

CITY OF SAN BERNARDINO, CALIFORNIA



**ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2013**

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CITY OF SAN BERNARDINO, CALIFORNIA
Year Ended June 30, 2013

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Independent Auditor's Report

To the Mayor and City Council
City of San Bernardino, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Bernardino, California (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City'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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Water Enterprise Fund and the Sewer Enterprise Fund (major funds), which collectively represent 97%, 100%, and 74%, respectively, of the assets, net position and revenues of the business-type activities. 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 the Water Enterprise Fund and the Sewer Enterprise Fund, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Summary of Opinions

Opinion unit	Type of Opinion
Governmental Activities	Qualified
Business-Type Activities	Unmodified
General Fund	Unmodified
Federal and State Grants Special Revenue Fund	Qualified
Low and Moderate Income Housing Special Revenue Fund	Qualified
Sales and Road Special Revenue Fund	Unmodified
Integrated Waste Enterprise Fund	Unmodified
Water Enterprise Fund	Unmodified
Sewer Enterprise Fund	Unmodified
Aggregate Remaining Fund Information	Qualified

Basis for Qualified Opinion on Governmental Activities, Major Federal and State Grants Special Revenue Fund, Major Low and Moderate Income Housing Special Revenue Fund and the Aggregate Remaining Fund Information

Management has not adopted a methodology for reviewing the collectability of notes receivable in the governmental activities, major federal and state grant special revenue fund, major low and moderate income housing special revenue fund and the aggregate remaining fund information and, accordingly, has not considered the need to provide an allowance for uncollectible amounts. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables, which would decrease the assets and net position or fund balance and change the expenses or expenditures in the governmental activities, major federal and state grant special revenue fund, major low and moderate income housing special revenue fund and the aggregate remaining fund information. The amount by which this departure would affect the assets, net position or fund balance and expenses or expenditures of the governmental activities, major federal and state grant special revenue fund, major low and moderate income housing special revenue fund and the aggregate remaining fund information has not been determined.

Management has not adopted a methodology for reviewing the valuation of property held for resale in the governmental activities, major federal and state grant special revenue fund, major low and moderate income housing special revenue fund and the aggregate remaining fund information in order to determine the net realizable value of the property and, accordingly, property held for resale is reported at acquisition cost plus improvement costs. Accounting principles generally accepted in the United States of America require that the carrying amount of the property held for resale should not exceed the net realizable value, which would decrease the assets and net position or fund balance and change the expenses or expenditures in the governmental activities, major federal and state grant special revenue fund, major low and moderate income housing special revenue fund and the aggregate remaining fund information. The amount by which this departure would affect the assets, net position or fund balance and expenses or expenditures of the governmental activities, major federal and state grant special revenue fund, major low and moderate income housing special revenue fund and the aggregate remaining fund information has not been determined.

Qualified Opinions

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion on Governmental Activities, Major Federal and State Grants Special Revenue Fund, Major Low and Moderate Income Housing Special Revenue Fund and the Aggregate Remaining Fund Information” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major federal and state grant special revenue fund, major low and moderate income housing special revenue fund and the aggregate remaining fund information of the City of San Bernardino, California, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified 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 business-type activities, the general fund, the major sales and road special revenue fund, the major integrated waste enterprise fund, the major water enterprise fund and the major sewer enterprise fund of the City of San Bernardino, California, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Uncertainty Regarding Going Concern

The accompanying financial statements have been prepared assuming that the City of San Bernardino, California, will continue as a going concern. As discussed in Note 2 to the financial statements, on August 1, 2012, the City filed a case seeking bankruptcy protection and the adjustment of its liabilities under Chapter 9 of the United States Bankruptcy Code. These conditions raise substantial doubt about the City’s ability to continue as a going concern. Management’s plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Restatement of Prior Year Financial Statements

As discussed in Note 23 to the financial statements, various account balances were restated. We audited the adjustments described in Note 23 that were applied to restate the June 30, 2012 basic financial statements. In our opinion, such adjustments are appropriate and have been properly applied. 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, the schedules of funding progress for the pension and other post-employment defined benefit plans, and budgetary comparison schedule for the general fund, as listed in the table of contents, 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 City's basic financial statements. The accompanying combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Macias Gini & O'Connell LLP

Los Angeles, California
October 22, 2015

CITY OF SAN BERNARDINO, CALIFORNIA

Management's Discussion and Analysis

June 30, 2013

The following discussion and analysis of the financial performance of the City of San Bernardino (the City) provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. The information presented herein should be considered in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The government-wide statements, including the Statement of Net Position and the Statement of Activities, provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included in the accompanying report are fund financial statements. The fund financial statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Financial Highlights

On August 1, 2012, the City of San Bernardino filed an emergency petition for Chapter 9 Bankruptcy with the United States Bankruptcy Court for the Central District of California, Riverside Division. The Mayor and Common Council declared a fiscal emergency shortly before filing the petition noting that the City would not be able to pay its financial obligations in the next 60 days. Following the petition, a pre-pendency and a pendency plan were filed that allowed the City to operate while it completed a Plan of Adjustment to regain solvency. The City filed its Plan of Adjustment with the bankruptcy court on May 29, 2015, along with a companion document entitled, "Recovery Plan in Support of Plan of Adjustment", a detailed report which provides potential revenue enhancements, opportunities for expenditure reductions and a financial model, which incorporates a financial reserve to support not only a fiscally solvent City in the future, but a service solvent City, as well. City officials are currently negotiating with various creditor groups to reach agreement in support of the confirmation of the Plan of Adjustment. For further details, see note 2 to the financial statements.

All changes in financial condition relate to Fiscal Year 2012-13. Please note that each of these changes will be discussed in detail in the appropriate section of this analysis.

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$616.2 million (net position). This amount includes net position from (i) governmental activities of \$353.6 million and (ii) business-type activities of \$262.6 million.
- During the year, the City's total net position increased by \$3.4 million, governmental activities decreasing \$6.1 million and business-type activities increasing \$9.5 million.
- Total City long-term liabilities increased by \$17.9 million.
- As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$98.3 million, a net increase of \$8.3 million, comprised of revenues exceeding expenditures of \$9.5 million and a decrease of \$1.2 million due to prior period adjustments. See note 23 in the notes to the basic financial statements.

CITY OF SAN BERNARDINO, CALIFORNIA
Management's Discussion and Analysis (Continued)
June 30, 2013

Overview of the Financial Statements

The annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and a supplemental section that presents combining statements for nonmajor governmental funds, internal service funds, and agency funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operations in *more detail* than the government-wide statements.
- The *governmental fund* statements tell how *general government* services, like public safety, were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates like businesses, such as the water and sewer utility systems.
- *Fiduciary fund* statements provide information about the fiduciary relationships, like the agency funds of the City, in which the City acts solely as an *agent* or *trustee* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The basic financial statements are followed by a section of *required supplementary information* that provided additional financial and budgetary information.

Reporting the City as a Whole

The accompanying *government-wide financial statements* include two statements that present financial data for the City of San Bernardino as a whole. The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities. These statements include all assets, deferred outflows of resources, and liabilities 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.

These two statements report the City's net position and changes in net position. The City's net position, which is the difference between assets, deferred outflows of resources, and liabilities, is one way to measure the City's financial health, or financial position. Over time, increases and decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, however, such as changes in the City's property tax base or sales tax base and the condition of the City's roads, should be considered to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, two types of activities are presented:

- Governmental activities – Most of the City's basic services, such as public safety, streets and roads, and parks and recreation, are reported here. Sales taxes, property taxes, other taxes, state subventions, and other revenues finance most of these activities.

CITY OF SAN BERNARDINO, CALIFORNIA
Management's Discussion and Analysis (Continued)
June 30, 2013

- Business-type activities – The City charges a fee to customers to help it cover the costs of the services accounted for in these funds. These activities include the City's water, sewer and integrated waste operations.

The activities of the Successor Agency of the former redevelopment agency can be found in the Fiduciary Fund Section of the Financial Statements as a Private-Purpose Trust Fund.

Reporting the City's Most Significant Funds

The *fund financial statements* provide detailed information about the City's most significant funds, not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, Common Council establishes many other funds to help it control and manage resources for particular purposes or to show that it is meeting administrative responsibilities for using certain taxes, grants, or other funding sources. The City's two kinds of funds, *governmental and proprietary*, use different accounting approaches.

- *Governmental Funds* – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the *modified accrual* accounting method, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there were sufficient financial resources to fund current period activities, and whether there are remaining resources that can be spent in the near future to finance the City's programs. The relationship or differences between *governmental activities* reported in the Statement of Net Position and the Statement of Activities and *governmental funds*, are described in reconciliations following each of the fund financial statements, respectively.

Proprietary funds – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows. Internal service funds (the other component of proprietary funds) are used to report activities that provide supplies and services for the City's other programs and activities.

Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. All of the City's fiduciary activities are reported in separate fiduciary funds. These activities are not included in the government-wide financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

CITY OF SAN BERNARDINO, CALIFORNIA
Management's Discussion and Analysis (Continued)
June 30, 2013

Government-wide Financial Statements

A summary of the government-wide statement of net position at June 30, 2013 and 2012 follows:

Table 1
Net Position
June 30, 2013 and 2012
(in millions)

	2013			2012		
	Govt. Activities	Bus-type Activities	Total	Govt. Activities	Bus-type Activities	Total
Current and other assets	\$ 134.4	\$ 152.8	\$ 287.2	\$ 115.6	\$ 137.0	\$ 252.6
Capital assets	408.7	236.8	645.5	425.3	255.1	680.4
Total Assets	543.1	389.6	932.7	540.9	392.1	933.0
Deferred outflows of resources	-	0.2	0.2	-	-	-
Long-term liabilities	157.5	61.9	219.4	142.0	59.5	201.5
Other liabilities	32.0	65.3	97.3	18.5	72.2	90.7
Total Liabilities	189.5	127.2	316.7	160.5	131.7	292.2
Net position:						
Net investment						
in capital assets	377.3	191.1	568.4	394.6	212.3	606.9
Restricted	109.4	7.8	117.2	112.6	7.4	120.0
Unrestricted	(133.1)	63.7	(69.4)	(126.8)	40.7	(86.1)
Total net position	\$ 353.6	\$ 262.6	\$ 616.2	\$ 380.4	\$ 260.4	\$ 640.8

CITY OF SAN BERNARDINO, CALIFORNIA
Management's Discussion and Analysis (Continued)
June 30, 2013

Table 2
Changes in Net Position
Years Ended June 30, 2013 and 2012
(in millions)

	2013			2012		
	Govt. Activities	Bus-type Activities	Total	Govt. Activities	Bus-type Activities	Total
Program Revenues:						
Charges for services	\$ 27.6	\$ 89.2	\$ 116.8	\$ 24.6	\$ 87.4	\$ 112.0
Operating contributions and grants	14.6	3.1	17.7	26.3	1.8	28.0
Capital contributions and grants	9.6	4.9	14.5	11.3	3.1	14.4
General revenue:						
Sales tax	34.3	-	34.3	32.4	-	32.4
Property tax	28.1	-	28.1	46.7	-	46.7
Other taxes	36.2	-	36.2	34.2	-	34.2
Other general	5.7	0.6	6.3	4.8	2.4	7.2
Total revenue	<u>156.1</u>	<u>97.8</u>	<u>253.8</u>	<u>180.2</u>	<u>94.7</u>	<u>274.9</u>
Program expenses						
General government	19.9	-	19.9	22.9	-	22.9
Public safety	95.8	-	95.8	108.9	-	108.9
Streets	27.6	-	27.6	30.1	-	30.1
Culture and recreation	6.3	-	6.3	7.7	-	7.7
Community development	6.1	-	6.1	9.6	-	9.6
Economic development	-	-	-	24.1	-	24.1
Community service	6.4	-	6.4	7.8	-	7.8
Integrated Waste	-	24.6	24.6	-	26.9	26.9
Water	-	38.3	38.3	-	40.0	40.0
Sewer	-	23.2	23.2	-	23.3	23.3
Interest on long-term debt	2.3	-	2.3	7.2	-	7.2
Total expenses	<u>164.4</u>	<u>86.1</u>	<u>250.5</u>	<u>218.3</u>	<u>90.2</u>	<u>308.6</u>
Excess (deficiency) before transfers and extraordinary item:						
	(8.3)	11.7	3.4	(38.1)	4.5	(33.6)
Transfers	2.2	(2.2)	-	(0.1)	0.1	-
Extraordinary item:						
Gain on dissolution of Economic Development Agency	-	-	-	49.8	-	49.8
Increase (decrease) in net position	(6.1)	9.5	3.4	11.6	4.6	16.2
Beginning net position	380.4	260.4	640.8	362.5	254.1	616.6
Prior period adjustment	(20.7)	(7.3)	(28.0)	6.3	1.7	8.0
Ending net position	<u>\$ 353.6</u>	<u>\$ 262.6</u>	<u>\$ 616.2</u>	<u>\$ 380.4</u>	<u>\$ 260.4</u>	<u>\$ 640.8</u>

CITY OF SAN BERNARDINO, CALIFORNIA
 Management's Discussion and Analysis (Continued)
 June 30, 2013

The increase or decrease in net position can provide an indication as to whether the overall financial position of the City improved or deteriorated during the year. The net position of the City's governmental activities decreased by 7.0% (from \$380.4 million to \$353.6 million). The primary contributor to the \$26.8 million decrease was the prior period adjustment of \$20.7 million recording accreted interest payable, reducing unearned revenue, recording a HUD section 108 note payable missed in the prior financial statements, adjusting for a property tax liability, and the reclassification of fiscal agent cash. See note 23 in the notes to the basic financial statements for more detail. The largest decrease in revenues was in the area of property taxes, with a decline of \$18.6 million primarily due to the reduction of \$19.0 million in property tax increment as a result of the dissolution of the Economic Development Agency. Expenses declined as well, but not to the extent that revenues declined for the same period. Public safety expenses decreased \$13.1 million because of decreases to personnel costs and economic development expenses were eliminated (decrease of \$24.1 million) with the dissolution of the Economic Development Agency. Unrestricted net position, the portion of net position that can be used to finance day-to-day operations without constraints, was a \$133.1 million deficit at the end of the fiscal year. The net position of the City's business-type activities increased by 0.8% during the year (from \$260.4 million to \$262.6 million).

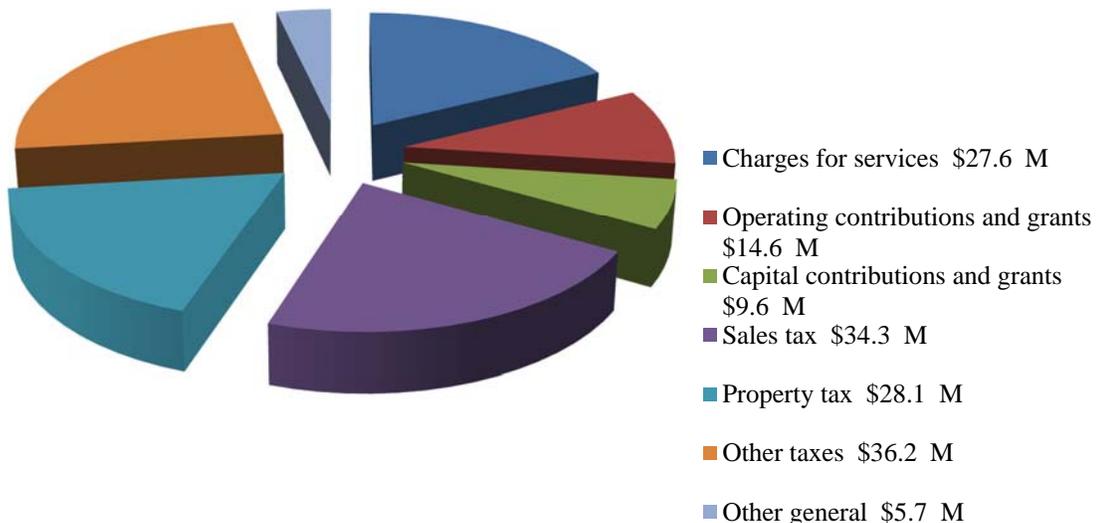
Governmental Activities

The cost of all governmental activities during the fiscal year was \$164.4 million. As reported in the Statement of Activities, the amount that the City's taxpayers ultimately financed for these activities through City taxes and other sources was only \$104.3 million. The remaining \$51.8 million was paid by those who directly benefited from the programs (\$27.6 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$24.2 million). The City paid for the \$112.6 million remaining "public benefit" portion with \$104.3 million in taxes (some of which could only be used for certain programs) and with other revenues, such as interest and general entitlements.

Revenues by Source – Governmental Activities

\$156.1 million

Revenue By Source - Governmental Activities

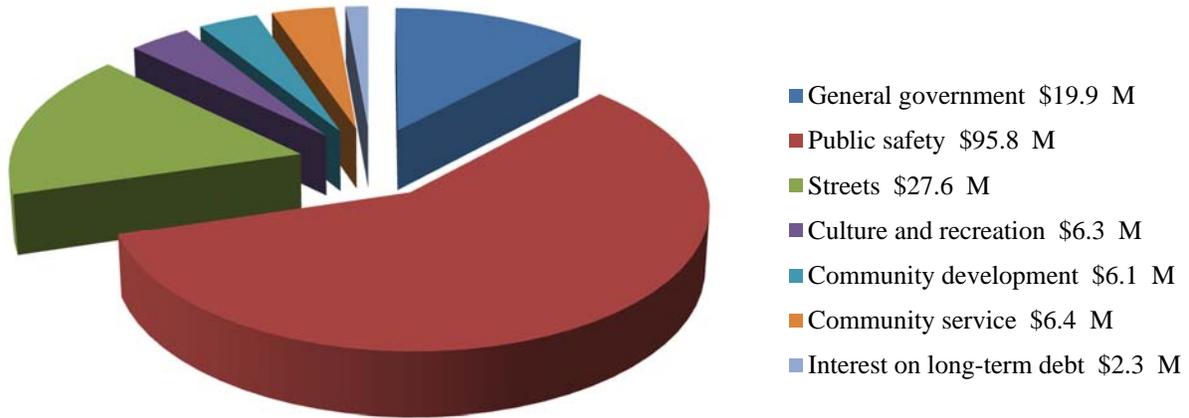


CITY OF SAN BERNARDINO, CALIFORNIA
Management's Discussion and Analysis (Continued)
June 30, 2013

Expenses by Function – Governmental Activities

\$164.4 million

Expenses By Function - Governmental Activities



Business-Type Activities

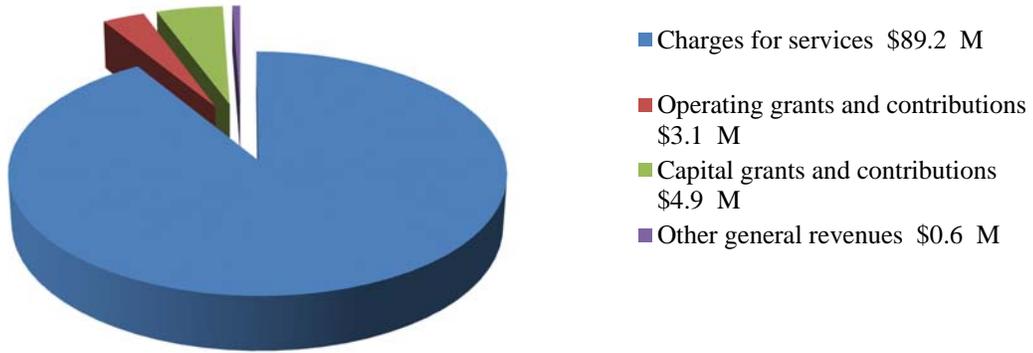
Current year operating revenues of the City's business-type activities increased by 2.4% for Integrated Waste, 2.0% for the Water Utility, and 2.0% for the Sewer Utility. Capital contributions to the Water and Sewer Utilities were equal to 9.0% and 5.6% of operating revenues, respectively. Net position for the Water Utility increased by 4.0%, after prior period adjustments of \$2.2 million to remove salvage values in capital assets and capitalize interest costs. The net position for the Sewer Utility increased by \$5.0 million, but the increase was offset by a \$5.0 million prior period adjustment to beginning net position to remove salvage values in capital assets, capitalize interest costs, and adjust the value of the investment in joint venture. Both the Water Utility and the Sewer Utility net positions improved because of a full year of revenue rate increases and a reduction in administrative expenses in the Water Utility Fund. The Integrated Waste Fund's net position decreased by \$1.8 million for the fiscal year because of the transfer to the City's General Fund to pay for public safety, capital assets and right-of-way maintenance.

CITY OF SAN BERNARDINO, CALIFORNIA
Management's Discussion and Analysis (Continued)
June 30, 2013

Revenues by Source – Business-type Activities

\$97.8 million

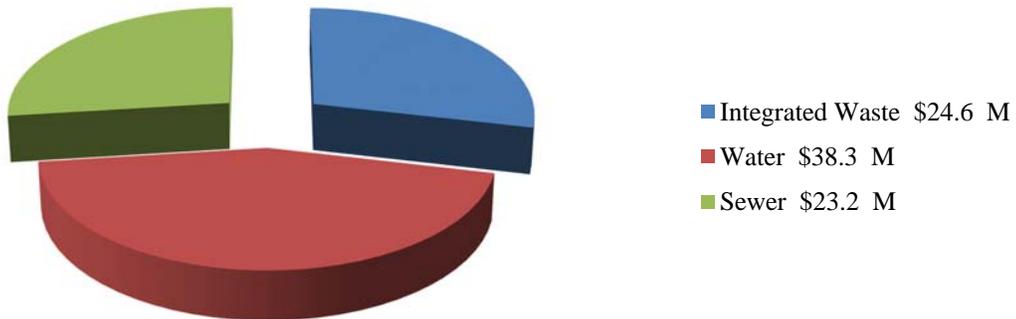
Revenues By Source - Business-type Activities



Expenses by Function – Business-type Activities

\$86.1 Million

Expenses By Function - Business-type Activities



CITY OF SAN BERNARDINO, CALIFORNIA
Management's Discussion and Analysis (Continued)
June 30, 2013

Major Funds

As previously noted, the City uses fund accounting to provide proper financial management of the City's resources and to demonstrate compliance with finance-related legal requirements.

Major Governmental Funds – The General Fund is the chief operating fund of the City. At the end of the current fiscal year, there was a negative \$7.2 million unassigned fund balance in the General Fund. Total fund balance increased by \$4.5 million during the fiscal year. The General Fund had no commitments or assignments of fund balances at June 30, 2013.

The reasons for significant changes in the revenues, expenditures, and other financing sources and uses of the City's General Fund from the prior year are as follows:

- Total revenues increased by \$5.5 million, due primarily to an increase in tax revenue, including sales taxes, property taxes and utility users' taxes, of \$4.3 million and an increase in miscellaneous revenues of \$1.4 million.
- Total expenditures decreased by \$13.6 million, specifically personnel costs as through the City's Pendency Plan, positions were reduced through layoffs and attrition. These personnel reductions occurred across all functions, with reductions to general government of \$4.3 million, public safety of \$5.5 million, streets of \$6.7 million, and culture and recreation of \$1.3 million. In addition, with the dissolution of the Economic Development Agency in the prior year, the General Fund incurred \$4.5 million in community development costs.
- Other financing sources and uses decreased by \$3.6 million due to decreases in net transfers in from other funds.

Federal and State Grants Fund – reports a number of federal grant funds of the City. The City's federal grants are subject to a Single Audit under Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The results of the Single Audit are available in a separate report received by the City.

At the end of the current fiscal year, this fund had a \$10.9 million fund balance, which is restricted for grant purposes. The reasons for significant changes in the revenues, expenditures, and other financing sources and uses of the City's Federal and State Grants Fund from the prior year are as follows:

- Total revenues decreased by \$5.7 million, due primarily to a decrease in grant revenues of \$2.9 million and a decrease in other revenues, or program income, of \$2.8 million.
- Total expenditures decreased by \$5.3 million, specifically personnel costs as through the City's Pendency Plan, positions were reduced through layoffs and attrition. These personnel reductions occurred across all functions, with reductions to general government of \$1.0 million, public safety of \$2.0 million and community development of \$3.0 million. The reductions were offset by a small increase to debt service of \$0.5 million.

The **Low and Moderate Income Housing Fund** was established as a separate major fund of the City on February 1, 2012, when the City became the Housing Successor Agency, upon dissolution of the Economic Development Agency (EDA). At the end of the current fiscal year, the Low and Moderate Income Housing Fund reported \$63.9 million fund balance, of which \$0.2 million is made up of nonspendable deposits and \$63.7 million is restricted for low and moderate income housing. During the current fiscal year, no major

CITY OF SAN BERNARDINO, CALIFORNIA
Management's Discussion and Analysis (Continued)
June 30, 2013

Major Funds (continued)

housing project or activity was undertaken and the reduction of the fund balance in fiscal year 2012-13 was primarily due to a prior period adjustment of \$3.8 million to the beginning fund balance to reclassify cash with fiscal agents to the Successor Agency fiduciary fund.

The City's *Sales and Road Fund* was set up as a separate major fund to account for revenues received for Measure I, the County of San Bernardino's half cent sales tax dedicated to transportation and the expenditures related to the improvement of the City's streets/roads. The Sales and Road Fund ended the fiscal year with a total fund balance of \$6.2 million, all of which is restricted for use on the City's streets/roads. Both revenues and expenditures remained static with only slight increases when compared to the prior year.

Major Enterprise Funds – At June 30, 2013, unrestricted net position of the Sewer Fund was \$56.1 million, the Water Fund was \$12.1 million and a deficit of \$4.5 million existed in the Integrated Waste Fund. The change in net position for the funds was an increase of \$5.0 million for the Sewer Fund (offset by a prior period adjustment decrease of \$5.0 million), an increase of \$6.4 million for the Water Fund (offset by a prior period adjustment decrease of \$2.2 million), and a decrease of \$1.8 million for the Integrated Waste Fund. Other factors concerning the finances of these funds were previously addressed in the discussion of the City's business-type activities.

The Water Fund's operating revenues increased by \$0.8 million due to a slight increase in customer consumption and a 10% rate increase implemented in January 2012 (the last of a series of three approved increases). This is the second year in a row that customer consumption increased following four consecutive years of decreased consumption. Operating expenses decreased by \$1.7 million due to a decrease in purchases of supplemental recharge water.

The Sewer Fund's operating revenues increased by \$0.5 million primarily due to a 10% rate increase implemented in January 2012 (the last of a series of three approved increases) being applicable to the entire fiscal year. Operating expenses of the Sewer Fund increased by \$0.2 million due to inflationary factors. Other expenses remain consistent between the fiscal years.

The City's Integrated Waste Fund remained static for fiscal year 2012-13 with expenses decreasing slightly from the prior fiscal year due to reductions in personnel costs as discussed previously for the City's other major funds.

General Fund Budget

There were no significant changes to the budget during the fiscal year. The original \$127.1 million budget appropriations of the General Fund were increased by \$1.6 million, for an amended appropriation amount of \$128.7 million. The primary reason for the increase in appropriations was to provide for increased legal and contractual service costs related to the City's bankruptcy.

CITY OF SAN BERNARDINO, CALIFORNIA
Management's Discussion and Analysis (Continued)
June 30, 2013

Major deviations between the final total budget of the General Fund and its actual operating results were as follows:

Total tax revenues exceeded estimated revenues by \$3.6 million in the areas of other taxes, which includes pass through payments related to the former redevelopment tax increment, sales tax revenues and utility users' tax revenues.

Other miscellaneous revenues exceeded final budget by \$1.4 million. Included in this group of revenues is the master services agreement payment from the City's Water Department.

Police Department expenditures completed the fiscal year over budget by \$1.4 million because of payouts of accrued leave balances associated with retiring employees. These accrued leave payouts were not included in the operating budget.

Fire Department expenditures were under budget by \$2.9 million, Community Development Department expenditures were under budget by \$2.4 million, and Public Works Department expenditures were under budget by \$5.7 million, all due to vacancy salary and benefit savings for the fiscal year.

Capital Assets

Capital Assets
(net of depreciation)
June 30, 2013 and 2012
(in millions)

	2013			2012		
	Govt. Activities	Bus-type Activities	Total	Govt. Activities	Bus-type Activities	Total
Land	\$ 113.8	\$ 17.2	\$ 130.9	\$ 113.8	\$ 15.7	\$ 129.5
Infrastructure	256.9	-	256.9	269.2	-	269.2
Systems, pumping, wells	-	144.9	144.9	-	147.7	147.7
Building and improvements	15.7	39.2	54.8	17.2	75.6	92.8
Machinery and equipment	6.9	10.9	17.8	9.5	6.5	16.0
Intangible assets	4.5	-	4.5	5.1	-	5.1
Construction in progress	10.9	24.7	35.6	10.5	9.6	20.1
Total	\$ 408.7	\$ 236.8	\$ 645.5	\$ 425.3	\$ 255.1	\$ 680.4

The opening balances as of June 30, 2012 were restated for a \$0.3 million reclassification of land reported as depreciable assets in prior years, an increase in the distribution system of \$0.8 million and an increase in plant and store yards of \$1.4 million for capitalized interest capitalized as part of the adoption of GASB No. 62, a decrease of \$8.6 million as the Water Department policy is not to record salvage values and a net decrease of \$23.1 million to reclassify the beginning balance of the Sewer Fund's investment in joint venture in a separate asset category.

CITY OF SAN BERNARDINO, CALIFORNIA
Management's Discussion and Analysis (Continued)
June 30, 2013

The major changes to capital assets during the year ended June 30, 2013 were as follows:

- Construction in progress increased \$15.5 million due to an increase in water and sewer infrastructure projects during the fiscal year.
- Infrastructure decreased \$12.4 million due to depreciation and no additional completed improvements to the City's infrastructure.

Commitments in the form of signed contracts for costs to complete construction projects amounted to \$4.2 million for business-type activities.

Additional information on the City's capital assets can be found in the Capital Assets Note 5 in the accompanying financial statements as listed in the table of contents.

Long-term Liabilities

At the end of the current fiscal year, the City had bonded debt outstanding of \$75.8 million and additional obligations of \$143.6 million. Bonded indebtedness included \$51.9 million of pension obligation bonds, \$7.5 million of revenue bonds and \$16.4 million of certificates of participation.

