

CITY OF SAN BERNARDINO, CALIFORNIA

MEASURE I FUND

**Financial Statements and
Independent Auditors' Reports**

For the year ended June 30, 2016

CITY OF SAN BERNARDINO, CALIFORNIA

**San Bernardino Associated Governments
Measure I Fund
For the Year Ended June 30, 2016**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
San Bernardino Associated Governments
San Bernardino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure I Fund (Measure I Fund), of the City of San Bernardino, California (City), as of and for the year ended June 30, 2016, and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure I Fund of the City as of June 30, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure I Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. As described in Note 7, the City filed a case on August 1, 2012, seeking bankruptcy protection and adjustment of its liabilities under Chapter 9 of the United States Bankruptcy Code. 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 budgetary comparison information on pages 13 and 14 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 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.

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Measure I Fund of the City. The other information on pages 17 and 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other information 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2017, on our consideration of the City's internal control over financial reporting of the Measure I Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Rancho Cucamonga, California
January 19, 2017

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**BALANCE SHEET
JUNE 30, 2016**

	<u>2016</u>
ASSETS	
Cash and Investments	\$ 7,110,026
Receivables:	
Taxes	525,105
Interest	19,763
Due from Other Governments	<u>1,724,964</u>
Total Assets	<u><u>\$ 9,379,858</u></u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts Payable	\$ 1,133,526
Retention Payable	<u>110,991</u>
Total Liabilities	<u><u>1,244,517</u></u>
 Deferred Inflows of Resources:	
Unavailable Revenue	<u>2,250,069</u>
 Fund Balance:	
Restricted	<u>5,885,272</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u><u>\$ 9,379,858</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>
REVENUES	
Measure I Sales Tax	\$ 1,209,407
Other Revenue	486,681
Investment Income	<u>124,818</u>
Total Revenues	<u>1,820,906</u>
EXPENDITURES	
Capital:	
Construction	<u>3,652,857</u>
Net Change in fund balance	<u>(1,831,951)</u>
Fund Balance Beginning of year	<u>7,717,223</u>
Fund Balance End of year	<u><u>\$ 5,885,272</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – GENERAL INFORMATION

Reporting Entity

The financial statements are intended to reflect the financial position and changes in financial position of the Measure I Fund of the City of San Bernardino, California (City) only. Accordingly, the financial statements do not purport to, and do not, present fairly the financial position of the City and changes in financial position thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Measure I

Measure I is the half-cent sales tax collected throughout San Bernardino County for transportation improvements. In 2004, San Bernardino County voters approved the extension of the Measure I sales tax through 2040. See Note 6 for a detailed description of the Measure.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Measure I Fund of the City conform to accounting policies generally accepted in the United States of America. The following is a summary of significant accounting policies.

A. Basis of Accounting

Governmental Fund Financial Statements

Fund Accounting

The accounts of the City are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related benefits, and equity, segregated for the purpose of carrying out specific activities. The City accounts for the Measure I activities within its Measure I Special Revenue Fund.

Special Revenue Funds are used to account for the proceeds of revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Measurement Focus and Basis of Accounting

The Special Revenue Funds of the City are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred. Operating statements of governmental funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current resources.

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

B. Use of Estimates

The preparation of 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 and disclosures at the date of the financial statements and the reported amounts during the reporting period. Actual results could differ from those estimates.

C. Fund Balances

Fund balance is reported according to the following classifications: nonspendable, restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

Restricted fund balance represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

D. Cash and Investments

Cash and investments are pooled to facilitate cash management and maximize investment opportunities and yields. Investment income resulting from this pooling is allocated to the respective funds including the Measure I Fund based upon the average cash balance. The investment policies and the risks related to GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, applicable to the Fund, are those of the City and are disclosed in the City's basic financial statements. The City's basic financial statements can be obtained at City Hall.

