerce, Bureau of Economic Analysis. Computed using Census Bureau midyear population estimates. Estimates for 2010-2013 reflect county population estimates available as of March 2014. Revised estimates for 2001-2012 and new estimates for 2013 is as of November 20, 2014. New estimate for 2014 reflect California population estimates as of March 25, 2015. All State and local dollar estimates are in current dollars (not adjusted for inflation).

School Enrollment

There are 33 public school districts in the County serving students in grades K through 12, as of the 2014-15 school year. In addition, there are nine colleges and universities, including six community colleges, in the County. The following table sets forth the colleges and universities located in the County.

TABLE B-4
COUNTY OF SAN BERNARDINO
College and University Enrollment
School Year 2014-15

Public and Private Institutions	Total Number Enrolled	City
Universities:		
California State University - San Bernardino(1)	18,952	San Bernardino
Loma Linda University(1)	4,629	Loma Linda
University of Redlands(2)	5,147	Redlands
Community Colleges:		
Chaffey College(1)	19,709	Rancho Cucamonga
San Bernardino Valley College(2)	12,024	San Bernardino
Victor Valley College(1)	11,635	Victorville
Crafton Hills College(1)	5,850	Yucaipa
Barstow Community College(2)	2,996	Barstow
Copper Mountain Community College(2)	2,702	Joshua Tree

Sources: The respective institutions and the California Community Colleges Chancellor's Office.
(1) Data reflects Fall 2014 enrollment.
(2) Data reflects Fall 2013 enrollment.

Employment

The following table sets forth labor force, employment and unemployment figures for the years 2010 through 2014.

TABLE B-5
COUNTY OF SAN BERNARDINO
Employment and Unemployment of Resident Labor Force
Wage and Salary Workers by Industry
Annual Averages 2010-2014
(in thousands)

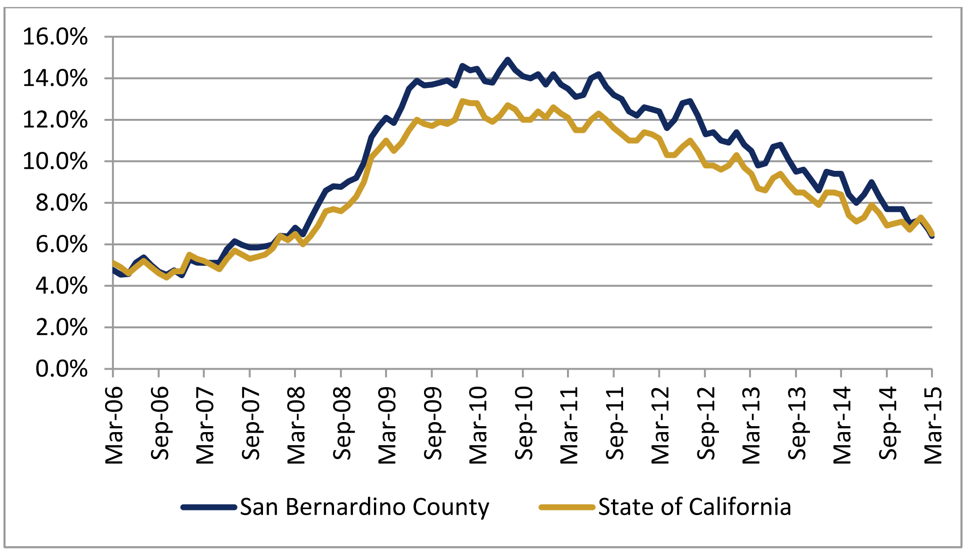
	2010	2011	2012	2013	2014
Civilian Labor Force[1]	889.6	888.0	893.8	898.4	911.4
Employment	769.2	773.7	791.7	810.7	838.2
Unemployment	120.4	114.3	102.1	87.7	73.2
Unemployment Rate					
County	13.5	12.9	11.4	9.8	8.0
State of California	12.2%	11.7%	10.4%	8.9%	7.5%
Wage and Salary Employment[2]					
Total Farm	2.6	2.5	2.5	2.2	N/A
Mining and Logging	0.6	0.6	0.8	0.9	N/A
Construction	24.3	25.0	26.4	26.9	N/A
Manufacturing	47.2	46.5	47.3	47.7	N/A
Trade, Transportation & Utilities	153.7	154.8	165.1	171.0	N/A
Information	3.8	4.5	5.2	5.1	N/A
Financial Activities	21.7	21.4	21.6	22.0	N/A
Professional & Business Services	73.1	73.6	73.3	75.2	N/A
Educational & Health Services	86.2	86.8	91.1	99.0	N/A
Leisure & Hospitality	55.1	55.2	57.0	60.4	N/A
Other Services	19.9	20.3	20.8	20.7	N/A
Government	125.1	113.3	112.4	113.8	N/A
TOTAL[3]	613.3	604.5	623.5	644.9	N/A

Source: State of California Economic Development Department, Labor Market Information Division; March 2014 benchmark.

(1) Based on place of residence.
(2) Based on place of work.
(3) Totals may not be exact due to independent rounding.

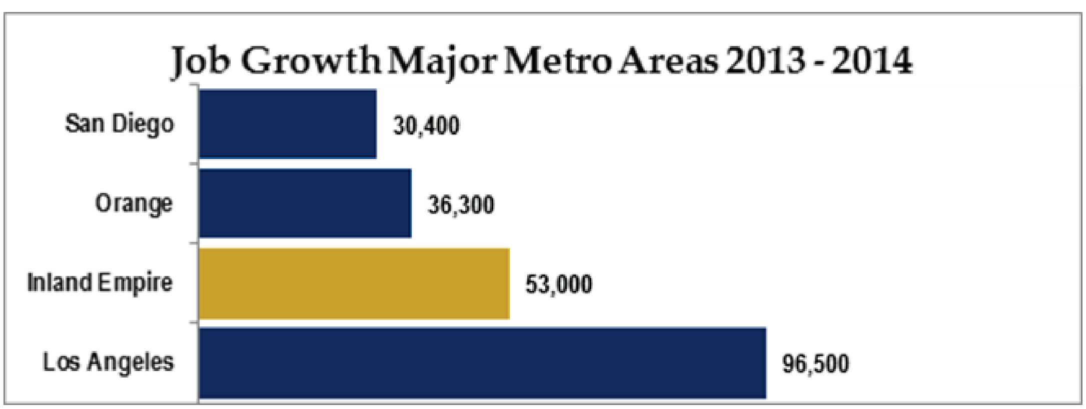
Residents within the County were significantly impacted by economic conditions within the County, the region and the State during the recent recession. In addition to the decline in property values, the loss of jobs in the County led to high levels of unemployment, as shown in the chart below. County unemployment reached 14.8% in July 2010. However conditions have improved. In 2014, 53,117 jobs were added, contributing to the County's recovery at 139,767 jobs or 97.8% of the 142,993 jobs lost during the recession. Job growth for 2015 is forecasted at 51,250, which, if achieved, will be the third consecutive year of growth exceeding 50,000 jobs. Unemployment has declined, returning to pre-recession levels at 6.4% as of March 2015, which compares to unemployment rates for the State and the United States of America, which were 6.5% and 5.5%, respectively.

COUNTY OF SAN BERNARDINO
UNEMPLOYMENT RATES
STATE OF CALIFORNIA AND SAN BERNARDINO COUNTY
MARCH 2005 THROUGH MARCH 2014



Source: CA Employment Development Department.

The following chart sets forth job growth in the Inland Empire metropolitan area from calendar year 2013 to calendar year 2014, as compared to the job growth during the same period for the San Diego, Orange and Los Angeles metropolitan areas.



Construction Activity

The following table sets forth building permit valuations and the number of new dwelling units authorized in the County for the years 2009 through 2014.

TABLE B-7
COUNTY OF SAN BERNARDINO
Residential Construction Activity
2009-2014
($ in thousands)

	Building Permit Valuations		Number of Permits	
	Residential[1][2]	Non-Residential[1]	Single Family	Multi-Family
2009	$449,243	$322,679	1,441	1,054
2010	367,370	242,699	1,198	649
2011	351,469	352,271	1,081	409
2012	480,704	565,028	1,214	596
2013	666,166	744,191	1,874	1,439
2014	693,939	884,561	1,893	1,328

Source: Construction Industry Research Board (2008-10); California Homebuilding Foundation (2011-14).
(1) Includes alterations.
(2) Includes garages.

Commercial Activity

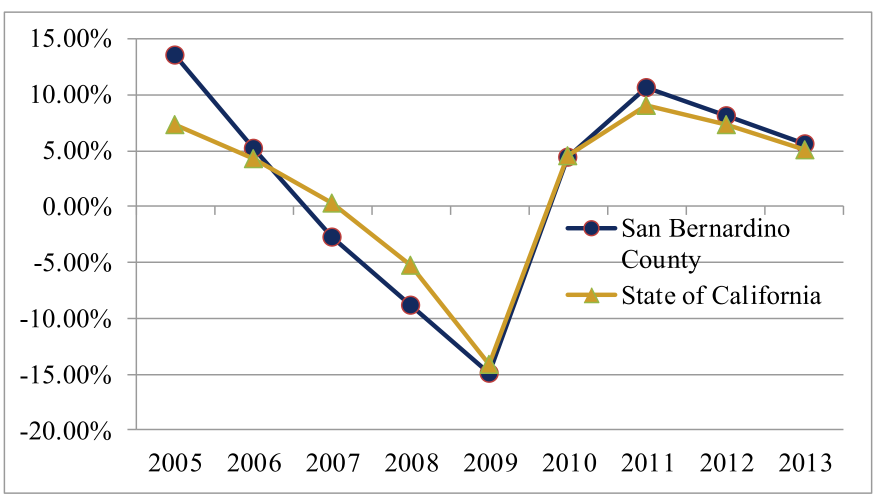
The table below sets forth the taxable sales in the County for calendar years 2009 through 2013.

TABLE B-9
COUNTY OF SAN BERNARDINO
Taxable Sales Transactions
Calendar Years 2009 through 2013
(in thousands)

Type of Business	2009	2010	2011	2012	2013
Retail and Food Services:					
Motor Vehicle and Parts Dealers	$ 2,356,548	$ 2,624,920	$ 3,068,198	$ 3,511,089	$ 3,896,135
Furniture and Home Furnishings Stores	507,681	471,879	411,908	435,093	472,946
Electronics and Appliance Stores	456,253	440,027	446,203	473,174	499,085
Building Materials and Garden Equipment and Supplies	1,109,777	1,142,663	1,180,594	1,247,091	1,396,290
Food and Beverage Stores	1,108,248	1,113,419	1,147,885	1,177,132	1,211,368
Health and Personal Care Stores	412,973	420,254	462,977	482,082	494,452
Gasoline Stations	2,612,062	3,059,166	3,559,983	3,748,749	3,699,402
Clothing and Clothing Accessories Stores	1,143,894	1,270,559	1,381,705	1,489,626	1,615,013
Sporting Goods, Hobby, Book and Music Stores	501,643	503,207	522,786	536,289	563,057
General Merchandise Stores	2,594,195	2,704,521	2,851,371	2,986,332	3,123,008
Miscellaneous Store Retailers	1,222,691	1,223,314	1,245,156	1,262,685	1,323,190
Nonstore Retailers	119,835	125,111	141,263	170,230	273,954
Food Services and Drinking Places	2,184,337	2,209,838	2,316,023	2,461,365	2,605,706
Total Retail and Food Services	$16,330,138	$17,308,880	$18,736,053	$19,980,937	$21,173,875
All Other Outlets	7,322,296	7,378,982	8,586,928	9,550,983	10,003,947
Totals All Outlets	$23,652,433	$24,687,862	$27,322,980	$29,531,921	$31,177,823

Source: California State Board of Equalization, Taxable Sales in California.

As reflected in the chart below, the County's taxable sales growth of 40.4% since calendar year 2009 is above the statewide taxable sales growth of 33.5% during the same period.



Agriculture

The following table sets forth farm production valuation in the County for the years 2010 through 2014.

TABLE B-10
COUNTY OF SAN BERNARDINO
Gross Value of Farm Production
2010-2014

	2010	2011	2012	2013	2014
Fruit and Nut Crops	$ 21,645,850	$ 17,000,700	$ 13,590,600	$ 14,531,900	$23,563,769
Field Crops	17,199,150	28,769,900	28,825,100	13,878,000	47,242,820
Vegetable Crops	23,383,300	26,171,000	25,721,100	8,248,400	38,456,348
Nursery Products	28,659,900	35,174,300	28,335,800	25,610,000	17,224,906
Livestock and Poultry	336,690,300	412,301,500	370,029,900	323,823,450	400,599,221
Total	$427,578,500	$519,417,400	$466,502,500	$386,091,750	$527,089,078

Source: San Bernardino County, Department of Agriculture/Weights and Measures Crop and Livestock Reports 2010-2014.

Industry

The County has manufacturing firms producing items such as steel, concrete, glass, foods, paper, plastic and scientific product lines. The County and the surrounding area have become home to certain large, mega-warehouses and logistics centers. Most of these companies utilize facilities in the County as a regional distribution center to serve the Southern California market and beyond such as Hewlett Packard, Red Bull, New Home Furnishings, Smucker's and IDS USA. Additionally, the Internet retailer, Amazon, has a 950,000 square-foot fulfillment center in San Bernardino and has announced plans to occupy another 515,000 square-feet. In 2013, Nordstrom-owned HauteLook expanded its distribution center to occupy 604,000 square feet in the unincorporated area of the County. The County is in a unique position to support large industrial users that need more than a half million square-feet.

The County is also the location for several regional firms that have expanded or located their respective operations. With a regional market reach of over 23 million people, relatively lower costs, and available land, the County has attracted businesses such as State Farm and Kaiser, which have recently opened large offices within the County, and companies such as Esri, BMW of North America, and California Steel Industries expanding their existing facilities. Macy's opened its first store in the High Desert in 2013, signaling the strength of the area's retail market. Additionally, the Mountain Grove Development will, when fully built, add another 670,000 square feet of retail, dining and entertainment tenants to the Citrus Plaza Shopping Center. The Mountain Grove Development has been partially developed to 468,000 square feet in its Phase I and, with its opening in 2015, introduced retailers such as Nordstrom Rack, T.J. Maxx, HomeGoods, Tilly's, 24 Hour Fitness and many other national and regional retailers to the Redlands area.

Recreation and Tourism

The County includes many of Southern California's most popular recreation areas, including Joshua Tree National Park, Colorado River, Arrowhead National Landmark, Lake Arrowhead Resort, and Big Bear Lake. The mountains, lakes, rivers and resorts in the County offer swimming, boating, fishing, hiking, skiing and other winter sports. The County has a geography that includes mountains, forests, deserts and valleys. It also has easy access to the coastal areas of Southern California. The County hosts the Auto Club Speedway of Southern California, which is one of the premier NASCAR venues on the west coast of the United States. In addition, numerous visitors traverse the County via historic Route 66 to see some of the most unique and historic sites.

Transportation

The County has access to excellent roads, rail and air transportation. The County is serviced by four interstate freeways (I-10, I-15, I-40, and I-215) and State Highways 60, 71 and 210, all of which provide easy access to the rest of Southern California and a connection to the entire continental United States. Over $1 billion of road, highway and transit improvements are currently under construction.

Air

The LA/Ontario International Airport is served by a varied mix of air carriers, including Alaska Airlines, American Airlines, Delta Airlines, Southwest Airlines, United/United Express Airlines, and US Airways. AeroMexico also provides direct international flights to Guadalajara, Mexico and connections to various destinations in Mexico, Central America and South America. The County and the surrounding area is also served by the San Bernardino International Airport, multiple regional airports, and the Southern California Logistics Airport, which has a fully staffed customs and trade zone designation. Also, the United Parcel Service uses the City of Ontario and the LA/Ontario International Airport area as an air hub facility for the west coast of the United States.

Rail and Trucking

BNSF Railroad Company, which currently operates a 500,000-annual lift intermodal facility in the City of San Bernardino, provides transcontinental intermodal rail freight service. These freight facilities connect the County's rail and freeway corridors. Within the County, merchandise can be imported or exported through the Port of Long Beach and the Port of Los Angeles and then transported, via truck and rail freight service, to inland distribution centers. Subsequently, products are shipped from these inland distribution centers by rail and truck to other markets in North America. Furthermore, new intermodal facilities are also planned or proposed for the High Desert region of the County to serve future distribution needs. Many containerized truck cargo carriers have selected the County and the surrounding area as their base of operations. Additionally, there are as many as 80 independent trucking carriers that are based in the County. Internal and external access and centrally-located transportation corridors provide cargo and freight carriers with much needed infrastructure support for shipment and receipt of goods.

Additionally, Amtrak provides passenger service to, among other destinations, downtown Los Angeles, the Cities of San Diego and San Francisco, the States of Arizona, Oregon and Washington and to destinations throughout the continental United States. Metrolink also provides commuter train service to downtown Los Angeles and the Counties of Orange, Riverside and San Diego.

Ports

The County is in close proximity to both the Ports of Long Beach and Los Angeles via a centralized rail and freeway system. The Ports of Long Beach and Los Angeles handle more than 40 percent of the country's container traffic and is the sixth-busiest harbor in the world. There has been an increased demand by both local and national warehouse users to occupy industrial space within the

County as a result of the County’s proximity to these international trade centers, as well as the ports’ continued investment in infrastructure to remain competitive.

APPENDIX C

COUNTY OF SAN BERNARDINO
EXCERPTS FROM THE COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORTS

To the Honorable Board of Supervisors
County of San Bernardino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of San Bernardino, California (the County), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 did not audit the financial statements of the San Bernardino County Flood Control District, County of San Bernardino Consolidated Fire Districts, and the County of San Bernardino Redevelopment Successor Agency Private-Purpose Trust Fund, which collectively represent the following percentages of assets, net position/fund balances and revenues as of and for the fiscal year ended June 30, 2014:

Opinion Unit	Assets	Net Position/ Fund Balances	Revenues
Governmental Activities	11%	13%	6%
Aggregate Remaining Fund Information	6%	4%	2%

Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. 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.

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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.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Extraordinary Item

As described in Note 25, transactions related to the dissolution of the former Redevelopment Agencies were reported as extraordinary items in the governmental fund and the government-wide financial statements. In May 2014, the State of California Department of Finance (DOF) indicated that the County loan from the Successor Agency was now an enforceable obligation because all required conditions were met. As a result, the County reinstated the loan receivable from the Successor Agency based on the provisions of the California Health and Safety Code section 34191.4 (b) per the letter from the DOF dated May 16, 2014. Our opinion is not modified with respect to this matter.

Implemented GASB Pronouncement

As described in Note 1 to the financial statements, the County adopted Governmental Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities* as of July 1, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 - 33 and the schedule of funding progress on page 109 be presented to supplement the basic financial statements. Such 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. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual fund financial statements and other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and other 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual fund financial statements and other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2014, on our consideration of the County'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 9, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAN BERNARDINO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2014

This section of the County's annual financial report presents a discussion and analysis of the County's financial performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the transmittal letter at the front of this report and the County's Basic Financial Statements following this section.

FINANCIAL HIGHLIGHTS
(Amounts in thousands)

- The County's total net position increased by $336,856. The net increase is attributable to the $288,929 increase in governmental activities net position and the $47,927 increase in business-type activities net position.

- As of June 30, 2014, the County governmental funds reported combined fund balances of $1,525,179, an increase of $137,477 in comparison with the prior year. Amounts available for spending include *restricted*, *committed*, *assigned*, and *unassigned fund balances*; these totaled $1,458,037, or 95.6% of the ending fund balance. Of this amount, $829,700 is restricted by law or externally imposed requirements, and $175,620 is committed for specific purposes.

- At the end of the fiscal year, amounts available for spending for the General Fund totaled $752,588, or 35.3% of total General Fund expenditures. This is an increase of $92,810 in comparison with the prior year.

- At the end of the fiscal year, the County's total capital assets (net of accumulated depreciation) increased by $53,098 in comparison with the prior year. (See further detail on page 30.)

- At the end of the fiscal year, the County's total long-term obligations decreased by $57,806 in comparison with the prior year. (See further detail on page 31.)

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components; 1) **Government-Wide** Financial Statements; 2) **Fund** Financial Statements and 3) **Notes** to the Basic Financial Statements.

Government-Wide Financial Statements are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business. These statements include *all* assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the County using the *accrual basis of accounting,* which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The *statement of net position* presents information on all County assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollectible taxes and earned but unused vacation leave).

Both of these Government-Wide financial statements distinguish between the functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The County's governmental activities include General Government, Public Protection, Public Ways and Facilities, Health and Sanitation, Public Assistance, Education, Recreation and Cultural Services. The County's business–type activities include Medical Center, Water, Sewer, Sanitation Facilities, Waste Systems Division, Museum Gift Shop, and Regional Parks Snack Bar Operations.

Component units are blended in the basic financial statements and consist of legally separate entities for which the County is financially accountable. They share substantially the same board as the County and provide services entirely to the County. The following component units have been blended into the basic financial statements: Fire Protection Districts, Flood Control District, Park and Recreation Districts, County Service Areas, Inland Empire Public Facilities Corporation, San Bernardino County Financing Authority, and various Joint Powers Authorities (JPAs).

The Government-Wide financial statements also include a discretely presented component unit, FIRST 5 of San Bernardino County. FIRST 5 is a discretely presented component unit as its governing body is not substantially the same as that of the County and FIRST 5 does not provide services entirely or almost entirely to the County but rather to the citizenry.

The Government-Wide financial statements can be found on pages 36-37 of this report.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: *governmental funds, proprietary funds, and fiduciary funds*.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-Wide financial statements. However, unlike the Government-Wide financial statements, Governmental Fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Government-Wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-Wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County reports thirty-two individual governmental funds including two major governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund and the Capital Improvement Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements located in a separate section in this report.

In addition to the General Fund, the County classifies and reports the Capital Improvement Fund as a major fund as required by GASB 34.

The governmental fund financial statements can be found on pages 40-42 of this report.

Proprietary funds include two types of funds, enterprise and internal service. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide statements. Enterprise funds are used to account for the Medical Center, Water, Sewer, Sanitation, Waste Systems Division, Museum Gift Shop, and Regional Parks Snack Bar Operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its printing services, central mail services, telecommunication services, computer operations, vehicle services, self-insured worker's compensation, public liability, property conservation, and flood control. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the Government-Wide financial statements.

Proprietary funds provide the same type of information as the Government-Wide financial statements, only in more detail. The Medical Center and Waste Systems Division are considered to be major enterprise funds of the County. The County's six internal service activities are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in this report. Data from the other enterprise funds are combined into a single aggregated presentation. Individual fund data for each of these non major enterprise funds is provided in the form of combining statements located in a separate section of this report.

The proprietary fund financial statements can be found on pages 43-45 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the primary government. Fiduciary funds are not reflected in the Government-Wide financial statements because the resources of those funds are not available to support County programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 46-47 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund financial statements. The notes can be found on pages 49-108 of this report.

(Amounts in thousands)

Supplemental Information

The Supplemental Information section of this report contains the combining statements and budgetary comparison schedules. This section provides additional information to the users of these financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceed liabilities by $3,268,481 at the close of the most recent fiscal year.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets, as restated	$ 2,787,980	$ 2,548,977	$ 397,814	$ 401,741	$ 3,185,794	$ 2,950,718
Capital assets	1,840,948	1,780,651	538,392	545,591	2,379,340	2,326,242
Total assets	4,628,928	4,329,628	936,206	947,332	5,565,134	5,276,960
Deferred outflows of resources	4,405	5,211	26,654	29,035	31,059	34,246
Current and other liabilities	242,185	197,408	105,830	144,670	348,015	342,078
Long-term liabilities *	1,346,566	1,381,778	633,131	655,725	1,979,697	2,037,503
Total liabilities	1,588,751	1,579,186	738,961	800,395	2,327,712	2,379,581
Net Position:						
Net investment in capital assets, as restated	1,749,238	1,670,509	110,155	102,982	1,859,393	1,773,491
Restricted	776,259	740,232	62,286	63,781	838,545	804,013
Unrestricted, as restated	519,085	344,912	51,458	9,209	570,543	354,121
Total Net Position	$ 3,044,582	$ 2,755,653	$ 223,899	$ 175,972	$ 3,268,481	$ 2,931,625

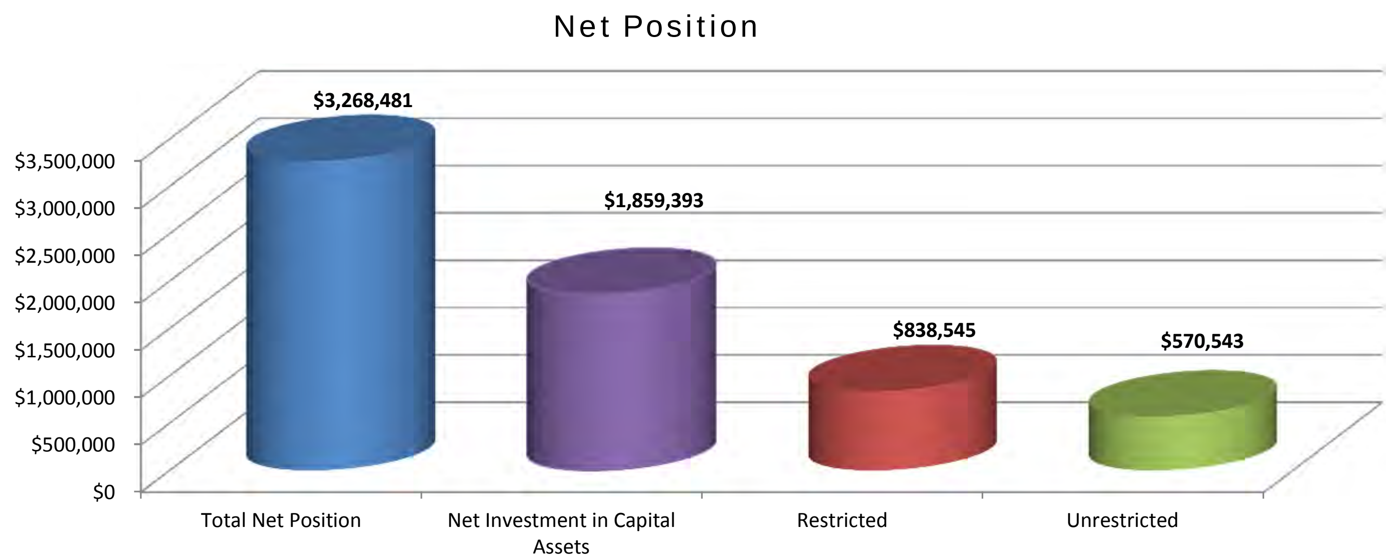
* Beginning balance restated to reflect the reclassification of deferred charges on refunding to deferred outflows of resources in accordance with GASB 65.

The largest portion of the County's net position of $1,859,393 reflects investment in capital assets (e.g. land, land use rights, structures and improvements, equipment and software, and infrastructure); as well as capital-related deferred outflows of resources less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

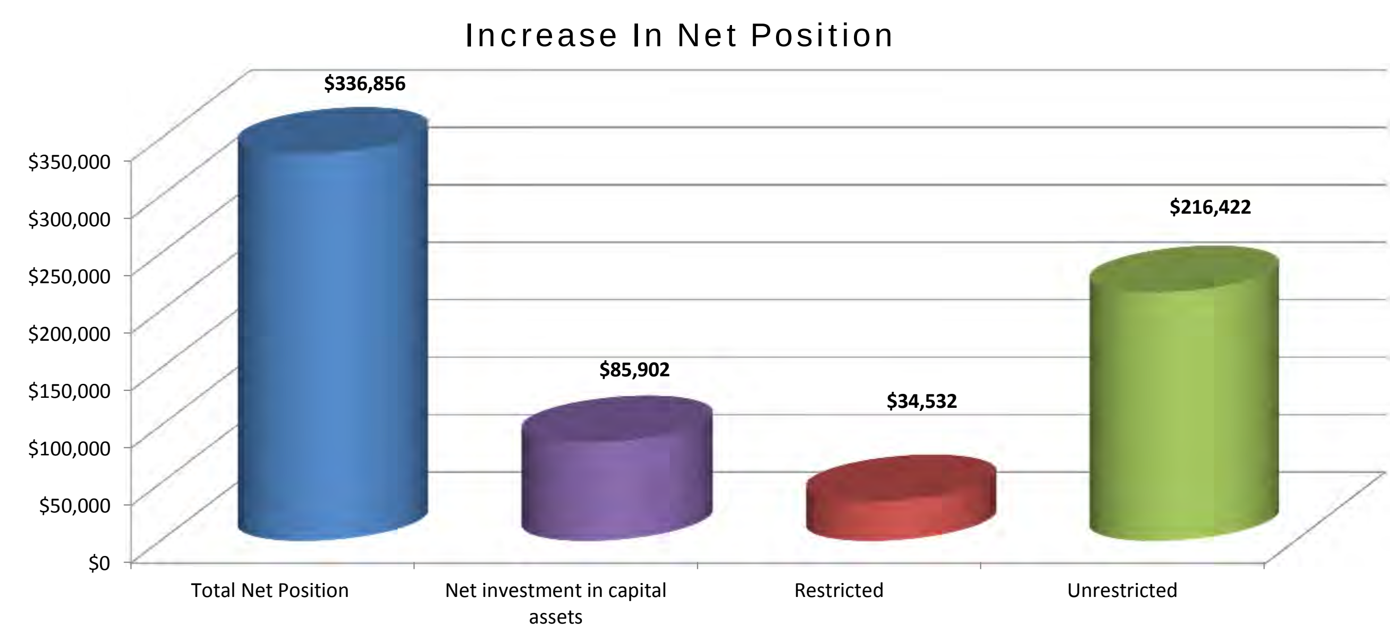
Restricted net position of $838,545 represents another significant portion of County net position. This amount contains external restrictions imposed by creditors, grantors, contributors, laws and regulation of other governments, and restrictions imposed by law through constitutional provisions and enabling legislation.