The City's total long-term liabilities increased by \$17.9 million, primarily due to recording restatements for accreted interest of \$5.7 million on the Taxable Pension Obligation Bonds, a note payable of \$7.5 million recorded in the Successor Agency in the previous year, and \$2.0 million due to the Department of Housing and Urban Development.

The City's other long-term liabilities were restated at June 30, 2012 to include \$5.0 in pollution remediation debt previously reported as a current liability. See note 20 in the notes to the financial statements for further explanation.

Outstanding Debt and Long-term Liabilities
June 30, 2013 and 2012
(in millions)

	2013			2012		
	Govt. Activities	Bus-type Activities	Total	Govt. Activities	Bus-type Activities	Total
Revenue bonds	\$ 7.5	\$ -	\$ 7.5	\$ 9.8	\$ -	\$ 9.8
Infrastructure loans	6.7	-	6.7	8.0	-	8.0
Notes payable	12.4	29.5	41.9	5.7	31.5	37.2
Certificates of participation	4.3	12.1	16.4	4.5	14.8	19.3
Pension obligation bonds	51.9	-	51.9	46.1	-	46.1
Other	74.7	20.3	95.0	67.9	13.2	81.1
Total	<u>\$ 157.5</u>	<u>\$ 61.9</u>	<u>\$ 219.4</u>	<u>\$ 142.0</u>	<u>\$ 59.5</u>	<u>\$ 201.5</u>

CITY OF SAN BERNARDINO, CALIFORNIA
Management's Discussion and Analysis (Continued)
June 30, 2013

Additional information on the City's long-term debt can be found in the long-term liabilities notes 8 and 9 in the accompanying financial statements as listed in the table of contents.

Requests for Information

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the financial resources it receives for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager's Office, City of San Bernardino, 300 N. "D" St., San Bernardino, California 92418.

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BASIC FINANCIAL STATEMENTS

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CITY OF SAN BERNARDINO, CALIFORNIA

Statement of Net Position

June 30, 2013

	Governmental Activities	Business-type Activities	Total
	<hr/>	<hr/>	<hr/>
Assets:			
Cash and investments	\$ 39,810,674	\$ 45,912,986	\$ 85,723,660
Cash and investments with fiscal agents	1,276,167	-	1,276,167
Receivables, net:			
Accounts	4,644,927	10,381,505	15,026,432
Interest	34,367	110,611	144,978
Special assessments	267,093	-	267,093
Deposits	268,015	-	268,015
Inventory	252,086	1,572,462	1,824,548
Prepays	132,744	958,422	1,091,166
Due from other governments	10,431,947	3,156,559	13,588,506
Property held for resale	34,721,732	-	34,721,732
Notes receivable, net	42,304,604	-	42,304,604
Other assets	214,671	-	214,671
Investments in joint venture	-	24,836,034	24,836,034
Restricted cash	-	9,265,196	9,265,196
Restricted investments - Consent Decree	-	19,540,918	19,540,918
Restricted - other assets	-	37,093,872	37,093,872
Capital assets:			
Not being depreciated	124,752,102	41,932,437	166,684,539
Being depreciated, net	279,443,710	194,850,607	474,294,317
Intangible assets, net	4,509,298	-	4,509,298
Total assets	<hr/> 543,064,137	<hr/> 389,611,609	<hr/> 932,675,746
 Deferred Outflows of Resources:			
Deferred charge on refunding	<hr/> -	<hr/> 150,948	<hr/> 150,948

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA

Statement of Net Position (Continued)

June 30, 2013

	Governmental Activities	Business-type Activities	Total
	<u> </u>	<u> </u>	<u> </u>
Liabilities:			
Accounts payable and accrued expenses	\$ 10,204,666	\$ 5,568,896	\$ 15,773,562
Accrued interest payable	428,599	614,298	1,042,897
Retentions payable	135,730	-	135,730
Internal balances	498,104	(498,104)	-
Deposits payable	54,109	3,447,275	3,501,384
Unearned revenue	507,560	54,900,768	55,408,328
Due to CalPERS	13,109,223	539,223	13,648,446
Due to other governments	4,783,937	748,257	5,532,194
Due to Successor Agency	2,232,925	-	2,232,925
Noncurrent liabilities:			
Due within one year	71,424,199	10,972,323	82,396,522
Due in more than one year	86,077,406	50,880,879	136,958,285
Total liabilities	<u>189,456,458</u>	<u>127,173,815</u>	<u>316,630,273</u>
 Net Position:			
Net investment in capital assets	377,287,488	191,109,595	568,397,083
Restricted for:			
Public safety	2,165,248	-	2,165,248
Streets and capital projects	29,372,567	-	29,372,567
Culture and recreation	1,282,052	-	1,282,052
Community development	75,703,278	-	75,703,278
Community service	844,573	-	844,573
Debt service	80,934	-	80,934
Capital related fees	-	7,799,773	7,799,773
Unrestricted (deficit)	<u>(133,128,461)</u>	<u>63,679,374</u>	<u>(69,449,087)</u>
Total net position	<u>\$ 353,607,679</u>	<u>\$ 262,588,742</u>	<u>\$ 616,196,421</u>

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

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CITY OF SAN BERNARDINO, CALIFORNIA

Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
General government	\$ 19,896,979	\$ 4,738,387	\$ 352,827	\$ -
Public safety	95,824,587	8,210,410	6,670,815	-
Streets	27,584,040	8,405,822	-	9,562,325
Culture and recreation	6,258,991	1,278,495	-	-
Community development	6,123,668	4,621,495	4,904,558	-
Community service	6,360,346	329,359	2,692,594	-
Interest on long-term debt	2,383,832	-	-	-
Total governmental activities	164,432,443	27,583,968	14,620,794	9,562,325
Business-type activities:				
Integrated Waste	24,643,145	24,968,040	-	-
Water	38,302,554	37,868,846	3,110,201	3,421,521
Sewer	23,231,158	26,414,653	-	1,475,400
Total business-type activities	86,176,857	89,251,539	3,110,201	4,896,921
Total	\$ 250,609,300	\$ 116,835,507	\$ 17,730,995	\$ 14,459,246

General revenues:

Taxes:

Sales tax

Property taxes

Other taxes

Franchises

Investment income, unrestricted

Other

Transfers

Total general revenues and transfers

Change in net position

Net position, beginning of year, as previously reported

Prior period adjustments (Note 23)

Net position, beginning of year, as restated

Net position, end of year

(Continued)

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

CITY OF SAN BERNARDINO, CALIFORNIA

Statement of Activities (Continued)

For the Year Ended June 30, 2013

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
\$ (14,805,765)	\$ -	\$ (14,805,765)
(80,943,362)	-	(80,943,362)
(9,615,893)	-	(9,615,893)
(4,980,496)	-	(4,980,496)
3,402,385	-	3,402,385
(3,338,393)	-	(3,338,393)
(2,383,832)	-	(2,383,832)
<u>(112,665,356)</u>	<u>-</u>	<u>(112,665,356)</u>
-	324,895	324,895
-	6,098,014	6,098,014
-	4,658,895	4,658,895
<u>-</u>	<u>11,081,804</u>	<u>11,081,804</u>
34,337,173	-	34,337,173
28,103,713	-	28,103,713
32,873,019	-	32,873,019
3,356,643	-	3,356,643
688,248	287,469	975,717
4,991,985	296,440	5,288,425
2,200,000	(2,200,000)	-
<u>106,550,781</u>	<u>(1,616,091)</u>	<u>104,934,690</u>
(6,114,575)	9,465,713	3,351,138
380,458,181	260,372,778	640,830,959
(20,735,927)	(7,249,749)	(27,985,676)
<u>359,722,254</u>	<u>253,123,029</u>	<u>612,845,283</u>
<u>\$ 353,607,679</u>	<u>\$ 262,588,742</u>	<u>\$ 616,196,421</u>

CITY OF SAN BERNARDINO, CALIFORNIA

Balance Sheet
Governmental Funds
June 30, 2013

	General	Special Revenue	
		Federal and State Grants	Low and Moderate Income Housing
Assets:			
Cash and investments	\$ 908,601	\$ -	\$ 93,963
Cash and investments with fiscal agents	1,276,167	-	-
Deposits	68,015	-	200,000
Receivables, net:			
Accounts	3,741,423	829,620	-
Interest	10,629	-	277
Notes	-	3,496,788	38,807,816
Special assessments	-	-	-
Prepays	6,361	-	-
Due from other governments	5,393,019	3,495,859	342,260
Due from other funds	2,054,756	-	-
Advances to other funds	-	-	9,477,033
Other assets	-	-	-
Property held for resale	-	16,296,266	18,425,466
Total Assets	\$ 13,458,971	\$ 24,118,533	\$ 67,346,815

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA

Balance Sheet (Continued)

Governmental Funds

June 30, 2013

<u>Special Revenue</u>		
<u>Sales and Road</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 5,760,804	\$ 28,285,768	\$ 35,049,136
-	-	1,276,167
-	-	268,015
-	60,814	4,631,857
4,195	19,266	34,367
-	-	42,304,604
-	267,093	267,093
-	-	6,361
564,571	536,015	10,331,724
-	-	2,054,756
-	164,000	9,641,033
-	214,671	214,671
-	-	34,721,732
<u>\$ 6,329,570</u>	<u>\$ 29,547,627</u>	<u>\$ 140,801,516</u>

CITY OF SAN BERNARDINO, CALIFORNIA

Balance Sheet
Governmental Funds
June 30, 2013

		Special Revenue	
	General	Federal and State Grants	Low and Moderate Income Housing
Liabilities:			
Accounts payable	\$ 4,941,026	\$ 728,433	\$ 15,654
Accrued expenses	103,519	73,276	-
Due to other funds	294,503	277,365	24,451
Retentions payable	-	25,307	-
Accrued interest payable	30,000	-	-
Deposits	-	-	-
Unearned revenue	-	507,560	-
Due to CalPERS	12,214,167	206,656	-
Advances from other funds	-	9,347,333	-
Due to other governments	427,902	940,880	3,415,155
Due to Successor Agency	2,232,925	-	-
Total Liabilities	20,244,042	12,106,810	3,455,260
Deferred Inflows of Resources:			
Unavailable revenues	361,084	1,087,555	-
Fund Balances (Deficit):			
Nonspendable:			
Deposits	68,015	-	200,000
Prepays	6,361	-	-
Restricted for:			
Low-Moderate Income Housing	-	-	63,691,555
Special revenue funds	-	10,924,168	-
Debt service	-	-	-
Capital projects	-	-	-
Unassigned	(7,220,531)	-	-
Total Fund Balances (Deficit)	(7,146,155)	10,924,168	63,891,555
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)	\$ 13,458,971	\$ 24,118,533	\$ 67,346,815

(Continued)

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

CITY OF SAN BERNARDINO, CALIFORNIA

Balance Sheet (Continued)

Governmental Funds

June 30, 2013

<u>Special Revenue</u>		
<u>Sales and Road</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 30,548	\$ 2,133,537	\$ 7,849,198
-	331	177,126
-	1,777,391	2,373,710
-	110,423	135,730
-	-	30,000
-	54,109	54,109
-	-	507,560
12,317	243,610	12,676,750
-	293,700	9,641,033
-	-	4,783,937
-	-	2,232,925
<u>42,865</u>	<u>4,613,101</u>	<u>40,462,078</u>
<u>42,339</u>	<u>567,156</u>	<u>2,058,134</u>
-	-	268,015
-	-	6,361
-	-	63,691,555
6,244,366	6,363,741	23,532,275
-	80,934	80,934
-	20,426,940	20,426,940
-	(2,504,245)	(9,724,776)
<u>6,244,366</u>	<u>24,367,370</u>	<u>98,281,304</u>
<u>\$ 6,329,570</u>	<u>\$ 29,547,627</u>	<u>\$ 140,801,516</u>

CITY OF SAN BERNARDINO, CALIFORNIA
 Reconciliation of the Balance Sheet of
 Governmental Funds to the Statement of Net Position
 June 30, 2013

Fund balances of governmental funds \$ 98,281,304

Amounts reported for governmental activities in the statement of net position
 are difference because:

Capital assets used in governmental activities are not financial resources and,
 therefore, are not reported in the funds.

Capital assets not being depreciated	124,752,102
Capital assets being depreciated, net of accumulated depreciation	278,289,098

Some liabilities, including bonds payable, are not due and payable in the
 current period and, therefore, are not reported in funds.

Pension obligation bonds	\$ (46,140,860)	
Certificates of participation	(4,270,000)	
Notes payable	(8,366,000)	
Lease revenue bonds	(7,505,000)	
OPEB obligation payable	(28,097,857)	
Capital leases payable	(1,386,874)	
Compensated absences	(11,626,511)	
Accrued interest payable	(398,599)	
Accreted interest payable	(5,721,622)	
California Infrastructure Bank lease agreement	(6,672,290)	
HUD CDBG liability	<u>(2,064,243)</u>	(122,249,856)

Internal service funds are used by management to charge various costs to
 individual funds. The assets and liabilities of the internal service funds are
 included in the governmental activities in the statement of net position. (27,523,103)

Certain accounts receivable and intergovernmental receivables are not
 available to pay current expenditures in the governmental funds. 2,058,134

Net position of governmental activities \$ 353,607,679

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CITY OF SAN BERNARDINO, CALIFORNIA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	General	Special Revenue	
		Federal and State Grants	Low and Moderate Income Housing
Revenues:			
Taxes	\$ 92,938,293	\$ -	\$ -
Licenses and permits	9,610,001	-	-
Impact fees	-	-	-
Fines and forfeitures	1,844,472	-	-
Investment income	781,805	38,688	20,908
Lease	-	-	12,942
Intergovernmental	2,069,546	12,866,778	-
Charges for services	7,714,126	2,469	-
Other	5,996,558	23,327	342,260
Total revenues	<u>120,954,801</u>	<u>12,931,262</u>	<u>376,110</u>
Expenditures:			
Current:			
General government	15,180,419	1,019,341	-
Public safety	87,895,396	4,753,493	-
Streets	1,130,164	601,394	-
Culture and recreation	4,289,420	966,786	-
Community development	4,506,448	886,031	214,635
Community service	1,712,292	3,639,310	-
Debt service:			
Principal	2,736,731	823,466	-
Interest and fiscal charges	877,552	454,312	-
Total expenditures	<u>118,328,422</u>	<u>13,144,133</u>	<u>214,635</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,626,379</u>	<u>(212,871)</u>	<u>161,475</u>
Other financing sources (uses):			
Proceeds from sale of property	1,243	78,345	62,885
Transfers in	2,231,852	-	-
Transfers out	(384,374)	-	-
Total other financing sources (uses)	<u>1,848,721</u>	<u>78,345</u>	<u>62,885</u>
Net change in fund balances	<u>4,475,100</u>	<u>(134,526)</u>	<u>224,360</u>
Fund balances (deficit), beginning of year, as previously reported	(11,541,823)	8,624,303	67,486,574
Prior period adjustments (Note 23)	<u>(79,432)</u>	<u>2,434,391</u>	<u>(3,819,379)</u>
Fund balances (deficit), July 1, 2012, as restated	<u>(11,621,255)</u>	<u>11,058,694</u>	<u>63,667,195</u>
Fund balances (deficit), June 30, 2013	<u>\$ (7,146,155)</u>	<u>\$ 10,924,168</u>	<u>\$ 63,891,555</u>

(Continued)

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

CITY OF SAN BERNARDINO, CALIFORNIA
Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended June 30, 2013

<u>Special Revenue</u>		
Sales and Road	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 1,995,515	\$ 94,933,808
-	1,026,855	10,636,856
-	1,771,424	1,771,424
-	-	1,844,472
(4,130)	(149,023)	688,248
-	-	12,942
3,075,930	7,785,208	25,797,462
-	4,375,301	12,091,896
-	8,170	6,370,315
<u>3,071,800</u>	<u>16,813,450</u>	<u>154,147,423</u>
-	93,502	16,293,262
-	1,459,883	94,108,772
1,077,685	11,176,747	13,985,990
-	11,435	5,267,641
-	-	5,607,114
-	6,521	5,358,123
-	1,224,286	4,784,483
-	206,152	1,538,016
<u>1,077,685</u>	<u>14,178,526</u>	<u>146,943,401</u>
<u>1,994,115</u>	<u>2,634,924</u>	<u>7,204,022</u>
-	-	142,473
250,000	134,374	2,616,226
-	(31,852)	(416,226)
<u>250,000</u>	<u>102,522</u>	<u>2,342,473</u>
<u>2,244,115</u>	<u>2,737,446</u>	<u>9,546,495</u>
3,790,720	21,629,924	89,989,698
209,531	-	(1,254,889)
<u>4,000,251</u>	<u>21,629,924</u>	<u>88,734,809</u>
<u>\$ 6,244,366</u>	<u>\$ 24,367,370</u>	<u>\$ 98,281,304</u>

CITY OF SAN BERNARDINO, CALIFORNIA
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2013

Net change in fund balances - total governmental funds \$ 9,546,495

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays 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. This is the amount by which capital outlay was exceeded by depreciation, net of disposals.

Capital outlay	\$ 3,343,257	
Depreciation	<u>(18,257,446)</u>	(14,914,189)

Certain revenues in the governmental funds are deferred because they are measurable but not available under the modified accrual basis of accounting. However, the revenues are included under the accrual basis of accounting used in the government-wide statements. This amount represents the change during the year. 1,001,618

Payment of debt principal are reported as expenditures in governmental funds but reduce long-term liabilities in the statement of net assets. 4,784,483

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences	\$ 6,748,489	
Change in accrued interest payable	(779,722)	
Change in unfunded OPEB obligation	(3,029,256)	
Change in HUD CDBG liability	<u>(2,064,243)</u>	875,268

Internal service funds are used by management to charge costs of activities involved in rendering services to departments within the City. The changes in net position of the internal service funds are included in the statement of activities. (7,408,250)

Change in net position of governmental activities \$ (6,114,575)

CITY OF SAN BERNARDINO, CALIFORNIA

Statement of Net Position

Proprietary Funds

June 30, 2013

	Business-type Activities - Enterprise Funds				Governmental
	Integrated Waste	Water	Sewer	Total	Internal Service Activities Funds
Assets:					
Current assets:					
Cash and cash equivalents	\$ 3,863,601	\$ 3,907,967	\$ 8,450,693	\$ 16,222,261	\$ 4,761,539
Investments	-	8,115,075	21,575,650	29,690,725	-
Receivables, net:					
Accounts	20,258	7,041,416	3,319,831	10,381,505	13,070
Interest	-	28,632	81,979	110,611	-
Inventory	-	1,572,462	-	1,572,462	252,086
Prepays	-	111,030	122,911	233,941	126,383
Due from other governments	-	2,598,632	557,927	3,156,559	100,223
Due from other funds	2,477,405	485,311	12,793	2,975,509	2,193,448
Total current assets	<u>6,361,264</u>	<u>23,860,525</u>	<u>34,121,784</u>	<u>64,343,573</u>	<u>7,446,749</u>
Noncurrent assets:					
Prepays	-	-	724,481	724,481	-
Investments in joint venture	-	-	24,836,034	24,836,034	-
Restricted assets:					
Cash - Capital-related fees	-	-	7,799,773	7,799,773	-
Cash - Consent Decree	-	1,465,423	-	1,465,423	-
Investments - Consent Decree	-	19,540,918	-	19,540,918	-
Interest receivable	-	67,693	-	67,693	-
Prepaid insurance - Consent Decree	-	33,826,734	-	33,826,734	-
Note proceeds held by State	-	3,199,445	-	3,199,445	-
Capital assets:					
Land and easements	-	24,185,954	17,746,483	41,932,437	-
Intangible assets, net	-	-	-	-	4,509,298
Capital assets being depreciated, net	6,987,336	150,808,068	37,055,203	194,850,607	1,154,612
Total noncurrent assets	<u>6,987,336</u>	<u>233,094,235</u>	<u>88,161,974</u>	<u>328,243,545</u>	<u>5,663,910</u>
Total assets	<u>13,348,600</u>	<u>256,954,760</u>	<u>122,283,758</u>	<u>392,587,118</u>	<u>13,110,659</u>
Deferred Outflows of Resources:					
Deferred charge on refunding	-	-	150,948	150,948	-

(Continued)

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

CITY OF SAN BERNARDINO, CALIFORNIA

Statement of Net Position (Continued)

Proprietary Funds

June 30, 2013

	Business-type Activities - Enterprise Funds				Governmental
	Integrated Waste	Water	Sewer	Total	Internal Service Funds
Liabilities:					
Current liabilities:					
Accounts payable	\$ 906,752	\$ 2,086,385	\$ 1,577,386	\$ 4,570,523	\$ 2,177,185
Accrued payroll	-	717,096	281,277	998,373	-
Accrued liabilities	-	-	-	-	1,158
Interest payable	49,262	276,918	288,118	614,298	-
Due to other funds	-	2,208,547	268,858	2,477,405	2,372,598
Due to other governments	748,257	-	-	748,257	-
Deposits payable	-	478,512	-	478,512	-
Due to CalPERS	539,223	-	-	539,223	432,473
Claims and judgments payable	-	568,849	268,225	837,074	3,815,102
Compensated absences	283,603	590,873	296,450	1,170,926	43,920
Capital leases payable	2,550,418	-	-	2,550,418	67,840
Due to New World	-	-	-	-	528,381
Notes payable	-	1,658,268	1,619,090	3,277,358	-
Certificates of participation	-	-	2,785,324	2,785,324	-
OPEB obligation	351,223	-	-	351,223	-
Total current liabilities	5,428,738	8,585,448	7,384,728	21,398,914	9,438,657
Noncurrent liabilities:					
Consumer deposits	-	2,968,763	-	2,968,763	-
Accrued liabilities	7,080,360	-	-	7,080,360	-
Claims and judgments payable	-	-	-	-	26,919,940
Compensated absences	128,758	672,562	132,505	933,825	377,761
Unearned revenue - Consent Decree	-	54,900,768	-	54,900,768	-
Capital leases payable	4,792,949	-	-	4,792,949	390,540
Due to New World	-	-	-	-	3,506,864
Notes payable	-	22,800,342	3,374,135	26,174,477	-
Certificates of participation	-	-	9,292,368	9,292,368	-
OPEB obligation	819,521	1,158,116	629,263	2,606,900	-
Total noncurrent liabilities	12,821,588	82,500,551	13,428,271	108,750,410	31,195,105
Total liabilities	18,250,326	91,085,999	20,812,999	130,149,324	40,633,762
Net Position:					
Net investment in capital assets	(356,031)	153,734,857	37,730,769	191,109,595	1,170,285
Restricted for:					
Capital related fees	-	-	7,799,773	7,799,773	-
Unrestricted (deficit)	(4,545,695)	12,133,904	56,091,165	63,679,374	(28,693,388)
Total net position (deficit)	\$ (4,901,726)	\$ 165,868,761	\$ 101,621,707	\$ 262,588,742	\$ (27,523,103)

CITY OF SAN BERNARDINO, CALIFORNIA
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds				Governmental Activities
	Integrated Waste	Water	Sewer	Total	Internal Service Funds
Operating revenues:					
Charges for services	\$ 24,897,368	\$ 35,427,095	\$ 25,261,792	\$ 85,586,255	\$ 23,666,904
Other operating revenues	70,672	2,441,751	1,152,861	3,665,284	-
Total operating revenues	<u>24,968,040</u>	<u>37,868,846</u>	<u>26,414,653</u>	<u>89,251,539</u>	<u>23,666,904</u>
Operating expenses:					
Cost of sales and services	12,611,875	-	-	12,611,875	15,633,676
Administration	6,521,704	9,568,608	1,653,263	17,743,575	-
Engineering, operations and distribution administration	-	6,581,180	2,801,450	9,382,630	-
Plant operations	-	7,089,520	9,448,306	16,537,826	-
Maintenance	-	1,888,236	3,392,868	5,281,104	-
Environmental control	2,073,416	-	592,589	2,666,005	-
Distribution	-	3,983,818	-	3,983,818	-
Engineering	-	2,813,459	-	2,813,459	-
Claims expense	-	-	-	-	14,482,412
Depreciation and amortization	3,058,127	5,505,403	4,408,721	12,972,251	1,719,326
Total operating expenses	<u>24,265,122</u>	<u>37,430,224</u>	<u>22,297,197</u>	<u>83,992,543</u>	<u>31,835,414</u>
Operating income (loss)	<u>702,918</u>	<u>438,622</u>	<u>4,117,456</u>	<u>5,258,996</u>	<u>(8,168,510)</u>
Nonoperating revenues (expenses):					
Investment income/ (loss)	26,061	(79,281)	340,689	287,469	(25,213)
Rental income	-	122,826	22,574	145,400	-
Noncapital grants	-	3,110,201	-	3,110,201	-
Interest expense and fiscal charges	(378,023)	(610,384)	(828,129)	(1,816,536)	(66,017)
Loss on disposal of capital assets	-	(261,946)	(11,644)	(273,590)	-
Amortization of issuance costs	-	-	(94,188)	(94,188)	-
Miscellaneous income	-	-	-	-	851,490
Other	-	211,032	(59,992)	151,040	-
Total nonoperating revenues (expenses)	<u>(351,962)</u>	<u>2,492,448</u>	<u>(630,690)</u>	<u>1,509,796</u>	<u>760,260</u>
Income (loss) before contributions and transfers	<u>350,956</u>	<u>2,931,070</u>	<u>3,486,766</u>	<u>6,768,792</u>	<u>(7,408,250)</u>
Contributions and transfers:					
Capital contributions	-	3,421,521	1,475,400	4,896,921	-
Transfers out	(2,200,000)	-	-	(2,200,000)	-
Total contributions and transfers	<u>(2,200,000)</u>	<u>3,421,521</u>	<u>1,475,400</u>	<u>2,696,921</u>	<u>-</u>
Change in net position	<u>(1,849,044)</u>	<u>6,352,591</u>	<u>4,962,166</u>	<u>9,465,713</u>	<u>(7,408,250)</u>
Net position (deficit), beginning of year, as previously stated	(3,052,682)	161,762,619	101,662,841	260,372,778	(20,129,262)
Prior period adjustments (Note 23)	-	(2,246,449)	(5,003,300)	(7,249,749)	14,409
Total net position, July 1, 2012, as restated	<u>(3,052,682)</u>	<u>159,516,170</u>	<u>96,659,541</u>	<u>253,123,029</u>	<u>(20,114,853)</u>
Total net position (deficit), June 30, 2013	<u>\$ (4,901,726)</u>	<u>\$ 165,868,761</u>	<u>\$ 101,621,707</u>	<u>\$ 262,588,742</u>	<u>\$ (27,523,103)</u>

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

CITY OF SAN BERNARDINO, CALIFORNIA

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds				Governmental
	Integrated Waste	Water	Sewer	Total	Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	\$ 24,687,631	\$ 35,386,571	\$ 26,069,504	\$ 86,143,706	\$ -
Cash received from user departments	-	-	-	-	23,631,759
Cash payments to suppliers for goods and services	(18,152,785)	(18,392,370)	(12,636,813)	(49,181,968)	(15,427,686)
Cash payments for claims and insurance	-	-	-	-	(4,578,232)
Cash payments to employees for services	-	(10,540,313)	(4,268,951)	(14,809,264)	-
Cash received from (paid for) other activities	70,672	333,858	(37,418)	367,112	725,106
Net cash provided by operating activities	6,605,518	6,787,746	9,126,322	22,519,586	4,350,947
Cash flows from noncapital financing activities:					
Cash paid to RIX joint venture	-	-	(9,483)	(9,483)	-
Transfer to other funds	(2,200,000)	-	-	(2,200,000)	-
Proceeds (disbursements) interfund loans	(511,855)	-	-	(511,855)	1,246,593
Consent decree insurance drawdowns	-	2,272,184	-	2,272,184	-
Net cash provided by (used for) noncapital financing activities	(2,711,855)	2,272,184	(9,483)	(449,154)	1,246,593
Cash flows from capital and related financing activities:					
Acquisition of capital assets	-	(19,222,613)	(2,923,265)	(22,145,878)	-
Proceeds from capital debt	-	6,800,555	-	6,800,555	-
Principal payments on long-term debt	(2,936,690)	(1,227,491)	(4,724,227)	(8,888,408)	(690,358)
Interest paid on long-term debt	(328,761)	(547,616)	(757,010)	(1,633,387)	(120,838)
Proceeds from/(cost of) disposal of capital assets	-	(77,283)	(1,982)	(79,265)	-
Charges to property owners for capital projects	-	2,760,023	1,475,400	4,235,423	-
Grant proceeds received	-	661,498	-	661,498	-
Net cash used for capital and related financing activities	(3,265,451)	(10,852,927)	(6,931,084)	(21,049,462)	(811,196)

(Continued)

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

CITY OF SAN BERNARDINO, CALIFORNIA
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds				Governmental Activities
	Integrated Waste	Water	Sewer	Total	Internal Service Funds
Cash flows from investing activities:					
Sale of investments	\$ -	\$ 12,732,392	\$ 2,288,725	\$ 15,021,117	\$ -
Purchase of investments	-	(20,866,636)	(23,994,336)	(44,860,972)	-
Investment income/ (loss)	26,061	442,818	1,322,120	1,790,999	(24,805)
Net cash provided by (used for) investing activities	<u>26,061</u>	<u>(7,691,426)</u>	<u>(20,383,491)</u>	<u>(28,048,856)</u>	<u>(24,805)</u>
Net increase (decrease) in cash and cash equivalents	654,273	(9,484,423)	(18,197,736)	(27,027,886)	4,761,539
Cash and cash equivalents, beginning of year	<u>3,209,328</u>	<u>14,857,813</u>	<u>34,448,202</u>	<u>52,515,343</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 3,863,601</u>	<u>\$ 5,373,390</u>	<u>\$ 16,250,466</u>	<u>\$ 25,487,457</u>	<u>\$ 4,761,539</u>
Reconciliation of cash and cash equivalents to amounts reported on statement of net position:					
Cash and cash equivalents	\$ 3,863,601	\$ 3,907,967	\$ 8,450,693	\$ 16,222,261	\$ 4,761,539
Cash and investments:					
Restricted for capital related fees	-	-	7,799,773	7,799,773	-
Restricted for Consent Decree	-	1,465,423	-	1,465,423	-
Cash and cash equivalents, end of year	<u>\$ 3,863,601</u>	<u>\$ 5,373,390</u>	<u>\$ 16,250,466</u>	<u>\$ 25,487,457</u>	<u>\$ 4,761,539</u>

(Continued)

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

CITY OF SAN BERNARDINO, CALIFORNIA
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds				Governmental Activities
	Integrated Waste	Water	Sewer	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 702,918	\$ 438,622	\$ 4,117,456	\$ 5,258,996	\$ (8,168,510)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	3,058,127	5,505,403	4,408,721	12,972,251	1,719,326
Other nonoperating revenues (expenses)	-	333,858	(37,418)	296,440	851,488
(Increase) decrease in assets:					
Accounts receivable	(16,840)	(429,273)	(130,635)	(576,748)	(10,095)
Other receivables	-	-	-	-	(931)
Inventory	-	43,288	-	43,288	(35,705)
Prepays	-	1,029,356	73,223	1,102,579	(126,383)
Due from other governments	19,519	(1,807,808)	(214,514)	(2,002,803)	(24,118)
Due from other funds	(212,416)	278,711	(66,295)	-	-
Increase (decrease) in liabilities:					
Accounts payable and accrued payroll	(428,809)	220,013	288,514	79,718	380,607
Accrued liabilities	2,080,360	-	-	2,080,360	156,022
Deposits payable	-	(245,194)	-	(245,194)	-
Claims and judgments payable	-	240,861	171,772	412,633	9,813,070
Compensated absences	(307,308)	21,793	(113,765)	(399,280)	(466,592)
Due to CalPERS	539,223	-	-	539,223	262,768
OPEB obligation	1,170,744	1,158,116	629,263	2,958,123	-
 Net cash provided by operating activities	 <u>\$ 6,605,518</u>	 <u>\$ 6,787,746</u>	 <u>\$ 9,126,322</u>	 <u>\$ 22,519,586</u>	 <u>\$ 4,350,947</u>
Noncash investing, capital, and financing activities:					
Acquisition of capital asset through note payable	\$ -	\$ 1,117,500	\$ -	\$ 1,117,500	\$ -
Changes in fair value of investments	-	(114,068)	-	(114,068)	-

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

CITY OF SAN BERNARDINO, CALIFORNIA

Statement of Fiduciary Net Position

June 30, 2013

	Redevelopment Obligation Retirement Fund (Successor Agency)	Water Department OPEB Trust Fund	Agency Funds
Assets:			
Cash and investments	\$ 23,384,622	\$ 9,711,947	\$ 4,432,576
Cash with fiscal agents	30,007,728	-	-
Accounts receivable, net	133,764	-	16,650
Prepays	-	-	238
Interest receivable	16,534	-	-
Notes receivable	3,878,406	-	-
Property held for resale	48,880,924	-	-
Capital assets:			
Not being depreciated	11,631,572	-	-
Being depreciated, net	8,031,274	-	-
Total assets	<u>125,964,824</u>	<u>9,711,947</u>	<u>\$ 4,449,464</u>
Deferred Outflows of Resources:			
Loss on refundings of bonds	<u>1,755,033</u>		
Liabilities:			
Accounts payable	436,801	-	\$ 227,693
Retention payable	143,505	-	-
Deposits payable	4,532	-	3,704,083
Interest payable	2,201,550	-	-
Long-term liabilities:			
Due within one year	9,353,944	-	-
Due in more than one year	157,360,558	-	-
Due to bond holders	-	-	517,688
Due to other governments	703,469	-	-
Total liabilities	<u>170,204,359</u>	<u>-</u>	<u>\$ 4,449,464</u>
Net Position (Deficit)			
Restricted for dissolution of economic redevelopment agency	(42,484,502)		
Restricted for the payment of other post-employment benefits	-	9,711,947	
Total net position (deficit)	<u>\$ (42,484,502)</u>	<u>\$ 9,711,947</u>	

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

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements

Year Ended June 30, 2013

(1) Summary of Significant Accounting Policies

The City of San Bernardino, California (City) was incorporated on April 13, 1854, as a Charter City. The City operates under a Mayor/Council/City Manager form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture-recreation, public improvements, community development (planning, building and zoning), public utilities (water, sewage and solid waste), and general administrative services.