The Measure I Fund's cash and investments are reported at fair value. The fair value measurements are based on the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Measure I Fund's deposits and withdrawals in the City investment pool are made on the basis of \$1 and not fair value. Accordingly, the measurement of fair value of the Measure I Fund's investment in the City investment pool is based on inputs that are uncategorized and not defined as a Level 1, Level 2, or Level 3 input.

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

E. Maintenance of Effort

In accordance with California Public Utilities Code 190300 and Ordinance No. 04-01 of the San Bernardino County Transportation Authority, Local Street Program funds shall not be used to supplant existing local discretionary funds being used for street and highway purposes. The maintenance of effort (MOE) base year level was determined based upon the discretionary General Fund expenditures for transportation-related construction and maintenance activities in Fiscal Year 2008/2009. The MOE base year level as approved by the SANBAG Board of Directors shall remain in effect until the expiration of Measure I 2010-2040. General Fund expenditures in excess of the MOE base year level will carry over to subsequent fiscal years and can be applied in a future year to offset the amount the local agency may need to meet the MOE requirement. As of June 30, 2016, the base level has not been finalized.

F. Deferred Inflows of Resources

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, unavailable revenues, represents revenues earned during the period but unavailable to liquidate current liabilities. These amounts are deferred and recognized in the period that the amounts become available.

NOTE 3 – TAXES RECEIVABLE

The taxes receivable represent the Measure I sales tax revenues for the fiscal year received from the San Bernardino County Transportation Authority after June 30, 2016. The amount of \$525,105 represents fiscal year 2015-16 Measure I sales tax allocated to the City in July and August 2016. As discussed in Note 4, the distributions of Measure I sales tax was withheld during the period. As a result, the taxes receivable do not meet the revenue recognition criteria for availability and are recorded as unavailable revenue at June 30, 2016.

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Beginning in January 2016, Measure I monthly distributions were withheld by the San Bernardino County Transportation Authority pending completion of the City's Measure I Fund financial statements for June 30, 2014 and June 30, 2015. As of June 30, 2016, the amount allocated and withheld was \$1,724,964. This amount is recorded as due from other governments and unavailable revenue.

NOTE 5 – OTHER REVENUE

Other revenue of \$502,617 represents funding for the State Street to the Foothill Boulevard project that was reimbursed through San Bernardino Associated Governments.

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 6 – MEASURE I FUND

The California State Legislature authorized county transportation authorities to enact local option sales tax measures for transportation improvements in the late 1980s, under provisions of Division 19 (commencing with Section 180000) of the Public Utilities Code. In November 1989, San Bernardino County voters approved passage of Measure I, authorizing the San Bernardino County Transportation Authority to impose a half cent retail transactions and use tax applicable in the incorporated and unincorporated areas of the County of San Bernardino for the 20-year period between April 1, 1990 and March 31, 2010. San Bernardino Associated Governments (SANBAG), acting as the Authority, was authorized to administer the programs described in the Measure.

Early in the second decade of Measure I, it became apparent that continuation of the half cent sales tax would be critical to maintaining funding for transportation in San Bernardino County. SANBAG member jurisdictions and transportation stakeholders worked to identify transportation needs, and an expenditure plan was developed to serve as a basis for the renewal of Measure I. Ordinance No. 04-01 was placed before voters in November 2004, and Measure I was renewed. The new Measure I extends the half cent sales tax for 30 years, from April 1, 2010 through March 31, 2040. The new Measure is referred to as Measure I 2010-2040 to distinguish it from the first Measure I.

San Bernardino Associated Governments (SANBAG), acting as the Authority, is authorized to administer the programs described in the Measure. The SANBAG Board serves as the Authority Board of Directors. Revenue from the tax can only be used for transportation improvement and traffic management programs authorized in the Expenditure Plan.