Management's Discussion and Analysis
(Amounts in thousands)

The final component of net position is unrestricted net position. Unrestricted net position represent resources that the County may use to meet its current and ongoing obligations to citizens and creditors. The overall unrestricted net position balance increased by $216,422 primarily as a result of additional funding received by the County General Fund and Capital Improvement Fund, along with the Waste Systems Division during the current year.



The County's total net position increased by $336,856 ($288,929 increase in governmental activities and $47,927 increase in business-type activities) indicating that the County generated revenue sufficient to cover the cost of operations during the current fiscal year.



Management's Discussion and Analysis
(Amounts in thousands)

The following table illustrates the changes in net position for governmental and business-type activities.

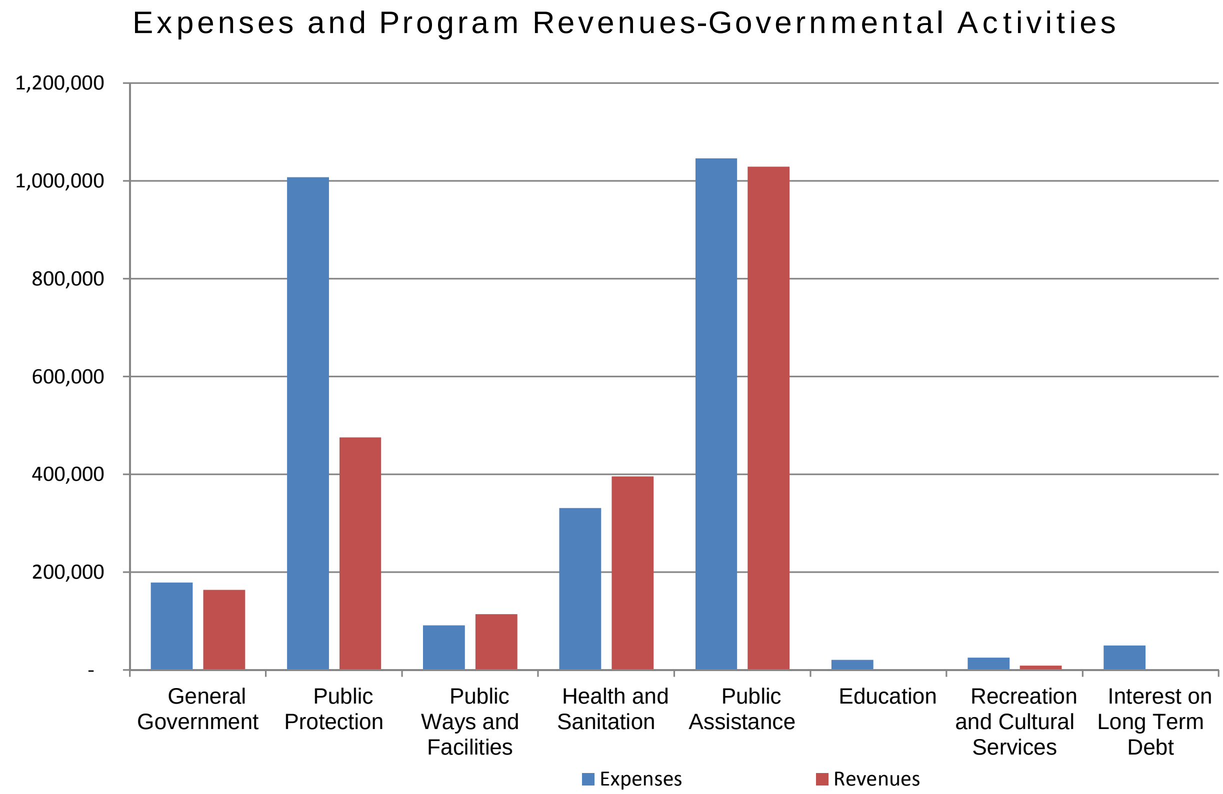
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues						
Charges for Services	$ 427,098	$ 416,838	473,203	$ 434,982	$ 900,301	$ 851,820
Operating Grants/Contributions	1,736,856	1,584,569	48,832	51,953	1,785,688	1,636,522
Capital Grants/Contributions	25,971	17,755	21,247	18,901	47,218	36,656
General Revenue						
Property Taxes, Levied for General Purposes	553,303	523,190	2,786	2,627	556,089	525,817
Public Safety Tax	156,352	145,097	-	-	156,352	145,097
Sales Taxes	29,103	30,158	-	-	29,103	30,158
Other Taxes	16,099	11,791	-	-	16,099	11,791
Unrestricted Revenues from Use of Money and Property	43,603	46,383	2,210	1,674	45,813	48,057
Miscellaneous	74,416	71,998	53,070	19,264	127,486	91,262
Gains on Sale of Capital Assets	5,565	4,998	50		5,615	4,998
Total Revenues	3,068,366	2,852,777	601,398	529,401	3,669,764	3,382,178
Expenses:						
General Government, as restated	178,980	195,447	-	-	178,980	195,447
Public Protection	1,007,434	985,004	-	-	1,007,434	985,004
Public Ways and Facilities	91,744	80,002	-	-	91,744	80,002
Health and Sanitation	331,551	311,856	-	-	331,551	311,856
Public Assistance	1,046,447	1,014,443	-	-	1,046,447	1,014,443
Education	20,923	16,469	-	-	20,923	16,469
Recreation and Cultural Services	25,290	26,672	-	-	25,290	26,672
Interest on Long Term Debt	50,189	53,484	-	-	50,189	53,484
Medical Center, as restated	-	-	513,609	487,578	513,609	487,578
Waste Systems	-	-	61,883	53,748	61,883	53,748
Water, Sewer, and Sanitation	-	-	15,204	15,448	15,204	15,448
Others	-	-	69	87	69	87
Total Expenses	2,752,558	2,683,377	590,765	556,861	3,343,323	3,240,238
Excess (Deficiency) before Extraordinary Item and Transfers	315,808	169,400	10,633	(27,460)	326,441	141,940
Extraordinary Item	10,415	63,969	-	221	10,415	64,190
Transfers	(37,294)	(50,720)	37,294	50,720	-	-
Change in Net Position	288,929	182,649	47,927	23,481	336,856	206,130
Net Position -- Beginning of Year, as restated	2,755,653	2,573,004	175,972	152,491	2,931,625	2,725,495
Net Position -- End of Year	$ 3,044,582	$ 2,755,653	$ 223,899	$ 175,972	$ 3,268,481	$ 2,931,625

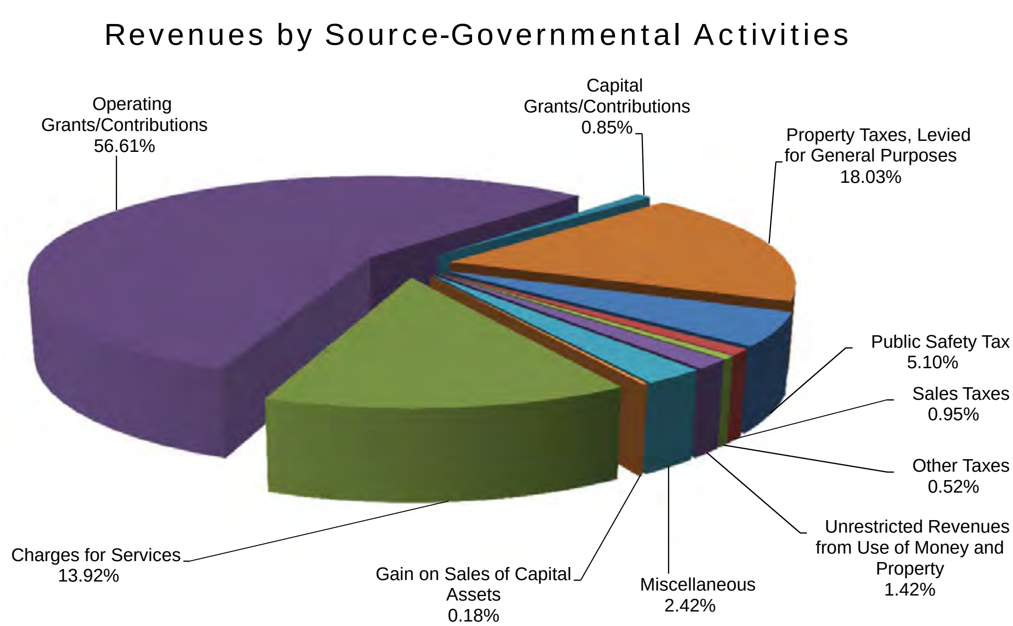
On June 28, 2014, the County signed a Memorandum of Understanding (MOU) agreement with the County's largest union, San Bernardino Public Employee Association (SBPEA) which included an agreement incentive to each eligible employee of up to $1,750 (not expressed in thousands) payable in one lump sum payment for reaching a timely agreement. The MOU also included a term eliminating the employer pick-up of the required employee contribution in the amount of 7% of earnable compensation. As a result, the total amount of $23,097 contributed to the overall expense increase for both respective governmental and business-type activities during the current fiscal year.

Governmental Activities increased the County's net position by $288,929. The overall increase in net position is due to one-time and ongoing revenues exceeding related expenses. Also contributing to the increase in net position is reinstatement of loan receivable from the County Redevelopment Successor Agency.

Total revenues of County governmental activities primarily increased due to an increase in tax revenues including Prop 172 Sales Tax and operating grants/contributions such as state realignment funding for current and growth apportionments.

Program expenses for County governmental activities increased as a result of additional funding received and spent on the growing public protection, health service needs, and public assistance, resulting from the current economic condition.

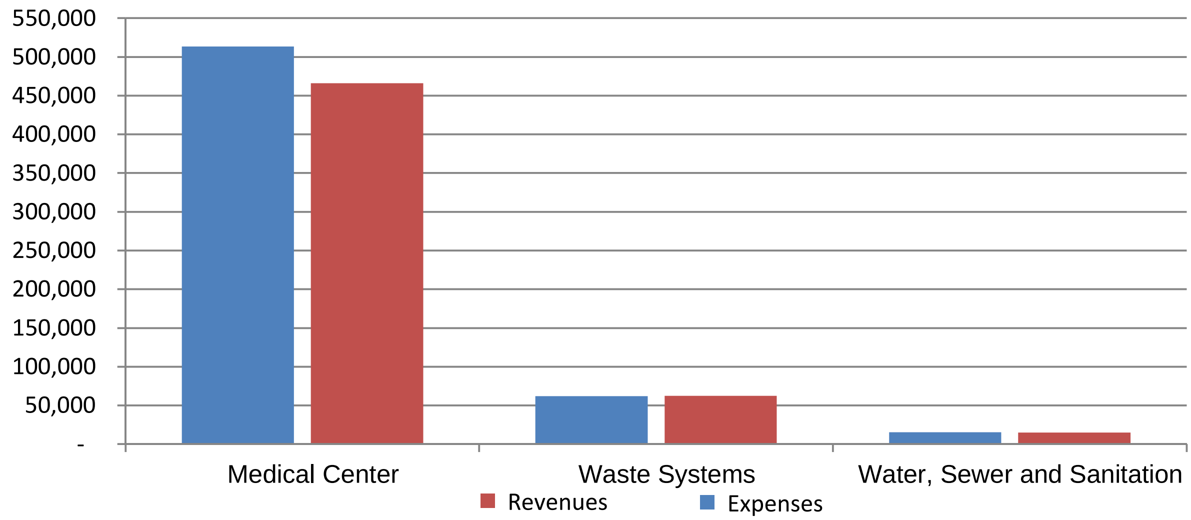




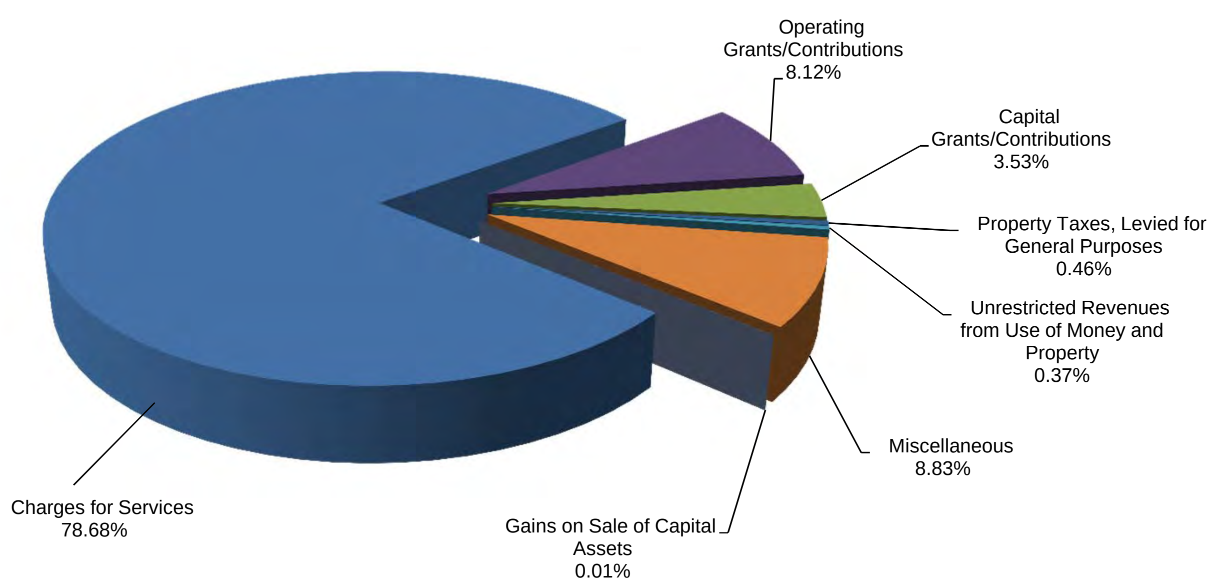
Business-type Activities increased the County's net position by $47,927. This is primarily due to an increase of net position in the Solid Waste Management Division resulting from a decreased liability for pollution remediation costs and increased recovery assets related to pollution remediation activities.

The following table shows actual revenues, expenses, and results of operations for the current fiscal year:

Expenses and Program Revenues-Business-Type Activities



Revenues by Source-Business Type Activities



FINANCIAL ANALYSIS OF COUNTY FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The governmental activities functions are contained in the General, Special Revenue, Debt Service, Capital Project, Permanent, and Internal Service Funds. Included in these funds are the special districts governed by the Board of Supervisors. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unrestricted fund balance, which includes committed, assigned, and unassigned fund balances, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

On June 30, 2014, the County's governmental funds reported a total fund balance of $1,525,179, an increase of $137,477 in comparison with the prior year. Approximately 54% of the total fund balance, $829,700, constitutes restricted fund balance, which is restricted by external parties. The remaining fund balance is comprised of a nonspendable amount of $67,142; committed amounts of $175,620, which are committed for specific purposes; assigned amounts of $213,496 set-aside for specific purposes; and an unassigned amount of $239,221, representing the residual net resources of the General Fund available for spending.

The most significant restricted amounts in the governmental funds include $81,960 for Social Services Realignment, $69,601 for Health Services Realignment, $93,262 for Flood Control, and $93,067 for Mental Health Services Act.

The County reports the General Fund and the Capital Improvement Fund as major governmental funds.

General Fund: The General Fund is the chief operating fund of the County. On June 30, 2014, the total fund balance reached $816,792, an increase of $100,758 in comparison with the prior year. Approximately 38% or $309,067 of the total fund balance constitutes restricted fund balance. The remaining fund balance is made up of $64,204 of nonspendable amounts; $175,620 of committed amounts, including $32,075 for debt service, $22,500 for Glen Helen Rehabilitation Center jail upgrade, $20,000 for property tax system, and $13,000 for new financial accounting system; assigned amounts of $28,680 for workers' compensation rebate and automated systems development; and $239,221 in unassigned amounts available for spending.

As a measure of the General Fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total General Fund expenditures. Unrestricted fund balance represents 21% of total fund expenditures; while total fund balance represents 38%.

The General Fund had an increase of $100,758 primarily the result of revenues exceeding related expenses.

Capital Improvement Fund: The Capital Improvement Fund accounts for the County's major capital acquisition and construction projects. On June 30, 2014, the total fund balance of the Capital Improvement Fund was $138,967. The capital improvement fund had an increase of $44,908, mainly from increase funding for maintenance, upgrades, seismic retrofitting and improvements, 800 MHZ upgrade project, and the Sheriff's crime lab.

Revenues for total governmental funds totaled $2,986,507 in fiscal year 2013-14, representing a $141,036 increase from the prior year.

Management's Discussion and Analysis
(Amounts in thousands)

The following table presents the amount of revenues from various sources as well as the changes from the prior year:

Revenues	Fiscal year 2013-14 Amount	Fiscal year 2013-14 Percent of Total	Over (Under) Fiscal year 2012-13 Amount	Over (Under) Fiscal year 2012-13 Percent
Taxes	$ 749,232	25%	$ 35,704	5%
Licenses, Permits and Franchises	24,919	1%	2,284	10%
Fines, Forfeitures and Penalties	14,865	1%	(1,878)	-11%
Revenues From Use of Money and Property	41,658	1%	(6,183)	-13%
Aid From Other Governmental Agencies	1,705,488	57%	104,663	7%
Charges for Current Services	382,716	13%	8,895	2%
Other Revenues	67,629	2%	(2,449)	-3%
Total Revenues	$ 2,986,507	100%	$ 141,036	

The County's three major funding sources: taxes, aid from other governmental agencies, and charges for current services, constitute 95% of all revenues.

Tax revenues increased by $35,704 mainly due to an increase in assessed valuation of properties within the County, and pass-through of property tax that was previously distributed to the former Redevelopment Agencies. Also contribution to this increase is a continued surge in sales tax revenue including the one-half percent sales tax for public safety activities, which was imposed by Proposition 172.

Aid received from other governmental agencies increased by a total of $104,663. This resulted from an increase in higher Proposition 63 personal income tax surcharge cash distribution, increase in funding for CalWORKS, Medi-Cal, Cal Fresh and San Bernardino Associated Governments (SANBAG) projects, and the realignment growth apportionments offset by decreased funding for Housing and Urban Development (HUD) and state AB 900 Jail Construction funds for the High Desert Detention Center Expansion Project.

The following table presents expenditures of governmental funds by function compared to prior year amounts:

Expenditures	Fiscal year 2013-14 Amount	Fiscal year 2013-14 Percent of Total	Over (Under) Fiscal Year 2012-13 Amount Changed	Over (Under) Fiscal Year 2012-13 Percent
Current:				
General Government	$ 160,755	6%	$ (12,167)	-7%
Public Protection	957,832	34%	30,013	3%
Public Ways and Facilities	103,267	3%	25,658	33%
Health and Sanitation	331,830	12%	28,824	10%
Public Assistance	1,037,741	36%	51,801	5%
Education	17,295	1%	1,991	13%
Recreation and Cultural Services	20,466	1%	(475)	-2%
Debt Service:				
Principal	83,495	3%	6,557	9%
Interest and Fiscal Charges	24,156	1%	(1,705)	-7%
Capital Outlay	94,354	3%	(25,940)	-22%
Total Expenditures	$ 2,831,191	100%	$ 104,557	

Total County governmental funds expenditures increased by $104,557 from the prior year.

Public Protection as well as Health and Sanitation expenditures increased by $30,013 and $28,824 respectively due to increased costs associated with implementing AB 109 Realignment, which shifted responsibility for certain adult offender populations to counties.

(Amounts in thousands)

Public Ways and Facilities increased by $25,658 due to work completed on various projects, including the Glen Helen Parkway grade separation project, Maple Lane drainage improvements, Alabama Street culvert construction, and Yermo Bridge reconstruction.

Public Assistance expenditures increased by $51,801 primarily due to rising benefits, retirement and salary costs. Also included are significant changes related to increases in client services costs for CalWORKs, Medi-Cal, Cal Fresh, and In-Home Supportive Services.

Other financing sources and uses are presented below to illustrate changes from the prior year:

Other Financing Sources (Uses) Governmental Funds	Fiscal Year 2013-14 Amount	Over (Under) Fiscal year 2012-13 Amount Changed	Percent
Transfers Out	$ (263,941)	$ 10,529	-4%
Transfers In	227,341	(59,836)	-21%
Sale of Capital Assets	8,346	3,348	67%
Total Other Financing Sources and (Uses)	$ (28,254)	$ (45,959)	

The following table illustrates the changes in fund balances for governmental funds:

Schedule of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

	Governmental Funds			
	General Fund	Capital Improvement Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
Revenues	$ 2,415,630	$ 23,730	$ 547,147	$ 2,986,507
Expenditures	(2,134,622)	(61,602)	(634,967)	(2,831,191)
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	281,008	(37,872)	(87,820)	155,316
Total Other Financing Sources and (Uses)	(190,665)	82,780	79,631	(28,254)
Net Changes In Fund Balance Before Extraordinary Item	90,343	44,908	(8,189)	127,062
Extraordinary Item	10,415	-	-	10,415
Net Changes In Fund Balance	100,758	44,908	(8,189)	137,477
Fund Balance, July 1, 2013	716,034	94,059	577,609	1,387,702
Fund Balance, June 30, 2014	$ 816,792	$ 138,967	$ 569,420	$ 1,525,179

In fiscal year 2013-14, the fund balance of total governmental funds increased by $137,477. This increase is the result of revenues exceeding the associated expenditures, along with the reinstatement of the loan receivable from the redevelopment successor agency. Absent this extraordinary item, net Changes in fund balance had increased by $127,062.

(Amounts in thousands)

Proprietary funds: County proprietary funds provide the same type of format found in the Business-Type Activities financial statements, but in more detail.

The following table shows actual revenues, expenses, and results of operations for the current fiscal year:

	Business-Type Activities -- Enterprise Funds			
	Medical Center	Waste Systems Division	Total Nonmajor Enterprise Funds	Total Enterprise Funds
Revenues				
Net Patient Care and Services	$ 398,628	$ -	$ -	$ 398,628
Charges for Current Services	-	50,665	14,791	65,456
Other	9,227	11,109	-	20,336
Total Operating Revenues	407,855	61,774	14,791	484,420
Operating Expenses				
Professional Services	57,253	35,500	2,546	95,299
Salaries and Employee Benefits	239,030	6,849	5,254	251,133
Services and Supplies	164,154	17,651	4,527	186,332
Depreciation and Amortization	21,990	1,883	2,678	26,551
Other	3,961	-	96	4,057
Total Operating Expenses	486,388	61,883	15,101	563,372
Operating Income (Loss)	(78,533)	(109)	(310)	(78,952)
Nonoperating Revenues (Expenses)				
Interest Revenue	1,488	608	114	2,210
Interest Expense	(26,158)	-	(172)	(26,330)
Tax Revenue	-	-	2,786	2,786
Grant Revenue	36,843	671	101	37,615
Gain (Loss) on Sale of Capital Assets	-	50	-	50
Other Nonoperating Revenues	-	50,964	2,106	53,070
Other Nonoperating Expenses	(1,063)	-	-	(1,063)
Total Nonoperating Revenues (Expenses)	11,110	52,293	4,935	68,338
Income (Loss) Before Contributions and Transfers	(67,423)	52,184	4,625	(10,614)
Capital Contributions	21,247	-	-	21,247
Transfers to Other Funds	(9,154)	(296)	(36)	(9,486)
Transfers from Other Funds	46,738	-	42	46,780
Change in Net Position	(8,592)	51,888	4,631	47,927
Net Position, July 1, 2013, as restated	68,997	21,225	85,750	175,972
Net Position, June 30, 2014	$ 60,405	$ 73,113	$ 90,381	$ 223,899

The net increase of $47,927 in net position was primarily due to the decreased liabilities for the estimated pollution remediation costs and its realizable insurance recoveries. The effect of this estimate change resulted in an increase in the other non-operating revenues for the current fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund final expenditure budget differs from the original budget by approximately 1.3%. A net decrease in appropriations of $32,687 was approved during the fiscal year. The significant components of this net decrease are summarized below:

General

- On May 6, 2014, the board adopted a budget amendment to decrease General Contingencies by $123,063 due to $37,663 increase in revenue offset by $40,137 in appropriation increases and $120,589 in contributions to Specific Purpose Reserves for capital projects, jail upgrades, new computer systems, and so forth.

Health and Sanitation

- On December 17, 2013 and May 6, 2014, the board adopted budget amendments which increased the Health Care Administration budget by $70,000. This budget increase reflects Intergovernmental Transfers required for the Disproportionate Share Hospital and Safety Net Care Pool payments for prior years.

Public Assistance

- On December 17, 2013, the board adopted a budget amendment which increased the Human Services budget by $12,495. This increase reflects the expansion of Medi-Cal, CalWORKs, and Child Welfare Services due to Health Care Reform.

Public Protection

- On December 17, 2013, the board adopted a budget amendment which increased the Sheriff Detentions budget by $7,635. This budget increase reflects the implementation of Phase 1 of the High Desert Detention Center expansion project.

During the current fiscal year, the Public Protection and Health and Sanitation functions accounted for the largest expenditure variances of $69,145 and $179,498 respectively between the final budget and actual expenditures. These variances are primarily the result of the completion of the High Desert Detention Center, and increased Intergovernmental Transfers from the Health Administrator budget unit as required for the receipt of Disproportionate Share Hospital (DSH) funds from the State, respectively.

The total difference of $45,446 between estimated revenues and actual revenues was caused by the receipt of actual sales and property related taxes along with aid from other governments exceeding their respective estimates. These differences are primarily due to increases in the following: assessed valuation of properties within the County; Proposition 172 Half-Cent Sales Tax; 1991 and 2011 Realignment revenues; funding for CalWORKs, and Cal Fresh.

The General fund budget to actual statement can be found on page 42 of this report.

(Amounts in thousands)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's total capital assets and related deferred outflows of resources for governmental and business-type activities as of June 30, 2014, amounted to $2,379,340 and $31,059, respectively. The County's total related debt used to acquire those assets as of June 30, 2014, amounted to $551,006. This investment in capital assets less any related debt includes land, land use rights, improvements to land, structures and improvements, equipment and software, development-in-progress (DIP), and infrastructure, less bonds and capital leases payable related to those assets.

Major capital asset activity during the current fiscal year includes the following:

- Structures and Improvements increased approximately $149,121 as a result of the completion of the following large projects: Adelanto Jail Expansion in the amount of $126,256; completion of the Joshua Tree Government Center in the amount of $6,348; purchase of a building in Victorville for $2,053; and the completion of the Silver Lake fire station in the amount of $1,999.
- Development in Progress (DIP) decreased approximately $125,358 due to the completion of the Adelanto Jail Expansion, which disposed of DIP worth $121,108.
- The Flood Control Fund has various flood control channel facilities under construction with a DIP value of $64,852. The flood control facilities are primarily comprised of the West State Street Drain in the amount of $13,735; Cucamonga Basin #6 in the amount of $11,983; Cactus Basin projects in the amount of $10,299; San Timoteo Channel projects in the amount of $8,827; and the Mountain View Acres project in the amount of $6,322.
- Infrastructure increased approximately $57,825. Transportation completed infrastructure projects of road rehabilitation, drainage improvements, sidewalk construction, intersection improvements, and grade separations worth $47,075.
- Equipment and Software increased approximately $23,714. The primary increase consists of computer equipment totaling $4,097, licensed vehicles totaling $5,633, and medical equipment totaling $8,996.

Capital assets for the governmental and business-type activities are presented below to illustrate changes from the prior year:

	Governmental Activities		Business-Type Activities		Total		Increase/ (decrease)
	2014	2013	2014	2013	2014	2013	Percent of Change
Land	$ 125,255	$ 117,080	$ 21,377	$ 21,377	$ 146,632	$ 138,457	5.90%
Land Use Rights (non-amortizable)	21,509	18,396	351	351	21,860	18,747	16.61%
Land Use Rights (amortizable)	123	77	1,109	1,109	1,232	1,186	3.88%
Development in Progress	161,022	288,532	15,740	13,588	176,762	302,120	-41.49%
Improvement other than Buildings	252,597	222,058	251,115	244,164	503,712	466,222	8.04%
Structures and Improvements	992,284	844,450	564,476	563,189	1,556,760	1,407,639	10.59%
Equipment and Software	353,630	338,539	158,705	150,082	512,335	488,621	4.85%
Infrastructure	1,299,033	1,241,208	-	-	1,299,033	1,241,208	4.66%
Accumulated Depreciation/Amortization	(1,364,505)	(1,289,689)	(474,481)	(448,269)	(1,838,986)	(1,737,958)	5.81%
Total	$ 1,840,948	$ 1,780,651	$ 538,392	$ 545,591	$ 2,379,340	$ 2,326,242	2.28%

Additional information on the County's capital assets can be found on Note 8 on pages 75-76 of this report.

(Amounts in thousands)

The County's infrastructure assets are recorded in the Government-Wide financial statements at historical cost except for those assets installed prior to fiscal year 2001, whereby the County determined cost based on standard and normal costing techniques, according to GASB 34.