(a) Reporting Entity

Blended component units, although legally separate entities are, in substance, part of the primary government's operations and so data from these units is combined with data of the primary government. Component units should be included in the reporting entity financial statements using the blended method in any of the following circumstances:

- i. The component unit's governing body is substantially the same as the governing body of the primary government (the City) and (1) the existence of a financial benefit or burden relationship between them or (2) management of the City has operational responsibility for the component unit.
- ii. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to the City.
- iii. The component unit's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with City resources.

The component units discussed below are included in the reporting unit because the City Council serves as the governing board and the City's management has operational responsibility over them.

On December 16, 2009, the Economic Development Agency (EDA) acquired the Global Mobile home Park Corporation, a not-for-profit corporation (501(c)(3)), from the Redevelopment Agency of the City of Pomona for the redevelopment purposes of the EDA as authorized by Resolution 2009-16 of the Community Development Commission of the City of San Bernardino on May 4, 2009, and approved on May 5, 2009. The mayor and common council of the City of San Bernardino serve ex officio as the chairperson and members of the Community Development Commission of the City of San Bernardino, respectively. On September 23, 2009, the Corporation amended its Articles of Incorporation to rename the Corporation the "Affordable Housing Solutions of San Bernardino Inc." (AHS), which was endorsed and filed in the office of the Secretary of State of the State of California on October 9, 2009. AHS is not currently active and has no assets.

The San Bernardino Joint Powers Financing Authority (Authority) was established pursuant to a Joint Exercise of Powers Agreement dated August 21, 1989, by and between the City and the EDA. The EDA was dissolved during fiscal year 2012 leaving the City the only member of the Authority. Please see the next paragraph for further details. The Authority was created for the purpose of providing financing for redevelopment activities for the City, the EDA, or other local agencies in the State of California, the acquisition, construction or installation by the Authority of

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

public capital improvements and/or the purchase by the Authority of public obligations within the meaning of the Marks-Roos Act. The Authority is authorized pursuant to the Marks-Roos Act to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, the City, the EDA, or such other local agencies to provide financing for redevelopment activities of the City or the EDA. The Authority is governed by a board composed of the City's elected council. There are no individual financial statements issued for the Authority.

The following organization is considered a fiduciary type component unit of the City.

The Redevelopment Obligation Retirement Fund (Successor Agency) was created to serve as a custodian for the assets and to wind down the affairs of the EDA on February 1, 2012, by state law. The Successor Agency is a separate public entity from the City, subject to the direction of an oversight board. The City Council serves as the governing board of the Successor Agency. In general, the Successor Agency's assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In future fiscal years, the Successor Agency will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former EDA until all enforceable obligations of the former EDA have been paid in full and all assets have been liquidated. Based upon the nature of the Successor Agency's custodial role, the Successor Agency is reported in a fiduciary fund (private-purpose trust fund).

(b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to basic financial statements

Financial reporting is based upon all Governmental Accounting Standards Board (GASB) pronouncements.

Government-wide Financial Statements

Government-wide financial statements (i.e. the statement of net position and the statement of activities) report information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as any discretely presented component units. The City has no discretely presented component units. Eliminations have been made in the statement of activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as direct expenses to the various functions of the City.

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities and deferred inflows of resources resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this general rule is other charges for goods or services provided by one fund to another. Elimination of these would distort the direct costs and program revenues reported for the various functions concerned.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

In the government-wide statements, when an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and proprietary funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

Governmental Funds

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses an availability period of 60 days for all revenues except reimbursable grants, which use a six month availability period.

Sales taxes, property taxes, franchise taxes, gas taxes, motor vehicle in-lieu, transient occupancy taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available when cash is received by the government.

Revenue recognition is subject to the measurable and available criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed nonexchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary nonexchange transactions have been recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. However, special reporting treatments are used to indicate that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenue represented by noncurrent receivables is deferred until they become current receivables.

Due to the nature of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to apply restricted first. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Proprietary Funds

The City's enterprise and internal service funds are proprietary funds. In the fund financial statements, proprietary funds and fiduciary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds and fiduciary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their statements of net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues, such as subsidies, taxes and investment earnings result from nonexchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the proprietary fund financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the proprietary fund financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the proprietary funds are reported as a reduction of the related liability, rather than as expenditures.

Fiduciary Funds

The City maintains two fiduciary fund types. The first is a private-purpose trust fund, which uses the economic resources measurement focus and the accrual basis of accounting. Private-purpose trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The second is an agency fund, which has no measurement focus. Agency funds are custodial in nature (assets equal liabilities) and do not involve the recording of City revenues and expenses. The Successor Agency and the Water Department OPEB Trust Fund are reported as private-purpose trust funds within these statements.

(c) Fund Classifications

The funds designated as major funds are determined by a mathematical calculation consistent with GASB Statement No. 34. In addition, the City may elect to classify any fund as major when management believes that the fund is particularly important to financial statement users.

The City reports the following major governmental funds:

General Fund – This is the primary operating fund of the City. It accounts for all activities of the general government, except those required to be accounted for in another fund.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Federal and State Grants Fund – This fund is used to report various grants awarded to the City by the Federal, State and local governments not otherwise accounted for in the General Fund or Capital Projects Funds. A detailed report by program is available under a separate report meeting the criteria of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for all federal grants received by the City.

Low and Moderate Income Housing Fund – This fund is used for the continued maintenance and operations of low and moderate income housing project activities of the former redevelopment agency. This fund was established on February 1, 2012, when the City elected to become the Housing Successor to the housing related activities of the former redevelopment agency.

Sales and Road Fund – This fund is used to account for the local street improvements as provided for by San Bernardino County Measure I Sales Tax.

The City reports the following major enterprise funds:

Integrated Waste Fund – This fund is used to account for the provision of refuse collection to the residential, commercial and industrial segments of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

Water Fund – This fund is used to account for the provision of water services to the residential, commercial and industrial segments of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

Sewer Fund – This fund is used to account for the provision of wastewater collection and treatment to residential, commercial and industrial segments of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

The City's fund structure also includes the following fund types:

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources that are legally restricted or committed and expended for specified purposes other than debt service or capital projects.

Debt Service Funds – These funds are used to account for the accumulation of resources that are restricted, committed or assigned for, and the payment of principal, interest, and related costs of the long-term debt of the governmental funds.

Capital Projects Funds – These funds are used to account for financial resources that are restricted, committed or assigned for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Internal Service Funds – These funds are used to account for the financing of goods or services provided by one department to other departments of the City on a cost-reimbursement basis. These services include unemployment insurance, workers' compensation, liability insurance, motorpool, telephone support, information systems, utility and central services.

Agency Funds – These funds are used to account for money and property held by the City as trustee or custodian. Such funds include Special Deposits, Cemetery Perpetual Care, San Bernardino Regional Water Resource Authority, and Sturges Center for the Arts. They are also used to account for various assessment districts for which the City acts as an agent for debt service activity, as the City is prohibited from levying additional taxes for these districts. Such funds include Assessment District's #961, #977A, #977B, and #1003.

(d) Cash and Investments

Investments are reported in the accompanying financial statements at fair value, except for certain investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year, and may result in negative investment income in the accompanying financial statements. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The City pools cash and investments of all funds, except for cash and investments separately identified for certain enterprise funds and cash and investments held by fiscal agents. Each fund's share in this pool is reported in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance, except for investment income associated with funds not legally required to receive pooled investment income which has been assigned to and recorded as revenue of the general fund, as provided by California Government Code Section 53647.

(e) Cash Equivalents

For purposes of the statement of cash flows, amounts reported as cash and cash equivalents, include amounts on deposit in the City pool and any short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents have an original maturity date of three months or less from the date of purchase.

(f) Receivables

Customer or trade receivables are reported as "accounts receivable" and are shown net of an allowance for uncollectible accounts based on historical and management estimates. Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Long-term interfund advances are recorded as advances to other funds and as nonspendable fund balance by the advancing governmental fund.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Noncurrent portions of long-term receivables (e.g. “notes receivable”) due to governmental fund types are reported in their respective balance sheets despite their spending measurement focus. Recognition of governmental fund type revenues represented by noncurrent receivables are deferred until they become current receivables. Noncurrent portions of long-term notes receivable are offset by nonspendable fund balance in the general fund, and by restricted, committed or assigned fund balance in other funds.

(g) Inventory

Inventories are valued on the average cost method. Inventory balances represent expendable supplies held for consumption. Inventory is reported under the consumption method whereby expenditures are reported at the time inventory is used. Inventory reported in governmental funds is offset with nonspendable fund balance to show that inventories do not constitute available spendable resources, even though they are a component of fund balance.

(h) Prepaids

Prepaid items are reported in the governmental funds under the consumption method and are reported as a nonspendable component of fund balance to indicate that they are not spendable for appropriation and are not expendable financial resources.

(i) Property Held for Resale

Property held for resale represents land, structures, and related improvements that were acquired for resale as part of the City’s redevelopment and grant activities. Property held for resale is recorded at acquisition cost plus improvement costs. Property held for resale, which is not available for current expenditure, is reported in the governmental funds balance sheet as restricted fund balance when proceeds from the sale must be used for restricted purposes or as nonspendable fund balance when such proceeds are not restricted.

(j) Restricted Assets

Amounts reported as restricted assets in the enterprise funds have been restricted by bond indentures or are to be used for specified purposes based on contract provisions, such as bonded debt service.

(k) Capital Assets

Capital assets, which include land, buildings and improvements, machinery, vehicles, equipment (including furniture) and infrastructure assets, are reported in the applicable activity columns in the accompanying government-wide statement of net position and the proprietary funds statement of net position. Capital assets are defined using guidelines established by the City. Such guidelines provide that assets with an initial individual cost of more than \$5,000 (\$200,000 for infrastructure) and an estimated useful life of at least two years are considered to be capital assets. Such capital assets are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair value at the date of the contribution. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Capital assets include public domain (infrastructure) consisting of certain improvements other than buildings, including pavement, curbs and gutters, streets and sidewalks, drainage systems, traffic control devices, streetlights, and right-of-way corridors within the City.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements and in the financial statements of the proprietary funds. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net position.

The ranges of lives used for depreciation purposes for each capital asset class are:

	<u>Years</u>
Buildings and improvements	10 - 40
Infrastructure	20 - 50
Wells, pumping plants, reservoirs, and distribution system	8 - 50
Interceptor lines	50
Disposal plant	35-50
Leasehold improvements	5 - 25
Shops, offices, stores and yards	10 - 20
Tools and equipment	4 - 20
Office equipment	5 - 20
Communication equipment	7 - 10
Computer equipment	5 - 10
Automotive equipment	3 - 8

(l) Bond Discounts and Premiums

Bond discounts and premiums are deferred and amortized over the term of the bonds using the straight-line method, which materially approximates the effective interest method. Bond discounts and premiums are presented as a reduction or an increase of the face amount of bonds payable.

(m) Deferred Outflows/Inflows of Resources

The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Unamortized portions of the loss on refunding debt are reported as deferred outflows of resources. When an asset is recorded in the governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

(n) Compensated Absences

All compensated absences are accrued when earned in the government-wide and proprietary funds financial statements. Compensated absences are recorded as a liability and expenditure in the governmental funds when due and payable, as it is the City's policy to liquidate any unpaid vacation or sick leave at June 30 from future resources rather than currently available expendable resources.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

(o) Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2013, fund balances for governmental funds are made up of the following:

- Nonspendable Fund Balance – includes amounts that are (a) not in a spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: deposits and prepaids.
- Restricted Fund Balance – includes amounts that are restricted for specific purposes stipulated by external resources providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted with the consent of resource providers.
- Committed Fund Balance – includes amounts that have been limited to specific purposes or through adoption of a resolution or an ordinance by the Mayor and Common Council (M&CC), the highest level of decision making authority of the City, and resources that have been specifically committed for use in satisfying contractual obligations, as in agreements with third parties. The City has determined that both a resolution and an ordinance are equally binding. These commitments may be changed or lifted, but only by the same formal action that was used to impose the constraint originally. M&CC action to commit fund balance must occur within the fiscal reporting period while the amount committed may be subsequently determined.
- Assigned Fund Balance – includes amounts that are intended to be used by the City for specific purposes. Intent is expressed by (a) the M&CC or (b) a body or official to which the M&CC has delegated the authority to assign amounts to be used for a specific purpose.
- Unassigned Fund Balance – includes amounts within the General Fund, the residual resources, either positive or negative in excess of what can be properly classified in one of the other four fund balance categories. Unassigned amounts are technically available for any purpose. Other governmental funds may only report a negative unassigned balance that was created after classification of fund balance in the nonspendable, restricted or committed categories.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in order of restricted, committed assigned and unassigned.

(p) Net Position

The financial statements utilize a net position presentation. Net position is classified as follows:

- Net Investment in Capital Assets – This category of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding and any deferred outflows of resources related to such borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is offset by unspent proceeds.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

- Restricted Net Position – This category presents restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Those assets are restricted due to external restrictions imposed by creditors (such as through bond covenants), grantors or laws and regulations of other governments and restrictions imposed through constitutional provisions or enabling legislation.
- Unrestricted – This category represents net position of the City that is not restricted for any project or other purpose.

When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first, then unrestricted resources that are needed.

(q) Property Taxes

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities in the current period.

Under California law, property taxes are assessed and collected by the counties at up to 1% of assessed value, plus other increases approved by the voters. The County of San Bernardino, bills and collects the property taxes and remits them to the City at various times throughout the year. Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are due in two installments. The first installment is due on November 1, and is payable through December 10 without penalty. The second installment is due February 1, and is payable through April 10 without penalty.

(r) Capital Contributions

Contributions in aid of construction represent cash and utility plant additions contributed to the City by property owners or developers desiring services that require capital expenditures or capacity commitment.

(s) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions, in some cases when applicable, that affect the amounts in the financial statements and the accompanying notes. Actual results could differ from the estimates.

(t) New Governmental Accounting Standards Implemented During Year Ended June 30, 2013

The requirements of the following accounting standards are effective for the purpose of implementation, if applicable to the City, for the year ended June 30, 2013. The City also has elected to early implement, effective for the year ended June 30, 2013, GASB Statements No. 65 and No. 66. The financial statements included herein apply the requirements and provisions of these statements, including necessary retroactive adjustments to financial statement classifications and presentations.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

GASB Statement No. 60

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This statement requires disclosures about SCAs including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. This statement had no impact on the City's financial statements.

GASB Statement No. 61

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. The requirements of this statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. This statement had no impact on the City's financial statements.

GASB Statement No. 62

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board ("FASB") Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public
4. Accountants' ("AICPA") Committee on Accounting Procedure

This statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This statement had no material impact on the City's financial statements.

GASB Statement No. 63

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement had no material impact on the City's financial statements.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

GASB Statement No. 65

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is intended to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The implementation of this statement resulted in reclassification of assets and liabilities as deferred outflows of resources and deferred inflows of resources and recognition of outflows of resources or inflows of resources for certain items that had previously been reported as assets and liabilities, such as bond issuance costs. Accounting changes adopted to conform to the provisions of this Statement were applied retroactively by restating the City's beginning net position for the Redevelopment Obligation Retirement Fund. The restatements resulted from expensing cost of issuance, which was previously reported as deferred charges, excluding prepaid bond insurance. (See Note 23 regarding beginning net position restatement related to the implementation of this statement).

GASB Statement No. 66

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012- an amendment of GASB Statements No. 10 and No. 62*, to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. This statement had no impact on the City's financial statements.

Upcoming Governmental Accounting Standards Implementation

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

GASB Statement No. 68

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, to improve the guidance for accounting and reporting on the pensions that governments provide to their employees.

Key changes include:

- Separating how the accounting and financial reporting is determined from how pensions are funded.
- Employers with defined benefit pension plans will recognize a net pension liability, as defined by the standard, in their government-wide, proprietary and fiduciary fund financial statements.
- Incorporating ad hoc cost-of-living adjustments and other ad hoc post-employment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher to projected benefit payments to the extent that the conditions in (a) are not met.
- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.
- Requiring more extensive note disclosures and required supplementary information.

The statement relates to accounting and financial reporting and does not apply to how governments approach the funding of their pension plans. At present, there generally is a close connection between the way many governments fund pensions and how they account for and report information about them in financial statements. The statement would separate how the accounting and financial reporting is determined from how pensions are funded. Application of Statement 68 is effective for the City's fiscal year ending June 30, 2015.

GASB Statement No. 69

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which provides new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. Application of this statement is effective for the City's fiscal year ending June 30, 2015.

GASB Statement No. 70

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which provides accounting and financial reporting guidance to state and local governments that offer nonexchange financial guarantees and for governments that receive guarantees on their obligations. Application of this statement is effective for the City's fiscal year ending June 30, 2014.

GASB Statement No. 71

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*, which provides guidance to state and local governments clarifying the transition provisions for GASB No. 68 regarding pension contributions made after the measurement date. Application of this statement is effective for the City's fiscal year ending June 30, 2015.

GASB Statement No. 72

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosure related to all fair value measurements. Application of this statement is effective for the City's fiscal year ending June 30, 2016.

GASB Statement No. 73

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for those pensions and pension plans that are not administered through a trust

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

meeting specified criteria (those not covered by GASB Statements 67 and 68). Application of this statement is effective for the City's fiscal year ending June 30, 2016, except those provisions that address employers and governmental nonemployer contributing entities that are not within the scope of GASB Statement 68, which are effective for financial statements for fiscal year ending June 30, 2017.

GASB Statement No. 74

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which addresses reporting by postemployment benefits other than pensions (OPEB) plans that administer benefits on behalf of governments. This statement basically parallels GASB Statement 67 and replaces GASB Statement 43. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

GASB Statement No. 75

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement basically parallels GASB Statement 68 and replaces GASB Statement 45. Application of this statement is effective for the City's fiscal year ending June 30, 2018.

GASB Statement No. 76

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. Application of this statement is effective for the City's fiscal year ending June 30, 2016.

GASB Statement No. 77

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

(2) Bankruptcy

Factors Precipitating the City's Chapter 9 Bankruptcy Filing on August 1, 2012

Beginning in or around May of 2012, the City's Finance Department led by a newly hired Finance Director began the process of preparing a proposed budget for the City's 2012-13 fiscal year. In late June 2012, the City's Finance Department completed a report entitled, "San Bernardino Budgetary Analysis and Recommendations for Budget Stabilization" (the "Budget Report"), which determined that: (i) the City faced a projected budget deficit of over \$45.8 million in the 2012-13 fiscal year and the budget deficit was projected to grow even larger for each of the following five years due to, among other things, continued stagnation in General Fund revenues, the poor housing market and

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Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

economy, increasing pension and other post-employment benefit costs, and unfunded liabilities in the City's retiree health, worker's compensation and general liability accounts, (ii) the City had depleted all of its General Fund¹ reserves to cover substantial budget deficits for four consecutive fiscal years beginning with the 2008-2009 fiscal year and had an estimated \$18.2 million negative cash balance in its General Fund, (iii) immediate and substantial action had to be taken to reduce spending and preserve cash for the City to continue to provide essential services to its residents, (iv) an analysis of the City's General Fund revealed that the fund balances at the start of fiscal years 2010-2011 and 2011-2012 had been erroneously reported by City staff and that fund balances had actually totaled at least \$4.5 million (estimated) less than reported, and (v) the City did not have sufficient unrestricted cash available to pay its financial obligations as and when they were due or to become due and owing.

Several factors led to the late discovery of the scope and extent of the City's financial problems. Beginning in late 2011 and continuing through early May of 2012, key City management personnel retired or resigned, and the City's Finance Department fell behind in performing various financial tasks, which was exacerbated by the implementation of a new financial software system. As late as April of 2012, and in connection with the City's mid-year budget review, the City Manager at that time believed that the City's estimated budget shortfall for fiscal year 2011-12 would be just over \$3.1 million and could be remedied by cuts to department budgets, continuing a hiring freeze on filling vacant positions and making revenue adjustments.

The Budget Report found that the City had been hit hard by the major recession that began in late 2007. In addition, the housing market collapse in the Inland Empire region, the loss of redevelopment funds and declines in revenue to the General Fund from sales tax, property tax, franchise fees, utility users' tax and licenses and permits all had significant detrimental impact on the City. The Budget Report also found that the City's operational costs continued to exceed revenues despite the City's efforts to cut costs by negotiated reductions in employee costs, job cuts, service cuts, sales of assets, implementation of revenue measures, increased transfers from other funds, and use and then exhaustion of its General Fund reserves. As of June of 2012, the City's unemployment rate was 16.9% (more than double the national unemployment rate), and the City had one of the highest home foreclosure rates in the nation.

The City also prepared a Staff Report (the "Staff Report") dated July 18, 2012, which determined that (i) it was unlikely that at that time the City could meet its payroll and other financial obligations in the next thirty (30) to sixty (60) days (including debt obligations and lease payments for critical City assets), (ii) an unusually large number of employees were retiring and leaving the City triggering immediate cash-outs of vacation and sick leave accruals, (iii) the City's credit line had been terminated, (iv) vendors were demanding cash up front before providing essential materials, goods and services to the City, (v) the City had no ability to access short-term credit markets to solve its cash flow problems and no General Fund reserves, and (vi) cash flow projections showed that the City had projected monthly General Fund deficits ranging between \$2 million and \$5.6 million from July through September.

On July 18, 2012, the Mayor and Common Council of the City enacted Resolution No. 2012-205 declaring a fiscal emergency (the "Fiscal Emergency Resolution") based on information presented in the Budget Report, Staff Report and at public meetings of the Mayor and Common Council held on

¹ The City's General Fund is unrestricted and used to pay for most general municipal services and obligations. Certain other funds of the City, however, are legally restricted either by contract, law or grant and can only be used for specific purposes.

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July 10, July 16 and July 18, 2012. Pursuant to the Fiscal Emergency Resolution, the Common Council found that the City was unable to pay its obligations within the next sixty (60) days and that the financial state of the City jeopardized the health, safety or well-being of the City's residents absent the protections of Chapter 9 of the Bankruptcy Code² and given the City's dire financial condition it was in the best interest of the City to declare a fiscal emergency. On July 18, 2012, the Mayor and Common Council of the City also enacted Resolution No. 2012-206, which determined that the City was insolvent in its current fiscal year and unable to meet its payroll without the protections afforded by Chapter 9 of the Bankruptcy Code, which would endanger the health, safety and welfare of its residents, and authorized and directed certain City officials and employees to execute and file all petitions, schedules, lists and other papers and to take any and all actions necessary and proper to file a petition under Chapter 9 of the Bankruptcy Code.

As an initial step in a multi-phase and multi-step process of developing a budget for operating in bankruptcy called a Pendency Plan, on July 24, 2012 the City approved a "Fiscal Emergency Operating Plan – July 2012 to September 2012" (the "Fiscal Emergency Plan"). Pursuant to the Fiscal Emergency Plan, the City did not make payments for (i) debt payments due, including a payment for pension bond obligations due on July 20, 2012 in the amount of over \$3.3 million, (ii) bi-monthly payments to fund retiree health obligations due in the first quarter in the amount of over \$2.2 million, (iii) deferred equipment purchases and capital projects, (iv) payment on a note for its financial accounting software system, and (v) other trade payables due and owing in an amount over \$6 million. In addition, the City did not make over \$1.4 million in payments under certain settlement agreements in three lawsuits. Pursuant to the Fiscal Emergency Plan, City staff also determined that the City would not be able to borrow money from the private credit markets to meet its obligations because it could not demonstrate the ability to pay such debts back with revenues generated in the current fiscal year. Following the implementation of the City's Fiscal Emergency Plan, the City found itself facing creditor actions that threatened to exacerbate the City's dire liquidity crisis. For example, on around July 24, 2012, after the City was unable to make required settlement payments under settlement agreements due to its liquidity crisis, the plaintiffs in three separate lawsuits filed *ex parte* applications seeking Court orders to compel payment of \$1,461,000 within 24 hours and threatened to bring enforcement proceedings on an emergency basis and seek writs of execution to levy on the City's assets. Although the City opposed the requests for orders to compel payment, orders were entered directing that judgments be entered against the City and based on the court's decision, the City reasonably believed that plaintiffs could obtain such writs of execution permitting the plaintiffs to levy on the City's bank account on an expedited basis and, as a result, the City would be unable to make its August payroll obligations and vendor payments resulting in the inability to provide essential services to its residents.

The City's Chapter 9 Bankruptcy Filing

Given the City's financial crisis described above, on August 1, 2012 ("Petition Date") the City commenced a bankruptcy case under Chapter 9 of the Bankruptcy Code (the "Bankruptcy Case") by filing a voluntary petition for relief in the United States Bankruptcy Court for the Central District of California (Riverside Division) (the "Bankruptcy Court") on an emergency basis. On August 3, 2012, Judge Meredith A. Jury was designated as the bankruptcy judge overseeing the City's Chapter 9 Bankruptcy Case.

² Reference is made to Title 11 of the United States Code (the "Bankruptcy Code").

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Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Approval and Implementation of the City's Pendency Plan and Budgets

The City promptly took the next step in the multi-step and multi-phase process of formulating its Pendency Plan by preparing its Pre-Pendency Plan. On August 30, 2012, a budget for fiscal year 2012-2013 was presented to the City's Common Council to remain effective until a Pendency Plan was finalized and approved. On September 17, 2012 and October 1, 2012, the Common Council approved certain cuts and budget offsets set forth in the Pre-Pendency Plan and a 9 Point Adjustment Plan, which the City estimated would eliminate approximately \$29.78 million of the City's overall \$45.8 million budget deficit. During this time, the City deferred payment of certain obligations in order to curtail the increasing deficit in the General Fund and the City's dire liquidity crisis. These deferred payments include employer pension contribution payments to the California Public Employees' Retirement System ("CalPERS"), bond debt and certain trade debt.

On November 26, 2012, the Common Council adopted a Pendency Plan, which incorporated the Pre-Pendency Plan. The Pendency Plan served to balance the City's budget during the Bankruptcy Case using tools available under Chapter 9 of the Bankruptcy Code. The City implemented its Pendency Plan through, among other things, the process of: (a) meeting, conferring and negotiating with all seven of its unions, including participating in mediation with two of its unions; (b) implementing changes to collective bargaining agreements with the three unions for which the City was unable to reach consensual resolutions through resolutions adopted by the City's Common Council; and (c) rejecting the collective bargaining agreements with the three dissenting unions as described below.