Measure I 2010-2040 has a return-to-source provision that states that funds shall be allocated to subareas in accordance with the actual revenue collected in each subarea. After deduction of required Board of Equalization fees and authorized administrative costs, revenues generated in each subarea are to be expended on projects of direct benefit to that subarea. Revenues are accounted for separately for each subarea and then allocated to specified project categories in each subarea. These project categories are termed “programs” in this Strategic Plan. Decisions on how revenues are expended within the subareas are made by the SANBAG Board of Directors, based upon recommendations of local subarea representatives. Other than the projects identified in the Cajon Pass Expenditure Plan, revenues generated within a subarea can be expended outside of that subarea only upon approval of two-thirds (2/3) of the jurisdictions within the affected subarea. A proportional share of projected State and federal transportation funds is to be reserved for use solely within the Valley Subarea and individual Mountain/Desert (Colorado River, Morongo Basin, Mountains, North Desert and Victor Valley) Subareas. In the San Bernardino Valley Subarea, Measure I 2010-2040 contains the following programs:

- Freeway Program
- Freeway Interchange Program
- Major Street Program
- Local Street Program
- Metrolink/Rail Program
- Express Bus/Bus Rapid Transit Program
- Senior and Disabled Transit Program
- Traffic Management Systems Program

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 6 – MEASURE I FUND, (CONTINUED)

In each of the Mountain/Desert Subareas, Measure I 2010-2040 contains the following programs:

- Local Street Program
- Major Local Highway Program
- Senior and Disabled Transit Program

NOTE 7 – CITY OF SAN BERNARDINO BANKRUPTCY FILING

On July 18, 2012 the Mayor and Common Council of the City declared a fiscal emergency and on August 1, 2012 the City commenced a bankruptcy case under Chapter 9 of the Bankruptcy Code. In the June 30, 2015 annual financial statements the City's auditors have expressed concern with respect to the City's ability to continue as a going concern. Under the City's Proposed Plan of Adjustment the restricted resources or special use funds of the City, such as the funds accumulated in the Measure I Fund, remain unimpaired. The full Plan of Adjustment and related bankruptcy filings can be found on the City's website at:

http://www.ci.sanbernardino.ca.us/home_nav/chapter_9_bankruptcy/default.asp

NOTE 8 – SUBSEQUENT EVENT

In October 2016 SANBAG released the previously withheld Measure I sales taxes (distributions) totaling \$2,639,501. The distribution represents \$2,250,069 in funds related to the year ending June 30, 2016 and \$389,432 related to the following fiscal year.

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	Budget		Actual	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Measure I Sales Tax	\$ 3,200,000	\$ 3,200,000	\$ 1,209,407	\$ (1,990,593)
Other Revenue	-	259	486,681	486,422
Investment Income	-	-	124,818	124,818
Total Revenues	<u>3,200,000</u>	<u>3,200,259</u>	<u>1,820,906</u>	<u>(1,379,353)</u>
EXPENDITURES				
Capital:				
Construction	<u>3,200,000</u>	<u>7,804,270</u>	<u>3,652,857</u>	<u>4,151,413</u>
Net Change in fund balance	<u>-</u>	<u>(4,604,011)</u>	<u>(1,831,951)</u>	<u>2,772,060</u>
Fund Balance Beginning of year	<u>7,717,223</u>	<u>7,717,223</u>	<u>7,717,223</u>	<u>-</u>
Fund Balance End of year	<u><u>\$ 7,717,223</u></u>	<u><u>\$ 3,113,212</u></u>	<u><u>\$ 5,885,272</u></u>	<u><u>\$ 2,772,060</u></u>

See accompanying note to required supplementary information.

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 – BUDGETARY DATA

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America.