Long-term Debt and Obligations

Long-term obligations of the governmental and business-type activities are presented below to illustrate changes from the prior year:

	Governmental Activities		Business-Type Activities		Total		Increase/ (decrease)
	2014	2013	2014	2013	2014	2013	Percent of Change
Certificates of Participation, Net *	$ 18,006	$ 23,603	$ 443,979	$ 462,857	$ 461,985	$ 486,460	-5.03%
General Obligation Bonds	-	-	845	1,005	845	1,005	-15.92%
Revenue Bonds, Net	380,119	401,404	-	-	380,119	401,404	-5.30%
Other Bonds and Notes *	541,030	569,798	1,633	1,691	542,663	571,489	-5.04%
Compensated Absences	164,302	165,084	18,415	17,985	182,717	183,069	-0.19%
Termination Benefits Payable	172	1,394	15	123	187	1,517	-87.67%
Capital Lease Obligations	314	743	8,434	6,091	8,748	6,834	28.01%
Pollution Remediation Obligations	-	-	58,288	66,305	58,288	66,305	-12.09%
Estimated Liability for Litigation and Self-Insured Claims	239,623	215,752	-	-	239,623	215,752	11.06%
Estimated Liability for Closure / Postclosure Care Cost	-	-	101,522	99,668	101,522	99,668	1.86%
Other Long-Term Liabilities	3,000	4,000	-	-	3,000	4,000	-25.00%
Total	$ 1,346,566	$ 1,381,778	$ 633,131	$ 655,725	$ 1,979,697	$ 2,037,503	-2.84%

Additional information on the County's long-term debt can be found in Note 11 on pages 79-89 of this report.

* Beginning balance restated to reflect the reclassification of deferred charges on refunding to deferred outflows of resources in accordance with GASB 65

The County's major long-term obligations activity during the fiscal year is as follows: reduction in long-term debt of certificates of participation, bonds and notes totaling $74,746 and pollution remediation obligation of $8,017; offset by increases in liability for closure/postclosure care cost of $1,854 and litigation and self-insurance claims of $23,871.

A significant portion of the revenue bonds are the Pension Obligation Bonds (1995) totaling $363,659 with an AA- rating from Standard and Poor that were issued by the San Bernardino Financing Authority. Included in long-term debt are also the Pension Obligation Bonds (2004) totaling $242,650 with an AA- rating from Standard and Poor and the Pension Obligation Refunding Bonds (2008) totaling $156,910 with an AA rating from Standard and Poor.

ECONOMIC FACTORS AND BUDGETING

The Board of Supervisors adopted the County's final budget on June 17, 2014. The budget plan does not use any one-time monies to finance on-going costs and does not rely on the use of County reserves for on-going operations.

The General Fund spending authority totals $2.7 billion and is funded by departmental revenues, Countywide discretionary revenues, and other financing sources.

As of June 30, 2014, the County's General Fund is projecting a cumulative structural deficit of $50.6 million over the next three fiscal years with $21.0 million of that deficit occurring in the 2014-15 fiscal year. The proposed solutions for the structural deficit that exists through 2018-19 are as follows:

- High Desert Detention Center Staffing mitigations by delaying Phase 2 to fiscal year 2017-18 and Phase 3 to fiscal year 2018-19.
- Sheriff prison rape elimination act and electronic monitoring backfill will be paid through the department's budget.
- Human Services reduced reliance on the General Fund based on recent study of caseload growth.
- Increased Community Safety and GEMT revenue that will reduce Fire subsidy.
- Eliminate funding for Cooperative Extension Program.
- Eliminate ongoing funding to a one time bridge funding source for Museum operations until a more sustainable solution can be developed.
- Renegotiation of the Prado Park water and sewer agreement to reduce costs.

The County has identified the following critical areas to be addressed in 2014-15 in order to prevent unnecessary costs and risks:

- Funding of the first phase of the High Desert Detention Center staffing with ongoing sources
- Fully funding the annual earned leave liability with ongoing sources
- Revenue reductions in Law and Justice programs
- Funding key transportation projects in Public Works
- Shortfalls in the County Museum
- Asset replacement needs

Other significant issues impacting the General Fund include increased retirement costs due to 2008-09 market losses and effects that the Affordable Care Act will have on Human Services Department and Arrowhead Regional Medical Center.

CONTACTING THE COUNTY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County’s finances and to show the County’s accountability for the money it receives. If you have questions about this report or separate reports of the County’s component units, or if you need any additional financial information, contact the Auditor-Controller/Treasurer/Tax Collector’s Office, 222 W. Hospitality Lane, County of San Bernardino, California, 92415.

SAN BERNARDINO
COUNTY

BASIC
FINANCIAL STATEMENTS

SAN BERNARDINO
COUNTY

GOVERNMENT-WIDE FINANCIAL STATEMENTS

SAN BERNARDINO COUNTY

SAN BERNARDINO
COUNTY

COUNTY OF SAN BERNARDINO
STATEMENT OF NET POSITION
JUNE 30, 2014 (IN THOUSANDS)

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	FIRST 5 SAN BERNARDINO
ASSETS				
CASH AND CASH EQUIVALENTS (NOTE 4)	$ 1,542,766	$ 114,531	$ 1,657,297	$ 88,033
INVESTMENTS (NOTE 4)	2,154	-	2,154	-
ACCOUNTS RECEIVABLE, NET (NOTE 5)	6,638	58,679	65,317	-
TAXES RECEIVABLE (NOTE 5)	47,125	232	47,357	-
INTEREST RECEIVABLE (NOTE 5)	16,684	307	16,991	-
LOANS RECEIVABLE (NOTE 5)	57,978	142	58,120	-
OTHER RECEIVABLES, NET (NOTE 5)	10,050	55,300	65,350	-
DUE FROM OTHER GOVERNMENTS, NET (NOTE 5)	433,634	47,910	481,544	3,876
INTERNAL BALANCES	(3,943)	3,943	-	-
LAND HELD FOR RESALE	2,211	29	2,240	-
INVENTORIES	5,454	1,968	7,422	-
PREPAID ITEMS	6,248	3,465	9,713	1
RESTRICTED CASH AND INVESTMENTS (NOTE 4 & 7)	8,749	111,308	120,057	-
PREPAID PENSION ASSET (NOTE 19)	652,232	-	652,232	-
CAPITAL ASSETS NOT BEING DEPRECIATED AND AMORTIZED:				
LAND (NOTE 8)	125,255	21,377	146,632	-
LAND USE RIGHTS (NOTE 8)	21,509	351	21,860	-
DEVELOPMENT IN PROGRESS (NOTE 8)	161,022	15,740	176,762	-
CAPITAL ASSETS BEING DEPRECIATED AND AMORTIZED:				
LAND USE RIGHTS (NOTE 8)	123	1,109	1,232	-
STRUCTURES, IMPROVEMENTS, AND INFRASTRUCTURE (NOTE 8)	2,543,914	815,591	3,359,505	130
EQUIPMENT AND SOFTWARE (NOTE 8)	353,630	158,705	512,335	15
ACCUMULATED DEPRECIATION AND AMORTIZATION (NOTE 8)	(1,364,505)	(474,481)	(1,838,986)	(9)
TOTAL ASSETS	4,628,928	936,206	5,565,134	92,046
DEFERRED OUTFLOWS OF RESOURCES (NOTE 9)	4,405	26,654	31,059	-
LIABILITIES				
ACCOUNTS PAYABLE AND CURRENT LIABILITIES	71,958	72,795	144,753	75
SALARIES AND BENEFITS PAYABLE	88,162	15,755	103,917	115
DUE TO OTHER GOVERNMENTS	56,769	5,578	62,347	7,291
INTEREST PAYABLE	10,437	9,830	20,267	-
ADVANCES FROM OTHERS (NOTE 10)	14,859	1,872	16,731	-
NONCURRENT LIABILITIES:				
PORTION DUE PAYABLE IN ONE YEAR:				
COMPENSATED ABSENCES PAYABLE (NOTE 11)	108,448	11,142	119,590	16
TERMINATION BENEFITS PAYABLE (NOTE 11)	45	15	60	-
BONDS AND NOTES PAYABLE (NOTE 11)	88,662	20,495	109,157	-
CAPITAL LEASE OBLIGATIONS (NOTES 11 & 12)	314	2,795	3,109	-
OTHER LONG TERM LIABILITIES (NOTE 11)	3,000	-	3,000	-
POLLUTION REMEDIATION OBLIGATIONS (NOTE 11)	-	4,759	4,759	-
ESTIMATED LIABILITY FOR CLOSURES/POST-CLOSURE CARE COSTS (NOTES 11 & 13)	-	4,727	4,727	-
ESTIMATED LIABILITY FOR LITIGATION AND SELF-INSURED CLAIMS (NOTES 11 & 14)	47,287	-	47,287	-
PORTION DUE OR PAYABLE AFTER ONE YEAR:				
COMPENSATED ABSENCES PAYABLE (NOTE 11)	55,854	7,273	63,127	161
TERMINATION BENEFITS PAYABLE (NOTE 11)	127	-	127	-
BONDS AND NOTES PAYABLE, NET (NOTE 11)	850,493	425,962	1,276,455	-
CAPITAL LEASE OBLIGATIONS (NOTES 11 & 12)	-	5,639	5,639	-
POLLUTION REMEDIATION OBLIGATIONS (NOTE 11)	-	53,529	53,529	-
ESTIMATED LIABILITY FOR CLOSURE/POST-CLOSURE CARE COSTS (NOTES 11 & 13)	-	96,795	96,795	-
ESTIMATED LIABILITY FOR LITIGATION AND SELF-INSURED CLAIMS (NOTES 11 & 14)	192,336	-	192,336	-
TOTAL LIABILITIES	1,588,751	738,961	2,327,712	7,658
NET POSITION				
NET INVESTMENT IN CAPITAL ASSETS	1,749,238	110,155	1,859,393	136
RESTRICTED FOR:				
GRANTS AND OTHER COUNTY PROGRAMS	774,559	-	774,559	-
PERPETUAL CARE - NONEXPENDABLE	1,700	-	1,700	-
DEBT SERVICE	-	40,859	40,859	-
LANDFILL CLOSURE	-	21,427	21,427	-
UNRESTRICTED	519,085	51,458	570,543	84,252
TOTAL NET POSITION	$ 3,044,582	$ 223,899	$ 3,268,481	$ 84,388

The notes to the financial statements are an integral part of this statement

COUNTY OF SAN BERNARDINO
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014 (IN THOUSANDS)

	PRIMARY GOVERNMENT							COMPONENT UNIT
		PROGRAM REVENUES			NET (EXPENSE)/REVENUE AND CHANGES IN NET POSITION			
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	FIRST 5 SAN BERNARDINO
PRIMARY GOVERNMENT:								
GOVERNMENTAL ACTIVITIES:								
GENERAL GOVERNMENT	$ 178,980	$ 143,368	$ 20,832	$ -	$ (14,780)	$ -	$ (14,780)	$ -
PUBLIC PROTECTION	1,007,434	235,102	240,781	-	(531,551)	-	(531,551)	-
PUBLIC WAYS AND FACILITIES	91,744	12,856	75,682	25,971	22,765	-	22,765	-
HEALTH AND SANITATION	331,551	23,261	372,615	-	64,325	-	64,325	-
PUBLIC ASSISTANCE	1,046,447	2,833	1,026,267	-	(17,347)	-	(17,347)	-
EDUCATION	20,923	1,046	249	-	(19,628)	-	(19,628)	-
RECREATION AND CULTURAL SERVICES	25,290	8,632	430	-	(16,228)	-	(16,228)	-
INTEREST ON LONG TERM DEBT	50,189	-	-	-	(50,189)	-	(50,189)	-
TOTAL GOVERNMENTAL ACTIVITIES	2,752,558	427,098	1,736,856	25,971	(562,633)	-	(562,633)	-
BUSINESS-TYPE ACTIVITIES:								
MEDICAL CENTER	513,609	398,628	46,070	21,247	-	(47,664)	(47,664)	-
WASTE SYSTEMS	61,883	59,784	2,661	-	-	562	562	-
WATER, SEWER, AND SANITATION	15,204	14,696	101	-	-	(407)	(407)	-
OTHER	69	95	-	-	-	26	26	-
TOTAL BUSINESS-TYPE ACTIVITIES	590,765	473,203	48,832	21,247	-	(47,483)	(47,483)	-
TOTAL PRIMARY GOVERNMENT	$ 3,343,323	$ 900,301	$ 1,785,688	$ 47,218	$ (562,633)	$ (47,483)	$ (610,116)	$ -
COMPONENT UNIT								
FIRST 5 SAN BERNARDINO	$ 27,833	$ -	$ 21,181	$ -	$ -	$ -	$ -	$ (6,652)
GENERAL REVENUES:								
PROPERTY TAXES, LEVIED FOR GENERAL PURPOSES					553,303	2,786	556,089	-
PUBLIC SAFETY TAX					156,352	-	156,352	-
SALES TAXES					29,103	-	29,103	-
OTHER TAXES					16,099	-	16,099	-
UNRESTRICTED REVENUES FROM USE OF MONEY AND PROPERTY					43,603	2,210	45,813	-
MISCELLANEOUS					74,416	53,070	127,486	7
GAIN ON SALE OF CAPITAL ASSETS					5,565	50	5,615	-
EXTRAORDINARY ITEM (NOTE 25)					10,415	-	10,415	-
TRANSFERS					(37,294)	37,294	-	-
TOTAL GENERAL REVENUES, EXTRAORDINARY ITEM AND TRANSFERS					851,562	95,410	946,972	7
CHANGE IN NET POSITION					288,929	47,927	336,856	(6,645)
NET POSITION - BEGINNING, AS RESTATED					2,755,653	175,972	2,931,625	91,033
NET POSITION - ENDING					$ 3,044,582	$ 223,899	$ 3,268,481	$ 84,388

The notes to the financial statements are an integral part of this statement

SAN BERNARDINO
COUNTY

FUND FINANCIAL STATEMENTS

SAN BERNARDINO COUNTY

SAN BERNARDINO
COUNTY

COUNTY OF SAN BERNARDINO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014 (IN THOUSANDS)

	GENERAL FUND	CAPITAL IMPROVEMENT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS				
CASH AND CASH EQUIVALENTS (NOTE 4)	$ 574,536	$ 125,740	$ 565,126	$ 1,265,402
INVESTMENTS (NOTE 4)	-	-	2,154	2,154
ACCOUNTS RECEIVABLE, NET (NOTE 5)	2,978	-	2,828	5,806
TAXES RECEIVABLE (NOTE 5)	38,837	-	8,288	47,125
INTEREST RECEIVABLE (NOTE 5)	15,430	166	1,088	16,684
LOANS RECEIVABLE (NOTE 5)	56,827	-	1,151	57,978
OTHER RECEIVABLES (NOTE 5)	9,664	-	190	9,854
DUE FROM OTHER FUNDS (NOTE 6)	35,805	1,853	25,088	62,746
DUE FROM OTHER GOVERNMENTS (NOTE 5)	368,246	22,877	41,698	432,821
LAND HELD FOR RESALE	549	-	1,662	2,211
INVENTORIES	1,138	-	173	1,311
PREPAID ITEMS	1,761	-	1,065	2,826
INTERFUND RECEIVABLE (NOTE 6)	4,711	-	305	5,016
RESTRICTED CASH AND INVESTMENTS (NOTES 4 & 7)	2,316	-	6,433	8,749
TOTAL ASSETS	$ 1,112,798	$ 150,636	$ 657,249	$ 1,920,683
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES:				
ACCOUNTS PAYABLE	$ 31,947	$ 10,450	$ 21,366	$ 63,763
SALARIES AND BENEFITS PAYABLE	73,679	-	11,949	85,628
DUE TO OTHER FUNDS (NOTE 6)	41,759	94	28,423	70,276
DUE TO OTHER GOVERNMENTS	50,562	-	6,191	56,753
ADVANCES FROM OTHERS (NOTE 10)	11,112	-	3,747	14,859
INTERFUND PAYABLE (NOTE 6)	-	-	4,446	4,446
TOTAL LIABILITIES	209,059	10,544	76,122	295,725
DEFERRED INFLOWS OF RESOURCES (NOTE 16)	86,947	1,125	11,707	99,779
FUND BALANCES (NOTE 17):				
NONSPENDABLE	64,204	-	2,938	67,142
RESTRICTED	309,067	6,774	513,859	829,700
COMMITTED	175,620	-	-	175,620
ASSIGNED	28,680	132,193	52,623	213,496
UNASSIGNED	239,221	-	-	239,221
TOTAL FUND BALANCES	816,792	138,967	569,420	1,525,179
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 1,112,798	$ 150,636	$ 657,249	

Amounts reported for governmental activities in the statement of net position are different due to the following (Note 2):	
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	1,797,243
Receivables that are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	99,779
Prepaid Pension Asset	652,232
Internal service funds are used by management to charge the costs of general services, telecommunication services, computer operations, vehicle services, risk management, and flood control equipment to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	77,523
Interest payable on long-term debt	(10,437)
Long-term liabilities, including bonds payables, deferred outflows of resources and related items, are not due and payable in the current period and, therefore not reported in the funds.	(1,096,937)
Net position of governmental activities (page 36)	**$ 3,044,582**

The notes to the financial statements are an integral part of this statement.

COUNTY OF SAN BERNARDINO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014 (IN THOUSANDS)

	GENERAL FUND	CAPITAL IMPROVEMENT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
TAXES	$ 646,604	$ -	$ 102,628	$ 749,232
LICENSES, PERMITS, AND FRANCHISES	23,965	-	954	24,919
FINES, FORFEITURES, AND PENALTIES	8,243	-	6,622	14,865
REVENUE FROM USE OF MONEY AND PROPERTY	34,430	6	7,222	41,658
AID FROM OTHER GOVERNMENTAL AGENCIES	1,391,609	23,332	290,547	1,705,488
CHARGES FOR CURRENT SERVICES	285,224	252	97,240	382,716
OTHER REVENUES	25,555	140	41,934	67,629
TOTAL REVENUES	2,415,630	23,730	547,147	2,986,507
EXPENDITURES				
CURRENT:				
GENERAL GOVERNMENT	147,671	9,263	3,821	160,755
PUBLIC PROTECTION	792,714	-	165,118	957,832
PUBLIC WAYS AND FACILITIES	2,690	-	100,577	103,267
HEALTH AND SANITATION	205,800	-	126,030	331,830
PUBLIC ASSISTANCE	952,638	-	85,103	1,037,741
EDUCATION	3,091	-	14,204	17,295
RECREATION AND CULTURAL SERVICES	13,181	-	7,285	20,466
DEBT SERVICE:				
PRINCIPAL	7,201	-	76,294	83,495
INTEREST AND FISCAL CHARGES	1,532	-	22,624	24,156
CAPITAL OUTLAY	8,104	52,339	33,911	94,354
TOTAL EXPENDITURES	2,134,622	61,602	634,967	2,831,191
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	281,008	(37,872)	(87,820)	155,316
OTHER FINANCING SOURCES (USES)				
TRANSFERS OUT (NOTE 6)	(218,826)	(122)	(44,993)	(263,941)
TRANSFERS IN (NOTE 6)	27,495	82,897	116,949	227,341
SALE OF CAPITAL ASSETS	666	5	7,675	8,346
TOTAL OTHER FINANCING SOURCES AND (USES)	(190,665)	82,780	79,631	(28,254)
NET CHANGES IN FUND BALANCE BEFORE EXTRAORDINARY ITEM	90,343	44,908	(8,189)	127,062
EXTRAORDINARY ITEM (NOTE 25)	10,415	-	-	10,415
NET CHANGES IN FUND BALANCE	100,758	44,908	(8,189)	137,477
FUND BALANCES, JULY 1, 2013	716,034	94,059	577,609	1,387,702
FUND BALANCES, JUNE 30, 2014	$ 816,792	$ 138,967	$ 569,420	$ 1,525,179

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL		$ 137,477
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Expenditures for general capital assets, infrastructure and other related capital asset adjustments	132,967	
Less current year depreciation.	(79,730)	53,237
Internal service funds are used by management to charge the costs of general service group, telecommunication service, computer operations, vehicle services, risk management, and flood control equipment. The net revenues of the internal service fund is reported within governmental activities.		(7,445)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.		73,511
Expenses in the statement of activities that do not require the use of current financial resources and therefore, are not reported as expenditure in the governmental fund.		(24,287)
Amortization of the Prepaid Pension Asset		(26,492)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources of governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds, report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		82,928
Changes in net position of governmental activities (page 37)		$ 288,929

The notes to the financial statements are an integral part of this statement.

COUNTY OF SAN BERNARDINO
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL ON A BUDGETARY BASIS
YEAR ENDED JUNE 30, 2014 (IN THOUSANDS)

	BUDGETED AMOUNTS			VARIANCE WITH
	ORIGINAL	FINAL	ACTUAL AMOUNTS	FINAL BUDGET
REVENUES				
TAXES	$ 590,919	$ 594,603	$ 646,604	$ 52,001
LICENSES, PERMITS AND FRANCHISES	20,717	21,217	23,965	2,748
FINES, FORFEITURES AND PENALTIES	7,332	7,705	8,243	538
REVENUES FROM USE OF MONEY AND PROPERTY	33,105	33,003	34,430	1,427
AID FROM OTHER GOVERNMENTAL AGENCIES	1,147,469	1,230,603	1,391,609	161,006
CHARGES FOR CURRENT SERVICES	387,584	456,899	285,224	(171,675)
OTHER REVENUES	27,566	26,154	25,555	(599)
TOTAL REVENUES	2,214,692	2,370,184	2,415,630	45,446
EXPENDITURES				
CURRENT:				
GENERAL GOVERNMENT	350,933	185,696	148,498	37,198
PUBLIC PROTECTION	822,755	862,853	793,708	69,145
PUBLIC WAYS AND FACILITIES	2,633	2,704	2,679	25
HEALTH AND SANITATION	334,907	400,642	221,153	179,489
PUBLIC ASSISTANCE	983,018	1,010,047	952,421	57,626
EDUCATION	3,159	3,159	3,091	68
RECREATION AND CULTURAL SERVICES	13,246	13,371	13,148	223
DEBT SERVICE:				
PRINCIPAL	7,235	7,235	7,201	34
INTEREST AND FISCAL CHARGES	7,583	7,583	1,532	6,051
CAPITAL OUTLAY	24,124	23,616	7,288	16,328
TOTAL EXPENDITURES	2,549,593	2,516,906	2,150,719	366,187
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(334,901)	(146,722)	264,911	411,633
OTHER FINANCING SOURCES (USES)				
TRANSFERS OUT (NOTE 6)	(209,863)	(270,891)	(218,826)	52,065
TRANSFERS IN (NOTE 6)	53,013	46,449	27,495	(18,954)
SALE OF CAPITAL ASSETS	500	500	666	166
TOTAL OTHER FINANCING SOURCES AND (USES)	(156,350)	(223,942)	(190,665)	33,277
NET CHANGE IN FUND BALANCES BEFORE EXTRAORDINARY ITEM	(491,251)	(370,664)	74,246	444,910
EXTRAORDINARY ITEM	-	-	10,415	10,415
NET CHANGE IN FUND BALANCES	(491,251)	(370,664)	84,661	455,325
FUND BALANCES, JULY 1, 2013	703,800	703,800	703,800	-
FUND BALANCES, JUNE 30, 2014	$ 212,549	$ 333,136	$ 788,461	$ 455,325

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SAN BERNARDINO
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014 (IN THOUSANDS)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	MEDICAL CENTER	WASTE SYSTEMS DIVISION	TOTAL NONMAJOR ENTERPRISE FUNDS	TOTAL ENTERPRISE FUNDS	INTERNAL SERVICE FUNDS
ASSETS					
CURRENT ASSETS:					
CASH AND CASH EQUIVALENTS (NOTE 4)	$ 20,540	$ 56,363	$ 37,628	$ 114,531	$ 277,364
ACCOUNTS RECEIVABLE, NET (NOTE 5)	47,122	8,807	2,750	58,679	832
TAXES RECEIVABLE (NOTE 5)	-	-	232	232	-
INTEREST RECEIVABLE (NOTE 5)	307	-	-	307	-
OTHER RECEIVABLES, NET (NOTE 5)	18,214	9,521	65	27,800	196
DUE FROM OTHER FUNDS (NOTE 6)	20,611	101	86	20,798	5,924
DUE FROM OTHER GOVERNMENTS, NET (NOTE 5)	46,593	1,307	10	47,910	813
LAND HELD FOR RESALE	-	29	-	29	-
INVENTORIES	1,873	-	95	1,968	4,143
PREPAID ITEMS	3,327	138	-	3,465	3,577
RESTRICTED CASH AND CASH EQUIVALENTS (NOTE 4 & 7)	4,920	61,094	-	66,014	-
TOTAL CURRENT ASSETS	163,507	137,360	40,866	341,733	292,849
NONCURRENT ASSETS:					
OTHER RECEIVABLES (NOTE 5)	-	27,500	-	27,500	-
NOTES RECEIVABLE (NOTE 5)	-	-	142	142	-
RESTRICTED CASH AND INVESTMENTS (NOTES 4 & 7)	45,294	-	-	45,294	-
CAPITAL ASSETS NOT BEING DEPRECIATED AND AMORTIZED:					
LAND (NOTE 8)	-	17,736	3,641	21,377	396
LAND USE RIGHTS (NOTE 8)	-	93	258	351	-
DEVELOPMENT IN PROGRESS (NOTE 8)	799	7,374	7,567	15,740	780
CAPITAL ASSETS BEING DEPRECIATED AND AMORTIZED:					
LAND USE RIGHTS (NOTE 8)	-	105	1,004	1,109	-
STRUCTURE, IMPROVEMENTS, AND INFRASTRUCTURE (NOTE 8)	569,269	166,660	79,662	815,591	11,068
EQUIPMENT AND SOFTWARE (NOTE 8)	156,100	1,027	1,578	158,705	108,343
ACCUMULATED DEPRECIATION AND AMORTIZATION (NOTE 8)	(324,161)	(111,993)	(38,327)	(474,481)	(76,882)
TOTAL NONCURRENT ASSETS	447,301	108,502	55,525	611,328	43,705
TOTAL ASSETS	610,808	245,862	96,391	953,061	336,554
DEFERRED OUTFLOWS OF RESOURCES	26,654	-	-	26,654	-
LIABILITIES					
CURRENT LIABILITIES:					
ACCOUNTS PAYABLE AND CURRENT LIABILITIES	67,919	3,351	1,525	72,795	8,195
SALARIES AND BENEFITS PAYABLE	15,239	514	2	15,755	2,534
DUE TO OTHER FUNDS (NOTE 6)	14,317	1,837	131	16,285	2,907
DUE TO OTHER GOVERNMENTS	-	5,483	95	5,578	16
INTEREST PAYABLE	9,662	-	168	9,830	-
ADVANCES FROM OTHERS (NOTE 10)	-	831	1,041	1,872	155
COMPENSATED ABSENCES PAYABLE (NOTE 11)	10,625	517	-	11,142	2,501
TERMINATION BENEFITS PAYABLE (NOTE 11)	15	-	-	15	-
BONDS AND NOTES PAYABLE (NOTE 11)	20,225	-	270	20,495	-
CAPITAL LEASE OBLIGATIONS (NOTE 11 & 12)	2,795	-	-	2,795	-
POLLUTION REMEDIATION OBLIGATIONS (NOTE 11)	-	4,759	-	4,759	-
ESTIMATED LIABILITY FOR CLOSURES/POST-CLOSURE CARE COSTS (NOTES 11 & 13)	-	4,727	-	4,727	-
ESTIMATED LIABILITY FOR LITIGATION AND SELF-INSURED CLAIMS (NOTES 11 & 14)	-	-	-	-	47,287
TOTAL CURRENT LIABILITIES	140,797	22,019	3,232	166,048	63,595
NONCURRENT LIABILITIES:					
INTERFUND PAYABLE (NOTE 6)	-	-	570	570	-
COMPENSATED ABSENCES PAYABLE (NOTE 11)	6,867	406	-	7,273	3,100
BONDS AND NOTES PAYABLE (NOTE 11)	423,754	-	2,208	425,962	-
CAPITAL LEASE OBLIGATIONS (NOTE 11 & 12)	5,639	-	-	5,639	-
POLLUTION REMEDIATION OBLIGATIONS (NOTE 11)	-	53,529	-	53,529	-
ESTIMATED LIABILITY FOR CLOSURE/POST-CLOSURE (NOTE 11 & 13)	-	96,795	-	96,795	-
ESTIMATED LIABILITY FOR LITIGATION AND SELF-INSURED CLAIMS (NOTE 11 & 14)	-	-	-	-	192,336
TOTAL NONCURRENT LIABILITIES	436,260	150,730	2,778	589,768	195,436
TOTAL LIABILITIES	577,057	172,749	6,010	755,816	259,031
NET POSITION					
NET INVESTMENT IN CAPITAL ASSETS	(23,752)	81,002	52,905	110,155	43,705
RESTRICTED FOR:					
DEBT SERVICE	40,859	-	-	40,859	-
LANDFILL CLOSURE COSTS	-	21,427	-	21,427	-
UNRESTRICTED	43,298	(29,316)	37,476	51,458	33,818
TOTAL NET POSITION	$ 60,405	$ 73,113	$ 90,381	$ 223,899	$ 77,523

The notes to the financial statements are an integral part of this statement.