On February 19, 2013, the City Manager issued and made available the Budget Message and the Fiscal Year 2012-13 and Fiscal Year 2013-14 Proposed Budget for the General Fund. On April 22, 2013, the City adopted its budget for the General Fund and other funds for fiscal years 2012-13 and 2013-14. On June 30, 2014, the City adopted its budget for fiscal year 2014-15, which continued certain of the expenditure reductions in the Pendency Plan and implemented other measures to align expenditures with revenues. On June 30, 2015, the City adopted its budget for fiscal year 2015-16 which again continued certain of the expenditure reductions in the Pendency Plan and implemented other measures to align expenditures with revenues. These efforts have enabled the City to survive financially, manage its ongoing fiscal emergency, and provide essential governmental services to its residents until a plan of adjustment is approved.

The Bankruptcy Court's Determination That the City Is Eligible for Chapter 9 Relief

In the first few weeks of the Bankruptcy Case, the City filed a motion requesting that the Court set a deadline to file objections to the City's eligibility for Chapter 9 relief. On August 24, 2012, the Court entered its "Order Directing And Approving Form Of Notice And Setting Deadline For Filing Objections To The City Of San Bernardino, California's Petition" which established the deadline to file and serve all objections to eligibility as October 24, 2012. Prior to October 12, 2012, the City provided over 15,000 pages of documents pursuant to stipulations with various creditors respecting its financial condition and eligibility for Chapter 9 relief. Although the City has numerous creditors – U.S. and German financial institutions holding the City's bonds, Wall Street bond insurers, hundreds of trade creditors, thousands of retirees receiving pensions and retiree health care benefits, and seven unions representing the City's current employees – only one creditor, the California Public Employees' Retirement System ("CalPERS"), objected to the City's eligibility to be a chapter 9 debtor.³ With respect to CalPERS, the City dedicated substantial resources in its Finance Department to providing information, running numbers, attending meetings and responding to CalPERS' requests. The City provided additional documents totaling over 40,000 pages of documents in the hope that CalPERS would withdraw its objection to the City's eligibility.

³ The SBPEA also filed an objection to the City's eligibility, but later withdrew its objection.

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Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

At a status conference in June 2013, the Bankruptcy Court set a briefing schedule for a motion for summary judgment on the City's eligibility for Chapter 9 relief. CalPERS objected and asserted that it was entitled to additional discovery on the City's eligibility. On August 28, 2013, after extensive briefing by the City and CalPERS, the Bankruptcy Court determined based upon uncontroverted facts that the City had satisfied the requirements for eligibility in Bankruptcy Code section 109(c) and that it had filed its petition in good faith pursuant to Bankruptcy Code section 921(c), and subsequently issued orders to that effect (the "Eligibility Orders"). The Bankruptcy Court found that the City was authorized under California law to be a chapter 9 debtor, the City was insolvent, the City had filed its bankruptcy case in good faith and with the desire to effect a plan of adjustment of debts, and, under the circumstances, it was impracticable for the City to have conducted pre-bankruptcy negotiations with its creditors.

Mediation Respecting the Terms of a Chapter 9 Plan of Adjustment

In October 2013, the Bankruptcy Court appointed the Honorable Gregg Zive, U.S. Bankruptcy Judge for the District of Nevada, as case and plan mediator, and ordered the City, CalPERS and the other principal creditors into mediation over the terms of a chapter 9 plan of adjustment. The Bankruptcy Court appointed Judge Zive to act as mediator with the stated purpose of getting the principal parties to agree on a consensual chapter 9 plan of adjustment for the City. The City, CalPERS, the City's bondholders, the unions and a committee of retirees were actively involved in mediation to achieve a consensual chapter 9 plan of adjustment and the City continues to negotiate with creditors regarding the plan of adjustment.

CalPERS' Appeal of the Bankruptcy Court's Eligibility Orders

CalPERS appealed from the Eligibility Orders, and the U.S. District Court for the Central District of California certified the appeal for review by this U.S. Court of Appeals for the Ninth Circuit. The Ninth Circuit granted CalPERS' petition for leave to appeal the Eligibility Orders, established a briefing schedule and set oral argument on CalPERS' appeal on its August 2014 calendar. By its appeal, CalPERS is challenging the Bankruptcy Court's Eligibility Orders and seeks dismissal of the City's chapter 9 case. The City believes that dismissal of its chapter 9 case would be a catastrophic blow to the City and its citizens as they struggle to recover from the effects of the economic downturn and housing bubble burst. Such a dismissal would deny the City the tools and breathing room afforded municipalities under bankruptcy law to reorganize and adjust its debts, and establish a plan of adjustment for a sound financial future. The CalPERS appeal remains pending, but CalPERS is not pursuing the appeal as long as the City complies with the CalPERS Interim Agreement.

Deferral of CalPERS Payments, Litigation and Settlement with CalPERS

The City deferred payment of the employer portion of retirement contributions to CalPERS for a period of time due to its severe liquidity crisis. The deferrals of the City's employer portion of retirement contributions to CalPERS first occurred on July 31, 2012, as reported by the City in a press release dated October 29, 2012. On November 27, 2012, CalPERS filed a motion for relief from the automatic stay to pursue the City in relation to the deferral, alleging that the City had violated, among other laws, the Public Employees Retirement Law (Cal. Gov. Code, § 20000, *et seq.*), the California Labor Code and the California Constitution. CalPERS sought relief from the stay in order to commence a state court action against the City to attempt to recoup the deferred payments, and to compel the payment of future pension contributions from the City. The Bankruptcy Court denied CalPERS' motion for relief from the automatic stay. Beginning in July 2013, the City resumed payments of the City's employer portion of retirement contributions to CalPERS.

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The unpaid arrearage for the period from August 1, 2012 through June 30, 2013 amounted to \$13.6 million (the "Arrearage"). Because CalPERS could have asserted a contract termination claim that alone exceeded all other claims against the City combined, and an additional large claim for penalties associated with the Arrearage, and the City's unions and retirees had a substantial stake in the resolution of the CalPERS' claims and the City's contractual relationship with CalPERS, the City first focused its mediation efforts on reaching a settlement with CalPERS. An interim agreement between the City and CalPERS entitled "Mediator's Order" was approved by the Judge Zive on June 9, 2014, and became what is now known as the "CalPERS Interim Agreement." The CalPERS Interim Agreement addressed the understanding between the City and CalPERS and provided for, among other things: (i) payment of certain arrearages to CalPERS; (ii) payment of certain additional administrative costs of CalPERS; and (iii) a covenant not to impair CalPERS under the Plan.

Labor Negotiations and Litigation with Certain Unions

Following the Petition Date, the City's labor negotiating team began discussions with all seven of the City's bargaining units: (i) General Employees Unit, (ii) Mid-Management Unit (represented by the San Bernardino Public Employees Association ("SBPEA")), (iii) Management/Confidential Unit, (iv) Police Safety Unit represented by the San Bernardino Police Officers Association ("SBPOA"), (v) Police Management, (vi) Fire Safety Unit (represented by the San Bernardino City Professional Firefighters Local 891 "SBCPF") and (vii) Fire Management Unit. In September 2012, the City engaged Linda Daube to perform services for the City as the City's principal representative and chief negotiator to meet and confer with representatives of all of the City's bargaining units. The City reached agreements with four of its seven unions (the General Bargaining Unit, the Fire Management Bargaining Unit, the Police Management Bargaining Unit, and the Management/Confidential Bargaining Unit) on modifications to the terms and conditions of employment, and those modifications took effect on February 1, 2013 as set forth in Common Council Resolution Nos. 2013-22, 2013-23, 2013-24, and 2013-25. The City did not reach agreements with its three other bargaining units on the modifications of the terms and conditions of employment (the Middle Management Unit, the Police Safety Unit and the Fire Safety Unit) and, on January 28, 2013, the Common Council voted to impose modifications to the terms and conditions of employment on these three bargaining units as set forth in Resolution Nos. 2013-18, 2013-19, and 2013-20.

In February and March 2013, the SBPEA representing the Middle Management Unit, the SBPOA representing the Police Safety Unit and the SBCPF representing the Fire Safety Unit filed motions for relief from stay to exercise remedies to contest the City's unilateral modification of their collective bargaining agreements (the "POA Stay Motion" and the "SBCPF Stay Motion"), and the City filed a motion to reject its collective bargaining agreements with those three unions ("Rejection Motion"). The City subsequently reached an agreement with the Middle Management Unit in August 2013 as set forth in Resolution Nos. 2013-239 and 2014-249, and the SBPEA withdrew its motion for relief from stay.

After the SBCPF requested to be released from the Mediation Order in June 2014, the Rejection Motion as to the SBCPF was set for hearing and granted in part on September 11, 2014. On September 19, 2014, this Bankruptcy Court entered its "Order Granting in Part and Denying in Part City Of San Bernardino's Motion Authorizing Rejection of Collective Bargaining Agreement with the San Bernardino City Professional Firefighters" ("Fire Rejection Order"), which authorized the City's rejection of the collective bargaining agreement with the SBCPF. The SBCPF filed an appeal from the Fire Rejection Order. On May 7, 2015, the Honorable Otis D. Wright, II, U.S. District Court Judge for the Central District of California, affirmed the Fire Rejection Order in full in Case No. 5:14-cv-02073 ODW.

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Year Ended June 30, 2013

On December 3, 2014, the Bankruptcy Court denied the SBCPF Stay Motion. On December 11, 2014, the Bankruptcy Court entered its "Amended Order Continuing in Effect the Automatic Stay Pending Final Hearing on the Motions for Relief From Automatic Stay Filed by the San Bernardino City Professional Firefighters Local 891 and the San Bernardino Police Officers Association Pending Final Hearing On Those Motions" ("Stay Continuation Order"). On December 19, 2014, the Bankruptcy Court entered its "Order Denying San Bernardino City Professional Firefighters Local 891's Motion for Relief from the Automatic Stay Under 11 U.S.C. §362." The SBCPF appealed from both the Stay Continuation Order and the Stay Order. On May 7, 2015, Judge Wright issued his opinion dismissing the SBCPF's appeal of the Stay Continuation Order on jurisdictional grounds. The briefing on the SBCPF's appeal from the Stay Order has been completed but Judge Wright has not issued a decision at this time.

On July 21, 2014, the SBCPF filed a second motion for relief from stay to challenge notices sent to several SBCPF members related to layoffs or job demotions, and changes to Fire Department operations necessitated by the City's budget for fiscal year 2014-15. Ultimately, no firefighters were laid off and the four firefighters that had been demoted for budgetary reasons were reinstated to their original positions as soon as openings in such positions became available. On November 13, 2014, the Bankruptcy Court entered its "Order Denying Motion of San Bernardino City Professional Firefighters for Relief From the Automatic Stay" ("July 2014 Stay Order"). The SBCPF filed an appeal from the July 2014 Stay Order, and on May 7, 2015, Judge Wright affirmed the July 2014 Stay Order in full.

On November 6, 2014, the SBPOA requested that the court set a hearing on the Rejection Motion with respect to the SBPOA's collective bargaining agreement. At a hearing on March 17, 2015, the Court authorized the City to reject its collective bargaining agreement with the SBPOA. On April 15, 2015, the Bankruptcy Court entered its "Order Under 11 U.S.C. § 365 Granting Debtor's Motion to Reject Collective Bargaining Agreement With San Bernardino Police Officers Association." At a hearing held on July 29, 2015, the POA Stay Motion was taken off the calendar because the City and the San Bernardino Police Officers Association anticipated finalizing a settlement of the disputes.

On April 9, 2015, the SBCPF commenced adversary proceeding no. 6:15-ap-01116-MJ by filing a complaint against the City alleging a purported claim for declaratory relief respecting the City's actions to balance its budget and align its expenditures with its revenues through its Pendency Plan and budgets for fiscal years 2012-13, 2013-14 and 2014-15 by implementing changes to certain terms and conditions of employment of members of the fire safety bargaining unit represented by the SBCPF. Specifically, the SBCPF requested that the Court declare and adjudge that: (1) the City unilaterally implemented its interim modifications to the terms and conditions of employment for employees represented by the SBCPF on or about January 28, 2013, and thereafter was obligated to comply with any and all state law requirements, including those set forth in Government Code §3500, et seq., regarding changes in the wages, hours and terms and conditions of employment for employees represented by the SBCPF; and (2) the City may not unilaterally implement additional modifications to the terms and condition of employment of employees represented by the SBCPF effective February 1, 2013, without fully complying with Government Code §3500, et seq., and/or consent of the SBCPF, or in the alternative, the City must follow non-bankruptcy laws after the collective bargaining agreement with employees represented by the SBCPF was rejected. On July 22, 2015, the City filed a motion to dismiss ("MTD") the complaint, and the hearing on that motion was set for August 19, 2015. Instead of opposing the MTD, the SBCPF filed a first amended complaint ("FAC"). The FAC essentially restated the "meet and confer" claims in the original complaint and added a new claim challenging the City's issuance of the Request for Proposals for Delivery of Fire,

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Emergency Medical First Response, and Related Emergency Services (“RFP”) by which it sought proposals for the delivery of fire and emergency medical services from third parties, such as the County of San Bernardino. On August 5, 2015, the SBCPF filed a motion for injunctive relief (the “Injunction Motion”) seeking to stop the City from contracting out the services that the City’s fire department currently provides; the Bankruptcy Court heard the motion the next day, found that there was no basis for seeking a temporary restraining order on an emergency basis, and continued the hearing on the Injunction Motion to September 17, 2015. On August 20, 2015, the City filed a motion to dismiss the first and third claims of the FAC. On September 17, 2015, the bankruptcy court denied the motion to dismiss the FAC and the City must file its response to the FAC by no later than November 5, 2015. On September 17, 2015, the court also granted certain injunctive relief requested by the SBCPF. On October 13, 2015, the bankruptcy court entered an order that provides until further order of the bankruptcy court, the City is: (a) enjoined from implementing any interim or final contract with the County of San Bernardino or any other party which would replace or contract out the fire and/or emergency medical services currently performed by employees represented by the SBCPF; (b) enjoined from giving any layoff notices or taking other affirmative steps which would result in the separation of employment from the City of any employees represented by the SBCPF; and (c) ordered to meet and confer under state law with the SBCPF on the City’s decision to contract out Fire Services and the effects of the decision on the employees represented by the SBCPF prior to implementing any contract for fire and/or emergency medical services and prior to laying off any employees represented by the SBCPF in conjunction with such contract. The City is not prevented from taking other actions related to the contracting out of Fire Services, including continuing its discussions and negotiations with the County of San Bernardino, the County Fire Protection District and the San Bernardino County Local Agency Formation Commission and their affiliated entities related to the annexation process and any interim or final contract. The bankruptcy court’s order is subject to modification depending on the progress of the City’s meet and confer with the SBCPF. The City and the SBCPF are now engaging in the meet and confer process.

On April 10, 2015, the SBCPF and seven City fire safety employees (together “Plaintiffs”) commenced adversary proceeding no. 6:15–ap–01119–MJ by filing a complaint against the City and Alan Parker, the City Manager (both as an individual and in his official capacity) alleging purported claims for violations of federal civil rights (42 U.S.C. § 1983), the Fair Labor Standards Act (29 U.S.C. § 201), a writ of mandate (C.C.P. § 1085 - PERL), a writ of mandate (C.C.P. § 1085 - Charter), violations of the California Labor Code and Declaratory Relief. All of these purported claims are based on the City’s efforts to balance its budget and align its expenditures with its revenues through its Pendency Plan and budgets for fiscal years 2012-13, 2013-14 and 2014-15 by implementing changes to require employees (including fire safety employees) to pay 50% of the normal cost of their own pension benefits and other necessary modifications to the terms and conditions of employment. Plaintiffs also contend the City’s efforts to reduce the cost of City services to its residents by exploring contracting for fire protection services from outside agencies and placing Measure Q on the ballot for voter decision constitute retaliatory efforts against the Plaintiffs in violation of their civil rights under 42 U.S.C. § 1983 and other laws. [Subsequent to the commencement of adversary proceeding no. 6:15–ap–01119–MJ, the Plaintiffs filed a motion to withdraw the reference to the Bankruptcy Court of the matters raised by the Plaintiffs in their complaint (the “Withdrawal Motion”). The City responded to the Withdrawal Motion on May 11, 2015. The City’s response to this complaint will be due within thirty days after the District Court decides the Withdrawal Motion. On June 24, 2015, the City filed a motion to dismiss the Plaintiffs’ sixth claim that asked for the Bankruptcy Court to declare that certain services performed by the employees of the City’s Fire Department represented by the SBCPF could not be contracted out. The Bankruptcy Court granted that motion on July 16, 2015, and the SBCPF appealed that order to the

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District Court. The SBCPF also filed an ex parte motion in the District Court for a stay or injunctive relief pending the appeal of that order. The District Court concluded that there was no basis for ex parte relief, a stay or an injunction and denied each of those requests in its order entered on August 31, 2015. On September 24, 2015, the SBCPF and the other appellants filed their opening brief, the City filed its response brief on October 8, 2015, and appellants must file any reply brief by no later than October 22. The SBCPF and other appellants also filed a petition for writ of mandamus in the Ninth Circuit seeking a writ directing the District Court to issue an injunction or stay of the Bankruptcy Court's order pending the appeal in the District Court. As of October 18, 2015, the Ninth Circuit has not taken action on the petition for a writ of mandamus.

- **The City's Debt Obligations and Creditor Claims** – The total gain expected to occur by adjusting the City's debts pursuant to the proposed Plan is not reasonably measured or estimated given that the settlements with all creditors have not been reached and the Plan has not been confirmed by the Bankruptcy Court as of the date of this report. The Bankruptcy Court established February 7, 2014, as the deadline for all creditors other than governmental units to file proofs of claims, and March 21, 2014, as the deadline for governmental units to file proofs of claims. The City's proposed plan of adjustment will address claims timely filed against the City and the City's outstanding obligations including, but not limited to, the following, which were in existence as of August 31, 2012 (unless otherwise noted):
- **Unsecured Pension Costs and Unfunded Pension Liabilities** – As of June 30, 2013, the City has outstanding unfunded liability owed to CalPERS.
- **Other Post-Employment Benefits** – The City's retirement plans provide for other post-employment benefits ("OPEBs"), consisting primarily of retiree medical care. As of June 30, 2013, the City has an outstanding unfunded liability for OPEBs.
- **Pension Obligation Bond Indebtedness** – To address growing public safety pension obligations, the City issued pension obligation bonds ("POBs") in 2005, which reduced unfunded pension liabilities. The City has not made payments under the POB's since prior to the Petition Date.
- **Lease and Other Financial Obligations** - The City has outstanding lease obligations for critical City assets such as City Hall and police, library and fire facilities. The City also leases equipment critical to the health, safety and welfare of its residents such as fire engines, police vehicles, fire station alerting system, refuse trucks and other critical equipment.
- **Capital Improvement Loans** - In addition to its bonded indebtedness, loans, and capital leases, the City has infrastructure loans for capital improvements.

Debt service obligations paid from dedicated special use restricted resources and/or funds that are not within the General Fund, such as sewer improvement bonds and infrastructure bank loans secured by restricted "special revenues," and/or obligations paid from dedicated special/restricted funds, are currently unimpaired and remain unimpaired under the City's proposed plan of adjustment.

- **Component Units and Restricted Funds** - The Bankruptcy Case seeks the adjustment of the obligations of the City, and does not extend to the City's component units that are separate legal entities. In addition, the City's restricted resources and/or special use funds are funds of the City

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and as such, are accounted for in the City's Bankruptcy Case. As noted above, obligations of the restricted/special funds are currently unimpaired and remain unimpaired under the City's proposed plan of adjustment.

- **Impact of the Bankruptcy Case on the City's Ability to Provide Services** - The City continues to provide essential services to its residents and is committed to continuing to provide such services throughout the Bankruptcy Case. The goal for the Chapter 9 process is to allow the City the time it needs to correct its structural budget imbalance and cash flow problems and set it on a sound financial course moving forward. The Plan does not contemplate termination of services, discontinuance of operations, or termination of the City.

Litigation with Other Creditors for Relief from the Automatic Stay

In October 2012, the City commenced an adversary proceeding and a motion against two individuals seeking a declaration that the automatic stay imposed by 11 U.S.C. § 922 directly applied and/or the automatic stay imposed § 362(a) should be extended to halt the continued prosecution of two separate lawsuits alleging, among other things, personal injury and civil rights claims against certain non-debtor individual police officers. The Bankruptcy Court granted the City's motion and held that Code § 922 stayed the lawsuits against the individual police officers and, as an alternative ground, the Bankruptcy Court also found that the stay should be extended to the police officers under 11 U.S.C. §§ 362(a)(1) and 362(a)(3) based on the "unusual circumstances" doctrine. One party appealed the Bankruptcy Court's ruling to the Bankruptcy Appellate Panel for the Ninth Circuit Court of Appeals and that appeal has been resolved.

Over 20 motions seeking orders for relief from the automatic stay have been filed by plaintiffs that are parties to lawsuits pending in other courts to recover damages against the City primarily based on alleged personal injuries and/or violations of civil rights. The City has successfully opposed or favorably resolved almost all of these motions for relief from the automatic stay. In one case, movants Raymond Newberry and others ("Newberry") filed a motion for relief to obtain an injunction to keep the City from inspecting apartments pursuant to inspection warrants requested that the Bankruptcy Court deny relief from stay "with prejudice" so that Newberry could appeal the ruling, and the Court did so, Newberry appealed the Bankruptcy Court order to the District Court, and then filed a motion in the Bankruptcy Court seeking an award of attorneys' fees. Newberry filed their opening brief and the City's response is due on November 2, 2015.

Litigation with POB Creditors

In 2005, the City issued the POBs and approximately \$51.9 million remains due on the POBs as of June 30, 2013. The City deposited the proceeds of the POBs to CalPERS to pay the unfunded liability amount in the Safety Plan. The holder of the POBs is Erste Europäische Pfandbrief-und Kommunalkreditbank AG ("EEPK"), a subsidiary of Commerzbank, the second largest German bank. Ambac Assurance Corporation ("Ambac", with EEPK, the "POB Creditors") is the insurer of a portion of the bonds for the benefit of the bondholders. The POBs are unsecured. On January 7, 2015, Ambac and EEPK commenced adversary proceeding no. 6:15-ap-01004-MJ by filing a complaint against the City for declaratory relief. Ambac and EEPK assert that they are entitled to a priority that would require the City to pay their claims in full under a Chapter 9 plan, regardless of what the City pays other unsecured creditors under the plan. The City disputes that assertion.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

On March 20, 2015, the City filed a motion to dismiss the complaint for failure to state a claim upon which relief can be granted, and on May 26, 2015, the Bankruptcy Court entered its order granting the City's motion and dismissing the complaint. The POB Creditors appealed that order to the Bankruptcy Appellate Panel, the POB Creditors' opening brief is due on October 22, 2015, the City's responsive brief is due 45 days after service of the POB Creditors' opening brief; and the POB Creditor's reply brief is due 20 days after the City's brief.

Settlement with Retirees

The City and the City's retirees reached a settlement through mediation facilitated by Judge Zive. Pursuant to the Retiree Settlement, retirement benefits for current and future employees will be reduced. These reductions in health care savings will save the City approximately \$40 million in avoided OPEB costs. A decrease in the number of City employees already has reduced the City's labor costs, which has the additional effect of lowering the City's pension benefit costs.

The City's Plan of Adjustment and Disclosure Statement

On May 18, 2015, the City Council approved a Recovery Plan in support of the Plan of Adjustment. The City continues to work towards a consensual plan of adjustment with its creditors and, if a consensual plan cannot be achieved, then confirmation of a plan of adjustment over potential objections from creditors.

The bankruptcy court established May 30, 2015 as the deadline for the City to file a plan of adjustment. The City filed its Plan of Adjustment and disclosure statement on May 29, 2015. Some creditors filed objections to the adequacy of the disclosure statement and the City filed a response to those objections on October 1, 2015. On October 8, 2015, the bankruptcy court held a hearing on the adequacy of the disclosure statement. At the October 8, 2015 hearing, the Court set a schedule for the City to file an amended disclosure statement on November 25, 2015, any objections to the amended disclosure statement are due on December 16, 2015, and the City's response to any objections to the amended disclosure statement is due on December 21, 2015. The bankruptcy court also scheduled a hearing on the disclosure statement and status conference for December 23, 2015.

In addition, on May 18, 2015, the City Council approved a Recovery Plan in support of the plan of adjustment. The City continues to work towards a consensual plan of adjustment with its creditors and, if a consensual plan cannot be achieved, then confirmation of a plan of adjustment over potential objections from creditors will be sought. The City's Plan of Adjustment and Disclosure Statement can be obtained at the following sources:

- http://www.sbcity.org/home_nav/chapter_9_bankruptcy/default.asp

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

(3) Cash and Investments

Cash and investments, excluding the Water Department OPEB Trust Fund, are presented in the accompanying financial statements at June 30, 2013, as follows:

Statement of net position:

Cash and investments	\$ 85,723,660
Restricted cash and investments	28,806,114

Statement of fiduciary net position:

Cash and investments - Redevelopment Obligation Retirement Fund	23,384,622
Cash and investments - Agency Funds	<u>4,432,576</u>

Total cash and investments	<u>142,346,972</u>
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Statement of net position:

Cash and investments with fiscal agents	1,276,167
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Statement of fiduciary net position:

Cash and investments with fiscal agents - Redevelopment Obligation Retirement Fund	<u>30,007,728</u>
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Total cash and investments with fiscal agents	<u>31,283,895</u>
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Total	<u><u>\$ 173,630,867</u></u>
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Cash and investments at June 30, 2013, consisted of the following:

Cash on hand	\$ 13,075
Demand deposits	40,470,931
Investments	<u>133,146,861</u>

Total cash and investments	<u><u>\$ 173,630,867</u></u>
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As part of the City's investment guidelines, the City continually seeks ways to increase investment income while not risking investment principal. One way the City accomplishes this is by "sweeping", on a nightly basis, any excess cash held in its non-interest bearing checking account to an interest bearing money market account with the same bank.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Cash and investments held by a third party trustee for the Water Department OPEB Trust Fund at June 30, 2013, consisted of the following:

Statement of fiduciary net position:	
Cash and investments OPEB Trust	<u>\$ 9,711,947</u>
Money Market Mutual Funds	\$ 21,319
Mutual Funds - Equity	6,092,574
Mutual Funds - Fixed Income	<u>3,598,054</u>
Total cash and investments	<u>\$ 9,711,947</u>

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. Due to its long-term nature, the Water Department Consent Decree has been explicitly exempted from maximum maturity requirements of the California Government Code, which limits maturity of most investments to five years. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy:

<u>Authorized Investment Types</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer*</u>
United States Treasury Obligations	5 years	None	None
United States Federal Agency Securities	5 years	None	None
Bonds, Notes or Registered Warrants			
Issued by the State of California or Local			
Agencies within the State of California	5 years	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Time Certificates of Deposit	N/A	25%	None
Medium-term Corporate Notes	5 years	30%	15%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-through Securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	\$50 million

* Based on state law requirements or City investment policy requirements, whichever is more restrictive.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Investments Authorized by Debt Agreements

Investment of debt proceeds held by fiscal agent's are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Types	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
United States Treasury Obligations	None	None	N/A
United States Federal Agency Securities Bonds, Notes or Registered Warrants	None	None	None
Issued by the State of California or Local Agencies within the State of California	None	None	None
Bankers' Acceptances	180 - 360 days	None	None
Commercial Paper	92 - 180 days	None	None
Medium-term Corporate Notes	None	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity. For purposes of the schedule shown below, any callable securities are assumed to be held to maturity.

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

Investment Type	Total	Remaining Maturity		
		12 Months or Less	13 to 24 Months	25 Months or More
Local Agency Investment Fund (State Investment Pool)	\$ 47,310,219	\$ 47,310,219	\$ -	\$ -
Commercial Paper	489,612	489,612	-	-
Money Market Mutual Funds	4,400,367	4,400,367	-	-
Certificates of Deposit	249,828	-	249,828	-
Negotiable Certificates of Deposit	2,220,615	-	2,220,615	-
Federal Agency Securities	26,778,222	4,002,264	6,143,607	16,632,351
U.S. Treasury Securities	8,377,495	450,297	1,650,662	6,276,536
Medium-term Corporate Notes	11,291,161	1,849,635	794,324	8,647,202
Asset Backed Securities	747,240	-	-	747,240
Held by Bond Trustee:				
Money Market Funds	26,204,033	26,204,033	-	-
U.S. Treasury Securities	4,022,069	4,022,069	-	-
Investment Contracts	1,056,000	-	-	1,056,000
Total	\$ 133,146,861	\$ 88,728,496	\$ 11,059,036	\$ 33,359,329

The following table shows the distribution of the investments subject to interest rate risk of the Water Department OPEB Trust Fund by maturity:

Investment Type	Total	Remaining Maturity	
		12 Months or Less	60 Months or More
Money Market Mutual Funds	\$ 21,319	\$ 21,319	\$ -
Mutual Funds - Fixed Income	3,598,054	-	3,598,054
Total	\$ 3,619,373	\$ 21,319	\$ 3,598,054

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

Investment Type	Total	Minimum Legal Rating	Ratings at Year-End AA or AAA	Rating at Year End A	Not Rated
Local Agency Investment Fund (State Investment Pool)	\$ 47,310,219	N/A	\$ -	\$ -	\$ 47,310,219
Commercial Paper	489,612	A-1	-	489,612	-
Money Market Mutual Funds	4,400,367	AA+	382,793	-	4,017,574
Certificates of Deposit	249,828	N/A	-	-	249,828
Negotiable Certificates of Deposit	2,220,615	A	497,584	975,418	747,613
Federal Agency Securities	26,778,222	AA	26,778,222	-	-
U.S. Treasury Securities	8,377,495	N/A	8,377,495	-	-
Medium-term Corporate Notes	11,291,161	A	10,403,875	887,286	-
Asset Backed Securities	747,240	AA	747,240	-	-
Held by Bond Trustee:	-				
Money Market Funds	26,204,033	AA+	-	-	26,204,033
U.S. Treasury Securities	4,022,069	N/A	-	-	4,022,069
Investment Contracts	1,056,000	N/A	-	-	1,056,000
Total	<u>\$ 133,146,861</u>		<u>\$ 47,187,209</u>	<u>\$ 2,352,316</u>	<u>\$ 83,607,336</u>

The following table displays the credit risk relating to the Water Department OPEB Trust Fund as of June 30, 2013:

Investment Type	Total	Minimum Legal Rating	Ratings at Year-End AA or AAA	Rating at Year End A	Not Rated
Money Market Mutual Funds	\$ 21,319	N/A	\$ -	\$ -	\$ 21,319
Mutual Funds - Fixed Income	3,598,054	N/A	-	-	3,598,054
Total	<u>\$ 3,619,373</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,619,373</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount	Percentage of Portfolio
Federal National Mortgage Association	Federal Agency Security	\$ 13,142,999	10%
Federal Home Loan Mortgage Corp.	Federal Agency Security	7,020,801	5%

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the 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. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental 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 City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2013, the City's deposits (bank balances) were collateralized under California Law.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The total amount invested by all public agencies in LAIF as of June 30, 2013, is \$21.2 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2013, had a balance of \$58.8 billion. Of that amount, 98% was invested in non-derivative financial products and 2% in structured notes and asset-backed securities. The weighted average maturity of LAIF was 278 days as of June 30, 2013.