OTHER INFORMATION

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**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**PROGRAM STATUS: COMPARISON OF 5 YEAR PLAN PROJECT
BUDGET TO CURRENT YEAR EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2016**

The Measure I Five Year Capital Improvement Plan for local streets was adopted by Council Resolution No. 2015-273. Of the funds allocated under the Measure I Five Year Capital Improvement Plan, the following programs were affected during the current fiscal year:

Local Projects	5-Year Plan Project Estimate	Current Fiscal Year Expenditures	Unexpended Estimate
SS04-018 Mountain Ave Street Imps (Curb, Sidewalk, Pvmnt Rehab) 39th to 40th	\$ 640,000	\$ 103	\$ 639,897
SS12-010 Sterling Ave Pavement Rehabilitation between Date Pl and Marshall Blvd	102,400	30,894	71,506
SS13-001 2nd Street Bridge at Warm Creek (HBP Replacement Local Match)	2,000,000	181,039	1,818,961
SS14-007 Tippecanoe Ave Pavement Rehabilitation between Harry Sheppard and 3rd	315,600	47	315,553
SS14-009 40th St Pavement Rehabilitation between Harrison and Mountain	197,500	58,328	139,172
SS14-033 Windsor Dr Pavement Rehabilitation between Park and Morgan	80,700	92	80,608
SS15-005 California St Pavement Rehabilitation between Highland Ave and Porter St	250,000	635	249,365
SS15-006 Tippecanoe Ave Pavement Rehabilitation between Vine St and 9th St	88,600	1,876	86,724
SS15-008 Irvington Ave Pavement Rehabilitation between Chestnut Ave and Palm Ave	56,000	92	55,908
SS15-009 Baseline St Pavement Rehabilitation between Canyon Rd and Conejo Dr	109,900	92	109,808
SS15-018 Highland Ave Pavement Rehabilitation between SR 259 and H St	21,000	92	20,908
SS15-019 Highland Ave Pavement Rehabilitation between H St and G St	90,600	92	90,508
SS15-020 Magnolia Dr Pavement Rehabilitation between 48th St and Reservoir St	28,400	92	28,308
SS15-021 Park Dr Pavement Rehabilitation between Morgan Rd and Loyola Dr	38,400	92	38,308
SS15-022 Highland Ave Pavement Rehabilitation between Sterling Ave and Guthrie St	177,400	526	176,874
SS16-027 SBX "E" St from 10th St to Highland Ave	435,040	68,421	366,619
SS04-009 State St Extension	900,800	1,919	898,881
SS-B Construct Accessibility Improvements at Various Locations - Citywide Administration	2,500,000 1,250,000	44,839 12,085	2,455,161 1,237,915
Total costs identified for projects on five year CIP		<u>401,356</u>	
<u>Expenditures on projects that are not tracked by name on Five Year CIP</u>			
SS-D Pavement rejuvenation various		117,786	
TC09-03 Striping - 2 Way Left Turn on Industrial Pk		43,429	
SS04-150 MOUNTAIN VIEW/30TH PAVEMENT REHAB		92,348	
TC12-001 9th St & Sierra Way signal upgrade		12,680	
SS12-002 48th St Pvmnt Rehab between Electric Ave & Mtn View		85,807	
TC12-002 9th St & Arrowhead Ave signal upgrade		14,601	
SS12-012 Belmont Ave Pvmnt Rehab between Olive & Walnut Aves		42,255	
TC13-002 G ST & RIALTO TDA ARTICLE 3 BIKE		38,030	
SS14-006 Concrete improvement project		376,956	
Street Improvement project*		2,389,998	
PW Administration		37,611	
Total costs identified for projects not tracked by name on Five Year CIP		<u>3,251,501</u>	
Total Expenditures		<u>\$ 3,652,857</u>	
Total expenditures for Measure I 2010-2040 Fund		<u>\$ 3,652,857</u>	

* This project is comprised of various named projects on the City's adopted Five Year CIP. However, the City tracks actual costs in a cumulative manner for this item rather than the individual projects listed on the Five Year CIP.