COUNTY OF SAN BERNARDINO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014 (IN THOUSANDS)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	MEDICAL CENTER	WASTE SYSTEM DIVISION	TOTAL NONMAJOR ENTERPRISE FUNDS	TOTAL ENTERPRISE FUNDS	INTERNAL SERVICE FUNDS
OPERATING REVENUES:					
NET PATIENT CARE AND SERVICE	$ 398,628	$ -	$ -	$ 398,628	$ -
CHARGES FOR CURRENT SERVICES	-	50,665	14,791	65,456	173,093
OTHER	9,227	11,109	-	20,336	-
TOTAL OPERATING REVENUES	407,855	61,774	14,791	484,420	173,093
OPERATING EXPENSES:					
PROFESSIONAL SERVICES	57,253	35,500	2,546	95,299	20,537
SALARIES AND EMPLOYEE BENEFITS	239,030	6,849	5,254	251,133	38,266
SELF-INSURANCE CLAIMS	-	-	-	-	67,554
SERVICES AND SUPPLIES	164,154	17,651	4,527	186,332	50,848
DEPRECIATION AND AMORTIZATION	21,990	1,883	2,678	26,551	10,890
OTHER	3,961	-	96	4,057	901
TOTAL OPERATING EXPENSES	486,388	61,883	15,101	563,372	188,996
OPERATING INCOME (LOSS)	(78,533)	(109)	(310)	(78,952)	(15,903)
NONOPERATING REVENUES (EXPENSES)					
INTEREST REVENUE	1,488	608	114	2,210	938
INTEREST EXPENSE	(26,158)	-	(172)	(26,330)	-
TAX REVENUE	-	-	2,786	2,786	-
GRANT REVENUE	36,843	671	101	37,615	-
GAIN (LOSS) ON SALE OF CAPITAL ASSETS	-	50	-	50	1,321
OTHER NONOPERATING REVENUES	-	50,964	2,106	53,070	6,893
OTHER NONOPERATING EXPENSES	(1,063)	-	-	(1,063)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	11,110	52,293	4,935	68,338	9,152
CHANGE IN NET POSITION BEFORE CONTRIBUTIONS AND TRANSFERS	(67,423)	52,184	4,625	(10,614)	(6,751)
CAPITAL CONTRIBUTIONS	21,247	-	-	21,247	-
TRANSFERS OUT (NOTE 6)	(9,154)	(296)	(36)	(9,486)	(1,672)
TRANSFERS IN (NOTE 6)	46,738	-	42	46,780	978
CHANGE IN NET POSITION	(8,592)	51,888	4,631	47,927	(7,445)
TOTAL NET POSITION, JULY 1, 2013 , AS RESTATED	68,997	21,225	85,750	175,972	84,968
TOTAL NET POSITION, JUNE 30, 2014	$ 60,405	$ 73,113	$ 90,381	$ 223,899	$ 77,523

The notes to the basic financial statement are an integral part of the statement

COUNTY OF SAN BERNARDINO
STATEMENT OF CASHFLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014 (IN THOUSANDS)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES
	MEDICAL CENTER	WASTE SYSTEMS DIVISION	TOTAL NONMAJOR ENTERPRISE FUNDS	TOTAL ENTERPRISE FUNDS	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:					
CASH RECEIVED FROM PATIENT CARE AND SERVICES	$ 388,679	$ 69,342	$ 17,170	$ 475,191	$ 176,853
CASH PAYMENTS TO SUPPLIERS OF GOODS AND SERVICES	(269,845)	(52,350)	(6,732)	(328,927)	(108,822)
CASH PAYMENTS TO EMPLOYEES FOR SERVICES	(233,684)	(6,710)	(5,253)	(245,647)	(37,567)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(114,850)	10,282	5,185	(99,383)	30,464
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
TAXES RECEIVED	-	-	2,691	2,691	-
GRANTS RECEIVED	36,843	671	101	37,615	-
TRANSFERS RECEIVED	56,552	237	48	56,837	2,055
TRANSFERS PAID	(9,154)	(296)	(83)	(9,533)	(62,970)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	84,241	612	2,757	87,610	(60,915)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
ACQUISITION AND CONSTRUCTION OF CAPITAL ASSETS	(5,368)	(5,529)	(4,205)	(15,102)	(12,493)
CAPITAL CONTRIBUTION	21,247	-	-	21,247	-
PRINCIPAL PAID ON CAPITAL LEASE OBLIGATIONS	(1,945)	-	-	(1,945)	-
PRINCIPAL PAID ON BONDS AND NOTES	(19,101)	-	(218)	(19,319)	-
INTEREST PAID ON BONDS AND NOTES	(23,979)	-	(212)	(24,191)	-
PROCEEDS FROM SALE OF CAPITAL ASSETS	-	88	-	88	1,130
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(29,146)	(5,441)	(4,635) -	(39,222)	(11,363)
CASH FLOWS FROM INVESTING ACTIVITIES:					
INTEREST ON INVESTMENTS	1,453	608	114	2,175	938
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,453	608	114	2,175	938
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(58,302)	6,061	3,421	(48,820)	(40,876)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	129,056	111,396	34,207	274,659	318,240
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 70,754	$ 117,457	$ 37,628	$ 225,839	$ 277,364
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
OPERATING INCOME (LOSS)	$ (78,533)	$ (109)	$ (310)	$ (78,952)	$ (15,903)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
DEPRECIATION AND AMORTIZATION	21,990	1,883	2,678	26,551	10,890
NONOPERATING REVENUE (EXPENSE) RELATED TO OPERATING ACTIVITIES	(1,063)	15,416	2,106	16,459	5,408
CHANGES IN ASSETS AND LIABILITIES:					
ACCOUNTS RECEIVABLE	(7,816)	(2,431)	(885)	(11,132)	(43)
DUE FROM OTHER FUNDS	(13,477)	(95)	-	(13,572)	(1,680)
DUE FROM OTHER GOVERNMENTS	18,838	1,815	152	20,805	138
OTHER RECEIVABLES	(16,721)	121	-	(16,600)	(196)
INVENTORIES	(276)	-	(11)	(287)	383
PREPAID ITEMS	(77)	50	-	(27)	1,596
ACCOUNTS PAYABLE AND OTHER LIABILITIES	(45,736)	(1,391)	472	(46,655)	5,346
SALARIES AND BENEFITS PAYABLE	4,965	198	1	5,164	957
DUE TO OTHER FUNDS	2,675	(297)	-	2,378	-
DUE TO OTHER GOVERNMENTS	-	513	(24)	489	(150)
ADVANCES FROM OTHERS	-	831	1,006	1,837	105
COMPENSATED ABSENCES PAYABLE	483	(53)	-	430	(196)
TERMINATION BENEFITS PAYABLE	(102)	(6)	-	(108)	(62)
POLLUTION REMEDIATION OBLIGATIONS	-	(8,017)	-	(8,017)	-
ESTIMATED LIABILITY FOR CLOSURE/POST-CLOSURE CARE COSTS	-	1,854	-	1,854	-
ESTIMATED LIABILITY FOR LITIGATION AND SELF-INSURED CLAIMS	-	-	-	-	23,871
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (114,850)	$ 10,282	$ 5,185	$ (99,383)	$ 30,464

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

The capital lease obligation of $4,288 was incurred when the Medical Center entered into an equipment lease agreement.

	BREAKDOWN OF CASH AND CASH EQUIVALENTS				
CASH AND CASH EQUIVALENTS	$ 20,540	$ 56,363	$ 37,628	$ 114,531	$ 277,364
RESTRICTED CASH AND INVESTMENTS	50,214	61,094	-	111,308	-
TOTAL	$ 70,754	$ 117,457	$ 37,628	$ 225,839	$ 277,364

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF SAN BERNARDINO
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014 (IN THOUSANDS)

	INVESTMENT TRUST FUND	PRIVATE-PURPOSE TRUST FUND	AGENCY
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
ASSETS:			
CASH AND CASH EQUIVALENTS (NOTE 4)	$ 2,343,143	$ 30,680	$ 265,388
ACCOUNTS RECEIVABLE - NET	21	-	20,296
TAXES RECEIVABLE	-	-	166,891
DUE FROM OTHER GOVERNMENTS	91	1	18,968
LAND HELD FOR RESALE	-	23,396	-
PREPAID ITEMS	371	-	-
RESTRICTED CASH AND CASH EQUIVALENTS	-	6,934	-
EQUIPMENT	-	16	-
ACCUMULATED DEPRECIATION EQUIPMENT	-	(16)	-
TOTAL ASSETS	2,343,626	61,011	471,543
DEFERRED OUTFLOWS OF RESOURCES	-	108	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2,343,626	61,119	$ 471,543
LIABILITIES			
DUE TO OTHER GOVERNMENTS	-	89	$ 471,543
INTEREST PAYABLE	-	1,986	-
BONDS AND NOTES PAYABLE:			
DUE IN ONE YEAR	-	1,639	-
DUE AFTER ONE YEAR	-	93,814	-
TOTAL LIABILITIES	-	97,528	$ 471,543
NET POSITION			
NET POSITION (DEFICIT) HELD IN TRUST	$ 2,343,626	$ (36,409)	

The notes to the financial statements are an integral part of this statement

COUNTY OF SAN BERNARDINO
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2014 (IN THOUSANDS)

	INVESTMENT TRUST FUND	PRIVATE-PURPOSE TRUST FUND
ADDITIONS		
CONTRIBUTIONS:		
CONTRIBUTIONS ON POOLED INVESTMENTS	$ 9,250,421	$ -
REDEVELOPMENT AGENCY PROPERTY TAX TRUST FUND	-	5,297
OTHER REVENUES	-	500
TOTAL CONTRIBUTIONS	9,250,421	5,797
INTEREST AND INVESTMENT REVENUE:		
NET INCREASE IN FAIR VALUE OF INVESTMENTS	4,560	95
INTEREST INCOME ON CASH AND SECURITIES	7,838	125
TOTAL INTEREST AND INVESTMENT REVENUES	12,398	220
TOTAL ADDITIONS	9,262,819	6,017
DEDUCTIONS		
DISTRIBUTION FROM POOLED INVESTMENTS	9,230,504	-
DISTRIBUTION AND OBLIGATION RETIREMENTS	-	11,117
ADMINISTRATIVE EXPENSES	-	442
TOTAL DEDUCTIONS	9,230,504	11,559
CHANGE IN NET POSITION BEFORE EXTRAORDINARY ITEMS	32,315	(5,542)
EXTRAORDINARY ITEMS:		
REINSTATEMENT OF LOAN PAYABLE TO COUNTY OF SAN BERNARDINO		(10,639)
TRANSFER OF HOUSING ASSET HELD FOR RESALE TO SUCCESSOR AGENCY	-	1,864
TOTAL EXTRAORDINARY ITEMS	-	(8,775)
CHANGE IN NET POSITION	32,315	(14,317)
NET POSITION (DEFICIT) HELD IN TRUST - BEGINNING, AS RESTATED	2,311,311	(22,092)
NET POSITION (DEFICIT) HELD IN TRUST - ENDING	$ 2,343,626	$ (36,409)

The notes to the financial statements are an integral part of this statement

SAN BERNARDINO
COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

SAN BERNARDINO COUNTY

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The County of San Bernardino (County), which was established by an act of the State Legislature on April 26, 1853, is a legal subdivision of the State of California charged with governmental powers. The County's powers are exercised through a five-member Board of Supervisors (Board) which, as the governing body of the County, is responsible for the legislative and executive control of the County. As required by generally accepted accounting principles (GAAP), the accompanying financial statements present the activities of the County (the primary government) and its component units.

Blended Component Units

Because of their relationship with the County and the nature of their operations, blended component units are, in substance, part of the County's operations and, accordingly, the activities of these component units are combined, or blended, with the activities of the County for purposes of reporting in the accompanying basic financial statements. The basis for blending the component units is that their governing bodies are substantially the same as the County's Board and their operational or financial relationships with the County.

While each of these component units is legally separate from the County, the County has financial benefit or burden and/or fiscal dependence for these entities, and potential exclusion would result in misleading financial reporting of the County. Financial accountability is demonstrated by the County's Board acting as the governing board for each of the component units.

The component units discussed below are included in the County's reporting entity:

- *Fire Protection District* - Established per Local Agency Formation Commission (LAFCO) Resolution 2986/2989 (adopted on January 16, 2008), effective July 1, 2008. Services provided include fire management, ambulance billing, fire prevention, hazardous materials, household hazardous waste, and the Office of Emergency Services. The district is included in the reporting entity because it has the same governing board and management as the County.
- *Flood Control District* - Established under Chapter 73 of the 1939 Statutes for the State of California. The District maintains and constructs flood control channels, basins, storm drains and dams in six geographical zones within the County. The District is included in the reporting entity because it has the same governing board and management as the County.
- *Park and Recreation Districts* - Responsible for the operation and maintenance of parks and improvement zones located throughout the County. The Districts are included in the reporting entity because they have the same governing board and management as the County.
- *County Service Areas* - Established to provide specific services to distinct geographical areas within the County. Services include, but are not limited to, management and maintenance of streetlights, roads, sanitation collection systems and water distribution systems. The County Service Areas are included in the reporting entity because they have the same governing board and management as the County.
- *Various Joint Powers Authorities (JPAs)* – Includes In Home Support Services (IHSS), Inland Counties Emergency Medical Agency (ICEMA), and San Bernardino County Industrial Development Authority (COIDA). With the exception of ICEMA, separate financial statements are not available for these JPAs. The JPAs are included in the reporting entity because they have the same governing board and management as the County.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Inland Empire Public Facilities Corporation (IEPFC)* - A nonprofit public benefit corporation, formed on May 30, 1986, to serve the 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 is included in the reporting entity because it has the same governing board as the County, and there is a financial benefit or burden relationship with the County.
- *San Bernardino County Financing Authority (SBCFA)* - Created pursuant to a Joint Exercise of Powers 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. SBCFA provides 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. The Authority is included in the reporting entity because it has the same governing board as the County, and there is a financial benefit or burden relationship with the County.

Additional detailed financial information, including separately issued financial statements (except as noted above) of the County's component units, can be obtained from the Auditor-Controller/Treasurer/Tax Collector's Office at 222 W. Hospitality Lane, San Bernardino, CA 92415-0018.

Discretely Presented Component Unit

FIRST 5 San Bernardino, formerly known as the Children and Families First Commission, was formed in 1998 under the California Health and Safety Code - Section 130100, Chapter 29 of Title 1 of the San Bernardino County Code, and the California Children and Families First Act of 1998. The Commission was created for the purpose of promoting, supporting and improving the early development of children from the prenatal stage to five years of age and is funded by allocations of California Proposition 10 Tobacco Tax. The FIRST 5 is a discretely presented component unit because the County has the ability to impose its will by appointing all of the Commissioners who serve at the pleasure of the San Bernardino County Board of Supervisors.

Related Organization

The Housing Authority of the County of San Bernardino (Housing Authority) operates as a special district whose primary goal is to provide affordable housing in a suitable living environment for families who cannot afford standard private housing on their own, such as economically disadvantaged or elderly individuals. The San Bernardino County Board of Supervisors appoints the voting majority that comprises the Housing Authority's Board of Commissioners. However, since the Housing Authority's Board serves for a fixed-period term, the County does not have the ability to impose its will by removing those Commissioners once they have been appointed.

Among many other duties, the Housing Authority's Board is responsible for modifying and approving its own budget, rates, and fee changes; making decisions that affect revenue; and appointing management responsible for the day-to-day operations of the Housing Authority. The Housing Authority is not included as a component unit of the County due to the fact that the County is not financially accountable for the Housing Authority.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and fund financial statements

The basic financial statements consist of the following:

- Government-wide financial statements,
- Fund financial statements, and
- Notes to the basic financial statements.

Government–wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the primary government, the County, and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the County. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Certain indirect costs are included in the program expenses of the appropriate functions. Program revenues include 1) charges paid by the recipient for goods or services offered by the program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the County's funds, including fiduciary funds and blended component units. Separate statements for each fund group classification – governmental, proprietary, and fiduciary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in separate columns. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

The County reports the following major governmental funds:

- The *General Fund* accounts for all revenues and expenditures necessary to carry out basic governmental activities of the County that are not accounted for through other funds. For the County, the General Fund includes such activities as General Government, Public Protection, Public Ways and Facilities, Health and Sanitation, Public Assistance, Education, and Recreation and Cultural Services.

- The *Capital Improvement Fund* accounts for construction, rehabilitation, and repair projects for numerous facilities and structures administered by the Architecture and Engineering Department. The fund is primarily financed by transfers from the general fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The County reports the following major enterprise funds:

- *County Medical Center* accounts for the operation of Arrowhead Regional Medical Center inpatient and outpatient care operations, including emergency room services and indigent care to County residents. The fund is financed primarily by patient care services. Separately issued financial statements for the County Medical Center can be obtained from the Auditor-Controller/Treasurer/Tax Collector's Office at 222 W. Hospitality Lane, San Bernardino, CA 92415-0018.

- *Waste Systems Division* accounts for refuse disposal services provided to the public by six landfill sites. The waste disposal program is financed by funds derived from gate fees at the San Bernardino Valley landfill sites and from land use fees charged to property owners in both the mountain and desert areas.

The County reports the following additional fund types in the fund financial statements:

- *Internal Service Funds* account for central services group that provides services to other departments or agencies of the County on a cost reimbursement basis. Central services group includes printing services, central mail, telecommunication services, computer operations, vehicle services, risk management, and flood control equipment operations.

- The *Investment Trust Fund* accounts for the pooled investments of numerous self-governed school and special districts for which cash and investments are held by the County Treasurer. The financial reporting for these governmental entities, which are independent of the County, is limited to the total amount of cash and investments and other assets, and the related fiduciary responsibility of the County for disbursements of these assets. Activities of the school districts and special districts are administered by their own separate elected boards and are independent of the County Board of Supervisors. The County Auditor-Controller makes disbursements upon the request of the responsible school and self-governed district officers. The County Board of Supervisors has no effective authority to govern, manage, approve budgets, assume financial responsibility, establish revenue limits, or to appropriate surplus funds available in these entities. Therefore, these entities are fiscally independent of the County.

- The *Private Purpose Trust Fund* accounts for the San Bernardino Redevelopment Successor Agency (Successor Agency) which operates under the auspices of a legislatively formed Oversight Board comprised of representatives of the local agencies that serve the redevelopment project area. The Oversight Board, in its fiduciary capacity, has authority over the operations and the timely dissolution of the former Redevelopment Agency (RDA). It is tasked with fulfilling the obligations of the former RDA, and is also responsible for revenue collection, maintaining necessary bond reserves and disposing of excess property. The Successor Agency issues a stand-alone financial report, which may be obtained by contacting the Successor Agency, 385 North Arrowhead Ave, 3rd Floor, San Bernardino, CA 92415-0043.

- The *Agency Funds* are custodial in nature and do not involve measurement of results of operations. Such funds primarily account for assets held by the County in an agency capacity pending transfer or distribution to individuals, private organizations, other governmental agencies, or other funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide, proprietary, and fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes and sales taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. In the fund financial statements, property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within sixty days after fiscal year-end. Property taxes are recorded as deferred inflows of resources when not received within sixty days after fiscal year-end. In the government-wide financial statements, property taxes are recorded as revenue when levied regardless of when the cash is collected. Sales taxes, interest, and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period, and recognized as revenue.

The County considers items available if received within 9 months of year end, for voluntary non-exchange transactions such as federal and state grants and government-mandated non-exchange transactions. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

The County reports items as deferred inflows of resources when all eligibility requirements are met except for timing requirements or resources recognized as assets that do not meet the availability criterion for recognition as revenue in governmental funds.

Proprietary funds are used to account for business-type activities, which are financed mainly by fees and charges to users of the services provided by the funds' operations. Proprietary funds distinguish operating revenues and expenses from non-operating 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 this definition are reported as non-operating revenues and expenses.

Fiduciary funds include all Trust and Agency Funds, which account for assets held in a trustee or an agency capacity for individuals, private organizations, or other governments.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

(a) Cash and Cash Equivalents

For purposes of the statement of cash flows, the County considers all pooled investments and other highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

(b) Investments

The County's investments are governed by the California Government Code (CGC) and the County's Investment Policy. These approved investments include U.S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, CD's, medium term notes, mutual funds, repurchase agreements and reverse repurchase agreements as authorized by the CGC Sections 53601, 53635 and 53638 that limit the investments to certain maximum percentages by investment type in the pool.

The County's investments and securities are reported at fair value based upon quoted market prices. Securities having no sales are valued based upon last reported bid prices. The County intends to either hold investments until maturity or until market values equal or exceed cost. The value of the various investments will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Investment contracts are recorded at cost.

(c) Land Held for Resale

Land held for resale is an asset acquired and held with the intent of sale, and is recorded at the lower of cost or market, until such time as there is an event which would indicate an agreed-upon sales price.

(d) Inventories and Prepaid Items

Inventories, which consist principally of materials and supplies held for consumption, are valued at cost (first-in, first-out basis) for governmental fund types and at an amount which approximates the lower of average cost or market for proprietary fund types. Inventories of the governmental and business-type activities are accounted for as expenses when the inventory items are consumed. In the governmental fund financial statements, reported inventories are offset with nonspendable fund balance because these amounts are not available for appropriation and expenditure.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and the fund financial statements.

(e) Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources are a consumption of net position that is applicable to a future reporting period and deferred inflows of resources are an acquisition of net position that is applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets, and deferred inflows of resources have a negative effect on net position, similar to liabilities. The County has certain items, which qualify for reporting as deferred outflows of resources (Note 9) and deferred inflows of resources (Note 16).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Capital Assets

Capital assets, which include land, structures and improvements, equipment, software, land use rights including easement/right-of-way, and infrastructure assets (roadways, bridges, roadway signage, guardrails, drainage systems, traffic lights, dams, and flood control), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. These capital assets have initial useful lives extending beyond a single reporting period.

Such assets are recorded at historical cost or estimated historical cost if purchased or developed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The capitalization threshold for the County is $5,000 (amount not rounded) except for the following assets:

- Structures and Infrastructure: $100,000 (amount not rounded)
- Internally generated software: $100,000 (amount not rounded)
- Easements/right-of-way: $10,000 (amount not rounded)

Structures and improvements, equipment, software and infrastructure of the primary government are depreciated or amortized using the straight-line method over the following estimated useful lives:

- Infrastructure 10 to 100 years
- Structures and improvements Up to 45 years
- Equipment and software 5 to 15 years

Certain intangible assets with contractual, legal, regulatory, or any other factors, which limit the useful lives of those assets, are amortized in accordance with such factors or provisions.

(g) Employee Compensated Absences

Compensated employee absences (vacation, compensatory time off, annual leave, perfect attendance leave, and sick leave) are accrued as an expense and liability in the proprietary funds when incurred. In the governmental funds, only those amounts that are due and payable at year-end are accrued. Compensated employee absences that exceed this amount represent a reconciling item between the fund and government-wide presentations.

(h) Termination Benefits

The County offered monetary incentives to hasten employee voluntary termination of services. Termination benefits are different in nature than salaries and benefits, including post employment benefits. Accordingly, a liability for termination benefits is accrued and presented separately from the salaries and benefits (Note 11).

(i) Pollution Remediation Obligations

In accordance with GASB 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*," pollution remediation costs are accrued and recorded. GASB 49 requires estimating pollution remediation outlays to remediate the effects of a pollution event. Those outlays include remedial investigation, site assessment, corrective measures feasibility studies, remediation work, equipment and monitoring of the polluted site (Note 11).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as an expense in the period incurred.

In the fund financial statements, governmental bond premiums and discounts, as well as bond issuance costs, are recognized in the period issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(k) Interfund Transactions

Interfund transactions are reflected as loans, services-provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either “Due to/from other funds” (i.e., the current portion of interfund loans) or “Interfund receivables/payables”(i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”. Interfund receivables, as reported in the fund financial statements, are offset by the corresponding fund balance classification to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/ expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

(l) Net Position/Fund Balances

The government-wide and business-type activities fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net Investment in Capital Assets* – This category groups all capital assets, including infrastructure, and capital-related deferred outflows of resources into one component of net position. Accumulated depreciation, capital-related deferred inflows of resources, and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets as well as any premium or discount paid on debt reduce the balance in this category.

- *Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulation of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Examples of restricted net position include federal and state grants that are restricted by grant agreements for specific purposes and restricted cash set aside for debt service payments.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Unrestricted Net Position* – This category represents the net position of the County, not restricted for any project or other purpose.

At June 30, 2014, the County reported restricted net position of $776,259 in the Governmental Activities restricted for the following purposes:

Restricted for:	Amount
Grants and Other County Programs:	
State Realignment Funds	$ 295,476
Teeter Plan	12,392
Other Grants and Programs	466,691
Perpetual Care - Nonexpendable	1,700
	$ 776,259

In the fund financial statements, governmental funds report fund balance as (1) Nonspendable Fund Balance, (2) Restricted Fund Balance, (3) Committed Fund Balance, (4) Assigned Fund Balance, and (5) Unassigned Fund Balance. These components of fund balance are reported primarily to indicate the extent to which the County is bound to honor constraint on the specific purposes for which amounts in the fund can be spent (Note 17).

1) *Nonspendable Fund Balance:* Amounts cannot be spent because they are: (a) not in spendable form or (b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.

2) *Restricted Fund Balance:* Amounts are restricted by external parties, i.e., creditors, grantors, contributors, or laws/regulations of other governments or restricted by law through constitutional provisions or enabling legislation.

3) *Committed Fund Balance:* Amounts can only be used for a specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision making authority (the Board of Supervisors). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Board.

4) *Assigned Fund Balance:* Amounts are constrained by the government's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the body or official to which the governing body has delegated the authority, i.e. the County Administrative Office. The County Administrative Office will assign fund balance for specific departmental projects through the use of the respective department's general fund savings. Such projects would not normally be feasible for the department without reserving funding over a multiple year period. Residual amounts in all other governmental funds are reflected as assigned.

5) *Unassigned Fund Balance:* The General Fund, as the principal operating fund, often has net resources in excess of what can properly be classified in one of the four categories already described. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed, or assigned equals unassigned fund balance. This amount is available for any purpose and will be placed in either the General Purpose Reserve, General Fund – Mandatory Contingencies or the General Fund - Uncertainties Contingencies until allocated for a specific purpose by the Board, by a four-fifths vote. Negative equity in all other governmental funds is reflected as unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The County Board of Supervisors establishes, modifies or rescinds fund balance commitments by passage of a resolution. The County also uses budget and finance policy to authorize the assignment of fund balance, which is done through adoption of the budget and subsequent budget amendments throughout the year.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then followed by unrestricted resources; committed, assigned and unassigned, as they are needed.

(m) Fund Balance Policy

The objective of the County's fund balance and reserve policy is to ensure the County of San Bernardino maintains a minimum level of unassigned fund balance designated as general purpose reserve to meet seasonal cash flow shortfalls, revenue shortfalls, unanticipated expenditures, economic downturns or effects of local disasters. The policy also addresses the circumstances under which unassigned fund balance can be "spent down" and how the unassigned fund balance will be replenished if it falls below the established minimum.

General Purpose Reserve and Mandatory Contingencies Reserve

The County has established an unassigned fund balance designated as General Purpose Reserve for the general fund targeted at 20% of locally funded appropriations based on the adopted budget. Locally funded appropriations are those funded by countywide discretionary revenues such as unrestricted property tax, sales tax, interest income, and other revenues not linked to specific programs and those funded by ongoing operating transfers in.

The unassigned fund balance designated as General Purpose Reserve is built up with one-time sources until the established target is achieved. In the event the locally funded appropriations decline from the previous fiscal year, the General Purpose Reserve shall have no downward adjustments. Increases to the General Purpose Reserve generally are only made once at the beginning of the fiscal year.

The County also maintains a Mandatory Contingencies Reserve set at a minimum of 1.5% of locally funded appropriations based on adopted budget. The amount needed to fund the Mandatory Contingencies Reserve for the succeeding fiscal year will be categorized as unassigned fund balance. In the event the locally funded appropriation declines from the previous fiscal year, the Mandatory Contingencies shall have no downward adjustments. Increases to the Mandatory Contingencies generally are only made once at the beginning of the fiscal year.

The remaining unassigned fund balance amount not allocated to the General Purpose Reserve or Mandatory Contingencies will be included in Uncertainties Contingencies Reserve.

Fund Balance Spend Down and Replenish Procedure

Use of unassigned fund balance will be limited to nonrecurring expenditures, debt reduction, one-time capital costs or emergency situations (such as economic conditions or natural disasters). The County generally will use the Uncertainties Contingencies Reserve first, then the Mandatory Contingencies and finally the General Purpose Reserve allocation when using the unassigned fund balance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The County recognizes that unforeseen events may cause the use of unassigned fund balance which will result in it falling below the established minimum. However, if this occurs, or is expected to occur within the five year planning cycle, the budget balancing strategies will be invoked to determine corrective actions. When necessary, the following budget balancing strategies will be used in order of priority:

1) Seek other revenue opportunities, including new service fees or increase to existing fees;
2) Reduce expenditures through improved productivity;
3) Reduce or eliminate services;
4) Reduce employee salaries and benefits.

A planned draw down of unassigned fund balance generally should not exceed 3% of locally funded appropriation in a given fiscal year. Generally before the unassigned fund balance can be withdrawn below the target, a replenishment plan must be adopted. For withdrawals as soon as economic conditions have recovered, one-time sources will be used to replenish reserves before using for one-time, non-emergency expenses. The unassigned fund balance shall be built up with one-time sources until the established target is achieved/ replenished.

As of June 30, 2014, the County's General Purposes Reserve is $82,441 which is included in the Unassigned Fund Balance as determined by the Fund Balance Policy.

(n) Property Taxes

The County levies, collects, and apportions property taxes for all taxing jurisdictions within the County, including school and special districts. Property taxes are determined by applying approved rates to the assessed values of properties. The total 2013-14 taxable assessed valuation of the County of San Bernardino was $171,925,914.

Article XIIIA of the State of California Constitution limits the property tax levy to support general government services of the various taxing jurisdictions to $1.00 per $100.00 of assessed value. Taxes levied to service voter-approved debt prior to June 30, 1978 are excluded from this limitation. Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties after December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties after August 31. The term "unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed.

(o) Use of Estimates

The presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Implemented Accounting Pronouncements

During fiscal year 2014, the County adopted the following Governmental Accounting Standards Board (GASB) Statements:

GASB 65 – Items Previously Reported as Assets and Liabilities

In March 2012, GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The County implemented this Statement as of July 1, 2013.