(4) Notes Receivable

Notes receivable represent loan agreements entered into between the City and unrelated non-governmental entities as part of the City's redevelopment activities, including single-family home buyer assistance, and real estate development and construction loans. At June 30, 2013, approximately \$6.9 million of notes receivable, net of \$3.4 million allowance for doubtful accounts, were reported in the Federal and State Grants Fund. At June 30, 2013, the Low and Moderate Income Housing Fund reported approximately \$38.8 million of notes receivable; however, the City has not performed an analysis of the collectability of these notes receivable. Collection of these notes receivable are subject to the terms of each individual loan agreement.

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

(5) Interfund Receivables, Payables and Transfers

Due To / From Other Funds

Amounts due to and due from other funds at June 30, 2013, are summarized as follows:

	Due From Other Funds (asset):					Total
	General Fund	Integrated Waste Enterprise Fund	Water Enterprise Fund	Sewer Enterprise Fund	Internal Service Funds	
<u>Due To Other Funds (liability):</u>						
General Fund	\$ -	\$ -	\$ 289,423	\$ 5,080	\$ -	\$ 294,503
Federal and State Grants Fund	277,365	-	-	-	-	277,365
Low and Moderate Income Housing Fund	-	-	22,080	2,371	-	24,451
Nonmajor Governmental Funds	1,777,391	-	-	-	-	1,777,391
Water Enterprise Fund	-	2,208,547	-	-	-	2,208,547
Sewer Enterprise Fund	-	268,858	-	-	-	268,858
Internal Service Funds	-	-	173,808	5,342	2,193,448	2,372,598
Total	\$ 2,054,756	\$ 2,477,405	\$ 485,311	\$ 12,793	\$ 2,193,448	\$ 7,223,713

Amounts due to and due from other funds reflect (a) Monies owed to the Integrated Waste Enterprise (IWE) Fund from Water Enterprise and Sewer Enterprise funds for monies for services collected by the Water Department on behalf of the IWE Fund; and (b) inter-fund borrowings to cover short-term operating deficits and cash overdrafts.

Advances To / From Other Funds

Advance to and advances from other funds at June 30, 2013, are summarized as follows:

	Advances To Other Funds (asset)		Total
	Low and Moderate Income Housing Fund	Nonmajor Governmental Funds	
<u>Advances From Other Funds (liability):</u>			
Federal and State Grants Fund	\$ 9,347,333	\$ -	\$ 9,347,333
Nonmajor Governmental Funds	129,700	164,000	293,700
Total	\$ 9,477,033	\$ 164,000	\$ 9,641,033

The interfund advances above resulted from loans to fund infrastructure and other capital improvements.

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

Transfers

Interfund transfers during the year ended June 30, 2013, consisted of the following:

	Transfers out:			Total
	General Fund	Nonmajor Governmental Funds	Integrated Waste Enterprise Fund	
<u>Transfers in:</u>				
General Fund	\$ -	\$ 31,852	\$ 2,200,000	\$ 2,231,852
Sales and Road Fund	250,000	-	-	250,000
Nonmajor Governmental Funds	134,374	-	-	134,374
Total	\$ 384,374	\$ 31,852	\$ 2,200,000	\$ 2,616,226

Interfund transfers were principally used to fund (a) operating deficits in nonmajor funds, (b) debt service payments, and (c) reimbursement of costs of the General Fund related to accomplishing activities of other funds.

(6) Property Held for Resale

Property held for resale represents single-family, multi-family, commercial, and retail real estate acquired by the City under its Low and Moderate Income Housing Fund and the Federal and State Grants Fund. Approximately 60 properties are reported in the Federal and State Grants Fund (a major special revenue fund) ranging in amounts from approximately \$78,000 to \$640,000, and totaling \$16.3 million. The Low and Moderate Income Housing Fund (a major special revenue fund) includes approximately 30 properties ranging in amounts from approximately \$5,000 to \$11.8 million, and totaling \$18.4 million. Property held for resale is recorded at acquisition cost plus improvement costs. These costs will be charged to current year project expenditures when the related properties are sold or disposed.

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

(7) Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 113,844,359	\$ -	\$ -	\$ 113,844,359
Construction in progress	10,455,431	2,612,943	(2,160,631)	10,907,743
Total capital assets, not being depreciated	<u>124,299,790</u>	<u>2,612,943</u>	<u>(2,160,631)</u>	<u>124,752,102</u>
Capital assets, being depreciated:				
Infrastructure	546,097,921	2,160,631	-	548,258,552
Buildings & improvements	74,263,662	-	-	74,263,662
Machinery, vehicles & equipment	55,019,568	744,728	(720,600)	55,043,696
Total capital assets, being depreciated	<u>675,381,151</u>	<u>2,905,359</u>	<u>(720,600)</u>	<u>677,565,910</u>
Less accumulated depreciation for:				
Infrastructure	(276,893,834)	(14,557,326)	-	(291,451,160)
Buildings & improvements	(57,051,789)	(1,487,327)	-	(58,539,116)
Machinery, vehicles & equipment	(45,515,038)	(3,337,486)	720,600	(48,131,924)
Total accumulated depreciation	<u>(379,460,661)</u>	<u>(19,382,139)</u>	<u>720,600</u>	<u>(398,122,200)</u>
Total capital assets, being depreciated, net	<u>295,920,490</u>	<u>(16,476,780)</u>	<u>-</u>	<u>279,443,710</u>
Intangible assets	5,946,327	-	-	5,946,327
Less accumulated amortization	(842,396)	(594,633)	-	(1,437,029)
Total intangible assets, net	<u>5,103,931</u>	<u>(594,633)</u>	<u>-</u>	<u>4,509,298</u>
Governmental activities capital assets, net	<u>\$ 425,324,211</u>	<u>\$ (14,458,470)</u>	<u>\$ (2,160,631)</u>	<u>\$ 408,705,110</u>

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

Capital asset activity for business-type activities for the year ended June 30, 2013, was as follows:

	Balance June 30, 2012, Restated	Additions	Deletions	Balance June 30, 2013
Business-type activities:				
Capital assets, not being depreciated:				
Land and easements	\$ 15,788,554	\$ 1,419,100	\$ -	\$ 17,207,654
Construction in progress	9,617,367	20,165,688	(5,058,272)	24,724,783
Total capital assets, not being depreciated	<u>25,405,921</u>	<u>21,584,788</u>	<u>(5,058,272)</u>	<u>41,932,437</u>
Capital assets, being depreciated:				
Water rights, wells & pumping	83,226,631	369,690	(182,127)	83,414,194
Distribution systems	119,814,832	5,175,373	-	124,990,205
Building, plant, & store yards	122,188,323	863,910	(71,849)	122,980,384
Other capital assets	43,235,286	327,889	(1,069,523)	42,493,652
Total capital assets, being depreciated	<u>368,465,072</u>	<u>6,736,862</u>	<u>(1,323,499)</u>	<u>373,878,435</u>
Less accumulated depreciation for:				
Water rights, wells & pumping	(30,179,486)	(2,187,915)	176,677	(32,190,724)
Distribution systems	(28,976,409)	(2,392,217)	-	(31,368,626)
Building, plant, & store yards	(80,510,891)	(3,390,766)	69,231	(83,832,426)
Other capital assets	(28,526,837)	(3,992,481)	883,266	(31,636,052)
Total accumulated depreciation	<u>(168,193,623)</u>	<u>(11,963,379)</u>	<u>1,129,174</u>	<u>(179,027,828)</u>
Total capital assets, being depreciated, net	200,271,449	(5,226,517)	(194,325)	194,850,607
Business-type activities capital assets, net	<u>\$ 225,677,370</u>	<u>\$ 16,358,271</u>	<u>\$ (5,252,597)</u>	<u>\$ 236,783,044</u>

The opening balances as of June 30, 2012 were restated for a \$.3 million reclassification of land reported as depreciable assets in prior years, an increase in the distribution system of \$.8 million and an increase in plant and store yards of \$1.4 million for capitalized interest capitalized as part of the adoption of GASB No. 62, a decrease of \$8.6 million as the Water Department policy is not to record salvage values and a net decrease of \$23.1 million to reclassify the beginning balance of the Sewer Fund's investment in joint venture in a separate asset category.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Depreciation expense was charged to the following functions in the statement of activities:

	Governmental activities	Business-type activities
Function:		
General government	\$ 135,581	\$ -
Public safety	1,751,343	-
Streets	15,212,263	-
Culture and recreation	559,342	-
Community services	598,917	-
Integrated waste enterprise fund	-	3,058,127
Water enterprise fund	-	5,505,403
Sewer enterprise fund	-	3,399,849
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>1,719,326</u>	<u>-</u>
Total depreciation expense	<u>\$ 19,976,772</u>	<u>\$ 11,963,379</u>

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

(8) Long-Term Liabilities – Governmental Activities

Changes in the long-term liabilities of the governmental activities for the year ended June 30, 2013, were as follows:

	Balance June 30, 2012, Restated	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Governmental activities:					
Capital leases payable	\$ 2,584,734	\$ -	\$ (739,480)	\$ 1,845,254	\$ 625,124
Claims and judgments	20,921,972	12,935,634	(3,122,564)	30,735,042	3,815,102
Compensated absences	19,263,272	-	(7,215,080)	12,048,192	3,614,458
Other post-employment benefits obligation	25,068,601	4,376,256	(1,347,000)	28,097,857	8,429,357
<u>Notes payable:</u>					
HUD section 108					
Arden Guthrie	7,500,000	-	(334,000)	7,166,000	344,000
Fire maintenance facility note	1,200,000	-	-	1,200,000	-
New World note payable	4,548,785	-	(513,540)	4,035,245	528,381
Total notes payable	13,248,785	-	(847,540)	12,401,245	872,381
<u>Lease revenue bonds:</u>					
Public Facilities Lease					
(Lease Revenues Refunding 1997, Series A)	1,755,000	-	(1,755,000)	-	-
City Hall Lease					
(Refunding Bonds, Series 1996)	8,055,000	-	(550,000)	7,505,000	580,000
Total lease revenue bonds	9,810,000	-	(2,305,000)	7,505,000	580,000
<u>California Infrastructure and Economic Development Bank:</u>					
Fire Station Lease	2,067,029	-	(88,919)	1,978,110	91,515
Street Construction	4,705,483	-	(1,135,367)	3,570,116	1,162,275
Harriman Place Street Extension Lease	1,232,522	-	(108,458)	1,124,064	111,505
Total California Infrastructure and Economic Development Bank	8,005,034	-	(1,332,744)	6,672,290	1,365,295
<u>Certificates of Participation:</u>					
1999 Certificates of participation	4,520,000	-	(250,000)	4,270,000	260,000
<u>Pension Obligation Bonds:</u>					
Taxable Pension Obligation Bonds, 2005 Series A	46,140,860	-	-	46,140,860	46,140,860
Add: interest accretion	4,904,248	817,374	-	5,721,622	5,721,622
Total pension obligation bonds	51,045,108	817,374	-	51,862,482	51,862,482
HUD CDBG liability	-	2,064,243	-	2,064,243	-
Total governmental activities long-term liabilities	<u>\$ 154,467,506</u>	<u>\$ 20,193,507</u>	<u>\$ (17,159,408)</u>	<u>\$ 157,501,605</u>	<u>\$ 71,424,199</u>

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. At June 30, 2013, \$458,380 of capital leases payable, \$30,735,042 of claims and judgments, \$421,681 of compensated absences, and \$4,035,245 of notes payable (New World) for internal service funds are included in the above amounts for governmental activities. For governmental activities, compensated absences and other post-employment benefit obligations (OPEB) are generally liquidated by the General Fund.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

The following payment schedules of the City are based on the agreements currently in place with the City's creditors. These amounts are subject to change as a result of the bankruptcy filing by the City. Please see Note 2 for further details.

A. Capital Leases Payable

	<u>Amount Outstanding at June 30, 2013</u>
The City has entered into several lease agreements for the financing of fire vehicles and equipment, air conditioners, and police vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the date of inception.	<u>\$ 1,845,254</u>

Assets acquired through capital leases are as follows:

	<u>Amount</u>
Machinery, vehicles and equipment	\$ 5,347,420
Less: accumulated depreciation	<u>(3,803,954)</u>
 Total	 <u>\$ 1,543,466</u>

The following schedule summarizes the debt to maturity payments for capital leases:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 625,124	\$ 67,514	\$ 692,638
2015	622,010	43,920	665,930
2016	309,764	21,578	331,342
2017	121,228	11,542	132,770
2018	81,632	6,877	88,509
2019	<u>85,496</u>	<u>3,013</u>	<u>88,509</u>
Totals	<u>\$ 1,845,254</u>	<u>\$ 154,444</u>	<u>\$ 1,999,698</u>

B. Notes Payable

	<u>Amount Outstanding at June 30, 2013</u>
<i>Arden-Guthrie Focused Neighborhood Revitalization Project</i>	

The City of San Bernardino entered into a Contract for Loan Guarantee Assistance, a Master Fiscal Agency Agreement, and executed a promissory note

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

with the United States Department of Housing and Urban Development pursuant to Section 108 of the Housing and Community Development Act of 1974, as amended (Section 108 Loan). The proceeds of the loan were then loaned to the Economic Development Agency (EDA) to be used for the Arden-Guthrie Focused Neighborhood Revitalization Project, which affects approximately 20 acres of land located at the northwest corner of Arden Avenue and 20th Street (Arden-Guthrie Site). Once the Arden-Guthrie Site is sold to a third-party, the proceeds of the sale are required to be paid to the City. All of the debt service payments on the Section 108 Loan are the responsibility of the City. The source of funds available for the repayment of the Loan is the CDBG Program Revenue of the City.

During the initial phase, interest is payable from the date of each advance to the “Public Offering Date”, shall accrue on the unpaid principal balance of the Note and shall be paid in quarterly installments on the first day of February, May, August and November, “Interim Payment Date”. The amount of interest payable on each Interim Payment Date will represent interest accrued on the unpaid balance during the three month period ending before the Interim Payment Date, in the case of the first Interim Payment Date, the period from the date of this Note to the day before the first Interim Payment Date. The initial interest rate will be set on the date of such advance at a rate per annum equal to 20 basis points (.2%) above the Applicable LIBOR Rate on such Reset Date.

Interest payments are due semiannually on February 1 and August 1 and continue through August 1, 2026. Principal payments are due annually on August 1, and continue through August 1, 2026.

\$ 7,166,000

Fire Maintenance Facility Note

On August 1, 2009, the City entered into a note agreement with a property owner for the purchase of land to be used for the City’s Fire Department Maintenance Facility. The note is for the amount of \$1,200,000 with a maturity date of July 1, 2019 and bears interest of 5.0% per annum. Principal payment is due on July 1, 2019, but the City has an option to prepay the principal. The City made a principal payment of \$100,000 in December 2014. Interest payments are due semiannually on January 1 and July 1, commencing on January 1, 2010 through July 1, 2019.

1,200,000

New World Note Payable

In 2011, the City entered into a subscription agreement for the acquisition of computer software. The agreement has the substance of a note payable for accounting purposes and has been recorded at the present value of the annual payments of \$645,000, calculated using a discount rate of 2.89%. The final payment is due July 1, 2019.

4,035,245

Total notes payable

\$ 12,401,245

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

The following schedule summarizes the debt to maturity payments for notes payable:

Year ending June 30,	Principal	Interest	Total
2014	\$ 872,381	\$ 560,994	\$ 1,433,375
2015	997,652	495,564	1,493,216
2016	943,363	488,606	1,431,969
2017	979,529	452,345	1,431,874
2018	1,016,162	414,154	1,430,316
2019-2023	5,016,158	1,268,547	6,284,705
2024-2027	2,576,000	293,441	2,869,441
Totals	<u>\$ 12,401,245</u>	<u>\$ 3,973,651</u>	<u>\$ 16,374,896</u>

C. Lease Revenue Bonds

Amount
Outstanding at
June 30, 2013

Public Facilities Lease Revenue Refunding Bonds, 1997 Series A

\$10,370,000 of Public Facilities Lease Revenue Refunding Bonds, issue of 1997, Series A, were issued for the purpose of refunding the EDA's Public Facilities Lease Revenue Bonds, 1989 Series A, and to provide funds for the construction and leasing of a fueling station. The bonds bear interest at 5.0% per annum. Interest is payable semiannually on March 1, and September 1. The bonds shall be redeemed prior to maturity beginning September 1, 2008 to September 1, 2013 from the Term Bond Sinking Fund.

The bonds were subject to optional redemption before maturity from available funds. As of June 30, 2013, outstanding bond principal totaling \$1,755,000 was called and fully paid by the City.

\$ -

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Lease Revenue Refunding Bonds (City Hall Project), Series 1996

\$16,320,000 of Lease Revenue Refunding Bonds (City Hall Project), Series 1996, were issued to refund the Central City Project, \$12,000,000 Certificates of Participation (Series 1992) and to finance the acquisition of certain equipment and other capital improvements by the City. These bonds consisted of: \$4,235,000 of serial bonds with interest rates varying from 4.15% to 5.00%; and \$1,690,000 of term bonds bearing interest at 5.10%; \$865,000 of term bonds, bearing interest of 5.30%; \$3,215,000 of term bonds, bearing interest at 5.60% and \$6,315,000 of term bonds, bearing interest at 5.70%. Interest is payable semiannually on January 1 and July 1. Remaining term bonds are due January 1, 2015, and January 1, 2023, and shall be called and redeemed before maturity from money deposited into the Term Bond Sinking Fund.

The bonds are subject to optional redemption as a whole or in part at the times and prices (expressed as a percentage of the principal amount so redeemed) as set forth in the bond documents. A reserve account is required to be maintained in accordance with the bond documents. As of June 30, 2013, the reserve requirement was \$1,008,190 and the amount actually held in the reserve account was \$1,262,720.

The bonds and the interest thereon were previously payable from, and secured by a pledge of, lease payments to be paid by the City of San Bernardino pursuant to a Lease Purchase Agreement between the EDA as lessor and the City as lessee. In order for the City to secure its obligations pursuant to the Lease Agreement, the City will grant to the former EDA, which will be assigned to First Trust of California National Association, as trustee, its interest in the Lease Agreement, which includes its rights to acquire the Leased Premises, upon payment of principal of and interest on the bonds. Upon dissolution of the EDA, the bonds became a liability of the City.

	<u>\$ 7,505,000</u>
Total lease revenue bonds	<u><u>\$ 7,505,000</u></u>

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

The following schedule summarizes the debt to maturity payments for lease revenue bonds:

Year ending June 30,	Principal	Interest	Total
2014	\$ 580,000	\$ 441,995	\$ 1,021,995
2015	610,000	410,355	1,020,355
2016	645,000	377,035	1,022,035
2017	685,000	341,573	1,026,573
2018	720,000	303,668	1,023,668
2019 - 2023	<u>4,265,000</u>	<u>898,463</u>	<u>5,163,463</u>
Totals	<u>\$ 7,505,000</u>	<u>\$ 2,773,089</u>	<u>\$ 10,278,089</u>

D. California Infrastructure and Economic Development Bank

Amount
Outstanding at
June 30, 2013

Fire Station Lease

On August 2, 2004, the California Infrastructure and Economic Development Bank (CIEDB) and the City entered into a lease agreement in regard to the purchase of a Fire Station for an amount of \$2,550,000. Subject to the provisions of the lease, the City agrees to pay to the CIEDB, as rental for use and occupancy of the Fire Station, lease payments upon a term of 25 years from the effective day at an interest rate of 2.92% per annum. The base rental payments are due on February 1 and August 1 of each year, commencing on February 1, 2005, through August 1, 2029.

\$ 1,978,110

Street Construction

On September 27, 2005, the California Infrastructure and Economic Development Bank (CIEDB) and the City entered into a financing agreement for pavement reconstruction and 25.5 miles of pavement rehabilitation projects on public streets throughout the City for an amount of \$10,000,000. Interest rate is 2.37% per annum. The City agrees to pay the CIEDB on August 1 and February 1, commencing on August 1, 2006, through August 1, 2015.

3,570,116

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Harriman Place Street Extension Lease

On August 28, 2001, the California Infrastructure and Economic Development Bank (CIEDB) and the City entered into a lease agreement in regard to the Harriman Place Street Extension Project (Project) for an amount of \$2,000,000. Interest rate is 2.81% per annum. The Project is located on real property owned by the City. Subject to the provisions of the lease, the City agrees to pay to the CIEDB as rental for use and occupancy of the Harriman Street Extension lease payments on February 1 and August 1 of each year, commencing on August 1, 2004, through August 1, 2021.

1,124,064

Total California Infrastructure and Economic Development Bank liabilities

\$ 6,672,290

The following schedule summarizes the debt to maturity payments for California Infrastructure and Economic Development Bank liabilities:

Year ending June 30,	Principal	Interest	Total
2014	\$ 1,365,295	\$ 157,284	\$ 1,522,579
2015	1,398,648	123,522	1,522,170
2016	1,432,818	88,933	1,521,751
2017	220,941	68,268	289,209
2018	227,259	61,859	289,118
2019-2023	1,094,485	208,577	1,303,062
2024-2028	646,877	90,060	736,937
2029-2030	285,967	8,410	294,377
Totals	<u>\$ 6,672,290</u>	<u>\$ 806,913</u>	<u>\$ 7,479,203</u>

E. Certificates of Participation

1999 Certificates of Participation

On September 23, 1999, the San Bernardino Joint Powers Financing Authority issued \$15,480,000 of Refunding Certificates of Participation (Certificates). The Certificates were issued to retire \$2,325,000 outstanding of Refunding Certificates of Participation (South Valle Public Improvement Project) dated April 1, 1987, and \$5,910,000 outstanding of Certificates of Participation (1995 Police Station Financing Project) dated April 1, 1995, and to provide funds for capital improvements (201 Building Projects).

The Certificates mature on September 1 of each year through September 1, 2024, in amounts ranging from \$330,000 to \$1,080,000. The interest represented by the Certificates is calculated on the basis of a 360-day year of twelve 30-day months, from September 1, 1999, at the rates per annum set forth in the bond documents and will represent the sum of the portions of the lease payments designated as interest coming due during the six months preceding each interest payment date. The interest rates will range approximately from 3.70% to 5.50% per annum.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

The Certificates maturing on September 1, 2020, are subject to mandatory sinking fund redemption in part on September 1 in each year on or after September 1, 2010, from the principal components of the lease payments required to be paid by the City pursuant to the Lease Agreements with respect to each such redemption date, at a redemption price equal to the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium, in accordance with the terms identified in the bond documents. The Certificates maturing on September 1, 2024, are subject to mandatory sinking fund redemption in part on September 1, 2021, from the principal components of the lease payments required to be paid by the City pursuant to the Lease Agreements with respect to each such redemption date, at a redemption price equal to the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium, in accordance with the terms identified in the bond documents.

The Certificates represent direct, undivided fractional interest in lease payments to be made by the City under the lease agreements. A reserve fund is required to be maintained in an amount equal to the maximum annual debt service. At June 30, 2013, the reserve requirement was \$1,147,000 and the amount actually held in the reserve account was \$1,156,533. The total outstanding balance of the Certificates at June 30, 2013 was \$9,825,000 of which \$4,270,000 is reported as a long-term liability of the City, which is the portion of the Certificates that represent the Police Station portion. Repayment of this portion of the Certificates is funded from the City's general revenues under the terms of the lease agreement. The remaining \$5,555,000 outstanding balance of the Certificates at June 30, 2013, is reported as a long-term liability of the Successor Agency, which is the portion of the Certificates that represents the South Valle Refunding and 201 Building Projects portions. Please see Note 25 (E).

The following schedule summarizes the debt to maturity payments for the Certificates:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 260,000	\$ 227,700	\$ 487,700
2015	275,000	212,988	487,988
2016	290,000	197,451	487,451
2017	305,000	181,088	486,088
2018	325,000	163,763	488,763
2019-2023	1,900,000	523,880	2,423,880
2024-2025	915,000	51,013	966,013
Totals	<u>\$ 4,270,000</u>	<u>\$ 1,557,883</u>	<u>\$ 5,827,883</u>

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

F. Pension Obligation Bonds

Taxable Pension Obligation Bonds, 2005 Series A

In October 2005, the City issued City of San Bernardino Taxable Pension Obligation Bonds, 2005 Series A, consisting of \$36,050,000 principal amount of Taxable Pension Obligation Bonds, Series A-1 (standard bonds) and \$14,351,583 principal amount of Taxable Pension Obligation Bonds, 2005 Series A-2 (capital appreciation bonds). The City issued the bonds in order to prepay its unfunded accrued actuarial liability related to the City's safety retirement plan.

The standard bonds are dated October 1, 2005, with an interest rate of 5.628% per annum, maturing annually commencing October 1, 2024, through October 1, 2035. Interest is due semiannually on April 1 and October 1, commencing on October 1, 2006 through October 1, 2035. The capital appreciation bonds are dated October 1, 2005, with interest rates varying from 4.993% to 5.877% per annum, maturing annually commencing October 1, 2007, through October 1, 2024. Interest is due semiannually on April 1 and October 1, 2006 through October 1, 2035.

The City is in default on these bonds since the City did not pay interest or principal on these bonds beginning in fiscal year 2012-13 and has recorded the full amount of the outstanding principal as a current portion of their long-term debt. Please see Note 2 Bankruptcy.

The following schedule summarizes the debt to maturity payments for pension obligation bonds as per the original payment schedule as set forth in the bond agreement:

Year ending June 30,	Principal	Interest	Total
2014	\$ 1,811,418	\$ 2,887,477	\$ 4,698,895
2015	873,241	2,565,653	3,438,894
2016	856,483	2,637,411	3,493,894
2017	833,750	2,715,144	3,548,894
2018	807,687	2,791,207	3,598,894
2019-2023	3,701,451	15,138,018	18,839,469
2024-2028	8,516,830	11,797,736	20,314,566
2029-2033	15,910,000	6,386,787	22,296,787
2034-2036	12,830,000	1,118,005	13,948,005
Totals	<u>\$ 46,140,860</u>	<u>\$ 48,037,438</u>	<u>\$ 94,178,298</u>

G. HUD CDBG liability

The City was subject to an audit of its Community Development Block Grant Program (CDBG), administered by the United States Department of Housing and Urban Development (HUD). The audit was conducted by the Office of the Inspector General of HUD. The City has accrued the total of \$2,064,243 owed to its CDBG line of credit as a liability of the governmental activities opinion unit. Please see Note 22 Contingencies.

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

(9) Long-Term Liabilities – Business-type Activities

Changes in the long-term liabilities of the business-type activities for the year ended June 30, 2013, were as follows:

	Balance June 30, 2012, Restated	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Business-type activities:					
Capital leases payable	\$ 10,280,057	\$ -	\$ (2,936,690)	\$ 7,343,367	\$ 2,550,418
Claims payable	424,441	623,037	(210,404)	837,074	837,074
Compensated absences	2,504,031	1,682,673	(2,081,953)	2,104,751	1,170,926
Pollution remediation	4,974,000	2,106,360	-	7,080,360	-
OPEB obligation	-	3,531,744	(573,621)	2,958,123	351,223
Notes payable	31,547,225	1,117,500	(3,212,890)	29,451,835	3,277,358
Certificates of participation:					
Refunding sewer revenues COPs	14,795,000	-	(2,650,000)	12,145,000	2,805,000
Less: unamortized discount	(87,668)	-	20,360	(67,308)	(19,676)
Subtotal	14,707,332	-	(2,629,640)	12,077,692	2,785,324
Water bonds payable	15,000	-	(15,000)	-	-
Total business-type activities long-term liabilities	<u>\$ 64,452,086</u>	<u>\$ 9,061,314</u>	<u>\$ (11,660,198)</u>	<u>\$ 61,853,202</u>	<u>\$ 10,972,323</u>

The June 30, 2012 balance was restated for the reclassification of the pollution remediation amount of \$4,974,000 from a current liability to a long-term liability.

A. Capital Leases Payable

These lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of the future minimum lease payments as of the date of inception.

Integrated Waste equipment

The City entered into several lease purchase agreements for the financing of the acquisition of refuse trucks and street sweepers. The terms of leases are 84 months each, with individual semi-annual payments ranging from \$165,999 to \$945,575. Interest rate ranges from 2.89% to 3.78%. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the date of inception.