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**MAINTENANCE OF EFFORT: COMPARISON OF BASE LEVEL AMOUNT
TO ANNUAL EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2016**

The maintenance of effort base level amount was determined based upon fiscal year 2008/09 spending levels. Excess/(deficient) amounts are carried forward in accordance with the Measure I Strategic Plan. Actual amounts expended in relation to the base level amount in each year subsequent to the base year are as follows:

Fiscal Year Ending June 30,	General Fund Street and Highway Funds Utilized	Base Level Amount*	Excess/(Deficiency)	Cumulative Excess/(Deficiency)
2010	\$ 1,081,305	\$ (1,075,643)	\$ 5,662	\$ 5,662
2011	(776,984)	(1,075,643)	(1,852,627)	(1,846,965)
2012	(511,222)	(1,075,643)	(1,586,865)	(3,433,830)
2013	4,877	(1,075,643)	(1,070,766)	(4,504,596)
2014	4,580	(1,075,643)	(1,071,063)	(5,575,659)
2015	457,374	(1,075,643)	(618,269)	(6,193,928)

* The base level amount is preliminary and has not been finalized as of June 30, 2016



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

To the Board of Directors
San Bernardino Associated Governments
San Bernardino, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure I Fund (Measure I Fund) of the City of San Bernardino, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated January 19, 2017. Our report included an emphasis of matter stating that the financial statements of the Measure I Fund do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016. Our report also noted that the City filed bankruptcy on August 1, 2012. In addition our report included an explanatory paragraph stating that the financial statements do not include Management's Discussion and Analysis.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting of the Measure I Fund (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of finding and response as item 2016-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Measure I Fund of the City are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including requirements of Measure I as specified in the agreement between the City and SANBAG, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including the Measure I requirements as specified in the agreement between the City and SANBAG, which is described in the accompanying schedule of finding and response as item 2016-001.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of finding and response. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Rancho Cucamonga, California
January 19, 2017

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**SCHEDULE OF FINDING AND RESPONSE
JUNE 30, 2016**

Finding 2016-001

PROJECT TRACKING

Criteria:

Pursuant to Policy VLS-10 of the Strategic Guide, any single project expenditure in excess of \$100,000 shall be listed as an individual project and shall not be included in the general program category.

Condition:

While testing the current year categorical projects, it was noted that the City did not track categorical project costs by individual project and therefore, the City was unable to determine whether any individual project exceeded \$100,000. Additionally, costs associated with various named projects on the Five Year Capital Improvement Plan (CIP) were accumulated in the financial ledger as "Street Improvement Project". As a result, the City was unable to identify actual costs by specific project listed on the CIP and instead reported these costs cumulatively.

Context:

The condition noted above was identified while testing the actual expenditures for compliance with the Measure I Strategic Plan. Costs tested were consistent with Measure I program requirements however the total costs for each project was not individually tracked.

Effect:

Individual projects included in the general program category may exceed \$100,000. Projects that have their own named projects on the 5 Year CIP, but that are not being tracked with their associated project code could appear as projects not listed in the 5 Year CIP for which the City is charging MSI monies to.

Cause:

The City did not track individual projects in a manner consistent with the CIP.

Recommendation:

The City should enhance its tracking of Measure I costs of general program projects to ensure compliance with the Strategic Plan requirement that individual projects that exceed \$100,000 are identified separately in the Five Year CIP, and to ensure that Measure I projects listed on the adopted Five Year CIP are tracked with their associated project code.

View of Responsible Official and Planned Corrective Actions:

Management will implement a process of tracking of Measure I costs to ensure compliance with the Strategic Plan requirement of separate identification of projects that exceed \$100,000. Planned corrective actions include budgeting projects which receive Measure I funding under separate and individual project codes when it is expected that project costs will exceed \$100,000. Transactions associated with each of these separate and individual project codes will be recorded to the project code as identified costs arise.

**CITY OF SAN BERNARDINO, CALIFORNIA
MEASURE I FUND**

**SCHEDULE OF PRIOR YEAR FINDING
JUNE 30, 2016**

<u>Finding No.</u>	<u>Description</u>	<u>Status</u>
2015-001	Five Year Plan Tracking of Categorical Costs	Not implemented – see current year finding 2016-001