GASB 66 – Technical Corrections–2012 (an amendment of GASB Statement No. 10 and No. 62)

In March 2012, GASB issued Statement No. 66 – *Technical Corrections – 2012 - an Amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The adoption of this Statement had no impact to the financial statements.

GASB 67 – Financial Reporting for Pension Plans (an amendment of GASB Statement No. 25)

In June 2012, GASB issued Statement No. 67 – *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 25*. This Statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This Statement and Statement No. 68 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The scope of this Statement addresses accounting and financial reporting for the activities of pension plans that are administered through trusts. The adoption of this Statement had no impact to the financial statements.

GASB 70 – Accounting and Financial Reporting for Nonexchange Financial Guarantees

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The adoption of this Statement had no impact to the financial statements.

(Amounts in thousands)

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net position are different from those reported for governmental funds in the balance sheet.

The following provides a reconciliation of those differences:

	Total Governmental Funds (Page 40)	Long-term Assets and Liabilities (1)	Internal Service Funds (2) (Page 43)	Eliminations	Statement of Net Position Totals (Page 36)
Assets and Deferred Outflows of Resources					
Assets:					
Cash and Cash Equivalents	$ 1,265,402	$ -	$ 277,364	$ -	$ 1,542,766
Investments	2,154	-	-	-	2,154
Accounts Receivable - Net	5,806	-	832	-	6,638
Taxes Receivable	47,125	-	-	-	47,125
Interest Receivable	16,684	-	-	-	16,684
Loans Receivable	57,978	-	-	-	57,978
Other Receivables	9,854	-	196	-	10,050
Due from Other Funds	62,746	-	5,924	(68,670)	-
Due from Other Governments	432,821	-	813	-	433,634
Internal Balances	-	-	-	(3,943)	(3,943)
Land Held for Resale	2,211	-	-	-	2,211
Inventories	1,311	-	4,143	-	5,454
Prepaid Items	2,826	-	3,577	(155)	6,248
Interfund Receivable	5,016	-	-	(5,016)	-
Restricted Cash and Investments	8,749	-	-	-	8,749
Prepaid Pension Asset	-	652,232	-	-	652,232
Land	-	124,859	396	-	125,255
Land Use Rights - Not Amortized	-	21,509	-	-	21,509
Development In Progress	-	160,242	780	-	161,022
Land Use Rights - Amortized	-	123	-		123
Structures, Improvements, and Infrastructure	-	2,532,846	11,068	-	2,543,914
Equipment and Software	-	245,287	108,343	-	353,630
Accumulated Depreciation and Amortization	-	(1,287,623)	(76,882)	-	(1,364,505)
Total Assets	1,920,683	2,449,475	336,554	(77,784)	4,628,928
Deferred Outflows of Resources	-	4,405	-	-	4,405
Total Assets and Deferred Outflows of Resources	$ 1,920,683	$ 2,453,880	$ 336,554	$ (77,784)	$ 4,633,333
Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position					
Liabilities:					
Accounts Payable and Other Current Liabilities	$ 63,763	$ -	$ 8,195	$ -	$ 71,958
Salaries and Benefits Payable	85,628	-	2,534	-	88,162
Due to Other Funds	70,276	-	2,907	(73,183)	-
Due to Other Governments	56,753	-	16	-	56,769
Interest Payable	-	10,437	-	-	10,437
Advances from Others	14,859	-	155	(155)	14,859
Interfund Payable	4,446	-	-	(4,446)	-
Compensated Absences Payable	-	158,701	5,601	-	164,302
Termination Benefits Payable	-	172	-	-	172
Bonds and Notes Payable	-	1,051,918	-	-	1,051,918
Capital Lease Obligations	-	314	-	-	314
Other Long-Term Liabilities	-	3,000	-	-	3,000
Estimated Liability for Litigation and Self-Insured Claims	-	-	239,623	-	239,623
Premium	-	1,248	-	-	1,248
Discount	-	(114,011)	-	-	(114,011)
Total Liabilities	295,725	1,111,779	259,031	(77,784)	1,588,751
Deferred Inflows of Resources	99,779	(99,779)	-	-	-
Fund Balance/Net Position	1,525,179	1,441,880	77,523	-	3,044,582
Total Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position	$ 1,920,683	$ 2,453,880	$ 336,554	$ (77,784)	$ 4,633,333

(Amounts in thousands)

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

(1)	Capital assets used in governmental activities that are not financial resources and, therefore, are not reported in the funds.		
	Land	$ 124,859	
	Land Use Rights - not being amortized	21,509	
	Development in Progress	160,242	
	Land Use Rights - being amortized	123	
	Structures, Improvements, and Infrastructure	2,532,846	
	Equipment and Software	245,287	
	Accumulated Depreciation and Amortization	(1,287,623)	
			$ 1,797,243
(1)	Receivables that are not available to pay for current-period expenditures and are therefore deferred in the governmental funds.	99,779	
			$ 99,779
(1)	Prepaid Pension Asset		$ 652,232
(1)	Interest Payable		$ (10,437)
(1)	Long-term liabilities, including bonds payable and deferred charges on refundings, that are not due and payable in the current period and therefore are not reported in the funds.		
	Compensated Absences Payable	$ (158,701)	
	Termination Benefits Payable	(172)	
	Bonds and Notes Payable	(1,051,918)	
	Capital Lease Obligations	(314)	
	Other Long Term Liabilities	(3,000)	
	Premium	(1,248)	
	Discount	114,011	
	Deferred Charges on Refunding	4,405	
			$ (1,096,937)
(2)	Internal service funds that are used by management to charge the costs of general services, telecommunication services, computer operations, vehicle services, risk management, and flood control equipment to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.		$ 77,523

(1) GASB 34 Conversion Entries
(2) Internal Service Funds reported as part of Governmental Activities

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

(a) Budgetary Information

In accordance with the provisions of Section 29000 – 29144 and 30200 of the Government Code of the State of California, commonly known as the County Budget Act, the County prepares and adopts the final budget no later than October 2, for each fiscal year. Budgets are adopted for the General Fund, certain Special Revenue Funds, certain Debt Service Funds, and certain Capital Projects Funds. Budgets are prepared on the modified accrual basis of accounting, except that current year encumbrances are budgeted as expenditures.

Annual budgets are not adopted for the following funds: Pension Obligation Bonds Debt Service, Joint Powers Authorities Special Revenue and Debt Service Funds, and Permanent Funds.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

The legal level of budgetary control is maintained at the object level for general expenditures and sub-object level for capital assets within departments. However, presentation of the basic financial statements at the legal level of control is not feasible due to excessive length. Because of the large volume of detail, the budget and the actual statements have been aggregated by function. The County does prepare a separate final budget document at the object and sub-object level that is available to the public by the office of the Auditor-Controller/Treasurer/Tax Collector.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Throughout the year, supplemental appropriations may be necessary and are normally financed by unanticipated revenues. These must also be approved by the Board. Amendments or transfers of appropriations between object code levels within the same department may be approved by the Board or the County Administrative Office. Transfers at the sub-object code level or cost center level may be done at the discretion of the department head. Any deficiency of the budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided in the County Budget Act.

(b) Excess of Expenditures Over Appropriations

For the year ended June 30, 2014, there were no instances in which actual expenditures exceed appropriations.

(c) Reconciliation of Budgetary Basis to GAAP Basis

The annual County Budget is prepared, approved and adopted in accordance with provisions of the County Budget Act. In preparing the budget, the County utilizes a basis of accounting which is different from the basis prescribed by generally accepted accounting principles (GAAP). The accompanying General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual on a Budgetary Basis presents a comparison of the legally adopted budget and the actual data on a budgetary basis.

The following adjustments are necessary to provide a meaningful comparison of the actual results of operations with the budget:

	General Fund
Fund balance - budgetary basis	$ 788,461
Outstanding encumbrances for budgeted funds	28,331
Fund balance - GAAP basis	$ 816,792

NOTE 4 – CASH AND INVESTMENTS

Cash and investments include the cash balances of substantially all funds which are pooled (the “pool”) and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it a SEC Rule 2a7 – like pool. Included also are cash and investments held by certain joint powers authorities and cash held by various trustee financial institutions in accordance with the California Government Code.

State law requires that all operating monies of the County, school districts, and board-governed special districts be held by the County Treasurer. The net position value associated with legally mandated external participants in the asset pool was $2,132,343 at June 30, 2014.

(Amounts in thousands)

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

As of June 30, 2014, the fair value of the County pool was $4.2 billion. Approximately 13% of the County pool is attributable to the County General Fund, with the remainder of the balance comprised of other county funds, school districts and special districts. Additionally, as of June 30, 2014, $211,283 of the amounts deposited in the County pool was attributable to depositors who are not required to, but choose to, invest in the County pool. These include independent special districts, State Trial Court, and other governmental agencies. The deposits held for both involuntary and voluntary entities are reported in the Investment Trust Fund.

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

The County has not produced or provided any letters of credit or legal binding guarantees as supplemental support of the pool values during the year ended at June 30, 2014. The pool provides monthly reporting to both The Treasury Oversight Committee who reviews investment policy and the County Board of Supervisors who reviews and approves investment policy.

The County does not pool its external participants' investments separately from the County pool. The average rate of return on investments during fiscal year 2013-14 was 0.41%.

On June 30, 2014, the County purchased Negotiable Certificates of Deposit, which were settled on July 1, 2014 for $50,000. The County has recorded this purchase based on the trade date. As a result, cash in bank at June 30, 2014 was reduced.

A summary of the investments held by the County Treasurer as of June 30, 2014 is as follows:

Investment Type	Cost	Fair Value	Interest Rate Range	Maturity Range	Average Maturity (Days)
U.S. Treasury Securities	$ 970,141	$ 970,983	0.19% - 1.09%	07/31/14 - 12/31/17	769
U.S. Government Agencies	1,623,686	1,624,538	0.14% - 1.81%	07/01/14 - 11/19/18	592
Negotiable Certificates of Deposit	938,002	937,863	0.11% - 0.35%	07/01/14 - 07/01/15	89
Commercial Paper	449,915	449,961	0.05% - 0.23%	07/01/14 - 12/23/14	27
Medium Term Notes	56,359	56,334	0.39% - 1.01%	10/25/15 - 04/21/17	644
Money Market Mutual Funds	171,000	171,000	0.01%	07/01/14	1
Total Treasurer's Pooled Investments	4,209,103	4,210,679			
Investments Held by Fiscal Agents:					
U.S. Government Agencies	26,548	26,632			
Guaranteed Investment Contracts	4,751	4,751			
State and Local Municipal Bonds	42,671	42,793			
Money Market Mutual Funds	49,426	49,426			
U.S. Treasury Securities	14,711	20,384			
Total Investments Held by Fiscal Agents	138,107	143,986			
Total Investments	$ 4,347,210	$ 4,354,665			
Cash in Banks:					
Non-Interest Bearing Deposits		159,021			
Total Cash and Investments		$ 4,513,686			

(Amounts in thousands)

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

The following table presents the authorized investment types per California Government Code (CGC), along with their respective requirements and restrictions per the CGC and the Investment Policy:

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

Footnote:
(1) Minimum credit rating categories are without regard to ratings modifiers (+/-)
(2) Standard & Poor's Ratings (quoted) or the equivalent NRSRO rating

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 11) rather than the general provisions of the California Government Code. Certificates of Participation, Pension Obligation Bond and Revenue Bond 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.

Investment credit risk

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

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

(Amounts in thousands)

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

As of June 30, 2014, all investments held by the County Pool were within policy limits.

Investment Type	S&P Rating	Moody's Rating	Fitch Rating	Maximum Allowed % of Portfolio	Individual Issuer Limitations	Weighted % of Pool 6/30/2014
U.S. Treasury Securities	AA+	Aaa	AAA	100%	None	23.06%
U.S. Government Agencies	AA+	Aaa	AAA	100%	None	36.33%
U.S. Government Agencies	AA+	Aaa	N/R	100%	None	1.66%
U.S. Government Agencies	A-1+	P1	F1+	100%	None	0.59%
Negotiable Certificates of Deposit	A1+	P1	F1+	30%	5%	15.44%
Negotiable Certificates of Deposit	A1	P1	F1+	30%	5%	4.75%
Negotiable Certificates of Deposit	AA-	Aa1	AA-	30%	5%	2.09%
Commercial Paper	A1	P1	F1	40%	5%	3.56%
Commercial Paper	A1	P1	F1+	40%	5%	1.19%
Commercial Paper	A1+	P1	F1	40%	5%	1.19%
Commercial Paper	A1+	P1	F1+	40%	5%	2.38%
Commercial Paper	A1+	P1	N/R	40%	5%	2.37%
Medium Term Notes	AA	Aa2	AA	10%	5%	0.13%
Medium Term Notes	AA+	A1	N/R	10%	5%	1.20%
Money Market Mutual Funds	AAAm	Aaa	AAA	15%	10%	2.04%
Money Market Mutual Funds	AAAm	Aaa	N/R	15%	10%	2.02%

The County's investments held by fiscal agents were rated as of June 30, 2014 as follows:

Investment Type	S&P Rating	Moody's Rating	Fitch Rating	Weighted % of Investments 6/30/2014
Guaranteed Investment Contracts	A-	Ba1	N/R	3.30%
Municipal Bonds	AAA	Aaa	AAA	9.02%
Municipal Bonds	AAA	Aaa	N/R	1.39%
Municipal Bonds	AAA	Aa1	AAA	2.85%
Municipal Bonds	AAA	N/R	AAA	2.92%
Municipal Bonds	AA+	Aaa	AAA	1.61%
Municipal Bonds	AA+	Aa1	AA+	2.82%
Municipal Bonds	AA	Aa2	AA	2.97%
Municipal Bonds	AA	Aa3	AA	3.14%
Municipal Bonds	AA-	Aa3	AA-	2.99%
Mutual Funds	AAA	Aaa	N/R	10.57%
Mutual Funds	AAA	Aaa	AAA	4.82%
Mutual Funds	AAA	N/R	N/R	18.94%
U.S. Government Agencies	AA+	Aaa	AAA	18.50%
U.S. Treasury Securities	AA+	Aaa	AAA	14.16%

Concentration of credit risk

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

(Amounts in thousands)

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

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

As of June 30, 2014, the following issuers represented more than five-percent of the Treasurer's Pooled Investment balance:

Issuer		Fair Value	% of Portfolio
Federal National Mortgage Association (FNMA)	$	526,590	12.51%
Federal Home Loan Mortgage Corporation (FHLMC)		732,043	17.39%

As of June 30, 2014, the following issuers represented more than five-percent of the County investments with fiscal agents:

Issuer		Fair Value	% of Investments
BlackRock Liquidity Muni Funds	$	27,276	18.94%
Federal National Mortgage Association (FNMA)		20,160	14.00%

Interest rate risk

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

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

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

California Law and where more restrictive, the San Bernardino County Pool Investment Policy, places limitations on the maximum maturity of investments to be purchased by sector (see schedule). As of June 30, 2014, all investments held by the County Pool were within policy limits.

(Amounts in thousands)

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

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

Investment Type	Fair Value	Maturity Range (Days)	Maturity Limits	Modified Duration (Years)
U.S. Treasury Securities	$ 970,983	31 - 1,280	5 Years	2.07
U.S. Government Agencies	1,624,538	30 - 1,603	5 Years	1.59
Negotiable Certificates of Deposit	937,863	1 - 366	1,095 days	0.24
Commercial Paper	449,961	1 - 176	270 days	0.07
Medium Term Notes	56,334	482 - 1,026	3 Years	1.74
Money Market Mutual Funds	171,000	1	Daily Liq.	0.01
Total Treasurer's Pooled Investments	$ 4,210,679			

Weighted average maturity of the investments held by fiscal agents, as of June 30, 2014 is as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Agency Bonds	$ 26,632	2.14
Guaranteed Investment Contracts	4,751	14.07
Municipal Bonds	42,793	1.47
Mutual Funds	49,426	0.02
U.S. Treasury Securities	20,384	8.38
Total Investments Held by Fiscal Agents	$ 143,986	

Custodial credit risk

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

GASB Statement No. 40 requires the disclosure of deposits into a financial institution that are not covered by FDIC depository insurance and that are uncollateralized.

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

As of June 30, 2014, the carrying amount of the County's deposits was $159,021 and the corresponding bank balance was $234,954. The difference of $75,933 was primarily due to the reduction of cash for the unsettled trade, outstanding warrants, wires and deposits in transit. Of the bank balances, $500 was insured by FDIC depository insurance and the remainder was collateralized, as required by California Government Code Section 53652.

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

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

(Amounts in thousands)

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

As of June 30, 2014, Cash and Investments are classified in the accompanying financial statements as follows:

	Total Governmental Activities	Total Business-type Activities	Total Fiduciary Funds	Discretely Presented Component Unit	Total
Cash and Investments	$ 1,544,920	$ 114,531	$ 2,639,211	$ 88,033	$ 4,386,695
Restricted Cash and Investments	8,749	111,308	6,934	-	126,991
Total Cash and Investments	$ 1,553,669	$ 225,839	$ 2,646,145	$ 88,033	$ 4,513,686

The pool issues a separate report, which includes the external pool investment. This separately issued statement can be obtained from the Auditor-Controller/Treasurer/Tax Collector's Office at 222 W. Hospitality Lane, San Bernardino, CA 92415-0018. The following represents a condensed statement of net position and changes in net position for the Treasurer's investment pool as of June 30, 2014:

Statement of Net Position	
Equity of internal pool participants	$ 1,867,053
Equity of external pool participants:	
Voluntary	211,283
Involuntary	2,132,343
Total Net Position held for pool participants	$ 4,210,679

Statement of Changes in Net Position	
Net Position at July 1, 2013	$ 4,202,786
Net change in investments by pool participants	7,893
Net Position at June 30, 2014	$ 4,210,679

NOTE 5 – RECEIVABLES

Receivables at year-end of major individual funds, nonmajor funds, and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

Governmental Activities:

	Accounts	Taxes	Interest	Loans	Other Receivables	Due From Other Governments	Total Governmental Activities
General Fund	$ 3,050	$ 38,837	$ 15,430	$ 56,827	$ 9,664	$ 368,246	$ 492,054
Less Allowance for Doubtful Accounts	(72)	-	-	-	-	-	(72)
Capital Improvement Fund	-	-	166	-	-	22,877	23,043
Nonmajor Governmental Funds	2,956	8,288	1,088	1,151	190	41,698	55,371
Less Allowance for Doubtful Accounts	(128)	-	-	-	-	-	(128)
Internal Service Funds	832	-	-	-	196	813	1,841
Total Governmental Activities Receivables	$ 6,638	$ 47,125	$ 16,684	$ 57,978	$ 10,050	$ 433,634	$ 572,109

Business-Type Activities:

	Accounts	Taxes	Interest	Loans/Notes	Other Receivables	Due From Other Governments	Total Business-Type Activities
Medical Center	$ 184,253	$ -	$ 307	$ -	$ 18,214	$ 46,593	$ 249,367
Less Allowance for Doubtful Accounts	(137,131)	-	-	-	-	-	(137,131)
Waste Systems Division	9,472	-	-	-	37,168	2,055	48,695
Less Allowance for Doubtful Accounts	(665)	-	-	-	(147)	(748)	(1,560)
Nonmajor Enterprise Funds	2,750	232	-	142	65	10	3,199
Total Business-Type Activities Receivables	$ 58,679	$ 232	$ 307	$ 142	$ 55,300	$ 47,910	$ 162,570

NOTE 5 – RECEIVABLES (CONTINUED)

Due From Other Governments

At June 30, 2014, the Governmental Funds accrued $432,821 of receivables from other governments, of which, $318,573 was due from the State of California. Of the amount owed by the State, $79,728 was for health care services, $142,049 was for public social services, $31,428 was for motor vehicle license fees and sales tax monies, and the remaining $65,368 was for other services. The remaining amount of $114,248 was due from the federal government and other governmental agencies. Governmental Activities balance is $433,634 and Business-Type Activities balance is $47,910.

Loans Receivable

The loans receivable balance in the Governmental Activities is $57,978, of this amount, $33,055 represents the receivable under the Teeter Plan, $1,151 is due from other various agencies, $13,357 represents a County loan to the Adelanto Successor Agency, and $10,415 represents a County loan to the County Redevelopment Successor Agency.

Interest Receivable

The $16,684 interest receivable in the Governmental Activities column of the statement of net position is accrued. Of this amount, $14,020 is due from the Adelanto City Redevelopment Successor Agency.

Other Receivables

The $10,050 other receivables in the Governmental Activities column of the statement of net position are accrued for amounts due to the County that do not specifically relate to one of the above receivable accounts. This amount is primarily due to delinquent penalties, redemption penalties and redemption interest related to receivable under the Teeter Plan.

The other receivables in the Business-Type Activities total $55,300. The majority of the $37,021 reported in the Waste Systems Division represents insurance recoveries related to the Mid-Valley Landfill Perchlorate pollution remediation activities. During fiscal year 2013-14 the County entered into settlement agreements with the Insurance Company of the State of Pennsylvania and Gulf Underwriters Insurance Company.

NOTE 6 – INTERFUND TRANSACTIONS

Interfund receivables and payables have been eliminated in the government-wide financial statements to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities. Internal balances that are residual amounts due between the governmental and business-type activities are not subject to elimination.

(Amounts in thousands)

NOTE 6 – INTERFUND TRANSACTIONS (CONTINUED)

Due to/from other funds at June 30, 2014 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 20,429
	Capital Improvement Funds	62
	Medical Center	13,898
	Waste Systems	209
	Internal Service Funds	1,204
	Nonmajor Enterprise Funds	3
		35,805
Nonmajor Governmental Funds	General Fund	17,266
	Nonmajor Governmental Funds	6,282
	Capital Improvement Funds	18
	Waste Systems	108
	Internal Service Funds	1,297
	Nonmajor Enterprise Funds	117
		25,088
Capital Improvement Funds	General Fund	396
	Nonmajor Governmental Funds	1,292
	Internal Service Funds	165
		1,853
Medical Center	General Fund	20,527
	Nonmajor Governmental Funds	14
	Internal Service Funds	70
		20,611
Waste Systems	Nonmajor Governmental Funds	12
	Internal Service Funds	89
		101
Internal Service Funds	General Fund	3,505
	Nonmajor Governmental Funds	373
	Capital Improvement Funds	14
	Medical Center	419
	Waste Systems	1,520
	Internal Service Funds	82
	Nonmajor Enterprise Funds	11
		5,924
Nonmajor Enterprise Funds	General Fund	65
	Nonmajor Governmental Funds	21
		86
	Total	$ 89,468

(Amounts in thousands)

NOTE 6 – INTERFUND TRANSACTIONS (CONTINUED)

The amount due from Nonmajor Governmental Funds to the General Fund is primarily due to transfers and payments for services provided to Other Governmental Funds. The amount due from the General Fund to the Medical Center primarily represents the Medical Center's share of realignment funding.

Interfund Receivable/Payable at June 30, 2014 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 4,391
	Nonmajor Enterprise Funds	320
		4,711
Nonmajor Governmental Funds	Nonmajor Governmental Funds	55
	Nonmajor Enterprise Funds	250
		305
	Total	$ 5,016

These amounts represent noncurrent interfund loans (advance) between funds and blended component units of the County for the purpose of financing cash flow needs. Interfund loans are expected to be repaid within a reasonable period of time.

Transfers To/From Other Funds for the year ended June 30, 2014 are as follows:

Transfers reflect funding for capital projects, lease payments or debt service, subsidies of various County operations and re-allocations of special revenues. The following schedule briefly summarizes the County's transfer activity:

(Amounts in thousands)

NOTE 6 – INTERFUND TRANSACTIONS (CONTINUED)

Transfers In/Out

(a) Between Governmental and Business-type Activities:

Transfer Out	Transfer In	Amount
General Fund	Medical Center	$ 46,738
		46,738
Nonmajor Governmental Funds	Nonmajor Enterprise Funds	42
		42
Medical Center	General Fund	186
	Nonmajor Governmental Funds	8,968
		9,154
Waste Systems	Nonmajor Governmental Funds	296
		296
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	36
		36
	Total	$ 56,266

(b) Between Funds within the Governmental or Business-type Activities (1):

Transfer Out	Transfer In	Amount
General Fund	Capital Improvement Funds	$ 79,131
	Nonmajor Governmental Funds	91,979
	Internal Service Funds	978
		172,088
Nonmajor Governmental Funds	General Fund	27,228
	Capital Improvement Funds	3,731
	Nonmajor Governmental Funds	13,992
		44,951
Capital Improvement Funds	General Fund	54
	Nonmajor Governmental Funds	68
		122
Internal Service Funds	General Fund	27
	Capital Improvement Funds	35
	Nonmajor Governmental Funds	1,610
		1,672
	Total	$ 218,833

(1) These transfers were eliminated in the consolidation, by column, for the Governmental and Business-type Activities.

NOTE 6 – INTERFUND TRANSACTIONS (CONTINUED)

Amounts transferred from the General Fund to the Medical Center are the results of year-end budgeted transfers including the Medical Center's debt service payments and realignment funding.

Amounts transferred from the General Fund to the Nonmajor Governmental Funds are the results of the joint power authorities' debt service payments and the pension obligation bond debt service payments.

Amounts transferred from the General Fund to the Capital Improvement Fund are mainly for various capital improvement projects.

NOTE 7 – RESTRICTED CASH AND INVESTMENTS

Cash and cash equivalents of $120,057 are restricted by legal or contractual requirements at June 30, 2014 and are comprised of the following:

Governmental Activities

General Fund:

Restricted cash and cash equivalents of $2,316 represent funds held by a trustee, which are restricted for electronic benefits payments.

Non-major Governmental Funds:

Flood Control District:

Restricted cash and cash equivalents of $5,887 represent funds held by a trustee, which are restricted for debt service payments.

Joint Powers Authorities:

Restricted cash of $546 represents funds held by a trustee, which are restricted for a special mandatory redemption of the Courthouse revenue bonds to occur on December 1, 2014, pursuant to the Trust Indenture.

Business-Type Activities

Medical Center:

Restricted cash and cash equivalents of $50,214 represent funds held by a trustee, which are restricted for debt service payments.

Waste System Division:

Restricted cash and cash equivalents of $61,094 represent funds set aside for groundwater detection, treatment and remediation, and for State mandated site closure and maintenance costs as required by the Department of Resources Recycling and Recovery (CalRecycle) formerly California Integrated Waste Management Board (CIWMB).

(Amounts in thousands)

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 is as follows:

Primary Government

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental Activities				
Capital assets, non-depreciable/non-amortizable:				
Land	$ 117,080	$ 14,056	$ 5,881	$ 125,255
Land Use Rights	18,396	3,113	-	21,509
Development in progress	288,532	65,056	192,566	161,022
Total capital assets,non-depreciable/non-amortizable	424,008	82,225	198,447	307,786
Capital Assets, depreciable/amortizable:				
Land Use Rights	77	46	-	123
Improvements other than Buildings	222,058	30,633	94	252,597
Structures and Improvements	844,450	147,965	131	992,284
Equipment and Software	338,539	32,108	17,017	353,630
Infrastructure	1,241,208	57,825	-	1,299,033
Total capital assets, depreciable/amortizable	2,646,332	268,577	17,242	2,897,667
Less accumulated depreciation/amortization for :				
Land Use Rights	40	35	-	75
Improvements other than Buildings	122,603	9,019	45	131,577
Structures and Improvements	263,634	24,051	67	287,618
Equipment and Software	225,603	30,718	15,692	240,629
Infrastructure	677,809	26,797	-	704,606
Total accumulated depreciation/amortization	1,289,689	90,620	15,804	1,364,505
Total capital assets, depreciable/amortizable, net	1,356,643	177,957	1,438	1,533,162
Governmental activities capital assets, net	$ 1,780,651	$ 260,182	$ 199,885	$ 1,840,948
Business-type Activities				
Capital assets, non-depreciable/non-amortizable:				
Land	$ 21,377	$ -	$ -	$ 21,377
Land Use Rights	351	-	-	351
Development in progress	13,588	10,239	8,087	15,740
Total capital assets,non-depreciable/non-amortizable	35,316	10,239	8,087	37,468
Capital Assets, depreciable/amortizable:				
Land Use Rights	1,109	-	-	1,109
Improvements other than Buildings	244,164	6,989	38	251,115
Structures and Improvements	563,189	1,287	-	564,476
Equipment and Software	150,082	9,001	378	158,705
Total capital assets, depreciable/amortizable	958,544	17,277	416	975,405
Less accumulated depreciation/amortization for :				
Land Use Rights	105	-	-	105
Improvements other than Buildings	135,707	4,056	-	139,763
Structures and Improvements	192,731	15,358	-	208,089
Equipment and Software	119,726	7,137	339	126,524
Total accumulated depreciation/amortization	448,269	26,551	339	474,481
Total capital assets, depreciable/amortizable, net	510,275	(9,274)	77	500,924
Business-type activities capital assets, net	$ 545,591	$ 965	$ 8,164	$ 538,392

(Amounts in thousands)

NOTE 8 – CAPITAL ASSETS (CONTINUED)

Depreciation

Depreciation expense is charged to governmental functions as follows:

General Government	$	19,644
Public Protection		36,767
Public Ways and Facilities		23,354
Health and Sanitation		1,620
Public Assistance		3,596
Education		863
Recreation and Cultural Services		4,776
Total depreciation expense - governmental activities	$	90,620

Depreciation expense is charged to business-type functions as follows:

Medical Center	$	21,990
Waste Systems Division		1,883
Other:		
County Service Areas		2,678
Total depreciation expense - business type activities	$	26,551

Development in Progress

Development in Progress consists of the following projects:

		Governmental Activities		Business-Type Activities
Medical Center Projects	$	-	$	799
Waste Systems Division Projects		-		7,374
Special Districts		-		7,567
Flood Control Projects		64,852		-
800 MHz Replacement Project		4,943		-
Transportation Projects		53,382		-
Other County Projects		37,845		-
Total	$	161,022	$	15,740

(Amounts in thousands)

NOTE 9 – DEFERRED OUTFLOWS OF RESOURCES

The County recognized a deferred outflow of resources in the government-wide financial statements. These items are a consumption of net position by the County that is applicable to a future reporting period. The County has deferred charges on refunding that result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

The balances as of June 30, 2014 of deferred outflows of resources are as follows:

		Balance June 30, 2014
Governmental Activities		
Deferred Charges on Refunding		
Certificates of Participation		
Justice Center/Airport Improvement	$	372
Other Bonds and Notes		
Flood Control Refunding Bonds (Series 2008)		579
Pension Obligation Refunding Bonds (2008)		1,296
West Valley Detention Center Refinancing Notes (2012)		2,158
Total Governmental Activities	$	4,405
Business Type Activities		
Deferred Charges on Refunding		
Certificates of Participation		
Medical Center Project (Series 1994)	$	6,489
Medical Center Project (Series 1995)		161
Medical Center Project (Series 1996)		3,966
Arrowhead Refunding Project (Series 2009A)		12,314
Arrowhead Refunding Project (Series 2009B)		3,724
Total Business-Type Activities	$	26,654

(Amounts in thousands)

NOTE 10 – ADVANCES FROM OTHERS

Under both the accrual and modified accrual basis of accounting, revenue may be recognized only when earned. Therefore, both governmental funds and proprietary funds defer revenue recognition in connection with resources that have been received as of year-end, but not yet earned. A liability for advances from others such as grantor or third parties is offset by the corresponding assets recognized with a transaction before the earnings process is completed.