Amount Outstanding at June 30, 2013
<u>\$ 7,343,367</u>

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Assets acquired through capital leases are as follows:

	<u>Amount</u>
Machinery, vehicles and equipment	\$ 19,972,082
Less: accumulated depreciation	<u>(13,362,254)</u>
 Total	 <u>\$ 6,609,828</u>

The following schedule summarizes the debt to maturity payments for capital leases:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,550,418	\$ 225,007	\$ 2,775,425
2015	2,140,362	145,780	2,286,142
2016	1,438,444	78,821	1,517,265
2017	889,209	32,560	921,769
2018	<u>324,934</u>	<u>7,060</u>	<u>331,994</u>
Totals	<u>\$ 7,343,367</u>	<u>\$ 489,228</u>	<u>\$ 7,832,595</u>

B. Notes Payable

Amount
Outstanding at
June 30, 2013

California Infrastructure and Economic Development Bank (CIEDB)

In April 2002, CIEDB issued a \$10,000,000 note to the City Water Department to provide funding for transmission mains, booster stations and a reservoir identified in the Water System Reliability Schedule of Improvements. The note was issued with an interest rate of 3.34% per annum with interest payable semiannually on February 1 and August 1. Principal payments are due annually on February 1. \$ 5,733,883

In July 2007, CIEDB issued a \$10,000,000 note to the City Water Department to provide funding for booster stations and transmission mains in the Verdemon area. The note was issued with an interest rate of 2.71% per annum with interest payable semiannually on February 1 and August 1. Principal payments are due annually on August 1. 7,826,282

In May 2012, CIEDB issued a \$10,000,000 note to the City Water Department to provide funding for the construction of the 12 million gallon Ogden Reservoir and certain pipeline improvements. The note was issued with an interest rate of 2.61% per annum with interest payable semiannually on February 1 and August 1. Principal payments are due annually on August 1. 10,000,000

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

San Bernardino Valley Municipal Water District (SBVMWD) SARI Line Rights

The City Water Department entered into an agreement with the SBVMWD for the purchase of 2.5 million gallons per day of discharge rights in the Santa Ana Regional Interceptor (SARI) pipeline (now called the Inland Empire Brine Line). SBVMWD issued a note to the City Water Department in the amount of \$5,084,723 with an interest rate of 7.25% per annum, annual debt service payments of \$456,250, and a maturity of 2013. As of June 30, 2013, the note was fully paid.

San Bernardino Valley Municipal Water District (SBVMWD)

In July 2012, the Department closed escrow on the purchase of real property from the San Bernardino Valley Municipal Water District (SBVMWD), which included a down payment of \$1,000,000 and a promissory note of \$1,117,500 to be paid in sixty (60) monthly installments due on or before the 1st of each month.

898,445

State Revolving Fund

The State Water Resources Control Board issued a note to Santa Ana Watershed Authority to provide funding for the San Bernardino/Colton Rapid Infiltration Extraction (RIX) project for the amount of \$25,978,599. In April 2001, the agreement was amended to transfer the note obligation to the successors in interest being the City of San Bernardino Board of Water Commissioners, and the City of Colton. The City Water Department will use revenues from the sewer treatment utility fund towards repayment of the note. The note matures in 2016 and bear interest at a rate of 2.80% per annum.

4,993,225

Total notes payable

\$ 29,451,835

The following schedule summarizes the debt to maturity payments for notes payable:

Year ending June 30,	Principal	Interest	Total
2014	\$ 3,277,358	\$ 800,664	\$ 4,078,022
2015	3,366,951	710,757	4,077,708
2016	3,457,764	618,306	4,076,070
2017	1,794,884	523,274	2,318,158
2018	1,612,782	475,811	2,088,593
2019 - 2023	8,053,153	1,636,273	9,689,426
2024 - 2028	5,359,102	657,823	6,016,925
2029 - 2032	2,529,841	134,183	2,664,024
Totals	<u>\$ 29,451,835</u>	<u>\$ 5,557,091</u>	<u>\$ 35,008,926</u>

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

C. Certificates of Participation

1998 Refunding Sewer Revenue Certificates of Participation

In 1998, the sewer treatment utility issued \$36,230,000 in Certificates of Participation to advance refund the 1992 Sewer Certificates of Participation and fund additional capital improvements. The 1992 Certificates originally provided for the construction of certain capital improvements. The proceeds of the 1998 Certificates were invested and used to pay interest on the 1998 issue until February 1, 2001, when the 1992 Certificates were called at a prepayment premium of two percent. The City Water Department now pays the installment payments on the 1998 Certificates from the net revenues of the sewer treatment system. Interest is payable semiannually on February 1, and August 1. The issue has interest rates ranging between 3.95% and 5.25% per annum, annual debt service payments ranging from \$1,697,000 to \$3,474,000, and a maturity date of 2017.

The following schedule summarizes the debt to maturity payments for the certificates of participation:

Year ending June 30,	Principal	Interest	Total
2014	\$ 2,805,000	\$ 607,650	\$ 3,412,650
2015	2,965,000	474,412	3,439,412
2016	3,155,000	318,750	3,473,750
2017	<u>3,220,000</u>	<u>161,000</u>	<u>3,381,000</u>
Totals	<u>\$ 12,145,000</u>	<u>\$ 1,561,812</u>	<u>\$ 13,706,812</u>

(10) Operating Leases

Effective December 15, 2008, the City's Water Department took possession of leased space from Superior Homes LLC for administrative office and warehouse space for a term of ten years. The Water Department has options to extend the lease for 3 additional 5 year terms, up to a total of 15 years. The following is a schedule of minimum lease payments as of June 30, 2013.

Year ending June 30,	Water Utility	Sewer Utility	Total
2014	\$ 228,408	\$ 31,152	\$ 259,560
2015	228,408	31,152	259,560
2016	228,408	31,152	259,560
2017	228,408	31,152	259,560
2018	<u>228,408</u>	<u>31,152</u>	<u>259,560</u>
Totals	<u>\$ 1,142,040</u>	<u>\$ 155,760</u>	<u>\$ 1,297,800</u>

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

(11) Compensated Absences Liability

City employees receive between 10 and 25 vacation days each year depending upon length of service. An employee may accumulate earned vacation time to a maximum not to exceed 60 days. Upon termination, employees are paid the full value of their unused vacation time determined at their present salary rate. City employees receive 12 personal necessity/sick leave days each year. Upon separation from the City, employees having six or more years of service, shall convert unused sick leave to a post-employment health care plan or a 401(a) as follows: 288 hours or less accrued = 0; 289-479 hours = 20% of accrued sick leave; 480-959 hours = 25%; 960 or more hours = 35%. Prior to Mayor and Common Council adoption of the Side Letter Agreements to the City's bargaining groups' Memorandums of Understanding, all groups were paid 50% of their accrued sick leave balances at time of separation. During the Fiscal year 2012-13, the City suspended leave accrual payments for separated employees. The \$1.3 million in unpaid leave is included in the total leave balance outstanding as of June 30, 2013. The reduction in cash out of sick leave balances implemented in February 2013 is the main reason for the reduction in accrued compensated absences liability balances at June 30, 2013. At June 30, 2013, \$12,048,192 and \$2,104,751 of vacation and leave have been accrued for governmental and business-type activities, respectively.

(12) Claims and Judgments Payable

The City of San Bernardino is self-insured for its liability, unemployment and long-term disability programs. The accrued liability for estimated claims represents an estimate of the eventual loss on claims arising prior to year-end including claims incurred but not yet reported and estimates of loss adjustment expense.

Changes in the claims liability for the governmental activities for the years ended June 30, 2013, and 2012, are as follows:

Governmental Activities	Beginning Balance	Incurred Claims and Changes in Estimated Claims	Payments on Claims	Ending Balance
2011 - 2012:				
Workers' compensation	\$ 10,408,449	\$ 4,889,070	\$ (2,697,797)	\$ 12,599,722
Liability Claims	9,733,570	741,863	(2,153,183)	8,322,250
Total 2011 - 2012	<u>\$ 20,142,019</u>	<u>\$ 5,630,933</u>	<u>\$ (4,850,980)</u>	<u>\$ 20,921,972</u>
2012 - 2013:				
Workers' compensation	\$ 12,599,722	\$ 13,135,834	\$ (3,121,931)	\$ 22,613,625
Liability Claims	8,322,250	(200,200)	(633)	8,121,417
Total 2012 - 2013	<u>\$ 20,921,972</u>	<u>\$ 12,935,634</u>	<u>\$ (3,122,564)</u>	<u>\$ 30,735,042</u>

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Changes in the claims liability for the business-type activities for the years ended June 30, 2013, and 2012, are as follows:

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Incurring Claims and Changes in Estimated Claims</u>	<u>Payments on Claims</u>	<u>Ending Balance</u>
2011 - 2012:				
Workers' compensation	\$ 288,683	\$ 233,438	\$ (97,680)	\$ 424,441
Total 2011 - 2012	<u>\$ 288,683</u>	<u>\$ 233,438</u>	<u>\$ (97,680)</u>	<u>\$ 424,441</u>
2012 - 2013:				
Workers' compensation	\$ 424,441	\$ 623,037	\$ (210,404)	\$ 837,074
Total 2012 - 2013	<u>\$ 424,441</u>	<u>\$ 623,037</u>	<u>\$ (210,404)</u>	<u>\$ 837,074</u>

Currently, the City is a member of the Big Independent Cities Excess Pool (BICEP), which covers general liability claims. BICEP pools catastrophic general liability, automobile liability, and public official's errors and omissions losses. BICEP intends to pool covered catastrophic losses incurred by its members, thereby eliminating the need for excess commercial insurance protection. As a result, each member's share of pooled costs will depend on the catastrophic losses of all the members. In addition, the cost of a member city will also depend on that member's own loss experience. Entities with a consistent record of costly claims will pay more than entities with a consistent record of limited serious claims activity. The following public entities are members of BICEP: Huntington Beach, Oxnard, West Covina, San Bernardino and Santa Ana.

For liability claims, the City is self-insured for the first \$1 million. The first million in excess of the self-insured limit is divided up proportionately among the BICEP members. In addition, the City has obtained excess liability coverage using a tiered system with three carriers totaling \$25 million per occurrence.

Currently, the City is a member of the CSAC Excess Insurance Authority (the Authority) for its workers' compensation claims. For these claims, the City is self-insured for the first \$1 million. The first \$4 million in excess of the self-insured limit is insured through the Authority. In addition, for amounts in excess of the \$5 million self-insurance and Authority coverage, the City has obtained an additional \$45 million in liability coverage from ACE American Insurance Company.

Settled claims for general liability and workers' compensation have not exceeded insurance coverage during the past three years.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

(13) Fund Deficits and Expenditures in Excess of Appropriations

At June 30, 2013, the following governmental funds have deficits that are anticipated to be funded from other revenues and operating transfers:

	<u>Deficit Amount</u>
General Fund	\$ 7,146,155
 <u>Debt Service Fund:</u>	
Assessment District #1015	253,124
 <u>Capital Projects Funds:</u>	
Special Assessments	395,904
Street Construction	1,855,217

At June 30, 2013, the following proprietary funds have accumulated deficits:

	<u>Deficit Amount</u>
<u>Enterprise Fund</u>	
Integrated Waste	\$ 4,901,726
 <u>Internal Service Funds:</u>	
Unemployment Insurance	306,942
Workers' Compensation	23,631,790
Liability Insurance	4,711,871
Utility	2,265,308
Central Services	130,656

As of June 30, 2013, the General Fund does not have the financial capacity to fund such accumulated deficits. Therefore, management expects that funding for the accumulated deficits will take years to accomplish. The accumulated deficit of the Workers' Compensation Internal Service Fund, which accounts for self-insurance activities, is due to higher claims experienced versus amounts charged to the various departments.

The General Fund reported expenditures in excess of appropriations for the year ended June 30, 2013, based on the level of budgetary control:

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<u>General Fund:</u>			
City Clerk	\$ 1,021,179	\$ 1,197,503	\$ (176,324)
Finance	1,262,928	1,634,964	(372,036)
Police	55,765,861	57,128,660	(1,362,799)
Principal	1,538,689	2,736,731	(1,198,042)
Interest Charges	308,311	877,552	(569,241)

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

(14) Net Investment in Capital Assets

The government-wide statement of net position reports net investment in capital assets as follows:

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Total capital assets, net	\$ 408,705,110	\$ 236,783,044	\$ 645,488,154
Less related debt:			
Capital leases payable	(1,845,254)	(7,343,367)	(9,188,621)
Notes payable	(12,401,245)	(26,252,390)	(38,653,635)
Lease revenue bonds	(6,228,833)	-	(6,228,833)
California Infrastructure Bank	(6,672,290)	-	(6,672,290)
Certificates of participation	<u>(4,270,000)</u>	<u>(12,077,692)</u>	<u>(16,347,692)</u>
Net investment in capital assets	<u>\$ 377,287,488</u>	<u>\$ 191,109,595</u>	<u>\$ 568,397,083</u>

(15) Defined Benefit Pension Plan

Plan Description

The City of San Bernardino contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City contracts with employee bargaining groups. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814, or at www.calpers.ca.gov.

The Governor, in September 2012, signed AB 340 and A 197, two bills, which enacted the California Public Employees' Pension Reform Act of 2013 (PEPRA). AB 340 made several changes to the pension benefits that may be offered to employees hired on or after January 1, 2013, including setting a new maximum benefit, a lower-cost pension formula for safety and non-safety employees with requirements to work longer in order to reach full retirement age and a cap on the amount used to calculate a pension. Among other things, AB 340 also enacted pension spiking reform for new and existing employees, required three-year averaging of final compensation for new employees, and provided employers with new authority to negotiate cost-sharing agreements with current employees. AB 340 also contained limitations on the use of retired annuitants, requiring that an annuitant have a six-month break in service prior to returning to work. The legislation created mandatory benefits tiers for new employees who have not worked for another CalPERS agency hired beginning January 1, 2013 ranging from 2.0% at age 50 to a maximum of 2.7% at age 57 for police safety and fire safety employees and 1.1% at age 50 to a maximum of 2.4% at age 62 for miscellaneous employees.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Funding Policy

Participants are required to contribute 9.304% (13.989% for safety employees) of their annual covered salary. These rates were set as part of the City's Pendency Plan on November 27, 2012. The City makes the contributions required of City employees on their behalf and for their account.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2012 to June 30, 2013 has been determined by an actuarial valuation of the plan as of June 30, 2010. The contribution rate indicated for the year ended June 30, 2013, was 30.115% of covered payroll for the safety plan and 17.355% for the miscellaneous plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2013, these contribution rates would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2012, to June 30, 2013.

Actuarial Methods and Assumptions

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization period may not be lower than the payment calculated over a 30-year amortization period.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Contributions

The following is the three-year trend information for contributions to PERS:

(Dollar amounts in thousands)

City - Miscellaneous

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$ 4,375	100%	\$ -
June 30, 2012	5,608	100%	-
June 30, 2013	5,523	13%	4,801

City - Safety

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$ 11,042	100%	\$ -
June 30, 2012	13,077	100%	-
June 30, 2013	9,909	13%	8,613

Successor Agency

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$ 400	100%	\$ -
June 30, 2012	680	100%	-
June 30, 2013	269	13%	234

Benefits

All full-time City employees are eligible to participate in PERS, with benefits vesting after 5 years of credited service. Classic members who retire at age 50 with at least 5 years of credited service are entitled to a service retirement benefit, payable monthly for life, equal to the product of the benefit factor, years of service, and final compensation. The years of service is the amount credited by PERS to a member while he or she is employed in the group. The benefit factors come from the 2.0% at 55, 2.7% at 55 and 2.0% at 62 Miscellaneous benefit factor tables, the 3.0% at 50, 3.0% at 55 and 2.7% at 57 Safety benefit factor table, and the 2.0% at 55 and 3.0% at 60 SA benefit factor tables, and depends on the member's age at retirement. The factors range from 1.426% at age 50 to 3.0% at age 63 and up. Final compensation for members is the monthly average of the member's highest 36 or 12 consecutive months' full-time equivalent monthly pay. The Miscellaneous service retirement benefit is not capped. The Safety service retirement benefit is capped at 90% of final compensation.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Funded Status and Funding Progress

As of the most recent actuarial valuation dates of June 30, 2013, the funded status of the Miscellaneous, Safety, and SA plans were as follows:

Valuation Date (June 30, 2013)	Members Plan		
	City Miscellaneous	City Safety	Successor Agency Miscellaneous
Entry age normal accrued liability	\$ 462,716,487	\$ 633,088,050	\$ 19,072,933
Actuarial value of assets	\$ 346,176,839	\$ 463,930,661	\$ 14,909,317
Unfunded actuarial accrued liability (UAAL)	\$ 116,539,648	\$ 169,157,389	\$ 4,163,616
Funded ratio	74.8%	73.3%	78.2%
Annual covered payroll	\$ 39,974,288	\$ 38,561,701	\$ 437,864
UAAL as a percentage of payroll	291.5%	438.7%	950.7%

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The assumptions for the City's Miscellaneous Plan are as follows:

Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Average remaining period	None for the valuation date as of June 30, 2013 and 25 years for the valuation date as of June 30, 2010
Asset valuation method	Market value for June 30, 2013 and 15 years smoothed market for June 30, 2010
Discount rate	7.50% (net of administrative expenses) for June 30, 2013 7.75% (net of administrative expenses) for June 30, 2010
Projected salary increases	3.30% to 14.20% depending on age, service and type of employment for June 30, 2013 3.55% to 14.45% depending on age, service and type of employment for June 30, 2010
Inflation	2.75% for June 30, 2013 and 3.00% for June 30, 2010
Payroll growth	3.00% for June 30, 2013 and 3.25% for June 30, 2010

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Individual salary growth A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25% for June 30, 2013.

A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25% for June 30, 2010.

The assumptions for the City Safety Plan are as follows:

Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Average remaining period	None for the valuation date as of June 30, 2013 and 29 years for the valuation date as of June 30, 2010
Asset valuation method	Market value for June 30, 2013 and 15 years smoothed market for June 30, 2010
Discount rate	7.50% (net of administrative expenses) for June 30, 2013 7.75% (net of administrative expenses) for June 30, 2010
Projected salary increases	3.30% to 14.20% depending on age, service and type of employment for June 30, 2013 3.55% to 13.15% depending on age, service and type of employment for June 30, 2010
Inflation	2.75% for June 30, 2013 and 3.00% for June 30, 2010
Payroll growth	3.00% for June 30, 2013 and 3.25% for June 30, 2010
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25% for June 30, 2013. A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25% for June 30, 2010.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

The assumptions for the SA Miscellaneous Plan are as follows:

Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Average remaining period	None for the valuation date as of June 30, 2013 and 17 years for the valuation date as of June 30, 2010
Asset valuation method	Market value for June 30, 2013 and 15 years smoothed market for June 30, 2010
Discount rate	7.50% (net of administrative expenses) for June 30, 2013 7.75% (net of administrative expenses) for June 30, 2010
Projected salary increases	3.30% to 14.20% depending on age, service and type of employment for June 30, 2013 3.55% to 14.45% depending on age, service and type of employment for June 30, 2010
Inflation	2.75% for June 30, 2013 and 3.00% for June 30, 2010
Payroll growth	3.00% for June 30, 2013 and 3.25% for June 30, 2010
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25% for June 30, 2013. A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25% for June 30, 2010.

(16) Other Post-Employment Benefits (OPEB)

City (Excluding Water Department)

Plan Description

The City administers a single employer defined benefit healthcare plan (the Plan). The Plan currently provides healthcare and life insurance for eligible retirees and their surviving spouses through the City's group health insurance plan, which is administered by Mercer. Life insurance premiums are paid 100% by retirees. The Plan covers both active and retired members. Benefits provisions are established through negotiations between the City and various union bargaining groups. The Plan does not issue a publicly available financial report.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Funding Policy

Contribution requirements of the Plan are established through negotiations between the City and union representatives. The required contribution is based on pay-as-you-go financing requirements. For fiscal year 2012-13, the City contributed \$567,000 to the Plan. The City currently contributes \$115 per month of the required premium costs of active employees. Retired employees are permitted to participate with active employees in the health-care plan, but retirees must pay all premiums as calculated by Mercer, less the City's payment of \$115 per month, assigned to them, except for sworn police employees. The City's monthly contribution for sworn police employees is in accordance with the following schedule:

<u>Years of service</u>	<u>Monthly Contribution</u>
20	\$ 200
25	350
30	450

Annual OPEB Cost and Net OPEB Obligation

The City's annual other OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the City's net OPEB obligation:

Annual Required Contribution (ARC)	\$ 4,482,000
Interest on net OPEB obligation	1,065,000
Adjustment of annual required contribution	-
Annual OPEB cost (expense)	<u>5,547,000</u>
Contributions Made	
Benefit payments (cash subsidy)	(567,000)
Benefit payments (implied subsidy)	<u>(780,000)</u>
Total contributions made	<u>(1,347,000)</u>
Increase in net OPEB obligation	4,200,000
Net OPEB obligation - beginning of the year	25,068,601
Net OPEB obligation - end of year	<u>\$ 29,268,601</u>

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012-13 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 6,197,000	19%	\$ 19,956,601
June 30, 2012	6,625,000	23%	25,068,601
June 30, 2013	5,547,000	24%	29,268,601

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012, the most recent valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 48,819,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 48,819,000</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 84,166,000
UAAL as a percentage of covered payroll	58%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with long-term perspective of the calculations.

In the June 30, 2012 actuarial valuation, which was used to determine the ARC for fiscal year 2013, the actuarial cost method used for determining the benefit obligations is the entry age normal cost method. The actuarial assumptions included a 4.25% discount rate, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8.5% initially, reduced by increments of 0.5% per year to an ultimate rate of 5.0%. The unfunded actuarial accrued liability (UAAL) at June 30, 2012 is being amortized as a level percent of payroll over a 21-year fixed (closed) period.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Future assumption changes, plan changes, and gain/losses are amortized over a 15-year fixed (closed) period. The maximum combined period amortization is 30-years. It is assumed the City's payroll will increase 3.25% per year.

Water Department

Plan Description

The City Water Department (Department) provides health benefits to all qualifying retirees and their spouses in accordance with Memorandums of Understanding under various labor agreements. The Department maintains the financial activity of the plan as a trust fund, which is reported on the Statement of Fiduciary Net Position as the Water Department OPEB Trust Fund. Employees are eligible for retiree health benefits if they retire from the Department on or after age 50 with at least 10, 12, or 15 years of service, depending on bargaining unit, and are eligible for a PERS pension.

Funding Policy

The contribution requirements of plan members and the Department are established and may be amended by the Board of Water Commissioners. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Board of Water Commissioners. For fiscal year 2012-13, the Department has funded \$573,621 for the current year. Plan members receiving benefits contributed \$138,538 (approximately 19.4% of total premiums) through their required contribution. The Department pays up to the entire cost of health benefits for eligible retirees and their spouses, subject to the City's vesting schedule.

Annual OPEB Cost and Net OPEB Obligation

The Department's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Department's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Department's net OPEB obligation:

Annual Required Contribution (ARC)	\$ 2,361,000
Interest on new OPEB obligation	-
Amortization of net OPEB obligation	-
Annual OPEB cost (expense)	<u>2,361,000</u>
Contributions made	<u>(573,621)</u>
Increase in net OPEB obligation	1,787,379
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u><u>\$ 1,787,379</u></u>

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012-13 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 2,355,000	29%	\$ 6,530,000
June 30, 2012	2,510,000	360%	-
June 30, 2013	2,361,000	24%	1,787,379

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012, the most recent valuation date, was as follows:

Actuarial Accrued Liability (AAL)	\$ 28,831,000
Actuarial value of plan assets	8,556,000
Unfunded actuarial accrued liability (UAAL)	<u>\$ 20,275,000</u>
Funded ratio (actuarial value of plan assets/AAL)	30%
Covered payroll (active plan members)	\$ 14,765,000
UAAL as a percentage of covered payroll	137%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Post-Employment Welfare Benefits Program Trust

Pursuant to the California Government Code, the Department established an irrevocable Post-Employment Welfare Benefits Program Trust (Trust) for the purpose of holding and investing assets to pre-fund the other postemployment benefits for the Department retirees. On July 5, 2011, the Department entered into a trust and investment services agreement with U.S. Bank National Association to act as trustee and PFM Asset Management, LLC as Trust Administrator. During FY 2012-13, the Department did not make any contributions to the Trust. As of June 30, 2013 the Net Position of the Trust fund was \$9.7 million.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with long-term perspective of the calculations.

In the June 30, 2012 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a rate of return of 6.25% and annual healthcare costs trend rates of 8.5% initially, reduced by increments to an ultimate rate of 5% after ten years. Both rates included a 3% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013 was 21 years.

Successor Agency

Plan Description

The Successor Agency (SA) administers a single employer defined benefit healthcare plan (the Plan). The SA provides medical and dental plan coverage for retirees and their eligible surviving dependents. This coverage is available for employees who satisfy the requirements for retirement under the California Public Employees' Retirement System (PERS), which is age 50 or older with at least eight years of SA service. The Plan does not issue a publicly available financial report.

Funding Policy

The contribution requirements of the SA are established and may be amended by the SA's Board. The required contribution is based on pay-as-you-go financing requirements. For fiscal year 2012-13, the SA contributed \$19,992 to the plan, which was 100% of the total current premiums.

Annual OPEB Cost and Net OPEB Obligation

The SA's annual other OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount determined using an alternative method in accordance with GASB Statement No. 45. At June 30, 2013, the SA estimated its OPEB liability as \$1,135,975.

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2008, the most recent valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 749,208
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 749,208</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 1,763,100
UAAL as a percentage of covered payroll	42%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the entry age normal cost method. The actuarial assumptions included a 4.5% discount rate, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the Plan at the valuation date, and an annual healthcare cost trend rate of zero percent initially, which increases to 5.0% in the fourteenth year. The UAAL is being amortized as level percentage of projected payroll over 20 years.

(17) Other Retirement Plan (PARS)

Effective January 1, 2004, pursuant to sections 401(a) and 501(a) of the Internal Revenue Code, the City adopted a tax-qualified governmental defined benefit plan, the City of San Bernardino Public Agency Retirement System (PARS) – Retirement Enhancement Plan (the Plan). The Plan established a trust administered by PARS to provide certain police safety or police management employees employed as of January 1, 2004, meeting specific requirements as outlined in the Plan document, supplemental retirement benefits in addition to the benefits employees will receive from the California Public Employees' Retirement System (CalPERS). The Plan is entirely funded through City contributions amounting to 1.7% of employee salaries. Due to the Bankruptcy, the City suspended their PARS payments and has an accrued benefit liability at June 30, 2013 in the amount of \$449,222. The City's contributions to the Plan amounted to \$21,141 in 2012-13.

(18) Jointly Governed Organizations and Joint Venture

Inland Valley Development Agency

In January 1990, the City entered into a joint powers agreement with the Cities of Colton and Loma Linda and the County of San Bernardino to form the Inland Valley Development Agency (IVDA). The IVDA adopted a redevelopment plan, and its primary purpose is to promote the redevelopment of the former Norton Air Force Base and other areas within its project area. The IVDA board is comprised of three members from the City and two each from the other members. The primary sources of funding are tax increment and lease income. Additional financial information can be obtained by contacting the IVDA at 1601 E. Third Street, San Bernardino, CA 92408.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

San Bernardino International Airport Authority

In May 1992, the City entered into a joint powers agreement with the Cities of Colton, Loma Linda, Highland and Redlands and the County of San Bernardino to form the San Bernardino International Airport Authority (SBIAA). SBIAA was created primarily for the purpose of acquiring, operating, repairing, maintaining and administering the aviation related portions of the former Norton Air Force Base property located in San Bernardino. Effective April 19, 1996, the City of Redlands withdrew from its membership in SBIAA. The board is comprised of two members from the City and one each from the other members. The primary sources of funding are loans, federal grants and lease income. Additional financial information can be obtained by contacting SBIAA at 1601 E. Third Street, San Bernardino, CA 92408.

San Bernardino Regional Water Resource Authority

In August 1998, the City entered into a joint powers agreement with the Inland Valley Development Agency (IVDA) and the San Bernardino Valley Municipal Water District (the District) to form the San Bernardino Regional Water Resources Authority (the Authority). The Authority was created primarily for the purpose of conducting a water resource and storage project. The Authority board is comprised of three members from the City, one member from IVDA and two from the District. The primary sources of funding are loans and grants. Additional financial information can be obtained by contacting the Authority at 201 North "E" Street, Third Floor, San Bernardino, CA 92401.

Colton / San Bernardino Regional Tertiary Treatment and Water Reclamation Authority

On August 2, 1994, the City of San Bernardino, through the Water Department formed a joint powers authority with the City of Colton to construct, operate, use and maintain tertiary wastewater treatment, disposal and water reclamations systems, including the Regional Rapid Infiltration and Extraction Facility (RIX). This authority is governed by a separate board consisting of four members; two appointed by the City through the Water Department's Board of Water Commissioners and two appointed by the City Council of the City of Colton. Construction of RIX was administered by the Santa Ana Watershed Project Authority and was substantially completed during 1996. Administration and operation was turned over at that time. The cities of San Bernardino and Colton each have an undivided interest in the real property and any related debt of the RIX projects based on an 80% / 20% split, respectively. Substantially all of the assets of RIX are in the form of capital assets. RIX has no liabilities. Annual revenues (in the form of contributions from the two member cities) are equal to annual expenses. The Water Department's equity interest in this joint venture has been reported as an investment in joint venture in the accompanying statement of net position.

San Bernardino Public Safety Authority

On April 1, 1968, the City of San Bernardino and the County of San Bernardino formed the San Bernardino Public Safety Authority (PSA), a joint powers authority, as a financing vehicle to construct public safety buildings and improvements to the wastewater treatment plant. In accordance with the terms of an installment purchase agreement, title to the capital assets financed through the PSA were recognized as capital assets of the City at the inception of the installment purchase agreement between the City and the PSA. The City's remaining interest in the joint venture is in the form of cash and investments held by the PSA for debt service related activity. The Water Department's equity interest in these assets has been recognized in the accompanying statement of net position as an investment in joint venture.

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

West End Water Development, Treatment and Conservation Joint Powers Authority

On August 15, 1990, the City of San Bernardino joined the West End Water Development, Treatment and Conservation Joint Powers Authority (WEJPA) as a financing vehicle for construction of water facilities. A three-member board consisting of one representative from each agency's governing body governs the WEJPA. This joint venture was formed to provide a financing vehicle for the three member agencies. This joint venture is currently inactive.

(19) Consent Decree

In 1996, the City of San Bernardino filed a complaint against the United States of America, Department of the Army to recover damages, response costs and other available remedies relating to contamination alleged to have originated at a World War II army installation known as Camp Ono. In March 2005, the United States District Court, Central Division entered judgment, in the form of a Consent Decree, in the matter of City of San Bernardino v. United States of America. The Consent Decree settles the City's and the State's claims arising from the groundwater contamination allegedly caused by the Army. The Consent Decree contains a number of provisions obligating the City (through the City's Water Department) to operate and maintain the Newmark Groundwater Superfund site (Site). The Site consists of two operable units, the Newmark Operable Unit and the Muscoy Operable Unit. The Newmark Operable Unit was declared operational and functional in 1998. The Muscoy Operable unit was declared operational and functional in 2007.

The Consent Decree provided for a payment of \$69 million from the Army to the City for performance of the work outlined in the Consent Decree. Upon acceptance of the Consent Decree, the Department received title to all facilities constructed by the United States Environmental Protection Agency (EPA) of the Site and agreed to operate and maintain the groundwater extraction and treatment system for a period of 50 years. The \$69 million payment consisted of \$59 million for operations and maintenance and \$10 million for the construction of certain capital facilities that would be required in the future; the funds are subject to strict limitations, contained in the Consent Decree, as to how the money may be spent.

Pursuant to the Consent Decree, \$10 million, including interest earned, has been set aside to be used only for (i) funding construction of treatment and directly related transmission systems that expand the Water Department's capacity to deliver potable water and (ii) funding work performed by the Water Department to complete construction of the Muscoy Operable Unit extraction system. These capital facility funds may not be used for costs incurred to operate, maintain, repair or retrofit components of the site extraction of treatment systems constructed by EPA.

In March 2006, the Water Department entered into a Guaranteed Investment Contract with AIG Match Funding Corporation. The Department invested \$16,482,039 of excess Consent Decree funds into an interest bearing Escrow Fund investment with an interest rate of 4.95% per annum. These funds were invested to pay costs associated with the water facilities defined in the Consent Decree for years 2035-2056. An additional \$50 million was used to purchase a blended insurance policy to provide a financial vehicle that provides cost cap coverage for the first 30 years of expenses.

The terms of the Guaranteed Investment Contract only provided the Department with the position of a secured creditor with respect to an AIG bankruptcy. As concerns rose regarding AIG's financial credibility, in October 2009, the Department negotiated and accepted a "payout" in the amount of \$18,661,876, which represented the principal and accrued interest as of that date. These funds are currently invested in a diversified portfolio managed by PFM Asset Management.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

(20) Pollution Remediation

The City operated a municipal non-hazardous solid waste facility, identified as the “Waterman Landfill”, from 1950 to 1960. The City is the primary responsible party for pollution remediation obligations related to the Waterman Landfill. During the 1990s, groundwater monitoring wells were installed and placed into service as part of the overall remediation plan. In 2004, it was determined that additional work was required to comply with state regulations. State regulatory agencies approved a plan for final closure of the Waterman Landfill in 2012. The City is currently in the design phase of the remediation project, and anticipates the construction phase to begin in 2016. Pollution remediation costs for the closure of the Waterman Landfill are estimated at \$7,080,360, measured using the expected cash flow technique. This estimate is subject to change in future periods due to various factors including changes in the remediation plan or operating conditions, the type of equipment and services that will be used, price increases or reductions for specific outlay elements, such as ongoing monitoring requirements, changes in technology, or changes in legal or regulatory requirements. The liability is reported in the Integrated Waste Fund in the accompanying financial statements.

(21) Commitments

Contractual Obligations

Commitments in the form of signed contracts for costs to complete construction projects or other improvements, including street repairs and infrastructure improvements, at June 30, 2013, amounted to \$1,969,479 in the Water Enterprise Fund and \$2,195,963 in the Sewer Enterprise Fund.

(22) Contingencies

Federal and State Grants

Amounts received or receivable from grantor agencies are subject to audits or adjustments by grantor agencies, principally the federal and state governments. Such audits could lead to disallowed claims under the terms of the grants, including amounts already collected, which may constitute a liability of the City. The City has not complied with the reporting requirements of Federal OMB Circular A-133, which requires that entities which expend \$500,000 or greater in Federal awards during the fiscal cycle have an independent auditor conduct an audit of said federal funds, known as a Single Audit, for fiscal year 2012-13 and fiscal year 2013-14.

The City was subject to an audit of its Community Development Block Grant Program (CDBG), administered by the United States Department of Housing and Urban Development (HUD). The audit was conducted by the Office of the Inspector General of HUD. The audit report, dated April 23, 2013, identified approximately \$7.16 million of reimbursed expenses as ineligible or unsupported, \$168,761 of program income not reported and \$472,102 of Recovery Act funds procurement activities not adequately supported. The City, on behalf of the Successor Agency (and former Economic Development Agency (EDA)) has responded to the audit report, and submitted documentation to reduce and/or eliminate certain specific findings. On November 12, 2014, the City and HUD agreed on actions to resolve these monetary findings as approved by Resolution #3720 dated February 17, 2015, of the Mayor and Common Council of the City as follows:

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

- Payment of \$168,761 was made by the City to the City's CDBG line of credit with non-federal funds on February 24, 2015 to be used for future CDBG-eligible activities.
- Payment of \$500,000 was made by the City to the City's CDBG line of credit with non-federal funds on July 1, 2015 to be used for future CDBG-eligible activities.
- Payment of \$500,000 will be made by the City to the City's CDBG line of credit with non-federal funds on July 1, 2016 to be used for future CDBG-eligible activities.
- Payment of \$895,482 will be made by the City to the City's CDBG line of credit with non-federal funds on July 1, 2017 to be used for future CDBG-eligible activities.

The City has accrued the total of \$2,064,243 owed to its CDBG line of credit as a liability of its governmental activities opinion unit. The City has acknowledged that if it does not honor this payment schedule, it will result in funds being reduced from the City's CDBG line of credit.

Property Taxes Due

Properties Transferred to Non-Governmental Entities

On March 17 2011, the Economic Development Agency of the City of San Bernardino (EDA) authorized the transfer of legal title of certain real estate assets (Transferred Assets) under its control to the Economic Development Corporation of San Bernardino (SBEDC) and the Affordable Housing Solutions of San Bernardino Incorporated (AHS) in response to anticipated redevelopment dissolution legislation. The transfers of the Transferred Assets to not-for-profit, non-governmental entities resulted in the San Bernardino County Tax Collector (County) adding the Transferred Assets to the property tax roll. The EDA, its successor, the Successor Agency for the Redevelopment Agency of the City of San Bernardino (Successor Agency), or the City did not pay the property taxes levied by the County. The California State Controller's Office conducted an Asset Transfer Review (ATR) and in its report dated March 2013, found that Transferred Assets had not been transferred to the Successor Agency in accordance with California Health and Safety Code (HSC) section 34167.5., but had been transferred to SBEDC. The California State Controller's Office ordered the City to reverse the transfer of assets pursuant to HSC sections 34167.5 and 34167.10. Subsequent to the ATR and in conjunction with redevelopment dissolution wind down activities, the California State Department of Finance (DOF) took the position that the City was responsible for the property taxes because they would not have been levied on the Transferred Assets if the proper transfer had been made. The City's property tax related liability due the County of San Bernardino at June 30, 2013 is \$303,466. The City and Successor Agency have requested the County of San Bernardino Auditor-Controller/Treasurer/Tax Collector to cancel the property taxes levied during the period SBEDC and AHS were the property owners of record.

Properties Acquired Through Foreclosure

Property taxes due the County became liabilities of the Successor Agency and the City of San Bernardino (City) through the EDA's foreclosure on nine parcels known as the Carousel Mall properties. The previous owner of the Carousel Mall properties had not paid \$509,444 in property taxes, penalties, and costs due the County for property tax years 2009 and 2010 at the date the foreclosure occurred. The City has accrued this liability as of June 30, 2013. Upon acquiring the Carousel Mall properties on February 14, 2011 through foreclosure, the Successor Agency assumed all assets and liabilities of the Carousel Mall properties. Beginning July 1, 2010 and

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

2011, the previous owner's unpaid property taxes for property tax years 2009 and 2010, respectively, became delinquent and were assessed 1.5 percent per month in interest on the unpaid property taxes, which at June 30, 2013, were \$110,691 in interest charges for the year ended June 30, 2012 and \$83,334 for the year ended June 30, 2013. On March 18, 2011, the Successor Agency transferred legal title on the Carousel Mall properties to the San Bernardino Economic Development Corporation (SBEDC), a non-profit, non-government component unit of the City. On December 19, 2011, the Carousel Mall properties were transferred to the Carousel Mall LLC, a non-government entity. The transfers of the Carousel Mall properties to SBEDC and Carousel Mall LLC resulted in the County adding the Carousel Mall properties to the property tax roll and the assessment of property taxes in tax year 2012 for \$113,042 to SBEDC, which were not paid and resulted in penalties and costs for an additional \$11,394, for a total amount due at June 30, 2013, to the County of San Bernardino for tax year 2012 of \$124,436. The aggregate amount due the County of San Bernardino at June 30, 2013 is \$827,905 of which \$703,469 is owed by the Successor Agency and \$124,436 is owed by the City. The City and Successor Agency have requested the County of San Bernardino Auditor-Controller/Treasurer/Tax Collector cancel the property taxes levied during the period SBEDC and Carousel Mall LLC were the property owners of record.

Gas Tax Revenues

The City is subject to periodic audits of its use of gas tax revenues by the State Controller's Office. The City used a portion of gas tax revenues to make certain debt service payments on a note payable related to pavement rehabilitation (street-related) projects. State guidelines relating to gas tax expenditures limit the amount of revenue available for debt service expenditures, as well as the type of debt that may be paid. State regulatory authorities have not issued an opinion on the matter and the potential exposure to the City's General Fund is uncertain, and therefore, no contingent liability related to this matter has been accrued in the accompanying financial statements.

Litigation

The City is a defendant in numerous lawsuits and is also subject to other claims, including claims for workers' compensation payments. The City uses in-house and, where necessary, outside counsel to adjudicate lawsuits. Each case is initially rated by the City Supervising or Senior attorney handling or overseeing the case with respect to its viability for success against the City. Only cases rated 'probable' for recovery from the City are reported for financial statement purposes. The dollar value reserved for any eventual payout on any said case is based upon the facts of the case, industry standards relative to the type of injury or damage involved, and the experience of the Supervising or Senior attorney. The legal reserve as of June 30, 2013, is a product of this analysis. The City used a third-party actuary to perform a workers' compensation reserve analysis (estimated loss reserve) as of June 30, 2013. The actuary used a general approach that relied upon actual loss development patterns for the City of San Bernardino to the extent they are available, and is augmented with industry benchmark loss development patterns based on insurance industry sources and patterns to project ultimate losses. While it is not possible to project the final outcome of these lawsuits and claims, the City and its legal department have estimated that the liability for all such litigation and claims totaled approximately \$30.7 million for the primary government as of June 30, 2013. In addition, these lawsuits and claims may be compromised and/or discharged pursuant to a plan of adjustment confirmed in the Bankruptcy Case.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

CalPERS Penalty

The City deferred making certain payments to CalPERS during FY 2012-13. The City shall pay to CalPERS the amount of \$2,000,000 commencing on the earlier to occur of (a) entry of the first order confirming or denying confirmation of the City's Chapter 9 Plan or (b) dismissal of the City's bankruptcy case.

(23) Restatement of Prior Year Balances

The beginning net position for governmental activities and the beginning fund balances for certain governmental funds at July 1, 2012, were restated to report corrections of errors as follows:

	Governmental Activities
Adjustment to record accreted interest payable	\$ (4,397,024)
Adjustment to reduce the unearned revenue	(7,598,423)
Adjustment to record HUD section 108 Arden Guthrie notes payable	(7,500,000)
Adjustment to reconcile accounts receivable general ledger balance to the sub-ledger of the General Fund	72,301
Adjustment to record property tax expense incurred from transfer of RDA properties to taxable entities (AHS and EDC)	(151,733)
Adjustment to record revenues	3,596,981
Adjustment to reclassify grant revenues recorded to the General Fund	281,179
Adjustment to record grant revenues in the proper year	209,531
Adjustment to reclassify revenue recorded to deferred inflows of resources	(1,456,167)
Adjustment to reconcile accounts receivable general ledger balance to the sub-ledger of the Federal and State Grants Fund	31,204
Adjustment to reclassify cash recorded to CDBG incorrectly during the software conversion	(18,806)
Adjustment to reclassify cash with fiscal agents to the Successor Agency	(3,819,379)
Adjustment to record capital asset additions in the prior year	14,409
Prior Year Adjustments	<u><u>\$ (20,735,927)</u></u>

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

	General	Special Revenue		
		Federal and State Grants	Low and Moderate Income Housing	Sales and Road
Adjustment to reconcile accounts receivable general ledger balance to the sub-ledger	\$ 72,301	\$ -	\$ -	\$ -
Adjustment to record property tax expense incurred from transfer of RDA properties to taxable entities (AHS and EDC)	(151,733)	-	-	-
Adjustment to record revenues	-	3,596,981	-	-
Adjustment to reclassify grant revenues recorded to the General Fund	-	281,179	-	-
Adjustment to record grant revenues in the proper year	-	-	-	209,531
Adjustment to reclassify revenue recorded to deferred inflows of resources	-	(1,456,167)	-	-
Adjustment to reconcile accounts receivable general ledger to the sub-ledger	-	31,204	-	-
Adjustment to reclassify cash booked to CDBG incorrectly during the software conversion	-	(18,806)	-	-
Adjustment to reclassify cash with fiscal agents to the Successor Agency	-	-	(3,819,379)	-
Prior Year Adjustments	\$ (79,432)	\$ 2,434,391	\$ (3,819,379)	\$ 209,531

The beginning net position at July 1, 2012, for the business-type activities and the Internal Services Funds were restated to report corrections of errors for the following:

	Business-type Activities - Enterprise Funds			Internal Service Funds
	Water	Sewer	Total	
Adjustment to capitalize interest costs	\$ 776,821	\$ 1,670,848	\$ 2,447,669	\$ -
Adjustment to remove salvage values included in capital assets	(3,023,270)	(5,584,046)	(8,607,316)	-
Adjustment to adjust the value of the investment in joint venture - RIX	-	(1,090,102)	(1,090,102)	-
Adjustment to record capital asset additions for the prior year	-	-	-	14,409
Prior Year Adjustments	\$ (2,246,449)	\$ (5,003,300)	\$ (7,249,749)	\$ 14,409

(24) Subsequent Events

Correspondence with California Department of Finance

A March 21, 2014, letter from the California Department of Finance (DOF) indicated that \$3,413,155 of Low and Moderate Income Housing Fund (LMIHF) balances are to be transferred from the LMIHF to the County Auditor-Controller for distribution to the affected taxing entities. The City does not contest \$200,000 of this total balance. Through correspondence with the DOF subsequent to the issuance of their letter on March 21, 2014, the DOF acknowledged that it did not have a complete data set with respect to the disputed items. The City intends to forward the missing data to the DOF for its review. If the DOF determines that the data received provides sufficient justification, the amount in dispute may be adjusted or eliminated. No amounts have been accrued in the accompanying financial statements.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

(25) Successor Agency Trust for Assets of Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill X1 26 (the “Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City since the City had previously reported its redevelopment agency (commonly referred to as the “Economic Development Agency” or “EDA”) as a blended component unit on the City’s financial statements.

The Bill provides that upon dissolution of the redevelopment agency, either the city or another unit of local government may serve as the “successor agency” to hold the assets of the dissolved redevelopment agency until they are disposed of in accordance with applicable laws and regulations. On January 9, 2012, the City Council adopted resolution 2012-12, electing to serve as the Successor Agency to the former redevelopment agency of the City of San Bernardino in accordance with the Bill. On January 23, 2012, the City Council adopted resolution 2012-19 to have the City of San Bernardino serve as the Successor Housing Agency to the former redevelopment agency of the City of San Bernardino.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California were prohibited from entering into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution, including the completion of any unfinished projects that were subject to legally enforceable contractual commitments.

In future fiscal years, successor agencies will only be allocated tax increment revenue (to the extent available in the Redevelopment Property Tax Trust Fund, or “RPTTF”, as maintained by the County Auditor/Controller) in the amount that is necessary to pay the estimated annual payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been redistributed or liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. After the date of dissolution, the assets, liabilities, and activities of the dissolved redevelopment agency are reported in the Low and Moderate Income Housing Fund, a City special revenue fund (for housing assets, liabilities, and activities), and a private-purpose trust fund, a type of fiduciary fund (for non-housing assets, liabilities, and activities), in the financial statements of the City.

The EDA and the Successor Agency to the EDA conducted some of their activities through three affiliated entities: San Bernardino Economic Development Corporation (SBEDC), Affordable Housing Solutions (AHS), and Sustainable Communities Reinvestment Partnership (SCRIP). The financial activities of these affiliated entities are reported in the fiduciary funds of the accompanying financial statements, as components of the Successor Agency.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

San Bernardino Economic Development Corporation – SBEDC was incorporated in 1973 as a nonprofit public benefit corporation. SBEDC’s purpose is to assist the EDA in promoting development and redevelopment of properties within the City of San Bernardino (City). SBEDC currently holds title to approximately 300 parcels of real property in the City pursuant to a March 2011 Funding Agreement with the EDA, under which the EDA transferred properties to SBEDC, and SBEDC committed to develop the properties using funding provided by the EDA. These parcels include 128 parcels for the Bice Property project, 74 parcels for the Arden Guthrie Property project, and 5 parcels for the Carousel Mall (an approximately 650,000 square foot indoor mall), which is owned and operated through the Carousel Mall LLC (a single-member limited liability company with SBEDC as the single member). The funding agreement and the transfer of the properties were validated in a judgment entered on July 27, 2011 by the Superior Court of the State of California, County of San Bernardino, in an action brought by the EDA as Case No. CIVDS1103893 (Validation Judgment). Subsequently, however, the State Controller’s Office (SCO), as authorized by the June 2011 and June 2012 legislation providing for the dissolution of redevelopment agencies, conducted a review of the transfers and issued a report dated March 6, 2013 (SCO’s “City of San Bernardino Economic Development Agency – Asset Transfer Review Report.”) The SCO contended in the report that the transfers were unallowable and that the Validation Judgment was not effective. The Successor Agency contested these contentions but the matter remains unresolved and the ultimate disposition of the properties is undetermined. These properties were reported in the Successor Agency as of June 30, 2013.

Affordable Housing Solutions – AHS was incorporated in 2005 as a nonprofit public benefit corporation and was acquired by the EDA in 2009 to assist it in promoting economic development and increasing the availability of low and moderate income housing in the City. AHS has developed several successful affordable housing projects, including Phoenix Square and the Magnolia Square Project. AHS is also the City’s contracted Neighborhood Stabilization Program administrator as well as its property holding entity for the Home Investment Partnership Program (HOME) and the Low and Moderate Income Housing Fund (LMHIF). AHS, like SBEDC, entered into an agreement with the EDA in March 2011 for the receipt of properties and funding from the EDA. This agreement, and property transfers made pursuant to it, were validated in the Validation Judgment. As with SBEDC, the SCO disputed the validity of the EDA-AHS transactions. These properties were reported in the Successor Agency as of June 30, 2013.

Sustainable Communities Reinvestment Partnership – SCRIP was organized as a limited liability company in 2009 to pursue renewable energy and sustainability projects in the City to help improve energy efficiency and reduce greenhouse gas emissions in the region. SCRIP’s priorities include the development of solar power systems and coordination with the City-owned geothermal energy operation that serves governmental and private users in the City. In 2010, SCRIP facilitated the construction of a 250kW photovoltaic solar power system on the roof of a city-occupied building at 201 North “E” Street, San Bernardino. SCRIP also facilitated construction of a 448kW solar power system at the San Bernardino International Airport in conjunction with the Inland Valley Development Agency.

On September 22, 2015 Senate Bill 107, which amends various sections of the California Health and Safety Code related to the dissolution of redevelopment agencies, was signed into law. SB 107 contains various provisions which may impact, among other things (i) the repayment of prior City/Redevelopment loans, (ii) treatment of City loans to the Successor Agency to pay enforceable obligations, including bonded debt, and administrative costs, and (iii) the treatment of special levies.

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

(A) Cash and Investments

Cash and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Cash and investments	\$	23,384,622
Cash with fiscal agents		30,007,728
		\$ 53,392,350

(B) Notes Receivable

Notes receivable represent loan agreements entered into between the former EDA and unrelated non-governmental entities as part of the EDA's redevelopment activities. There are five notes ranging in amount from approximately \$11,000 to \$609,000, and totaling \$3.9 million. Collection of these notes receivable is subject to the terms of each individual loan agreement.

(C) Property Held for Resale

Property held for resale represents vacant land, commercial, and retail real estate acquired by the EDA as part of its redevelopment activities. Over 55 properties, reported at cost basis ranging from under \$1,000 to \$16.4 million each, and totaling \$48.9 million, were transferred to the Successor Agency upon dissolution of the redevelopment agency. These properties are being held for disposition in accordance with applicable laws and regulations.

(D) Capital Assets

In accordance with the provisions of the Bill and the court case, all assets of the former EDA were transferred to the Successor Agency upon dissolution on February 1, 2012. Capital assets transferred to the Successor Agency and related capital asset activities for the year ended June 30, 2013 were as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 11,631,572	\$ -	\$ -	\$ 11,631,572
Total capital assets, not being depreciated	11,631,572	-	-	11,631,572
Capital assets, being depreciated:				
Buildings & improvements	16,508,665	-	-	16,508,665
Machinery, vehicles & equipment	1,282,198	-	-	1,282,198
Total capital assets, being depreciated	17,790,863	-	-	17,790,863
Less accumulated depreciation for:				
Buildings & improvements	(8,126,746)	(444,197)	-	(8,570,943)
Machinery, vehicles & equipment	(1,091,275)	(97,371)	-	(1,188,646)
Total accumulated depreciation	(9,218,021)	(541,568)	-	(9,759,589)
Total capital assets, being depreciated net	8,572,842	(541,568)	-	8,031,274
Capital assets, net	\$ 20,204,414	\$ (541,568)	\$ -	\$ 19,662,846

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

(E) Long-Term Liabilities

In accordance with the provisions of the Bill and the court case, the obligations of the former EDA became vested with the funds established for the Successor Agency upon the date of dissolution, February 1, 2012. Tax revenue is pledged to fund the debts of the Successor Agency Trust subject to the reapportionment of such revenues as provided by the Bill. The debt of the Successor Agency Trust as of June 30, 2013 was as follows:

	Balance June 30, 2012, Restated	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Compensated absences (Note 10)	\$ 279,814	\$ -	\$ -	\$ 279,814	\$ 83,944
OPEB obligation (Note 15)	957,669	178,306	-	1,135,975	-
Participation agreement: Yellow Freight	216,088	-	-	216,088	-
Notes payable:					
HUD Section 108:					
Cinema project	3,450,000	-	(435,000)	3,015,000	460,000
Reynolds	506,637	-	(506,637)	-	-
CMB	33,000,000	-	-	33,000,000	-
Total notes payable	<u>36,956,637</u>	<u>-</u>	<u>(941,637)</u>	<u>36,015,000</u>	<u>460,000</u>
Tax allocation bonds:					
Bonds 2010A	6,335,000	-	(180,000)	6,155,000	190,000
Bonds 2010B	2,905,000	-	(160,000)	2,745,000	155,000
Bonds 2002A	3,020,000	-	(75,000)	2,945,000	80,000
Refunding Bonds, 2002	21,205,000	-	(1,190,000)	20,015,000	1,260,000
Refunding Bonds, 1998A	10,025,000	-	(895,000)	9,130,000	940,000
Refunding Bonds, 1998B	4,965,000	-	(375,000)	4,590,000	395,000
Refunding Bonds, 2005A	42,610,000	-	(2,640,000)	39,970,000	2,795,000
Refunding Bonds, 2005B	16,015,000	-	(1,020,000)	14,995,000	1,080,000
Taxable Bonds 2006	21,720,000	-	(1,390,000)	20,330,000	1,470,000
Less:					
Unamortized discount	(660,050)	-	50,517	(609,533)	-
Unamortized premium	1,025,401	-	(73,243)	952,158	-
Total tax allocation bonds	<u>129,165,351</u>	<u>-</u>	<u>(7,947,726)</u>	<u>121,217,625</u>	<u>8,365,000</u>
Mortgage revenue bonds:					
Highland Senior Housing 1995A	1,275,000	-	(55,000)	1,220,000	55,000
Ramona Senior Housing 1995A	1,120,000	-	(45,000)	1,075,000	50,000
Total mortgage revenue bonds	<u>2,395,000</u>	<u>-</u>	<u>(100,000)</u>	<u>2,295,000</u>	<u>105,000</u>
Certificates of Participation:					
1999 Certificates of participation	<u>5,880,000</u>	<u>-</u>	<u>(325,000)</u>	<u>5,555,000</u>	<u>340,000</u>
Total successor agency long-term liabilities	<u>\$ 175,850,559</u>	<u>\$ 178,306</u>	<u>\$ (9,314,363)</u>	<u>\$ 166,714,502</u>	<u>\$ 9,353,944</u>

The City adopted the provisions of GASB Statement No. 65 and restated the beginning long-term liabilities balance of the Successor Agency for \$1,901,286 for the refunding loss on bonds, which GASB Statement No. 65 requires to be presented as a deferred outflow of resources.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

(1) Participation Agreement

Amount
Outstanding at
June 30, 2013

Yellow Freight

On January 22, 2001, the City of San Bernardino EDA entered into a Property Owner Redevelopment Agreement with Yellow Freight Systems. As part of the agreement, the EDA agreed to provide public assistance to offset costs associated with acquisition and development of a freight terminal. Only EDA funds directly generated by net tax increment amounts upon maturity of the note have been pledged. Payments will be from time to time as funds are available. No interest shall accrue on the note.

\$ 216,088

(2) Notes Payable

Amount
Outstanding at
June 30, 2013

HUD Section 108 Note:

Cinema Project

The City of San Bernardino EDA and MDA-San Bernardino Associates, LLC (MDA) entered into a HUD Section 108 Loan Agreement in December of 1998. The proceeds of the EDA Loan, together with other sources of funds, were used and applied by MDA for the payment of the costs of the development, construction, improvement and financing of a multi-screen cinema complex and related common area improvements. In order for the EDA to be able to make the loan, the EDA entered into a Contract for Loan Guarantee Assistance, a Master Fiscal Agency Agreement, and executed promissory notes with the United States of America through its Department of Housing and Urban Development pursuant to Section 108 of the Housing and Community Development Act of 1974, as amended.

Interest payments are due semiannually on February 1 and August 1 through August 1, 2018. Principal payments are to be made annually on August 1, and continue through August 1, 2018.

\$ 3,015,000

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

	Amount Outstanding at June 30, 2013
Reynolds of San Bernardino, a California Corporation	
<p>On December 5, 2006, the former EDA entered into an Installment Note (Note) for the purchase of property with Reynolds of San Bernardino, a California Corporation, for \$606,637. This Note was amended on January 1, 2010. The Note matures on January 1, 2013. Interest only payments of \$2,494 per month at 4.93436% are due on the first day of the month and continue through January 1, 2013. The Note is secured by a deed of trust. The Note was fully repaid on May 8, 2013.</p>	-
	Amount Outstanding at June 30, 2013
CMB Notes Payable	
<p>On October 5, 2009, the former EDA entered into a Loan Agreement (Loan) for borrowing funds from CMB Infrastructure Investment Group III, in the amount of \$15,000,000, in accordance with the Employment-Based Immigration Fifth Preference (EB-5) Immigrant Investor Visa Program. The Note matures on September 30, 2015. Interest only payments are due on the first day of each quarter at the rate of 5.25% per annum.</p>	
<p>On September 1, 2010, the former EDA entered into a Loan Agreement (Loan) for borrowing funds from CMB Infrastructure Investment Group V, in the amount of \$8,000,000, in accordance with the EB-5 Immigrant Investor Visa Program. The Note matures on October 1, 2016. Interest only payments are due on the first day of each quarter at the rate of 5.25% per annum.</p>	
<p>On March 1, 2011, the former EDA entered into a Loan Agreement (Loan) for borrowing funds from CMB Infrastructure Investment Group VI-C, in the amount of \$10,000,000, in accordance with the EB-5 Immigrant Investor Visa Program. The Note matures on January 1, 2018. Interest only payments are due on the first day of each quarter at the rate of 5.25% per annum.</p>	
As of June 30, 2013, \$33,000,000 has been drawn against the Loans.	33,000,000
Total notes payable	\$ 36,015,000

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

The following schedule summarizes the debt to maturity payments for notes payable:

Year ending June 30,	Principal	Interest	Total
2014	\$ 460,000	\$ 1,800,108	\$ 2,260,108
2015	490,000	1,792,616	2,282,616
2016	15,530,000	1,388,626	16,918,626
2017	8,560,000	771,597	9,331,597
2018	10,605,000	414,097	11,019,097
2019-2023	370,000	5,772	375,772
Totals	<u>\$ 36,015,000</u>	<u>\$ 6,172,816</u>	<u>\$ 42,187,816</u>

Note: The amounts above are scheduled payments in accordance with the loan agreements.

(3) Tax Allocation Bonds

Tax Allocation Bonds, Series 2010A

In December 2010, the San Bernardino Joint Powers Financing Authority issued \$7,065,000 in tax allocation bonds to finance certain redevelopment activities of the 4th Street Corridor project, to fund a reserve fund for the bonds, fund the interest account, and pay all costs of issuance related to the bonds.

The outstanding Series 2010A bonds consist of term bonds of \$6,155,000 maturing from April 1, 2015, to April 1, 2030 in annual installments ranging from \$190,000 to \$655,000. Term bonds of \$390,000 are due on April 1, 2015, term bonds of \$1,515,000 are due on April 1, 2021, and term bonds of \$4,250,000 are due on April 1, 2030. Interest is payable semi-annually on April 1 and October 1 at rates ranging from 3.5% to 9.3% per annum.

The term bonds maturing on April 2015, are subject to mandatory prepayment, on each April 1, commencing on April 1, 2012, through April 1, 2015. Term bonds maturing on April 1, 2021, are subject to mandatory prepayment, on each April 1, commencing on April 1, 2016, through April 1, 2021. Term bonds maturing on April 1, 2030, are subject to mandatory prepayment on each April 1, commencing on April 1, 2022, through April 1, 2030.

The former EDA agreed to pay the Authority principal and interest payments solely from the Tax Revenues from the Northwest Redevelopment Project Area.

A reserve account is required to be maintained in the amount of \$686,974. The balance held in the reserve account as of June 30, 2013, was \$517,837. At June 30, 2013, \$6,155,000 of the bonds were outstanding.