The balances as of June 30, 2014 of advances from others are as follows:

Governmental Funds		
General Fund		
Developer Deposits	$	4,183
Advances from Governmental Agencies		5,101
Advances from Other Agencies		1,828
Nonmajor Governmental Funds		
Advances from Governmental Agencies		3,023
Advances from Other Agencies		724
Total Governmental Funds		14,859
Internal Service Funds		
Advances from Other County Departments		155
Total Internal Service Funds		155
Government-Wide Eliminations		
Risk Management		(155)
Total Governmental Activities	$	14,859
Business-Type Funds		
Waste Systems Division		
Customer Deposits	$	820
Advances from Other Agencies		11
Nonmajor Enterprise Funds		
Advances from Other Agencies		1,041
Total Business-Type Activities	$	1,872

NOTE 11 – LONG TERM OBLIGATIONS

Primary Government

The following is a summary of long-term liability transactions for the year ended June 30, 2014:

	Beginning Balance July 1, 2013	Additions	Reductions	Ending Balance June 30, 2014	Due Within One Year
Governmental Activities					
Certificates of Participation *	$ 23,603	$ -	$ 5,597	$ 18,006	$ 5,585
Revenue Bonds, net	401,404	-	21,285	380,119	50,980
Other Bonds and Notes *	569,798	-	28,768	541,030	32,097
Compensated Absences	165,084	103,455	104,237	164,302	108,448
Termination Benefits Payable	1,394	-	1,222	172	45
Capital Lease Obligations	743	-	429	314	314
Estimated Liability for Litigation and Self -Insured Claims	215,752	67,554	43,683	239,623	47,287
Other Long-Term Liabilities	4,000	-	1,000	3,000	3,000
Total Governmental Activities - Long-term Liabilities	$ 1,381,778	$ 171,009	$ 206,221	$ 1,346,566	$ 247,756
Business Type Activities					
Certificates of Participation, net *	$ 462,857	$ -	$ 18,878	$ 443,979	$ 20,225
General Obligation Bonds	1,005	-	160	845	210
Notes	1,691	-	58	1,633	60
Compensated Absences	17,985	14,217	13,787	18,415	11,142
Termination Benefits Payable	123	-	108	15	15
Capital Lease Obligations	6,091	4,288	1,945	8,434	2,795
Pollution Remediation Obligations	66,305	2,445	10,462	58,288	4,759
Estimated Liability for Closure/ Postclosure Care Costs	99,668	3,367	1,513	101,522	4,727
Total Business-type Activities - Long-term Liabilities	$ 655,725	$ 24,317	$ 46,911	$ 633,131	$ 43,933

* Beginning balance restated to reflect the reclassification of deferred charges on refunding to deferred outflows of resources in accordance with GASB 65

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above totals for governmental activities. Also, for the governmental activities, compensated absences are mostly liquidated by the General Fund.

Termination Benefits Payable

In March 2009, the County offered a Retirement Incentive Program to employees as a salary savings measure for the upcoming years. Under this program, employees retiring between March 3, 2009 and June 30, 2009 were eligible to receive $250 (not expressed in thousands) for each completed quarter of continuous regular County service or $1,000 per year of service (not expressed in thousands), payable annually over a five-year period. The position would have to remain vacant.

Approximately 304 employees accepted the incentive and retired during the eligible period. The county-wide termination benefit payable at June 30, 2014 is $187. The fifth annual installment payment was paid in July 2013. Over the span of the program, 16 employees returned to work and are not eligible to receive payments during a year in which they are employed by the County. Of the 16 employees who returned to work, 8 remain employed by the County as of June 30, 2014. The remaining installment payments for these 8 employees will be deferred until their employment with the County ends.

NOTE 11 – LONG TERM OBLIGATIONS (CONTINUED)

Pollution Remediation Obligations

GASB 49, *"Accounting and Financial Reporting for Pollution Remediation Obligations*", addresses pollution remediation obligations. Once an obligating event occurs, governments are required to estimate expected cash outlays for the various components of expected remediation activities related to current or potential detrimental effects of existing pollution.

Solid Waste Management Division

The County, through its Solid Waste Management Division (SWMD) has been named as a discharger in orders issued by the Santa Ana Regional Water Quality Control Board (RWQCB) for perchlorate and volatile organic compounds (VOC) in the groundwater in the Rialto-Colton Basin. The County operates its Mid-Valley Sanitary Landfill, including an undeveloped area planned for expansion, on land overlying the Rialto-Colton basin. The County has been named in lawsuits to compel it to participate in pollution remediation in the Rialto-Colton Basin alleged to be related to activities at the Mid-Valley Sanitary Landfill, including the expansion property.

SWMD is currently managing a groundwater remediation project down gradient from the Mid-Valley Landfill and the expansion property. The expansion property is immediately adjacent to land formerly used in various manufacturing operations. Perchlorate and VOC have been detected in groundwater.

In 2002 to 2004, directives were issued by the RWQCB to SWMD requesting investigation into groundwater impacts and the preparation of a corrective action plan to address the impacts. SWMD, following RWQCB protocol, conducted a variety of additional tests and analysis for perchlorate and VOC in the portion of the Rialto-Colton Basin down gradient of the Mid-Valley Landfill and the expansion property. The findings led to the preparation and implementation of a remediation plan approved by the RWQCB.

Further, as the current owner of land on which the former Broco Treatment, Storage, and Disposal Facility (TSDF) operated until 1987, currently identified as the Unit 5 Area of the Mid-Valley Sanitary Landfill, the County became legally obligated to complete the closure that the former Broco owner/operator had failed to do in the late 1980s when the Broco TSDF was closed and relocated. The 1998 Environmental Impact Report for the Mid-Valley Expansion mentioned the need to investigate the soils due to some then-recently discovered groundwater impacts; but SWMD was unaware of the unclosed TSDF at the time of purchase of the land in 1993-1994.

SWMD was advised in a letter from the Department of Toxic Substances Control (DTSC) in September 2002 that the County would need to formally close this regulated facility. The closure plan was first submitted to the DTSC in 2005, and has been amended in 2007 and 2009 pursuant to DTSC review and request for changes. The DTSC completed its environmental review of the closure plan in October 2010 and approved the closure plan. During FY 2009-10 SWMD was able to reasonably estimate the cost to close the facility, and the cost has been added to the pollution remediation obligations. In addition, SWMD disclosed in FY 2010-11 an occurrence of a pollution event at the inactive Yucaipa Disposal Site. A VOC plume had been detected in the groundwater, which had migrated beyond the landfill boundary. SWMD continues to work closely with the RWQCB to ensure its pollution remediation measures adequately address the contamination.

NOTE 11 – LONG TERM OBLIGATIONS (CONTINUED)

On July 20, 2011 RWQCB approved SWMD's engineering feasibility study for corrective action at the Yucaipa Disposal Site. The study evaluates existing nature and extent for groundwater pollution and appraises several remedial action alternatives to address the VOC plume at the landfill. On September 14, 2011 SWMD submitted to RWQCB the work plan for the bio-enhancement corrective action program pilot study to evaluate the effectiveness of in-situ bio-enhancement technology as a full-scale corrective action approach to treat groundwater impacted by VOC. On September 23, 2011 the RWQCB approved the pilot study.

SWMD disclosed, to the State of California, in FY 2011-12 the occurrence of a pollution event at the inactive Heaps Peak Disposal Site. A landfill leachate discharge occurred that threatened the groundwater. SWMD is working very closely with the RWQCB to ensure its pollution remediation measures address the contamination.

On July 19, 2011, the RWQCB issued a Notice of Violation for this event. SWMD submitted a work plan to provide for leachate collection, treatment, and disposal to correct this problem that was approved by the RWQCB. Under this work plan: a) a contract task order was initiated in May 2011 (work commenced in FY 2012-13) for the installation of an influent storage tank and retaining wall, b) a contract was initiated in July 2013 to construct the leachate treatment system, and c) a contract work order was initiated in September 2011 for the installation of a new groundwater monitoring well.

In FY 2013-14 the estimated total pollution remediation liability decreased from $66,305 at June 30, 2013 to $58,288 at June 30, 2014. The effect of any changes in the estimated total current cost of pollution remediation is reported primarily in the period of change. The major contributing factors that caused the pollution remediation liability to decrease by $8,017 are listed below:

- The Mid-Valley net liability decreased by a net $7,633 primarily due to current expenses incurred, new lower cost contracts and the removal of liability components completed less than original planned cost. No new scope of work was enacted in FY 2013-14 for this site.

- The Yucaipa net liability increased by a net $193 primarily due to new higher cost contracts. No other major cost estimate change, and no new scope of work, was enacted in FY 2013-14 for this site.

- The Heaps Peak net liability decreased by a net $577 primarily due to current expenses incurred and new lower cost contracts. No new scope of work was enacted in FY 2013-14 for this site.

Current and future estimated remediation costs are based on actual component costs adjusted for inflation in the post FY 2013-14 fiscal years. Future estimates may be revised to reflect changes to equipment and service costs as well as any changes in technology and regulations. In FY 2013-14 SWMD expensed $2,104 in performing pollution remediation activities at Mid-Valley Landfill, Yucaipa Disposal Site and Heaps Peak Disposal Site. Outlays are expected to be incurred in FY 2014-15 totaling $4,759. The presence of perchlorate, VOC and leachate will continue to be remediated and monitored with an expected estimated outlay of $53,529 from FY 2015-16 through FY 2040-41.

Department of Airports

In June 2008 the California Regional Water Control Board issued Cleanup and Abatement Order No R8-2008-0064 to the San Bernardino County Department of Airports. The order requires the County to cleanup or abate the effects of Volatile Organic Compounds (VOCs), specifically trichloroethylene (TCE), that have been discharged as a result of historical activities at the Airport. An investigation is in progress to characterize the boundaries of pollution. The liability related to the cleanup is not reasonably estimable at this time.

NOTE 11 – LONG TERM OBLIGATIONS (CONTINUED)

Other Long-Term Liabilities

At June 30, 2014 $3,000 is owed to the United States Army Corp of Engineers for the construction of the San Timoteo Creek Project. The Flood Control District has agreed to pay back the loan and accrued interest upon completion of the project over a twenty year payment plan. It is anticipated that the project will be completed in 2016.

Bonds and Notes Payable

Certificates of Participation

Certificates of Participation (COP) are secured by annual lease payments payable by the County for use of the facilities constructed or acquired from the COP proceeds. The County has created a nonprofit organization and a joint powers authority to issue the Certificates in accordance with California Government Code. The County leases various projects from the corporation. The lease payments are used by the corporation to pay interest on, and principal of, the COPs.

The Certificates of Participation contain certain bond covenants, which are deemed by the County to be duties imposed by law. The County must include the applicable lease-purchase payments due each year in its annual budget and make the necessary appropriations. The County is also covenanted to maintain certain levels of liability, property damage, casualty, rental interruption and earthquake insurance in connection with each lease-purchase agreement. The County is in compliance with all significant financial restrictions and requirements as set forth in its various debt covenants. In addition, the County is in compliance with arbitrage regulations on all applicable bonds. Arbitrage computations are computed on an annual basis to determine if a rebate or liability exists as described in Section 103 of the Internal Revenue Code of 1954, Section 148(f) of the Internal Revenue Code of 1986, as amended and all applicable regulations issued there under.

In prior years, the County has defeased certain Certificates of Participation by placing the proceeds of new certificates in an irrevocable trust to provide for all future debt service payments on the old certificates. Accordingly, the trust account assets and the liability for the defeased certificates are not included in the County's basic financial statements. At June 30, 2014 approximately $61,070 of outstanding debt was considered defeased.

San Bernardino County Financing Authority

In November 1995, San Bernardino County Financing Authority (Authority) issued Revenue Bonds for the purpose of enabling the County to finance its share of unfunded pension indebtedness. The Authority has deep-discounts associated with the pension obligation bonds, which 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. As of June 30, 2014, the accumulated accretion of interest expense was $91,404.

NOTE 11 – LONG TERM OBLIGATIONS (CONTINUED)

In June 2007, the Authority issued Revenue Bonds in order to provide funds for the County to finance the costs of refurbishing and renovating a county courthouse facility. 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 the County. Only Surcharge Revenue received after June 29, 2007 has been pledged. The collection of the Surcharge shall terminate upon repayment of the amortized costs incurred, or 30 years from the sale of the Revenue Bonds, whichever occurs first. Surcharge revenues are projected to produce 150 percent of the debt service requirements over the remaining life of the bonds. Excess Surcharge Revenue shall be used to pay for costs of improvements.

The debt service schedule for the current fiscal year required principal and interest payments totaling $1,279. The total surcharge revenues received during the fiscal year totaled $1,819. The bonds are subject to a special mandatory redemption prior to maturity, if the debt service coverage ratio for the immediately prior bond year is less than 150 percent. The current coverage ratio was below the required 150 percent, thus the remaining excess Surcharge Revenue shall be used for a special mandatory redemption of the bonds to occur on December 1, 2014, which is the next scheduled interest payment date. Total principal and interest remaining on the bonds is $28,942. Interest is payable semi-annually at interest rates from 5.10 percent to 5.50 percent starting December 1, 2007. $3,100 is expected to mature on June 17, 2017, and $15,270 is expected to mature on June 1, 2037. The bonds are not subject to optional redemption prior to maturity.

Pension Obligation Bonds 2004 and 2008 Series

The County Board of Supervisors adopted a resolution to authorize the issuance of the County of San Bernardino pension obligation debenture in order to finance the County's share of the unfunded accrued actuarial liability of the San Bernardino County Employee Retirement Association (SBCERA). On June 24, 2004, the County issued County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in respective aggregate principal amounts of $189,070, $149,825, and $125,000.

The Bonds have various maturity dates ranging from: 2005 to 2018 for Fixed Rate Bonds; 2004 to 2023 for Auction Rate Bonds; and 2004 to 2023 for Index Bonds. Series 2004 A Fixed Rate Bonds have fixed interest rates that range from 2.43% to 5.86%. The Series 2004 B Pension Obligation Bonds were fully refunded in April 2008 by the issued Pension Obligation Refunding Bonds, Series 2008, which have a fixed interest rate of 6.020%.

(Amounts in thousands)

NOTE 11 – LONG TERM OBLIGATIONS (CONTINUED)

A summary of bonds and notes payable recorded in the governmental activities and payable from Debt Service Funds is as follows:

Certificates of Participation	Interest Rates (%)	Issue Date	Maturity Date	Original Issue Amount	Outstanding as of 6/30/2014
Justice Center/Airport Improvement	3.00 to 5.00	3/1/2002	7/1/2016	$ 68,100	$ 17,740
Premium (Discounts):					
Justice Center/Airport Improvement					266
Net Certificates of Participation					**18,006**
Revenue Bonds					
Pension Obligation Bonds (1995)	5.68 to 7.72	11/22/1995	8/1/2021	386,266	477,670
Courthouse Project Bonds (2007)	5.10 to 5.50	6/29/2007	6/30/2037	18,370	16,460
Subtotal					494,130
Premium/(Discounts):					
Pension Obligation Bonds (1995)					(114,011)
Net Revenue Bonds					**380,119**
Other Bonds and Notes					
County Library Note	3.41	7/18/2001	2/1/2031	1,982	1,386
CSA 70 Zone G Wrightwood Loan	6.38	12/30/2006	12/30/2016	725	227
Flood Control District:					
Judgment Obligation Bonds (Series A)	4.50 to 5.00	5/30/2007	8/1/2029	58,355	47,425
Refunding Bonds (Series 2007)	4.25 to 5.00	5/29/2007	8/1/2021	23,845	16,320
Refunding Bonds (Series 2008)	0.66 to 4.86	4/16/2008	8/1/2037	37,295	37,295
Pension Obligation Bonds (2004)	0.54 to 5.86	6/24/2004	8/1/2023	463,895	242,650
Pension Obligation Refunding Bonds (2008)	6.02	4/16/2008	6/30/2024	160,900	156,910
West Valley Detention Center Refinancing Notes (2012)	2.59	3/29/2012	11/1/2018	51,585	37,835
Subtotal					540,048
Premium/(Discounts):					
Flood Control District:					
Judgment Obligation Bonds (Series A)					290
Refunding Bonds (Series 2007)					692
Net Other Bonds and Notes					**541,030**
Total Governmental Activities					**$ 939,155**

Medical Center (COP)

Certificates of Participation (COP) are secured by annual lease payments payable by the County for use of the facilities constructed or acquired from the COP proceeds. The County has created a nonprofit public benefit corporation, Inland Empire Public Facilities Corporation (IEPFC), to issue the Certificates. The County leases various projects from the corporation. The lease payments are used by the corporation to pay interest and principal of the COPs.

County Service Area

General Obligation Bonds are issued to provide funds for the acquisition and construction of major capital facilities. These bonds are backed by the full faith and credit of the County and revenue for the retirement of such bonds is provided by ad valorem taxes on property within the jurisdiction of the governmental unit issuing the bonds.

(Amounts in thousands)

NOTE 11 – LONG TERM OBLIGATIONS (CONTINUED)

A summary of bonds and notes payable recorded in the business-type activities is as follows:

Certificates of Participation:	Interest Rates (%)	Issue Date	Maturity Date	Original Issue Amount	Outstanding as of 6/30/2014
Medical Center Project (Series 1994)	4.60 to 7.00	2/1/1994	8/1/2028	$ 283,245	$ 112,175
Medical Center Project (Series 1995)	4.80 to 7.00	6/1/1995	8/1/2022	363,265	17,500
Medical Center Project (Series 1996)	5.00 to 5.25	1/1/1996	8/1/2028	65,070	63,205
Arrowhead Refunding Project (Series 2009A)	3.00 to 5.50	12/17/2009	8/1/2026	243,980	210,820
Arrowhead Refunding Project (Series 2009B)	3.00 to 5.25	12/17/2009	8/1/2026	44,750	43,880
					447,580
Premium (Discounts):					
Medical Center Project (Series 1994)					(4,401)
Medical Center Project (Series 1995)					(140)
Medical Center Project (Series 1996)					(2,040)
Arrowhead Refunding Project (Series 2009A)					3,087
Arrowhead Refunding Project (Series 2009B)					(107)
Net Certificates of Participation					**443,979**
General Obligation Bonds					
Spring Valley Lake Sewer Facilities:					
Series A	6.50 to 6.75	2/15/1972	2/15/2002	1,300	15
Series B	6.10 to 6.15	4/1/1974	4/1/2004	1,000	15
Helendale Sewer Facilities:					
Series A	5.00	6/1/1978	6/1/1998	1,550	5
Helendale Water Facilities:					
Series B	7.00	9/1/1982	6/1/1997	1,450	5
Pinon Hills Water Distribution:					
Series A	5.00	3/1/1978	3/1/2018	1,708	350
Series B	5.00	3/1/1978	3/1/2018	275	40
Series C	9.00 to 11.00	11/1/1984	3/1/2005	1,518	5
Landers Water Distribution System	5.00	6/1/1979	6/1/2019	1,540	405
Oak Hills Water Distribution Facilities	7.00	9/1/1974	9/1/1994	750	5
General Obligation Bonds					**845**
Notes Payable					
Oak Hills Water (Loan)		11/25/2003	8/25/2033	2,150	1,633
Notes Payable					**1,633**
Total Business Type Activities					**$ 446,457**

Additional information on the County's long-term debt can be found in the separately issued financial statements of the Inland Empire Public Facilities Corporation and the San Bernardino County Financing Authority.

(Amounts in thousands)

NOTE 11 – LONG TERM OBLIGATIONS (CONTINUED)

The following is a schedule of principal debt service requirements to maturity as of June 30, 2014 for COPs, bonds and notes payable in the governmental activities:

Years Ending June 30	Certificates of Participation	Revenue Bonds	Other Long-Term Debt	Total
2015	$ 5,585	$ 50,980	$ 32,097	$ 88,662
2016	5,950	53,050	35,965	94,965
2017	6,205	55,800	40,014	102,019
2018	-	58,675	44,408	103,083
2019	-	61,705	48,876	110,581
2020 - 2024	-	202,695	280,339	483,034
2025 - 2029	-	3,425	19,095	22,520
2030 - 2034	-	4,475	20,113	24,588
2035 - 2039	-	3,325	19,141	22,466
Total Principal	17,740	494,130	540,048	1,051,918
Plus: Premium	266	-	982	1,248
Less: Discount	-	(114,011)	-	(114,011)
Total Bonds and Notes Payable	$ 18,006	$ 380,119	$ 541,030	$ 939,155

The following is a schedule of interest expense requirements to maturity as of June 30, 2014 for COPs, bonds and notes payable in the governmental activities:

Years Ending June 30	Certificates of Participation	Revenue Bonds	Other Long-Term Debt	Total
2015	$ 747	$ 886	$ 21,690	$ 23,323
2016	459	851	20,044	21,354
2017	155	831	18,156	19,142
2018	-	810	16,031	16,841
2019	-	786	13,617	14,403
2020 - 2024	-	3,536	40,780	44,316
2025 - 2029	-	2,731	11,945	14,676
2030 - 2034	-	1,679	6,856	8,535
2035 - 2039	-	372	1,597	1,969
Total Interest	$ 1,361	$ 12,482	$ 150,716	$ 164,559

The following is a schedule of principal debt service requirements to maturity as of June 30, 2014 for COPs, bonds and notes payable in the business-type activities:

Years Ending June 30	Certificates of Participation	General Obligation Bonds	Notes Payable	Total
2015	$ 20,225	$ 210	$ 60	$ 20,495
2016	21,270	170	62	21,502
2017	22,380	180	64	22,624
2018	23,630	190	66	23,886
2019	24,920	95	68	25,083
2020 - 2024	147,600	-	373	147,973
2025 - 2029	187,555	-	434	187,989
2030 - 2034	-	-	506	506
Total Principal	447,580	845	1,633	450,058
Plus: Premium	3,087			3,087
Less: Discount	(6,688)	-	-	(6,688)
Total Bonds and Notes Payable	$ 443,979	$ 845	$ 1,633	$ 446,457

(Amounts in thousands)

NOTE 11 – LONG TERM OBLIGATIONS (CONTINUED)

The following is a schedule of interest expense requirements to maturity as of June 30, 2014 for COPs, bonds and notes payable in the business-type activities:

Years Ending June 30	Certificates of Participation	General Obligation Bonds	Notes Payable	Total
2015	$ 22,813	$ 65	$ 49	$ 22,927
2016	21,711	32	48	21,791
2017	20,540	23	46	20,609
2018	19,299	14	44	19,357
2019	18,037	5	42	18,084
2020 - 2024	67,820	-	175	67,995
2025 - 2029	23,917	-	112	24,029
2030 - 2034	-	-	40	40
Total Interest	$ 194,137	$ 139	$ 556	$ 194,832

<u>Agreement with Liquidity Facilities</u>

Flood Control (Flood) Refunding Bonds (Series 2008): In April 2008, Flood issued Refunding Bonds, Series 2008, in the amount of $37,295. Interest on the Refunding Bonds, Series 2008 is paid at a Weekly Rate Mode interest rate payable on the first Business Day of each calendar month commencing on May 1, 2008. Principal payments are due annually in various amounts commencing August 1, 2029 through 2037. The outstanding balance at June 30, 2014 was $37,295.

The Bonds were issued to refund all of Flood's outstanding $45,000 San Bernardino County Flood Control District Judgment Obligation Bonds, Series B, which were issued to refund a portion of certain obligations of Flood under a settlement agreement relating to an inverse condemnation action against Flood, fund interest on the Series 2008 Bonds at an assumed rate of 4.86% through August 1, 2008 and costs of issuance incurred in connection with the issuance of the Series 2008 Bonds. The interest rate is variable and is shown at the assumed rate of 4.86% in the repayment schedule.

The Bonds have an optional tender provision that gives the bondholder the option of selling their Bonds back to Flood, at par, upon seven days' notice. Flood has obtained a direct pay, irrevocable letter of credit (LC) from Bank of America ("Bank") to provide credit support, and cash for such tenders, in the event tendered Bonds cannot be immediately remarketed to another investor. Flood entered into a Reimbursement Agreement and Fee Letter with the Bank in July of 2011 to document the terms related to the issuance of the LC. Flood did not pay any upfront commitment fee to the Bank for this LC; however it pays a facility fee at agreed upon rates on the Available Amount of the LC (as defined in the LC agreement). This LC is an irrevocable direct pay letter of credit with an initial stated expiration date of July 5, 2013, which has been extended to July 5, 2016.

The LC is directly drawn on monthly to make the interest payment on the Bonds. The Bank is reimbursed for the monthly draw on the LC with the debt service payments made by Flood. An LC draw would also occur if an investor exercises the optional tender provision and the Bonds cannot be immediately remarketed to another investor. In the event of a draw on the LC to purchase bonds that have been tendered but not remarketed (Liquidity Advance) that is not repaid by Flood within 90 days, the Liquidity Advance will convert to a Term Loan on the ninety first day, if conditions precedent to a Term Loan are satisfied by Flood.

(Amounts in thousands)

NOTE 11 – LONG TERM OBLIGATIONS (CONTINUED)

As of June 30, 2014, there were no outstanding 2008 Judgment Obligation Bonds that have been tendered but failed to be remarketed. In accordance with the agreement, in the event any Bonds are optionally tendered and cannot be remarketed, interest on tendered Bonds for the first ninety days is paid to the Bank at the highest of a) Prime Rate in effect for such day plus 1.5%, b) overnight effective federal funds rate for such day as quoted in the "*Composition Closing Quotations for U.S. Government Securities*" published by the Federal Reserve Bank of New York plus 3%, c) 7.5% or d) the maximum rate of interest borne by Bonds that are still held by investors. If a Liquidity Advance remains outstanding after ninety days, and if conditions precedent to a Term Loan is satisfied by Flood, the rate paid to the Bank on the Term Loan is the highest of a) through d) above, plus 1%.

The following schedule represents a debt service scenario in which all the bonds are tendered by investors on July 1, 2014 and fail to be remarketed during the Liquidity Advance and Term Loan periods. The scenario assumes that interest on the Liquidity Advance is paid at a rate of 7.5%, and that interest on the Term Loan is paid at a rate of 8.5%. Principal is amortized as required in the Reimbursement Agreement over the Term Loan period.

Years Ending June 30	Principal	Interest	Total
2015	$ 10,600	$ 2,704	$ 13,304
2016	10,600	1,895	12,495
2017	10,700	990	11,690
2018	5,395	154	5,549
	$ 37,295	$ 5,743	$ 43,038

Conduit Debt (Limited Obligation)

Single and Multi-Family Mortgage Revenue Bonds

The County issues Single Family Mortgage Revenue Bonds to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single-family residences. Additionally, the County issues Multi-Family Mortgage Revenue Bonds to finance the construction of multi-family apartment projects in the County. These programs assist persons and families of low and moderate income within the County to afford the costs of safe and sanitary housing. The bonds will be payable solely from and secured by a pledge of payment received on the acquired mortgage loans, certain insurance with respect thereto, and other monies pledged under the bond resolution. Single Family Mortgage Revenue Bonds of $1,517 and Multi-Family Mortgage Revenue Bonds of $68,738 at June 30, 2014 do not represent a liability of the County and, as such, do not appear in the accompanying basic financial statements.

School District General Obligation Bonds

The County of San Bernardino issued General Obligation Bonds (GOB) on behalf of certain Schools within the San Bernardino School District. The GOBs are payable solely by ad valorem taxes to be levied within the District. The General Obligation Bonds of $11,900 at June 30, 2014 do not represent a liability of the County and, as such, do not appear in the accompanying basic financial statements.

Special Assessment Bonds

The County acts as an agent for the property owners benefited by the projects financed from special assessment bond proceeds, in collecting the assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if appropriate. Special assessment bonds of $24,632 at June 30, 2014 do not represent a liability of the County and, as such, do not appear in the accompanying basic financial statements.

(Amounts in thousands)

NOTE 11 – LONG TERM OBLIGATIONS (CONTINUED)

Discretely Presented Component Units

Long-term liability transactions for FIRST 5 of San Bernardino for the year ended June 30, 2014, are as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
Compensated Absences	$ 161	$ 164	$ 148	$ 177	$ 16

NOTE 12 – LEASES

Capital Leases

The County has entered into certain capital lease agreements under which the related equipment will become the property of the County when all terms of the lease agreements are met. Equipment and related accumulated amortization as of June 30, 2014 for capital leases are as follows:

	Governmental Activities	Business-type Activities
Asset:		
Equipment	$ 1,708	$ 24,046
Less: Accumulated depreciation	1,409	13,824
Total	$ 299	$ 10,222

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, are as follows:

Year Ending June 30:	Governmental Activities	Business-type Activities
2015	$ 324	$ 2,896
2016	-	2,528
2017	-	1,590
2018	-	907
2019	-	806
Total Minimum Lease Payments	324	8,727
Less: Amount Representing Interest	(10)	(293)
Present Value of Minimum Lease Payments	$ 314	$ 8,434

Operating Leases

The County leases building and office facilities and other equipment under non-cancelable operating leases. Total costs for such leases were $43,515 for the year ended June 30, 2014. The future minimum lease payments for these leases are as follows:

Year Ending June 30,	
2015	$ 74,429
2016	68,535
2017	42,289
2018	31,679
2019	28,185
2020-2024	92,170
Total Minimum Payments	$ 337,287

(Amounts in thousands)

NOTE 13 – CLOSURE AND POSTCLOSURE CARE COST

State Financial Assurance Mechanism regulations require landfill operators to set aside funds, or provide alternative funding mechanisms to fund the closure and post-closure maintenance of landfills. The funding must be completed prior to the final date of closure. These regulations apply to solid waste landfills that have been or will be operated on or after January 1, 1988. The closure and post-closure care costs of other landfills not subject to these State regulations is funded separately in the Waste Systems Division.

Closure and post-closure care costs include, but are not limited to, such items as final cover, groundwater monitoring, well installations and landfill gas monitoring systems.

The twenty (20) landfills listed below (with their capacity used and estimated remaining lives) are those currently subject to State and federal regulations:

Landfill	Capacity Used	Years Remaining	Landfill	Capacity Used	Years Remaining
Apple Valley	100%	Inactive	Milliken	100%	Inactive
Baker	100%	Inactive	Morongo Valley	100%	Inactive
Barstow	5%	649	Needles	100%	Inactive
Big Bear	100%	Inactive	Newberry Springs	100%	Inactive
Colton	99%	5	Phelan	100%	Inactive
Hesperia	100%	Inactive	San Timoteo	35%	39
Landers	89%	4	Trona-Argus	100%	Inactive
Lenwood-Hinkley	100%	Inactive	Twentynine Palms	100%	Inactive
Lucerne Valley	100%	Inactive	Victorville	17%	179
Mid-Valley	33%	64	Yermo	100%	Inactive

The annually inflated landfill closure and post-closure care cost estimates of $215,408 and $131,417 respectively for a total of $346,825, are based upon the most recently submitted Closure/Post-Closure Maintenance Plan documents filed with the State and Federal permitting agencies. If, at some future date, these closure cost estimates are adjusted (due to changes in inflation, technology, regulations, etc.), the County is required to make corresponding changes in the amount of funds deposited for closure.

Each year a portion of each landfill's estimated closure and post-closure cost is recognized as an expense and liability based upon the amount of capacity used during the fiscal year. The increase in the estimated useful lives of Barstow, Colton and Victorville landfills in FY 2013-14 is due to revised calculations based on the availability of new engineering data pertaining to landfill capacity, density and tonnage utilization.

As of June 30, 2014, the cumulative liability recorded by the County based upon individual landfill capacity usage was $206,175 ($128,265 closure costs and $77,910 post-closure costs). The remaining $140,650 of estimated closure and post-closure costs will be recorded and funded as landfill capacities are used.

Closure and post-closure related expenses of $90,196 and $14,457 have been incurred through June 30, 2014, which reduced the landfill closure and post-closure liabilities reported in the Waste System Division enterprise fund to $38,069 and $63,453 respectively. In accordance with GASB 18, "Accounting for Municipal Solid Waste Landfill (MSWLF) Closure and Postclosure Care Costs", the effect of any changes in the estimated total current cost of closure and postclosure care is reported primarily in the period of change.

(Amounts in thousands)

NOTE 13 – CLOSURE AND POSTCLOSURE CARE COST (CONTINUED)

The estimated closure and post-closure activity for the year ended June 30, 2014 includes the following:

	Beginning Balance	Increase (Decrease)	Ending Balance
Estimated Liability for Closure Care Costs	$ 36,476	$ 1,593	$ 38,069
Estimated Liability for Postclosure Care Costs	63,192	261	63,453
Total	$ 99,668	$ 1,854	$ 101,522

In accordance with a Pledge of Revenue Mechanism adopted by the County of San Bernardino Board of Supervisors on July 28, 2009, the County has pledged tipping fees and interest revenue to fund the post-closure maintenance costs as needed. Total tipping fees received in the current fiscal year were $50,665 and post-closure expenses were $1,854. Each landfill site's maintenance costs are budgeted annually following the Closure and Post-Closure Maintenance Plan as approved by the Department of Resources Recycling and Recovery (CalRecycle). The County has restricted cash of $61,094 in the Waste System Division enterprise fund, of this amount, $59,496 is to provide financial assurance for landfill closure costs as required by CalRecycle. The term for each landfill site funding requirements is thirty (30) years starting with the date of closure as certified by the State.

NOTE 14 - SELF-INSURANCE

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to $3.5 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to $57 million is provided through a combination of insurance policies as recommended by Arthur J. Gallagher & Co., Broker of Record, as follows: Primary Liability coverage $7 million excess of $3.5 million self-insured retention with Lloyd's (Brit Syndicated 2987 – 100%) and Gemini Insurance Co.; Excess Liability coverage for $10 million, excess of $7 million with National Casualty Co.; and Excess Liability coverage of $15 million, excess of $17 million with Allied World Assurance Co. In addition, Great American Assurance Co. provides excess liability coverage of $25 million, excess of $32 million.

The Workers' Compensation program was restructured to include a cash flow SIR that applies per accident/per payment year as follows: $2 million 1st year; $1.25 million 2nd year; $600 thousand 3rd year and each year thereafter, with coverage provided by Star Insurance Co. for up to $3 million for employer's liability, and up to $150 million limits for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a $25 thousand deductible, and insured with several insurers like Affiliated FM, Alterra Excess Ins. Co., and Lloyd's of London, among others.

The County supplements its self-insurance for medical malpractice claims with a $25 million policy with Illinois Union Ins. Co., which provides annual coverage on a claim made form basis with a SIR of $2 million for each claim.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, with Berkley Regional Insurance Co. with a $100 thousand deductible, and excess limits up to $10 million per occurrence.

(Amounts in thousands)

NOTE 14 - SELF-INSURANCE (CONTINUED)

The activities related to such programs are accounted for in the Risk Management Department's internal service funds ("Funds"), except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The liabilities recorded in these Funds are based on the results of actuarial studies and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 0.324% and an actuarially-determined 80% confidence level. It is the County's practice to obtain actuarial studies on an annual basis.

The total claims liability of $239.62 million reported at June 30, 2014 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated.

Changes in the claims liability amount in fiscal years 2013 and 2014 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2012-13	$166,949	$88,771	($39,968)	$215,752
2013-14	$215,752	$67,554	($43,683)	$239,623

NOTE 15 – COLLATERALIZED FACILITIES

The following County Facilities have been pledged as collateral in certain County financing transactions:

Facilities	Beginning	Additions	Deletions	Ending
Foothill Law and Justice	$ 42,642	$ -	$ -	$ 42,642
Victorville Law Center	8,644	-	-	8,644
West Valley Detention Center	146,327	-	-	146,327
Courthouse & Annex	9,450	-	-	9,450
West Valley Juvenile Detention Center	5,077	-	-	5,077
Arrowhead Regional Medical Center	490,481	-	-	490,481
Hall of Records (New)	12,666	-	-	12,666
Hall of Records (Old)	2,054	-	-	2,054
Glen Helen Pavilion Amphitheater	26,174	-	-	26,174
Sheriff's Admin Bldg	13,416	-	-	13,416
County Government Center	25,711	-	-	25,711
	$ 782,642	$ -	$ -	$ 782,642

These facilities remain pledged as collateral until the associated County financing transactions become paid in full. The Hall of Records (Old) facility was pledged as part of the 1997 Lease/Leaseback lease agreement (see Note 20). The respective sublease is scheduled to terminate on July 1, 2014 (and the termination did occur as of that date).

(Amounts in thousands)

NOTE 16 – DEFERRED INFLOWS OF RESOURCES

The County recognized deferred inflows of resources in the fund financial statements. These items are an acquisition of net position by the County that is applicable to a future reporting period.

The balances as of June 30, 2014 of deferred inflows of resources are as follows:

Governmental Funds		
Unavailable Revenues:		
General Fund		
Property Tax Receivable	$	14,668
Interest Receivable		20,711
Due from Governmental Agencies		51,568
Sub-Total		86,947
Capital Improvement Fund		
Interest Receivable		166
Due from Governmental Agencies		959
Sub-Total		1,125
Nonmajor Governmental Funds		
Property Tax Receivable		6,626
Interest Receivable		644
Due from Governmental Agencies		3,132
Due from Other Agencies		1,305
Sub-Total		11,707
Total Governmental Funds	$	99,779

(Amounts in thousands)

NOTE 17 – FUND BALANCES DETAIL

Details of Fund Balance Classifications reported in Governmental Funds are as follows:

	General Fund	Capital Improvement Fund	Nonmajor Special Revenue Funds	Nonmajor Debt Service Funds	Nonmajor Capital Project Funds	Nonmajor Permanent Funds	Total
Nonspendable:							
Loan Receivable	$ 56,827	$ -	$ -	$ -	$ -	$ -	$ 56,827
Noncurrent Interfund Receivable	3,929	-	-	-	-	-	3,929
Prepaid Items and Inventories	2,899	-	1,238	-	-	-	4,137
Land Held for Resale	549	-	-	-	-	-	549
Endowments	-	-	-	-	-	1,700	1,700
Total Nonspendable Fund Balance	64,204	-	1,238	-	-	1,700	67,142
Restricted for:							
Social Services Realignment	81,960	-	-	-	-	-	81,960
Health Services Realignment	69,601	-	-	-	-	-	69,601
Behavioral Health Realignment	48,935	-	-	-	-	-	48,935
Law and Justice Realignment	32,948	-	-	-	-	-	32,948
Family Support Realignment	30,184	-	-	-	-	-	30,184
Support Services Realignment	16,956	-	-	-	-	-	16,956
CalWORKs Maintenance of Effort Realignment	14,892	-	-	-	-	-	14,892
Teeter Plan	12,392	-	-	-	-	-	12,392
Aging Programs	989	-	-	-	-	-	989
Mental Health Outreach Services	141	-	-	-	-	-	141
Social Services Programs	69	-	-	-	-	-	69
Debt Service	-	-	-	37,147	-	-	37,147
Central Courthouse Project	-	-	2,230	-	-	-	2,230
Redemption Restitution Maintenance	-	-	1,199	-	-	-	1,199
Courthouse and Criminal Justice Construction	-	-	15	-	-	-	15
Redevelopment Housing	-	-	3,288	-	11,490	-	14,778
Capital Improvement Projects	-	6,774	-	-	-	-	6,774
Public Protection and Safety - Other	-	-	143	-	-	-	143
Flood Control	-	-	93,262	-	-	-	93,262
Domestic Violence Programs	-	-	827	-	-	-	827
Crime Prosecution	-	-	4,457	-	-	-	4,457
Probation Programs	-	-	10,212	-	-	-	10,212
Alternate Dispute Resolutions	-	-	97	-	-	-	97
Recorder's Micrographics	-	-	11,743	-	-	-	11,743
Local Law Enforcement Block Grant	-	-	3,403	-	-	-	3,403
Sheriff Special Projects	-	-	20,140	-	-	-	20,140
Fire Protection	-	-	61,634	-	471	-	62,105
Chino Agriculture Preserve	-	-	15,693	-	-	-	15,693
Road Operations	-	-	24,205	-	-	-	24,205
Measure I	-	-	22,352	-	-	-	22,352
Regional Development Mitigation Plan	-	-	6,872	-	-	-	6,872
Facilities Development Plans	-	-	5,910	-	-	-	5,910
Airport Operations	-	-	2,107	-	-	-	2,107
Mental Health Services Act	-	-	93,067	-	-	-	93,067
Block Grant Carryover Prg	-	-	7,319	-	-	-	7,319
Vector Control Assessments	-	-	2,879	-	-	-	2,879
Public Health - Other	-	-	854	-	-	-	854
Mental Health - Other	-	-	857	-	-	-	857
Inland Counties Emergency Medical Agencies	-	-	768	-	-	-	768
Preschool Services	-	-	12	-	-	-	12
Aging and Adult Services - Other	-	-	1,439	-	-	-	1,439
Job and Employment Services	-	-	10	-	-	-	10
Economic and Community Development	-	-	19,990	-	-	-	19,990
Wraparound Reinvestment	-	-	7,737	-	-	-	7,737
Regional Parks	-	-	1,609	-	-	-	1,609
Park and Recreation Districts	-	-	1,375	-	6,471	-	7,846
County Free Library	-	-	6,707	-	-	-	6,707
County Service Area	-	-	22,403	-	1,465	-	23,868
Total Restricted Fund Balance	309,067	6,774	456,815	37,147	19,897	-	829,700

(Amounts in thousands)

NOTE 17 – FUND BALANCES DETAIL (CONTINUED)

	General Fund	Capital Improvement Fund	Nonmajor Special Revenue Funds	Nonmajor Debt Service Funds	Nonmajor Capital Project Funds	Nonmajor Permanent Funds	Total
Committed to:							
Medical Center Debt Service	$ 32,075	$ -	$ -	$ -	$ -	$ -	$ 32,075
Glen Helen Rehabilitation Center Jail Upgrade	22,500	-	-	-	-	-	22,500
New Property Tax System	20,000	-	-	-	-	-	20,000
New Financial Accounting System	13,000	-	-	-	-	-	13,000
Earned Leave	10,603	-	-	-	-	-	10,603
Animal Shelter Capital Project	10,000	-	-	-	-	-	10,000
Adelanto Detention Center Jail Upgrade	9,969	-	-	-	-	-	9,969
Retirement	8,500	-	-	-	-	-	8,500
West Valley Detention Center Jail Upgrade	7,000	-	-	-	-	-	7,000
Rim Forest Drainage Project	5,900	-	-	-	-	-	5,900
Land Use Services Plan and Amendments	5,400	-	-	-	-	-	5,400
Glen Helen Grade Separation Project	5,328	-	-	-	-	-	5,328
Cal Fresh Waiver Discontinuance	5,000	-	-	-	-	-	5,000
County Buildings and Acquisition Retrofit Project	4,000	-	-	-	-	-	4,000
303 Building Upgrades Project	4,000	-	-	-	-	-	4,000
Redevelopment Agency Overpayment	3,800	-	-	-	-	-	3,800
Insurance	3,000	-	-	-	-	-	3,000
Permit Systems Upgrade	2,000	-	-	-	-	-	2,000
Restitution	1,545	-	-	-	-	-	1,545
Revolving Loan Program	2,000	-	-	-	-	-	2,000
Total Committed Fund Balance	175,620	-	-	-	-	-	175,620
Assigned to:							
Workers Compensation Rebate	16,742	-	-	-	-	-	16,742
Automated Systems Development	11,938	-	-	-	-	-	11,938
Redemption Restitution Maintenance	-	-	190	-	-	-	190
Industrial Development Authority	-	-	56	-	-	-	56
800 MHZ Upgrade Project	-	45,394	-	-	-	-	45,394
Sheriff's Crime Lab	-	15,074	-	-	-	-	15,074
Needles Fire Station	-	2,350	-	-	-	-	2,350
5th Street Seismic Retrofit and Improvements	-	12,820	-	-	-	-	12,820
3rd Street Seismic Retrofit and Improvements	-	6,500	-	-	-	-	6,500
County Buildings and Retrofit	-	5,175	-	-	-	-	5,175
Maintenance, Upgrades and Other Capital Outlay	-	43,645	-	-	-	-	43,645
High Desert Animal Shelter	-	1,235	-	-	-	-	1,235
Indigent Defense Program	-	-	164	-	-	-	164
Disaster Recovery	-	-	202	-	-	-	202
Flood Control	-	-	1,397	-	-	-	1,397
Sheriff Special Projects	-	-	2,753	-	-	-	2,753
Road Operations	-	-	19,004	-	-	-	19,004
Airport Operations	-	-	1,696	-	-	-	1,696
Master Settlement Agreement	-	-	21,457	-	-	-	21,457
Mental Health	-	-	1,315	-	-	-	1,315
Human Resources	-	-	1,860	-	-	-	1,860
Economic and Community Development	-	-	212	-	-	-	212
Regional Parks	-	-	1,744	-	-	-	1,744
San Manuel Amphitheater	-	-	573	-	-	-	573
Total Assigned Fund Balance	28,680	132,193	52,623	-	-	-	213,496
Unassigned Fund Balance	239,221	-	-	-	-	-	239,221
Total Fund Balances	$ 816,792	$ 138,967	$ 510,676	$ 37,147	$ 19,897	$ 1,700	$ 1,525,179

NOTE 18 – MEDICARE AND MEDI-CAL PROGRAMS

The Medical Center provides services to eligible patients under Medi-Cal and Medicare programs. For the years ended June 30, 2014 and 2013, the Medi-Cal program represented approximately 50% and 46%, and the Medicare program represented approximately 26% and 25%, respectively, of the Medical Center’s net patient service revenues. Medi-Cal inpatient services are reimbursed at contractually agreed upon per diem rates and outpatient services are reimbursed under a schedule of maximum allowances. Medicare inpatient services are reimbursed based upon pre-established rates for diagnostic-related groups. Outpatient services are reimbursed based on prospectively determined payments per procedure under a system called Ambulatory Payment Classifications. Certain defined capital and the medical education costs related to Medicare beneficiaries are paid based on a cost-reimbursement methodology. Final reimbursement is determined as a result of audits by

NOTE 18 – MEDICARE AND MEDI-CAL PROGRAMS (CONTINUED)

the intermediary of annual cost reports submitted by the Medical Center. Reports on the results of such audits have been received through June 30, 2010 for Medicare and June 30, 2012 for Medi-Cal. Adjustments as a result of such audits are recorded in the year the amounts can be determined.

Additional detailed financial information, including separately issued financial statements, can be obtained from the Auditor-Controller/Treasurer/Tax Collector's Office at 222 W. Hospitality Lane, San Bernardino, CA 92415-0018.

NOTE 19 – RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) administers the SBCERA pension plan – a cost-sharing multiple-employer defined benefit pension plan (the Plan). SBCERA was established in 1945 and operates under the provisions of the California County Employees' Retirement Law of 1937 (CERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA) and the regulations, procedures and policies adopted by SBCERA's Board of Retirement (Board). The Plan's provisions may be amended by the California state legislature and in some cases require approval by the County of San Bernardino Board of Supervisors and/or the SBCERA Board.

SBCERA provides retirement, disability, death and survivor benefits to its members, who are employed by 17 active plan sponsors (employers) and 3 withdrawn employers which include: The County of San Bernardino, Barstow Fire Protection District, California Electronic Recording Transaction Network Authority, California State Association of Counties, City of Big Bear Lake, City of Chino Hills, Crestline Sanitation District, Department of Water and Power for the City of Big Bear Lake, Hesperia Recreation and Park District, Inland Library System, Inland Valley Development Agency (withdrew June 30, 2012), Law Library for San Bernardino County, Local Agency Formation Commission, Mojave Desert Air Quality Management District, Rim of the World Recreation and Park District (withdrew May 4, 2013), San Bernardino Associated Governments, San Bernardino International Airport Authority (withdraw June 30, 2012), SBCERA, South Coast Air Quality Management District (SCAQMD), and Superior Court of California County of San Bernardino.

Fiduciary Responsibility

Fiduciary oversight of SBCERA is vested with the SBCERA Board, which consists of nine voting members and two alternate members. Four members are appointed by the County of San Bernardino's Board of Supervisors, six members (including two alternates) are elected by the members of SBCERA (General members elect two members, Safety members elect one member and one alternate, and retired members elect one member and one alternate) and the County of San Bernardino Treasurer (County Treasurer) is an ex-officio member. Board members serve three-year terms, with the exception of the County Treasurer, who serves during his tenure in office. The Board meets monthly. Appointed and retired members of the Board receive compensation (a stipend for meeting attendance), and all members are reimbursed for necessary expenses pursuant to Government Code section 31521. SBCERA's Chief Executive Officer is appointed by the Board, and implements the policy and direction set by the Board.

SBCERA publishes its own Comprehensive Annual Financial Report (CAFR) and receives its own independent audit. SBCERA is a legally separate entity from the County of San Bernardino, not a component unit, and there is no financial interdependency with the County of San Bernardino. For these reasons, the County of San Bernardino's Comprehensive Annual Financial Report excludes the SBCERA pension trust fund as of June 30, 2014. An electronic copy of SBCERA's CAFR is available on SBCERA's website at www.SBCERA.org.

(Amounts in thousands)

NOTE 19 – RETIREMENT PLAN (CONTINUED)

Funding Policy

Participating employers and active members are required by statute to contribute a percentage of covered salary to the Plan. This requirement is pursuant to Government Code sections 31453.5 and 31454, for participating employers, and Government Code sections 31621.6, 31639.25 and 7522.30 for active members. The contribution requirements are established and may be amended by the Board pursuant to Article 1 of the CERL, which is consistent with the Plan's actuarial funding policy. The contribution rates are adopted yearly, based on an annual actuarial valuation, conducted by an independent actuary, that considers the mortality, service (including age at entry into the Plan, if applicable, and tier), and compensation experience of the members and beneficiaries, and also includes an evaluation of the Plan's assets and liabilities. Participating employers may pay a portion of the active members contributions through negotiations and bargaining agreements.

The County's annual pension cost and net pension asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2014, were as follows:

Annual Required Contribution (County fiscal year basis)	$	267,953
Interest On Net Pension Asset		(52,601)
Adjustment To The Annual Required Contribution		79,093
Annual Pension Cost		294,445
Annual Contributions Made		267,953
Increase/(Decrease) in Net Pension Asset		(26,492)
Net Pension Asset, Beginning of Year		678,724
Net Pension Asset, End of Year	$	652,232

The following table shows the County's actuarially determined contributions, required contributions, annual pension cost and net pension asset, for the current year and two preceding years:

Year Ended June 30	SBCERA* Actuarially Determined Contribution	County* Actuarially Determined Contribution	County Annual Required Contribution	Percentage Contributed	County Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2012	$ 210,000	$ 172,705	$ 229,169	100%	$ 246,522	93%	$ 701,781
2013	248,841	207,372	250,086	100%	273,143	92%	678,724
2014	278,352	235,045	267,953	100%	294,445	91%	652,232

* Includes survivor benefit but does not include employer paid member contributions, UAAL prepayments, golden handshake payments, withdrawn employer payments, and employee paid employer contributions.

Participating members are required by statute (Section 31621.6 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general and safety). Members are required to contribute 7.42 percent to 12.96 percent of their annual covered salary, of which the County pays approximately 7.00 percent. Employers are required to contribute 12.32 percent to 26.82 percent of the current year covered payroll. The County's annual required contribution is greater than the County's actuarially determined contribution due to the inclusion of 7.00 percent employee contribution paid by the County.

The County, along with the SCAQMD, issued Pension Refunding Bonds (Bonds) in November 1995 with an aggregate amount of $420,527. These Bonds were issued to allow the County and the SCAQMD to refinance each of their respective unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was $386,266. The outstanding liability at June 30, 2014 is $363,659 (Note 11).

NOTE 19 – RETIREMENT PLAN (CONTINUED)

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of $189,070, $149,825, and $125,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. In April 2008, the County refunded all of the 2004 Series B. The outstanding liability at June 30, 2014 is $242,650 (Note 11).

In April 2008, the County of San Bernardino issued its $160,900 in Pension Obligation Refunding Bonds (POB), Series 2008 (Series 2008 Bonds). The outstanding liability at June 30, 2014 is $156,910 (Note 11).

NOTE 20 – LEASE/LEASEBACK

In May 1997, the County entered into a lease agreement whereby seven separate County parcels (each a Parcel and together, the Parcels), including related buildings, valued at a total of approximately $146 million, were leased to a Delaware business trust (Trust) formed for a certain lease-leaseback transaction to act in various capacities for the benefit of the investor (the Investor) as described in the transaction. The County simultaneously entered into a sublease agreement with the Trust to lease the buildings back. With respect to the lease agreement, the County received a prepayment of $25.6 million from the Trust, which was created by the Investor and the trustee for the Trust. The County transferred $17.0 million to a sublease guaranty entity (Sublease Guaranty Trust) in order to induce the Sublease Guaranty Trust to provide a guaranty for the County's obligations under the sublease agreement. In order to secure its obligations, the Sublease Guaranty Trust used the monies to cause AIG-FP Special Finance and AIG-Matched Funding Corp to deliver a Letter of Credit (Loan) and a Letter of Credit (Equity), respectively, under the terms of a certain Debt Payment Agreement and a certain Equity Payment Agreement. After transaction expenses were paid, the County retained $8.8 million.

The Letter of Credit (Loan) and the Letter of Credit (Equity) provide for the payment of the County's obligation under the sublease and exercise of its purchase option. As a result, obligations under the lease-leaseback arrangement are considered to be economically, although not legally defeased. Therefore, the trust assets and the related debt have been excluded from the County's financial statements. The term of the full lease with the financing institution ends in 2034. However, the sublease provides a procedure whereby the sublease with respect to one Parcel was terminated as of January 2010 and, with respect to another Parcel, is scheduled to terminate on July 1, 2014 (and the termination did occur as of that date), and with respect to five Parcels on a certain date specified in 2021.

The County plan at this time is to continue to exercise its purchase options rights as available. On September 12, 2008, American International Group, Inc. (AIG), which provided a guarantee with respect to each of the above-mentioned letters of credit, was downgraded by both Moody's and S&P. The downgrade triggered provisions of the lease-leaseback transaction that allows certain parties to demand AIG to collateralize the Letter of Credit (Equity) and allows the replacement of an AIG related entity, AIG-FP Special Finance (Cayman) Limited, as the provider of the Letter of Credit (Loan).

As requested by the investor, in October 2008, AIG posted collateral to secure its obligations under the Letter of Credit (Equity). The County continues to analyze all options relating to this transaction, including the replacement of the provider of the Letter of Credit (Loan). As of June 30, 2014, assuming that the investor would agree to a termination in whole of the lease-leaseback transaction, the County estimated that the cost of termination would be approximately $21.4 million. If AIG were unable to fulfill its guarantee under the Letter of Credit (Loan), the County estimates that the cost to the County to make the remaining sublease payments and purchase option payments would be approximately $173.5 million over the next 7 years.

NOTE 20 – LEASE/LEASEBACK (CONTINUED)

AIG is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports, proxy statements and other information can be inspected and copied at public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at http://www.sec.gov, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC. The County takes no responsibility for the accuracy, completeness or timeliness of such reports, proxy statements or other information, and such reports, proxy statements and other information is not incorporated herein by reference.

The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), enacted on May 17, 2006, included excise taxes and disclosure rules that target certain tax shelter transactions to which a tax exempt entity is a party. In August 2006, the County received notice from the lease/leaseback investor that the transaction is a prohibited tax shelter transaction as defined in the new TIPRA legislation. The U.S. Treasury issued proposed, temporary and final regulations related to TIPRA and they provide that disclosure by a tax-exempt entity is not required for any transaction entered into by the entity on or before May 17, 2006. The County is unable to determine at this time whether and/or to what extent excise taxes would be applicable to this transaction.

NOTE 21 – COMMITMENTS, CONTINGENCIES, AND CERTAIN SUBSEQUENT EVENTS

Lawsuits and Other Claims

The County has been named as a defendant in numerous lawsuits and claims arising in the normal course of operations. In the aggregate, these claims seek monetary damages in significant amounts. To the extent the outcome of such litigation has been determined to result in probable loss to the County; such loss has been recorded in the accompanying basic financial statements. In the opinion of County management and County Counsel, the ultimate outcome of the remaining claims cannot be determined at this time.

Grants

The County recognizes as revenue, grant monies received as reimbursement for costs incurred in certain Federal and State programs it administers. Although the County's grant programs are being audited through June 30, 2014 in accordance with the provisions of the Single Audit Act of 1996, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

During compliance examinations of reimbursement requests and its underlying accounting records for the Adelanto Detention Center Expansion Project, it was discovered that certain ineligible costs were requested for reimbursement and subsequently adjusted on the final invoice against other unbilled eligible costs. The final claim for reimbursement was submitted and approved by the State in early September 2014. This claim resulted in a final identification of the appropriate County expenditures that qualified for the County match for the full $100 million in State funds.

(Amounts in thousands)

NOTE 21 – COMMITMENTS, CONTINGENCIES, AND CERTAIN SUBSEQUENT EVENTS (CONTINUED)

Commitments

The County has entered into contractual agreements for various projects. The following encumbered amounts are included within restricted, committed or assigned fund balance for their specific purposes, respectively.

	Outstanding Encumbrances
Major Governmental Funds:	
General Fund	$ 28,331
Capital Improvement Fund	4,789
Total Major Governmental Funds	33,120
Nonmajor Governmental Funds	35,330
Total Governmental Funds	$ 68,450

Agreements

(a) El Mirage Off-Highway Vehicle Park

The County entered into an Interagency Agreement (Agreement) with the California Off-Highway Motor Vehicle Recreation Commission, the California Department of Parks and Recreation (Parks), the County of Los Angeles, and the Bureau of Land Management (BLM) to create an off-road vehicle park and camping area on November 14, 1988. The County, BLM, and Parks entered into a MOU to further define the roles of each agency in the development of the El Mirage Off-Highway Vehicle Park (Park) in 1990. In accordance with the Agreement and the MOU, the County is to appraise and acquire land in the Park as an acquisition agent, and then, convey the land to the BLM to operate and manage the Park.

(b) Successor Agency to the Redevelopment Agency of the County of San Bernardino

The County entered into a loan agreement between 2005 and 2006 with the former County of San Bernardino Redevelopment Agency (the “Successor”) in the amount of $10,415 which was subsequently assumed by the Successor Agency. The loans, with interest at 1% over the County investment pool rate, were to be repaid over ten years. The California Department of Finance (the “DOF”) alleges that $9,365 of the amount of the loan held by the Successor Agency should be distributed to taxing entities, even though the funds are sourced from the County’s General Fund monies and not property tax increment allocated to the former Redevelopment Agency. The County and the Successor Agency have sued the DOF in order to maintain the funds to be able to continue with necessary projects. The County and Successor Agency lost at the trial level and the matter has been taken up on appeal. During the current fiscal year, the Successor Agency paid the entire amount of the liability but is still litigating the DOF’s decision. The matter will continue on appeal. Counsel for the County is unable to predict the outcome of the appellate decision.

Some enforceable obligations of the Successor Agency represent agreements, contracts or other commitments for the expenditure of monies. They do not constitute as expense or liability for financial statement purposes because these commitments will be honored in subsequent years.

NOTE 21 – COMMITMENTS, CONTINGENCIES, AND CERTAIN SUBSEQUENT EVENTS (CONTINUED)

(c) Economic and Community Development

The Economic Development Agency has multiple programs for business and housing loans funded by the Department of Housing and Urban Development (HUD) and administered by either the Economic Development Department or the Department of Community Development and Housing. The grant funds are used to develop viable communities by providing decent, safe and sanitary housing, suitable living environments and expanded economic opportunities for low and moderate income persons.

Business loans were issued for low and moderate income job creation and retention. Housing loans were provided for housing rehabilitation, home buyer assistance, and creation of new affordable housing units. Most of these loans contain forgiveness clauses that allow for the forgiveness of the debt and the amounts become grants once certain conditions have been met. Certain loans for multiple-family and housing rehabilitation contain residual receipts clauses in which the County only collects on the loan balance if income generated by the property exceeds certain levels. At the end of the agreement the remaining balance exists because the residual receipts generated were insufficient to defease the loan, the remaining balance may be forgiven as long all affordability conditions have been met.

Under HUD regulations any monies received from the repayments of a business loan or a housing loan are considered to be program income and can only be used for programs or projects that primarily benefit low to moderate income persons. The total amount of these various loans at June 30, 2014 is $83,387. The estimated amount that will probably be collected in future years is substantially lower due to the nature of the funding source of these loans. Due to this contingent nature of the loans, they are not currently recognized in the financial statements.

Pollution Remediation

(a) Sanitary Landfills

Volatile Organic Compound Contamination of Ground Water: On November 10, 1998, the County approved a settlement agreement with the San Gabriel Valley Water Company (SGVWC). This agreement settles the claim that a volatile organic compound (PCE) released from the Mid-Valley Sanitary Landfill has negatively impacted some of SGVWC's wells which it operates through its subsidiary, Fontana Water Company (FWC). This agreement requires the County to pay for the annual operation and maintenance cost of the (PCE) treatment system for as long as the specified contaminants continue to be detected at FWC's wells in this area. As security for each annual payment, the County must annually post a letter of credit for 125% of the year's operations and maintenance costs, based upon an estimated budget submitted by the SGVWC. The operations and maintenance costs over the life of the agreement have averaged about $291 per year. The agreement does not state a specified number of years over which these annual costs may be incurred; therefore, a reasonable estimate of the contingent liability cannot be determined.

On September 16, 2013, SGVWC orally advised the County that it had been sued by several water purveyors in the Rialto-Colton Basin and that it considered this new lawsuit to be within the defense and indemnity obligations of the 1998 settlement agreement. Between September 12, 2013 and October 11, 2013, SGVWC, Fontana Union Water Company (FUWC) and Cucamonga Valley Water District (CVWD) formally tendered the defense and indemnity of the lawsuit, all of which the County timely rejected. The County's rejection of all tenders was based on the apparent purpose of the new lawsuit to challenge the use of water and water rights by SGVWC and FUWC, not on the existence of leachate contamination in groundwater. On April 17, 2014, San Gabriel Valley

NOTE 21 – COMMITMENTS, CONTINGENCIES, AND CERTAIN SUBSEQUENT EVENTS (CONTINUED)

Water Company DBA Fontana Water Company and Fontana Union Water Company each filed with the County individual claims asserting that each has been damaged by the County's denial of the tenders and Fontana Water Company also claims property damage from contamination from the landfill. At this time, it is not possible to predict the next actions of SGVWC, FUWC and/or CVWD.

Perchlorate Contamination of Ground Water: The following lawsuits and claims asserted that perchlorate water contamination is alleged to be emanating from or near the Mid-Valley Sanitary Landfill ("MVSL") operated by Solid Waste.

City of Rialto and City of Colton lawsuits involving perchlorate at the MVSL: In 2008, the County entered into a settlement of $5 Million for the federal and state perchlorate lawsuits filed by the City of Rialto and the City of Colton. The County's motion was filed December 15, 2010 and on December 22, 2011, the federal court issued an order granting the motion ("Order"). Appeals of the Order were filed but settlements were finalized in July and August of 2013 which resulted in the dismissals of those appeals in August 2013. Other settlements have resolved most, but not all, claims in the federal litigation. The dismissal of the appeals triggered the County's duty to make its settlement payment to the Cities, as follows: Rialto - $4 million; Colton $1 million. As of August 21, 2013 both Cities had confirmed receipts of their settlement funds.

In addition to the lawsuits filed by the Cities, two additional lawsuits were filed by Goodrich Corporation and by Emhart Industries Inc., both of which named the County as a defendant. On June 4, 2012 the United States Environmental Protection Agency ("USEPA") advised the federal court of the tentative settlement agreements to resolve the litigation against most, but not all, of the parties. In the settlement with "PSI Parties" (approved by the federal court on March 19, 2013), the County received a pro rata share of insurance proceeds in the amount of $333 (received by the County on April 16, 2013), the PSI Parties dismissed their appeal and would take certain action on the Stonehurst Property to mitigate expected contamination there. PSI has now capped the Stonehurst parcel per the settlement agreement.

The settlement with the Emhart Parties and Department of Defense (DoD) provided that the County would pay $2,000 towards groundwater remediation, would release its claims against settling parties and would receive a covenant not to sue from USEPA, and the Emhart Parties and DoD would dismiss their appeals of the Order. The fully executed settlement agreement was lodged with the federal court in early December 2012. On March 26, 2013, the settlement agreement among Goodrich and USEPA, and including the County and certain other PRPs, was lodged with the federal court. These settlement agreements, involving Emhart and Goodrich, were approved by the federal court on July 3, 2013.

These settlements and the dismissal of the appeals of the County's settlement with the Cities, essentially end the County's involvement in the federal litigation. There is one large remaining PRP, Hescox, who has not settled. If the County has any involvement in that settlement it will not involve additional funds to or from the County, but possibly the release of claims.

San Gabriel Valley Water Company lawsuit involving perchlorate at the MVSL: On July 1, 2008, San Gabriel Valley Water Company filed a claim alleging that perchlorate from the County's MVSL, including the expansion portion of the property where aggregate mining is taking place, has impacted its wells in the Rialto-Colton Basin. It is too early to determine the potential liability of the County. While San Gabriel never pursued that claim in court, as noted above, on April 17, 2014, San Gabriel Valley Water Company DBA Fontana Water Company and Fontana Union Water Company each filed with the County individual claims asserting that each has been damaged by the County's denial of the tenders and Fontana Water Company also claims property damage from the alleged landfill contamination. It is uncertain how San Gabriel Valley Water Company will proceed on its claim.

NOTE 21 – COMMITMENTS, CONTINGENCIES, AND CERTAIN SUBSEQUENT EVENTS (CONTINUED)

County Settlement with Insurance Company of the State of Pennsylvania ("ICSOP") for Investigation Costs Associated with the Inactive Yucaipa Disposal Site ("YDS"): In early 2012, the County filed a lawsuit against ICSOP to obtain recoupment of the costs of investigating and remediating the Chino Airport Plume. During negotiations between the County and ICSOP it was determined that under the same policies and the same legal theory of recovery of investigation costs, that ICSOP would also be responsible to pay the County for its costs of investigation incurred at the YDS. As of June 30, 2014, the amount that ICSOP has reimbursed the County totaled $595.

County Litigation Against County's Insurers: County of San Bernardino v. Pacific Indemnity Company; The Insurance Company of the State of Pennsylvania (ICSOP), Gulf Underwriters Insurance Company; and United National Insurance Company (UNIC), U.S. District Court, Central District of CA, Case No. EDCV13-1137 was filed on June 26, 2013. This is insurance coverage litigation arising out of the insurance companies' unreasonable refusal to defend and indemnify the County against the various claims, complaints, cross-complaints and counter-claims in connection with the federal perchlorate litigation.

The County seeks a judicial declaration that the defendant insurers are obligated to pay, among other things, all of the County's defense costs, including costs of investigation of the perchlorate contamination and any and all response costs to be incurred by the County pursuant to the Consent Decrees (settlements) entered in the federal perchlorate litigation. The County also claims that other damages and attorney's fees and costs may be recoverable under the lawsuit.

An early mediation was held among the County and the insurers in December 2013. This resulted in a proposal from the mediator to resolve the dispute. Although this proposal was not immediately accepted by the insurers, since that time, the County has entered into settlements with three of the four insurers, as described below. As of June 30, 2014, the County had received $6.65 million in settlement from one insurer and the County had reached a settlement with another insurer as described below. As of November 7, 2014, the County has received a total of $14,800 in cash as settlement proceeds and will receive $27,500 in future payments from ICSOP. The total value of all settlements to date in this case is $42,300.

<u>Settlement with UNIC</u>: The settlement with UNIC was in the amount of $6,650 and the entire settlement proceeds were received on May 29, 2014. On July 23, 2014, the federal court issued the bar order as requested by the County and UNIC, finding that such orders are consistent with public policy favoring settlement. That order has been appealed by Pacific.

<u>Settlement with ICSOP</u>: On June 25, 2014, AIG communicated through counsel its intention to agree in concept to pay to the County $400 as its prorated share of the $2,000 settlement paid by the County to USEPA pursuant to the Emhart Consent Decree and the sum of $28,600 payable in twenty-six equal installments of $1,100 per year, payable no later than December 1st, for the ensuing 26 years. On July 25, 2014, ICSOP executed the settlement agreement and on July 28, 2014, the County executed the settlement agreement. On August 28, 2014, the County received the payment of $400 from AIG. The first installment payment of $1,100 was received on November 7, 2014.

<u>Settlement with Gulf</u>: The settlement with Gulf was in the amount of $6,650 and the entire settlement proceeds were received by the County on September 8, 2014.

The County is set to proceed to trial in February 2015 against Pacific Indemnity/Chubb. The amount the County claims as damages amount to approximately $22-27 million.

NOTE 21 – COMMITMENTS, CONTINGENCIES, AND CERTAIN SUBSEQUENT EVENTS (CONTINUED)

(b) Chino Airport

On June 27, 2008, the Regional Board issued a Clean-up and Abatement Order (Order No. R8-2008-0064). The order requires the County to conduct an investigation of Volatile Organic Compounds (VOC) located in groundwater off-site of the Chino Airport and develop a remedial action plan. Trichloroethylene, (TCE) which is a VOC, was originally found in wells down gradient of Chino Airport in the 1980s. The County is continuing to comply with the Regional Board's Order through various investigatory plans and processes. The County installed monitoring wells during fiscal year 2012-13 to allow better characterization of the groundwater at different depths south of Chino Airport. In June 2013 the County submitted to the Regional Board a Work Plan for Additional Site Characterization and that work commenced in late 2013 and has continued through calendar year 2014. This work is anticipated to be completed in early 2015. The ultimate remediation plan for the Chino Airport will be subject to review and approval by the Regional Board in order to satisfy the County's obligation under the Order. The County expects to receive reimbursements for investigatory costs incurred as of June 30, 2014.

City of San Bernardino Bankruptcy Filing

On August 1, 2012 the City of San Bernardino filed an emergency petition for Chapter 9 Bankruptcy. The County of San Bernardino and the City of San Bernardino are completely separate legal and fiscal entities with separately elected governing bodies, budgets, and finances.

The County has contracts with the City to provide services for which the City is obligated to pay. The County has investigated department operations to identify any sources of potential receivables which would be impacted by the City's Chapter 9 filing. The Department of Public Works – Solid Waste Division has the largest exposure to the bankruptcy proceedings in receivables due from the City. On November 27, 2012 the San Bernardino County Board of Supervisors authorized County Counsel to initiate litigation to seek payment of the obligations owed to the County.

In January 2013, the City and County reached an agreement whereby the City would pay all receivables due to the County subsequent to the filing of the City's bankruptcy petition on August 1, 2012. The receivables from August 2, 2012 through the end of the agreement in question, December 2012, totaled $1,807 plus interest. On August 9, 2013, the Solid Waste Division reported that all amounts agreed to be paid were paid. Amounts owed pre-bankruptcy petition are $748 with interest of approximately $296. It is not certain if or when these amounts will be paid.

Change in Structure of the Housing Authority of the County of San Bernardino

On May 6, 2014, the Board of Supervisors adopted Resolution No. 2014-60 which resulted in the Board of Supervisors becoming the Board of Governors of the Housing Authority effective July 1, 2014. The Board of Supervisors becoming the governing body of Housing Authority is vital to the implementation of the new model; particularly since the Housing Authority is the largest provider of affordable housing in the County and its 2013-2014 budget (October to September fiscal year) is in excess of $107 million dollars.

Contemplated in the Board's action of May 6, 2014, was the creation of a Housing Commission and the delegation of certain responsibilities from the Housing Authority Board of Governors to the newly created Housing Commission. The Housing Commission would consist of seven members who would be appointed by the Housing Authority Board of Governors; five non-tenant members and two tenant members who reside in Housing Authority public housing. The Housing Commissioners will serve at the will of the Housing Authority Board of Governors, which will allow the Housing Authority to continue as a separate legal entity.

(Amounts in thousands)

NOTE 21 – COMMITMENTS, CONTINGENCIES, AND CERTAIN SUBSEQUENT EVENTS (CONTINUED)

The Housing Commission would provide the guidance on day to day operations and management. The Housing Authority staff would remain autonomous from the County and the Executive Director would report directly to the Chief Executive Officer of the County. The Housing Authority governing board would set policy and approve commitments of major resources. The County has not determined its effect on the financial statements.

Loan Receivable from the Adelanto Successor Agency

The Adelanto Successor Agency (Adelanto) received a letter from the Department of Finance (DOF) dated November 10, 2014 stating that its County of San Bernardino Tax Increment Loan submitted on the Recognized Obligation Payment Schedule (ROPS) is not allowed due to insufficient documentation to support the amount claimed. If Adelanto provides suitable documentation to support the outstanding obligation as a loan, it may be allowed on a future ROPS. The County reports a loan receivable of $13,357 and interest receivable of $14,020 from Adelanto and still considers the loan a valid receivable at June 30, 2014.

NOTE 22 – SHORT-TERM DEBT

A. Tax and Revenue Anticipation Notes

In July 2013, the County issued Tax and Revenue Anticipation Notes (TRANS) totaling $150,000 which were repaid June 30, 2014. This issue followed the prior year issued TRANS of $190,000 which was repaid on June 28, 2013. The proceeds of the TRANS were intended to provide financing for 2013-14 General Fund expenditures, including current expenditures, capital expenditures and the discharge of other obligations or indebtedness of the County. The TRANS were secured by a pledge of various monthly amounts of property taxes on the secured roll.

Beginning Balance July 1, 2013	Additions	Reductions	Ending Balance June 30, 2014
$ -	$ 150,000	$ 150,000	$ -

NOTE 23 – SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes (TRANS)

In July 2014 the County issued $130,000 of Tax and Revenue Anticipation Notes in the form of Series A Bonds (Bonds) due June 30, 2015. The stated interest for the Bonds is set at 2.00% per annum with a yield of 0.12%. In accordance with California law, the Bonds are general obligations of the County and are payable only out of the taxes, income, revenues, cash receipts, and other monies of the County attributable to fiscal year 2014-15 and legally available for payment thereof. Proceeds from the Bonds will be used for fiscal year 2014-15 General Fund expenditures, including current expenditures, capital expenditures, and the discharge of other obligations or indebtedness of the County.

Change in Custodial Banking Services

On October 1, 2014, as result of a regular review of custodial banking services rendered to the County and in accordance with CGC Section 53649, the County of San Bernardino Treasurer’s Office replaced Bank of New York/Mellon with Wells Fargo Bank as its custody bank. The custody bank acts as a third party depository for securities purchased by the Treasurer’s Office from approved broker/dealers doing business with the County.

(Amounts in thousands)

NOTE 24 – RESTATEMENT OF NET POSITION

Restatement to the Government-Wide Financial Statements

In accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the County no longer amortizes debt issuance costs. Issuance costs are considered an outflow of resources and should be expensed in the period in which the costs are incurred. As a result, beginning net position for Governmental Activities and Business-Type Activities has been decreased by $5,345 and $4,234, respectively, to reflect the change. The effect of the change is shown below:

Government-Wide Financial Statements

Governmental Activities	2013 Previously Presented	Restatement	2013 Restated
Statement of Net Position:			
Deferred charges	$ 5,345	$ (5,345)	$ -
Statement of Activities:			
General government expenses	195,972	(525)	195,447
Change in net position	182,124	525	182,649
Net position end of year	2,760,998	$ (5,345)	2,755,653

Business-Type Activities	2013 Previously Presented	Restatement	2013 Restated
Statement of Net Position:			
Deferred charges	$ 4,234	$ (4,234)	$ -
Statement of Activities:			
Medical Center expenses	488,005	(427)	487,578
Change in net position	23,054	427	23,481
Net position end of year	180,206	$ (4,234)	175,972

Restatement to the Fund Financial Statements

As a result of GASB Statement No. 65 implementation, beginning net position for Medical Center and Private-Purpose Trust Fund has been decreased by $4,234 and $2,204, respectively, to reflect the change. The effect of the change is shown below:

Proprietary Funds Financial Statements

Medical Center	2013 Previously Presented	Restatement	2013 Restated
Statement of Net Position:			
Deferred charges	$ 4,234	$ (4,234)	$ -
Statement of Revenues, Expenses and Changes in Fund Net Position:			
Depreciation and amortization	20,917	(427)	20,490
Change in net position	697	427	1,124
Net position end of year	73,231	$ (4,234)	68,997

Fiduciary Funds Financial Statements

Private-Purpose Trust Fund	2013 Previously Presented	Restatement	2013 Restated
Statement of Fiduciary Net Position:			
Deferred charges	$ 2,204	$ (2,204)	$ -
Statement of Changes Net Position:			
Distribution and obligation retirements	11,886	(92)	11,794
Change in net position	(20,884)	92	(20,792)
Net position end of year	(19,888)	$ (2,204)	(22,092)

NOTE 25 – EXTRAORDINARY ITEM

The reinstatement of loan receivable from the County Redevelopment Successor Agency in the amount of $10,415 was reported as an extraordinary item in the governmental fund and the government-wide financial statements.

In fiscal year 2012-13, the County recorded an allowance for doubtful accounts of $10,415 for this loan when the Department of Finance (DOF) indicated that the repayment of the debt was not an enforceable obligation because all of the following four conditions had not been met:

Conditions

- The DOF has issued a Finding of Completion to the Successor Agency;
- The Oversight Board finds that the loans were made to "further legitimate redevelopment purposes";
- The DOF approves that the loans are enforceable obligations; and
- The Successor Agency can demonstrate that the cash flows associated with Redevelopment Property Tax Trust funds are sufficient to provide a reasonable expectation of repayment.

In May 2014, the DOF indicated that the County loan repayment was now an enforceable obligation because all four conditions mentioned above had now been met. As a result, the County reinstated the loan receivable from the Successor Agency based on the provisions of the California Health and Safety Code section 34191.4 (b) per the letter from the DOF dated May 16, 2014.

NOTE 26 – NEW ACCOUNTING PRONOUNCEMENTS

GASB 68 – Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)

In June 2012, GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The requirements of this Statement are effective for the fiscal year ending June 30, 2015. This Statement will have impact to the financial statements, including restatement of prior periods and reporting a net pension liability.

GASB 69 – Government Combinations and Disposals of Government Operations

In January 2013, GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement requires disclosures to be made about governmental combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for the fiscal year ending June 30, 2015. The County has not determined its effect on the financial statements.

NOTE 26 – NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date

GASB Statement No. 71, Pension *Transition for Contributions Made Subsequent to the Measurement Date.* The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions,* concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. The requirements of this Statement are effective for the fiscal year ending June 30, 2015. The County has not determined its effect on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SAN BERNARDINO COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

San Bernardino County Employees' Retirement Association
Schedule of Funding Progress
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets[1] (a)	Actuarial Accrued Liability ("AAL")[2] (b)	Unfunded/ (Overfunded) AAL ("UAAL") (b) - (a)	Funded Ratio (a) / (b)	Projected Total Compensation (c)	UAAL as a Percentage of Projected Total Compensation [(b) - (a)] / (c)
6/30/2009	6,383,388	7,013,534	630,146	91.02%	1,226,431	51.38%
6/30/2010[3]	6,367,232	7,444,986	1,077,754	85.52%	1,250,193	86.21%
6/30/2011	6,484,507	8,189,646	1,705,139	79.18%	1,244,555	137.01%
6/30/2012	6,789,492	8,606,577	1,817,085	78.89%	1,260,309	144.18%
6/30/2013[4]	7,204,918	9,088,636	1,883,718	79.27%	1,262,752	149.18%
6/30/2014[5]	7,751,308	9,694,825	1,943,517	79.95%	1,267,667	153.31%

(1) Includes assets for Survivor Benefits, Burial Allowance, General Retiree Subsidy, and Excess Earnings Reserves.

(2) Includes liabilities held for Survivor Benefits, Burial Allowance, General Retiree Subsidy, and Excess Earnings Reserves.

(3) Does not reflect the transfer of $40.6 million from the General Retiree Subsidy Reserve to the Current Service Reserve.

(4) Does not reflect $5.8 million that represents the present value of additional future contributions payable from the County to SBCERA related to the Crest Forest Fire District transfer.

(5) Does not reflect $5.9 million that represents the present value of additional future contributions payable from the County to SBCERA related to the Crest Forest Fire District transfer.

SAN BERNARDINO
COUNTY

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Series A Notes, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the County, proposes to render its final approving opinion with respect to the Series A Notes in substantially the following form:

[Date of Delivery]

Board of Supervisors of the
County of San Bernardino
San Bernardino, California

County of San Bernardino
2015-16 Tax and Revenue Anticipation Notes, Series A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the County of San Bernardino (the "County") in connection with the issuance of $_______________ aggregate principal amount of County of San Bernardino 2015-16 Tax and Revenue Anticipation Notes, Series A (the "Notes"), issued pursuant to a resolution of the Board of Supervisors of the County adopted on May 19, 2015 (the "Resolution") and the Financing Certificate Providing for the Terms and Conditions of Issuance and Sale of County of San Bernardino 2015-16 Tax and Revenue Anticipation Notes, dated July 1, 2015, executed by the County (the "Financing Certificate"), and Article 7.6, Chapter 4, Part 1, Division 2 of Title 5 (commencing with Section 53850) of the California Government Code. Capitalized undefined terms used herein have the meanings ascribed thereto in the Financing Certificate.

In such connection, we have reviewed the Resolution, the Financing Certificate, the Tax Certificate, an opinion of County Counsel of the County, certificates of the County and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Notes has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution, the Financing Certificate and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Notes to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Notes, the Resolution, the Financing Certificate and the Tax Certificate, and their enforceability, may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against counties in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the documents mentioned in the preceding sentence. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Notes, and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Notes constitute the valid and binding obligations of the County.

2. The Financing Certificate has been duly executed and delivered by, and constitutes the valid and binding obligation of, the County.

3. Interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. The amount treated as interest and excluded from gross income may depend upon the taxpayer's election under Internal Revenue Notice 94-84. Interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Notes.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The following information concerning the Depository Trust Company, New York, New York and its book-entry system has been obtained from sources the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

1. The Depository Trust Company, New York, NY, will act as securities depository for the Series A Notes (the “Series A Notes”). The Series A Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Series A Notes, each in the aggregate principal amount of such maturity of such issue, and will be deposited with DTC.

2. DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on this website is not incorporated herein by reference.

3. Purchases of Series A Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series A Notes on DTC’s records. The ownership interest of each actual purchaser of each Series A Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series A Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series A Notes, except in the event that use of the book-entry system for the Series A Notes is discontinued.

4. To facilitate subsequent transfers, all Series A Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series A Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series A Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series A Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series A Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series A Notes, such as redemptions, tenders, defaults, and proposed amendments to the Series A Note documents. For example, Beneficial Owners of Series A Notes may wish to ascertain that the nominee holding the Series A Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Series A Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series A Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series A Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and other payments on the Series A Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the County or its agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and other payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. If applicable, a Beneficial Owner shall give notice to elect to have its Series A Notes purchased or tendered, through its Participant, to the County's designated agent, and shall effect delivery of such Series A Notes by causing the Direct Participant to transfer the Participant's interest in the Series A Notes, on DTC's records, to the County's designated agent. The requirement for physical delivery of Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series A Notes are transferred by Direct Participants on DTC's records and

followed by a book-entry credit of tendered Series A Notes to the DTC account of the County's designated agent.

10. DTC may discontinue providing its services as depository with respect to the Series A Notes at any time by giving reasonable notice to the County. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC and the requirements of the Trust Agreement with respect to certificated Series A Notes will apply.

12. The information in this Appendix E concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

THE COUNTY HAS NO RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF SERIES A NOTES FOR REDEMPTION.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate"), dated July 1, 2015, is executed by the COUNTY OF SAN BERNARDINO (the "County").

W I T N E S S E T H:

WHEREAS, the County has issued the County of San Bernardino 2015-16 Tax and Revenue Anticipation Notes, Series A (the "Notes"), in the aggregate principal amount of $_______________, pursuant a Resolution, adopted by the County Board of Supervisors on May 19, 2015 (the "Resolution"), and a Financing Certificate, dated July 1, 2015 (the "Certificate"); and

WHEREAS, this Disclosure Certificate is being executed and delivered by the County for the benefit of the holders and beneficial owners of the Notes and in order to assist the underwriter of the Notes in complying with Securities and Exchange Commission Rule 15c2-12(b)(5);

NOW, THEREFORE, for and in consideration of the mutual promises and covenants herein contained, the County agrees as follows:

Section 1. <u>Definitions</u>. In addition to the definitions set forth in the Certificate, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"**Beneficial Owner**" means any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Notes (including persons holding Notes through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Notes for federal income tax purposes.

"**Commission**" means the U.S. Securities and Exchange Commission.

"**EMMA System**" means the MSRB's Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.

"**Listed Events**" means any of the events listed in Section 2(a) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board, or any successor thereto.

"**Owners**" means the registered owners of the Notes.

"**Participating Underwriter**" means the original underwiter of the Notes required to comply with the Rule in connection with offering of the Notes.

"**Rule**" means Rule 15c2-12(b)(5) adopted by the Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"**State**" means the State of California.

Section 2. **<u>Reporting of Significant Events</u>.** (a) In a timely manner not in excess of ten business days after the occurrence of the event, the County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes:

1. principal and interest payment delinquencies;

2. non-payment related defaults, if material;

3. unscheduled draws on debt service reserves reflecting financial difficulties;

4. unscheduled draws on credit enhancements reflecting financial difficulties;

5. substitution of credit or liquidity providers or their failure to perform;

6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes;

7. modifications to rights of Owners, if material;

8. Note calls, if material, and tender offers;

9. defeasances;

10. release, substitution or sale of property securing repayment of the Notes, if material;

11. rating changes;

12. bankruptcy, insolvency, receivership or similar event of the County;

13. the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of the assets of the County other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. appointment of a successor or additional paying agent, or the change of name of a paying agent, if material.

(b) Whenever the County obtains knowledge of the occurrence of a Listed Event, but, in the case of a Listed Event described in Subsection 2, 7, 8 (with respect to calls only), 10, 13 and 14 of Section 2(a), only in the event the County determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the County shall or shall cause to be filed a notice of such occurrence with the MSRB through its EMMA System, in an electronic format as prescribed by the MSRB.

Section 3. Termination of Reporting Obligation. The County's obligations under this Disclosure Certificate shall terminate upon the payment in full of all the Notes. If such termination occurs prior to the final maturity of the Notes, the County shall give notice of such termination in the same manner as for a Listed Event under subsection (b) of Section 2 hereof.

Section 4. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the County may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of subsection (a) of Section 2 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Notes, or the type of business conducted;

(b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Notes, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Notes in the same manner as provided in the Resolution and the Certificate for amendments to the Resolution and the Certificate with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Notes.

Section 5. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the County chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the County shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

Section 6. Default. In the event of a failure of the County to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Notes may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in the Superior Court of the State of California in and for the County of San Bernardino, California or in a U.S. District Court in or nearest to Los Angeles County. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution or the Certificate, and the sole remedy under this Disclosure Certificate in the event of any failure of the County to comply with this Disclosure Certificate shall be an action to compel performance.

Section 7. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the County, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Notes, and shall create no rights in any other person or entity.

COUNTY OF SAN BERNARDINO

By: ______________________________

County Chief Financial Officer