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

Tax Allocation Bonds, Series 2010B

In January 2011, the San Bernardino Joint Powers Financing Authority issued \$3,220,000 in tax allocation bonds to finance certain redevelopment activities of the Northwest project area, to fund a reserve fund for the bonds, fund the interest account, and pay all costs of issuance of the bonds.

The outstanding Series 2010B bonds consist of term bonds of \$2,745,000 maturing from April 1, 2020, to April 1, 2028 in annual installments ranging from \$25,000 to \$690,000. Term bonds of \$925,000 are due on April 1, 2020 and term bonds of \$1,820,000 are due on April 1, 2028. Interest is payable annually on April 1 at rates ranging from 3.0% to 7.0% per annum.

The term bonds maturing in April 2020 are subject to mandatory prepayment, on each April 1, commencing on April 1, 2013, through April 1, 2020. Term bonds maturing on April 1, 2028, are subject to mandatory prepayment, on each April 1, commencing on April 1, 2021, through April 1, 2028.

The former EDA agreed to pay the Authority principal and interest payments solely from the EDA's tax revenues from the Northwest Redevelopment Project Area.

A reserve account is required to be maintained in the amount of \$309,567. The balance held in the reserve account as of June 30, 2013, was \$191,653. At June 30, 2013, \$2,745,000 of the bonds were outstanding.

Tax Allocation Bonds, Series 2002A

In January 2002, the San Bernardino Joint Powers Financing Authority issued \$3,635,000 in tax allocation bonds to fund certain capital improvement projects in the Mount Vernon Project Area, to fund a reserve fund, and to pay costs of issuance of the bonds. Interest on the bonds is payable June 1, 2002, and semi-annually thereafter on June 1 and December 1 of each year at rates ranging from 4.7% to 6.2% per annum. The bonds consist of term bonds ranging in amounts from \$285,000 to \$2,025,000 maturing from 2006 to 2031. Principal installments are payable annually on December 1 ranging in amount from \$50,000 to \$445,000 through December 1, 2031.

Term bonds maturing on December 1, 2012, are subject to mandatory prepayment, on each December 1, commencing on December 1, 2007, through December 1, 2012. Term bonds maturing on December 1, 2021, are subject to mandatory prepayment on each December 1, commencing on December 1, 2013, through December 1, 2021. Term bonds maturing on December 1, 2031, are subject to mandatory prepayment, on each December 1, commencing on December 1, 2022.

A reserve account is required to be maintained in the amount of \$263,625. The balance held in the reserve account as of June 30, 2013, was \$241,820. At June 30, 2013, \$2,945,000 of the bonds were outstanding.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Tax Allocation Refunding Bonds, Series 2002

In April 2002, the San Bernardino Joint Powers Financing Authority issued \$30,330,000 in tax allocation refunding bonds to refund the 1995B Tax Allocation Bonds, to finance certain redevelopment activities in the former EDA's project areas, to fund a reserve fund for the bonds, fund the interest account, and pay costs of issuance of the bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements.

The bonds consist of term bonds of \$7,100,000 maturing from 2013 to 2018 in annual installments ranging from \$1,190,000 to \$1,500,000, term bonds of \$3,475,000 maturing from 2019 to 2020 in annual installments ranging from \$1,685,000 to \$1,790,000, and term bonds of \$9,440,000 maturing from 2021 to 2026 in annual installments ranging from \$1,120,000 to \$2,770,000. Interest is payable semi-annually on October 1 and April 1 at rates ranging from 3.25% to 5.625% per annum.

The term bonds maturing on April 1, 2018, are subject to mandatory prepayment, on each April 1, commencing on April 1, 2013, through April 1, 2018. Term bonds maturing on April 1, 2020, are subject to mandatory prepayment, on April 1, 2019, and April 1, 2020. Term bonds maturing on April 1, 2026, are subject to mandatory prepayment on each April 1, commencing on April 1, 2021, through April 1, 2026.

The former EDA agreed to pay the Authority principal and interest payments solely from the EDA's surplus tax revenues from the Central City North, State College No. 4, Southeast Industrial Park, Northwest, South Valle, Uptown and Tri-City Redevelopment Project Areas.

A reserve account is required to be maintained in the amount of \$2,683,230. The balance held in the reserve account as of June 30, 2013, was \$1,999,511. At June 30, 2013, \$20,015,000 of the bonds were outstanding.

Tax Allocation Bonds, Series 2002A

In January 2002, the San Bernardino Joint Powers Financing Authority issued \$3,635,000 in tax allocation bonds to fund certain capital improvement projects in the Mount Vernon Project Area, to fund a reserve fund, and to pay costs of issuance of the bonds. Interest on the bonds is payable June 1, 2002 and semi-annually thereafter on June 1 and December 1 of each year at rates ranging from 4.7% to 6.2% per annum. The bonds consist of term bonds ranging in amounts from \$285,000 to \$2,025,000 maturing from 2006 to 2031. Principal installments are payable annually on December 1 ranging in amount from \$50,000 to \$445,000 through December 1, 2031.

Term bonds maturing on December 1, 2012 are subject to mandatory prepayment, on each December 1, commencing on December 1, 2007 through December 1, 2012. Term bonds maturing on December 1, 2021, are subject to mandatory prepayment on each December 1, commencing on December 1, 2013 through December 1, 2021. Term bonds maturing on December 1, 2031, are subject to mandatory prepayment, on each December 1, commencing on December 1, 2022.

A reserve account is required to be maintained in the amount of \$263,625. The balance held in the reserve account as of June 30, 2013 was \$241,820. At June 30, 2013, \$2,945,000 of the bonds were outstanding.

CITY OF SAN BERNARDINO, CALIFORNIA
Notes to Basic Financial Statements (Continued)
Year Ended June 30, 2013

Refunding Bonds, Series 1998A

The \$19,000,000 of tax allocation refunding bonds, issue of 1998, Series A, consist of serial bonds with varying interest rates from 3.600% to 5.750% per annum. Interest is payable semiannually on January 1 and July 1. Serial bonds mature annually on July 1 through July 1, 2020.

The proceeds of the 1998 Series A Tax Allocation Refunding Bonds along with the proceeds of the 1998 Series B Subordinated Tax Allocation Refunding Bonds were used to advance refund \$20,990,000 of outstanding Central City Project Tax Allocation Refunding Bonds, 1991 Series A and \$4,005,000 of outstanding Central City Project Subordinated Tax Allocation Bonds 1991 Series B.

The Series A bonds are not subject to optional redemption. The bonds are secured by a pledge of property tax apportionments from the Central City Project Area. A reserve account is required to be maintained in accordance with the bond documents. A reserve account is required to be maintained in the amount of \$1,456,515. The balance held in the reserve account as of June 30, 2013 was \$1,157,586. At June 30, 2013, \$9,130,000 of the bonds were outstanding.

Subordinate Refunding Bonds, Series 1998B

The \$8,590,000 of subordinated tax allocation refunding bonds, issue of 1998 Series B, consists of \$4,815,000 of serial bonds with varying interest rates from 4.500% to 5.875% per annum and \$3,775,000 of term bonds, bearing interest at 6.000% per annum. Interest is payable semiannually on January 1 and July 1. Serial bonds mature annually on July 1 through July 1, 2014. Term bonds are due July 1, 2020, and shall be called and redeemed before maturity from money deposited into the Term Bond Sinking Fund on July 1, 2015, to July 1, 2020, without premium.

The proceeds of the 1998 Series B subordinated Tax Allocation Refunding Bonds along with the 1998 Series A Tax Allocation Refunding Bonds were used to advance refund \$20,990,000 of outstanding Central City Project Tax Allocation Refunding Bonds, 1991 Series A and \$4,005,000 of outstanding Central City Project Subordinated Tax Allocation Bonds, 1991 Series B.

Bonds maturing on or after July 1, 2009, are subject to redemption before maturity, at the option of the former EDA, from available funds, on any date after July 1, 2008. Such bonds will be redeemed at the times and prices (expressed as a percentage of the principal amount so redeemed) as set forth in the bond documents. The bonds are secured by a pledge of property tax apportionments from the Central City Project Area. A reserve account is required to be maintained in accordance with the bond documents. As of June 30, 2013, the reserve requirement was \$639,012 and the amount actually held in the reserve account was \$467,712. At June 30, 2013, \$4,590,000 of the bonds were outstanding.

Tax Allocation Revenue Refunding Bonds, Series 2005A

In September 2005, the San Bernardino Joint Powers Financing Authority issued \$55,800,000 in tax allocation refunding bonds to current refund \$55,800,000 of the outstanding 1995A Tax

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Allocation Refunding Bonds. The remaining portion of the 1995A Bonds was refunded with the proceeds of the Authority's Tax Allocation Refunding Bonds, Series 2005B (see following section). As a result, the 1995A Tax Allocation Refunding Bonds are considered to be defeased and the liability has been removed from the financial statements.

The Series 2005A bonds consist of serial bonds with varying interest rates from 5.15% to 5.75% per annum. Interest is payable semi-annually on April 1 and October 1. Serial bonds mature annually on October 1 through October 1, 2025.

The Series 2005A bonds are not subject to optional redemption. The former EDA agreed to pay the Authority principal and interest payments solely from the EDA's tax revenues from the Central City North, State College Project No. 4, Southeast Industrial Park, Northwest, South Valle, Uptown and Tri-City Redevelopment Project Areas.

A reserve account is required to be maintained in the amount of \$1,141,000. The balance held in the reserve account as of June 30, 2013 was \$1,460,751. At June 30, 2013, \$39,970,000 of the bonds were outstanding.

The reacquisition price exceeded the net carrying amount of the old debt by \$1,116,000. This amount is recorded as a deferred outflow of resources and is being amortized over the life of the new debt. The advance refunding resulted in an increase in debt service payments over the next 20 years of \$18,089 and resulted in an economic gain of \$1,940,000.

Tax Allocation Revenue Refunding Bonds, Series 2005B

In September 2005, the San Bernardino Joint Powers Financing Authority issued \$21,105,000 in tax allocation refunding bonds to current refund \$21,105,000 of the outstanding 1995A Tax Allocation Refunding Bonds. The remaining portion of the 1995A Bonds was refunded with the proceeds of the Authority's Tax Allocation Refunding Bonds, Series 2005A (see preceding section). As a result, the 1995A Tax Allocation Refunding Bonds are considered to be defeased and the liability has been removed from the financial statements.

The Series 2005B bonds consist of serial bonds with varying interest rates from 5.15% to 5.75% per annum. Interest is payable semi-annually on April 1 and October 1. Serial bonds mature annually on October 1 through October 1, 2025.

The Series 2005B bonds are not subject to optional redemption. The former EDA agreed to pay the Authority principal and interest payments solely from the EDA's tax revenues from the Central City North, State College Project No. 4, Southeast Industrial Park, Northwest, South Valle, Uptown and Tri-City Redevelopment Project Areas.

A reserve account is required to be maintained in the amount of \$490,000. The balance held in the reserve account as of June 30, 2013 was \$437,603. At June 30, 2013, \$14,995,000 of the bonds were outstanding.

The reacquisition price exceeded the net carrying amount of the old debt by \$422,100. This amount is being recorded as a deferred outflow of resources and is being amortized over the life of the new debt.

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

Tax Allocation Bonds (20% Set Aside), Taxable Series 2006

In April 2006, the San Bernardino Joint Powers Financing Authority issued \$28,665,000 in tax allocation bonds to fund the acquisition, demolition and relocation of certain occupants of the Central City North Project Area and provide for other redevelopment activities within the City of San Bernardino, as provided in the Redevelopment Plan, fund the reserve fund, and pay costs of issuance associated with the bonds.

The 2006 bonds consist of term bonds of \$7,370,000 maturing from 2012 to 2016 in annual installments ranging from \$1,315,000 to \$1,640,000, and term bonds of \$15,665,000 maturing from 2017 to 2027 in annual installments ranging from \$1,015,000 to \$1,850,000. Interest is payable semi-annually on May 1 and November 1 at interest rates ranging from 5.20% to 6.15% per annum.

The bonds maturing on or prior to May 1, 2016, shall not be subject to call and redemption prior to maturity. The bonds maturing on or after May 1, 2017, shall be subject to redemption on or after May 1, 2016, and any date thereafter as a whole or in part by lot, at the option of the former EDA, at par, plus accrued interest, without premium.

The former EDA agreed to pay the Authority principal and interest payments solely from the EDA's Housing Revenues from the Central City North, Central City Merged, Central City West, Mount Vernon, State College Project No. 4, Southeast Industrial Park, Northwest, South Valle, Uptown, 40th Street and Tri-City Redevelopment Project Areas.

A reserve account is required to be maintained in the amount of \$2,698,116. The balance held in the reserve account as of June 30, 2013 was \$2,618,841. At June 30, 2013, \$20,330,000 of the bonds were outstanding.

The following schedule summarizes the debt to maturity payments for tax allocation bonds:

Year ending June 30,	Principal	Interest	Total
2014	\$ 8,365,000	\$ 7,174,137	\$ 15,539,137
2015	8,825,000	6,781,983	15,606,983
2016	9,315,000	6,267,926	15,582,926
2017	9,835,000	5,720,814	15,555,814
2018	10,400,000	5,134,011	15,534,011
2019-2023	47,830,000	16,064,496	63,894,496
2024-2028	23,985,000	4,610,259	28,595,259
2029-2033	2,320,000	332,450	2,652,450
Totals	<u>\$ 120,875,000</u>	<u>\$ 52,086,076</u>	<u>\$ 172,961,076</u>

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

(4) Mortgage Revenue Bonds

The mortgage revenue bonds are special obligations payable solely from payments made on and secured by a pledge of the acquired mortgage loans and certain reserve funds and other monies in connection therewith, all pledged under the resolution authorizing the issuance of the bonds. The bonds are payable from revenues or assets of the EDA. Mortgage revenue bonds outstanding as of June 30, 2013 include the Multifamily Housing Revenue Bonds (Highland Lutheran Senior Housing Project) 1995 Series for \$1,220,000 and the Multifamily Housing Revenue Bonds (Ramona Senior Complex Project) 1995 Series for \$1,075,000. The Multifamily Housing Revenue Bonds (Highland Lutheran Senior Housing Project) 1995 Series was issued on June 29, 1995. The Bonds shall mature on July 1, 2015 and shall bear interest at the rate of 7.625% per annum. Interest is payable annually on July 1. The Multifamily Housing Revenue Bonds (Ramona Senior Complex Project) 1995 Series was issued on June 29, 1995. The Bonds shall mature on July 1, 2015 and shall bear interest at the rate of 7.875% per annum. Interest is payable annually on July 1.

The following schedule summarizes the debt to maturity payments for the mortgage revenue bonds:

Year ending June 30,	Principal	Interest	Total
2014	\$ 105,000	\$ 173,616	\$ 278,616
2015	115,000	165,097	280,097
2016	125,000	155,803	280,803
2017	135,000	145,734	280,734
2018	150,000	134,700	284,700
2019-2023	920,000	476,850	1,396,850
2024-2025	745,000	90,366	835,366
Totals	<u>\$ 2,295,000</u>	<u>\$ 1,342,166</u>	<u>\$ 3,637,166</u>

(5) Certificates of Participation

1999 Certificates of Participation

On September 23, 1999, the San Bernardino Joint Powers Financing Authority issued \$15,480,000 of Refunding Certificates of Participation (Certificates). The Certificates were issued to retire \$2,325,000 outstanding of Refunding Certificates of Participation (South Valle Public Improvement Project) dated April 1, 1987, and \$5,910,000 outstanding of Certificates of Participation (1995 Police Station Financing Project) dated April 1, 1995, and to provide funds for capital improvements (201 Building Projects).

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

The Certificates mature on September 1 of each year through September 1, 2024, in amounts ranging from \$330,000 to \$1,080,000. The interest represented by the Certificates is calculated on the basis of a 360-day year of twelve 30-day months, from September 1, 1999, at the rates per annum set forth in the bond documents and will represent the sum of the portions of the lease payments designated as interest coming due during the six months preceding each interest payment date. The interest rates will range approximately from 3.70% to 5.50% per annum.

The Certificates maturing on September 1, 2020, are subject to mandatory sinking fund redemption in part on September 1 in each year on or after September 1, 2010, from the principal components of the lease payments required to be paid by the City pursuant to the Lease Agreements with respect to each such redemption date, at a redemption price equal to the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium, in accordance with the terms identified in the bond documents. The Certificates maturing on September 1, 2024, are subject to mandatory sinking fund redemption in part on September 1, 2021, from the principal components of the lease payments required to be paid by the City pursuant to the Lease Agreements with respect to each such redemption date, at a redemption price equal to the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium, in accordance with the terms identified in the bond documents.

The Certificates represent direct, undivided fractional interest in lease payments to be made by the City under the lease agreements. A reserve fund is required to be maintained in an amount equal to the maximum annual debt service. At June 30, 2013, the reserve requirement was \$1,147,000 and the amount actually held in the reserve account was \$1,156,533. The total outstanding balance of the Certificates at June 30, 2013, was \$9,825,000 of which \$5,555,000 is reported as a long-term liability of the Successor Agency, which is the portion of the Certificates that represent the South Valle Refunding and 201 Building Projects portions. Repayments of these portions of the Certificates are funded from the Redevelopment Property Tax Trust Fund, as a result of the dissolution of the redevelopment agency. The remaining \$4,270,000 outstanding balance of the Certificates at June 30, 2013 is reported as a long-term liability of the City, which is the portion of the Certificates that represents the Police Station portion. Please see Note 8 (E).

The following schedule summarizes the debt to maturity payments for the certificates of participation:

Year ending June 30,	Principal	Interest	Total
2014	\$ 340,000	\$ 296,175	\$ 636,175
2015	360,000	276,925	636,925
2016	380,000	256,575	636,575
2017	400,000	235,125	635,125
2018	420,000	212,575	632,575
2019-2023	2,465,000	680,488	3,145,488
2024-2025	1,190,000	66,275	1,256,275
Totals	<u>\$ 5,555,000</u>	<u>\$ 2,024,138</u>	<u>\$ 7,579,138</u>

CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Basic Financial Statements (Continued)

Year Ended June 30, 2013

(F) Restatement of Financial Statements

The beginning net position at July 1, 2012, for the Successor Agencies was restated to report corrections of errors and for the adoption of GASB Statement No. 65 for the following:

	Redevelopment Obligation Retirement Fund (Successor Agency)
Adjustment to record section 108 payable to HUD Arden Guthrie	\$ 7,500,000
Adjustment to reclassify cash with fiscal agents from the Low and Moderate Income Housing Fund and the CDBG Fund	3,838,185
Adjustment to recognize the cost of issuance expenses of the Bonds issued in the past years in accordance to GASB 65, <i>Items Previously Reported as Assets and Liabilities</i> .	(1,237,905)
Adjustment to record the Highland Senior Housing 1995A Bond Payable	(1,275,000)
Adjustment to record property taxes, penalties, costs, and interest related to foreclosed property by the Successor Agency	(620,135)
Adjustment to record the Ramona Senior Housing 1995A Bond Payable	<u>(1,120,000)</u>
Prior Year Adjustments	<u>\$ 7,085,145</u>

SUPPLEMENTARY SCHEDULES

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CITY OF SAN BERNARDINO, CALIFORNIA
 Required Supplementary Information
 Schedule of Funding Progress (in thousands)
 City Miscellaneous, City Safety, and Successor Agency
 Defined Benefit Plans of the California Public Employees' Retirement System
 For the Year Ended June 30, 2013

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Liability (UAAL) (a) - (b)	Funded Ratio Based on AVA (b) / (a)	Annual Covered Payroll (d)	UAAL as a % of Covered Payroll [(a)-(b)]/(d)
6/30/2011						
Misc.	\$ 427,258	\$ 366,217	\$ 61,041	85.7%	\$ 49,853	122.4%
Safety	587,025	487,333	99,692	83.0%	46,293	215.4%
Successor	18,125	15,503	2,622	85.5%	2,537	103.4%
6/30/2012						
Misc.	\$ 446,677	\$ 379,291	\$ 67,386	84.9%	\$ 47,802	141.0%
Safety	614,962	506,240	108,722	82.3%	44,163	246.2%
Successor	18,720	16,116	2,604	86.1%	1,152	226.0%
6/30/2013						
Misc.	\$ 462,717	\$ 346,177	\$ 116,540	74.8%	\$ 39,974	291.5%
Safety	633,088	463,931	169,157	73.3%	38,562	438.7%
Successor	19,073	14,909	4,164	78.2%	438	950.7%

See accompanying notes to required supplementary information.

CITY OF SAN BERNARDINO, CALIFORNIA
 Required Supplementary Information
 Schedules of Funding Progress and Employer Contributions (in thousands)
 Other Post-Employment Benefit Plans
 For the Year Ended June 30, 2013

Schedule of Funding Progress (in thousands)

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Liability (UAAL) (a) - (b)	Funded Ratio Based on AVA (b) / (a)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(a)-(b)]/(c)
<i>City</i>						
6/30/2007	\$ 60,158	\$ -	\$ 60,158	0.0%	\$ 79,135	76.0%
6/30/2009	61,371	-	61,371	0.0%	78,951	77.7%
6/30/2012*	48,819	-	48,819	0.0%	84,166	58.0%
<i>Water Department</i>						
6/30/2008	\$ 26,190	\$ -	\$ 26,190	0.0%	\$ 12,755	205.3%
6/30/2010	28,676	-	28,676	0.0%	12,619	227.2%
6/30/2012*	28,831	8,556	20,275	29.7%	14,765	137.3%
<i>Successor Agency</i>						
6/30/2008*	\$ 749	\$ -	\$ 749	0.0%	\$ 1,763	42.5%

* Most recent actuarial valuation available

Schedule of Employer Contributions (in thousands)

Year Ended June 30,	Annual Required Contribution	Amount Contributed	Percentage Contributed
2010	\$ 2,307	\$ 670	29%
2011	2,505	676	27%
2012	2,729	9,040	331%

See accompanying notes to required supplementary information.

CITY OF SAN BERNARDINO, CALIFORNIA
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 89,326,711	\$ 89,326,711	\$ 92,938,293	\$ 3,611,582
Licenses and permits	9,541,900	9,541,900	9,610,001	68,101
Fines and forfeitures	2,331,900	2,331,900	1,844,472	(487,428)
Investment income	640,150	640,150	781,805	141,655
Intergovernmental	2,148,959	2,148,959	2,069,546	(79,413)
Charges for services	7,558,064	7,558,064	7,714,126	156,062
Other	4,645,700	4,645,700	5,996,558	1,350,858
Total revenues	<u>116,193,384</u>	<u>116,193,384</u>	<u>120,954,801</u>	<u>4,761,417</u>
Expenditures:				
Current:				
Mayor	594,477	594,477	535,218	59,259
Common Council	662,163	662,163	557,046	105,117
City Clerk	1,021,179	1,021,179	1,197,503	(176,324)
City Treasurer	221,184	221,184	205,747	15,437
City Attorney	3,555,328	3,555,328	2,737,707	817,621
City Manager	1,116,137	1,116,137	645,282	470,855
Human Resources	511,313	511,313	471,215	40,098
Finance	1,262,928	1,262,928	1,634,964	(372,036)
Civil Service	399,188	399,188	349,835	49,353
Nondepartmental	4,238,350	5,831,185	5,460,746	370,439
Police	55,670,861	55,765,861	57,128,660	(1,362,799)
Fire	31,624,504	31,624,504	28,744,567	2,879,937
Community Development	6,879,611	6,879,611	4,506,449	2,373,162
Public Works	8,259,838	8,164,838	2,514,635	5,650,203
Park, Recreation & Community Services	4,657,006	4,657,006	4,030,226	626,780
Library Services	1,757,328	1,757,328	1,623,162	134,166
Soccer Field	371,653	371,653	258,931	112,722
Cemetery	189,797	189,797	90,086	99,711
Animal Control	2,257,980	2,257,980	2,022,160	235,820
Debt service:				
Principal	1,538,689	1,538,689	2,736,731	(1,198,042)
Interest and fiscal charges	308,311	308,311	877,552	(569,241)
Total expenditures	<u>127,097,825</u>	<u>128,690,660</u>	<u>118,328,422</u>	<u>10,362,238</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,904,441)</u>	<u>(12,497,276)</u>	<u>2,626,379</u>	<u>15,123,655</u>
Other financing sources (uses):				
Proceeds from sale of property	95,000	95,000	1,243	(93,757)
Transfers in	15,446,810	15,446,810	2,231,852	(13,214,958)
Transfers out	(2,558,500)	(2,558,500)	(384,374)	2,174,126
Total other financing sources (uses)	<u>12,983,310</u>	<u>12,983,310</u>	<u>1,848,721</u>	<u>(11,134,589)</u>
Net change in fund balance	<u>2,078,869</u>	<u>486,034</u>	<u>4,475,100</u>	<u>3,989,066</u>
Fund balance (deficit), beginning of year,				
as previously reported	(11,541,823)	(11,541,823)	(11,541,823)	-
Prior period adjustment	-	-	(79,432)	(79,432)
Fund balance (deficit), July 1, 2012, as restated	<u>(11,541,823)</u>	<u>(11,541,823)</u>	<u>(11,621,255)</u>	<u>(79,432)</u>
Fund balance (deficit), end of year	<u>\$ (9,462,954)</u>	<u>\$(11,055,789)</u>	<u>\$ (7,146,155)</u>	<u>\$ 3,909,634</u>

See accompanying notes to required supplementary information.

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CITY OF SAN BERNARDINO, CALIFORNIA

Notes to Required Supplementary Information

Year Ended June 30, 2013

(1) Budgetary Control and Accounting

The City utilizes the following general procedures in establishing its annual budget for the General Fund, as reflected in the budgetary comparison schedule:

The annual budget adopted by the Common Council provides for the City's general operations, and includes proposed expenditures and estimated revenues. The City Manager and Common Council are authorized to make the necessary changes to the budget to ensure adequate and proper standards of services.

Following approval of the final budget by the Mayor and Common Council, budget transfers within a department budget in an amount not to exceed \$25,000 per transfer shall be approved or disapproved according to established Finance policies and procedures and on forms approved by the Finance Department, and with notice to the Director of Finance, and written notice to the Mayor and Common Council, as long as the total department budget allocation is not increased and as long as no transfers are approved into or out of budget allocation for personnel salaries or benefits. The legal level of budgetary control is personnel salaries and benefits versus other expenditures in each department.

The budget is formally integrated into the accounting system and employed as a managed control device during the year for the General Fund.

Budgets are not legally adopted for other City funds.

The General Fund budget is adopted on a basis consistent with generally accepted accounting principles.

At fiscal year-end, operating budget appropriations lapse; however, incomplete capital improvements, equipment and contractual appropriations can be carried over to the following fiscal year.

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CITY OF SAN BERNARDINO, CALIFORNIA

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Assets:				
Cash and investments	\$ 6,751,110	\$ 127,257	\$ 21,407,401	\$ 28,285,768
Receivables, net:				
Accounts	8,058	-	52,756	60,814
Interest	3,756	21	15,489	19,266
Special assessments	-	267,093	-	267,093
Due from other governments	524,502	957	10,556	536,015
Advances to other funds	82,000	-	82,000	164,000
Other assets	-	-	214,671	214,671
Total assets	<u>\$ 7,369,426</u>	<u>\$ 395,328</u>	<u>\$ 21,782,873</u>	<u>\$ 29,547,627</u>
 Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit):				
Liabilities:				
Accounts payable	\$ 523,744	\$ -	\$ 1,609,793	\$ 2,133,537
Accrued liabilities	331	-	-	331
Due to other funds	-	-	1,777,391	1,777,391
Retentions payable	19,647	-	90,776	110,423
Deposits	30,515	6,725	16,869	54,109
Due to CalPERS	131,385	-	112,225	243,610
Advances from other funds	-	293,700	-	293,700
Total liabilities	<u>705,622</u>	<u>300,425</u>	<u>3,607,054</u>	<u>4,613,101</u>
Deferred inflows of resources:				
Unavailable revenues	<u>300,063</u>	<u>267,093</u>	<u>-</u>	<u>567,156</u>
Total liabilities and deferred inflows of resources	<u>1,005,685</u>	<u>567,518</u>	<u>3,607,054</u>	<u>5,180,257</u>
Fund balances (deficit):				
Restricted	6,363,741	80,934	20,426,940	26,871,615
Unassigned	-	(253,124)	(2,251,121)	(2,504,245)
Total fund balances (deficit)	<u>6,363,741</u>	<u>(172,190)</u>	<u>18,175,819</u>	<u>24,367,370</u>
Total liabilities, deferred inflows of resources and fund balances (deficit)	<u>\$ 7,369,426</u>	<u>\$ 395,328</u>	<u>\$ 21,782,873</u>	<u>\$ 29,547,627</u>

CITY OF SAN BERNARDINO, CALIFORNIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	Special Revenue	Debt Service	Capital Projects	Total
Revenues:				
Taxes	\$ 601,410	\$ 64,942	\$ 1,329,163	\$ 1,995,515
Licenses and permits	279,585	-	747,270	1,026,855
Impact fees	-	-	1,771,424	1,771,424
Investment income	(22,393)	521	(127,151)	(149,023)
Intergovernmental	6,404,174	-	1,381,034	7,785,208
Charges for services	3,180,848	-	1,194,453	4,375,301
Other	8,170	-	-	8,170
Total revenues	<u>10,451,794</u>	<u>65,463</u>	<u>6,296,193</u>	<u>16,813,450</u>
Expenditures:				
Current:				
General government	91,657	1,845	-	93,502
Public safety	1,351,442	-	108,441	1,459,883
Streets	5,499,293	-	5,677,454	11,176,747
Culture and recreation	-	-	11,435	11,435
Community service	6,521	-	-	6,521
Debt service:				
Principal	1,135,367	-	88,919	1,224,286
Interest and fiscal charges	112,182	28,710	65,260	206,152
Total expenditures	<u>8,196,462</u>	<u>30,555</u>	<u>5,951,509</u>	<u>14,178,526</u>
Excess of revenues over expenditures	<u>2,255,332</u>	<u>34,908</u>	<u>344,684</u>	<u>2,634,924</u>
Other financing sources (uses):				
Transfers in	91,874	-	42,500	134,374
Transfers out	-	-	(31,852)	(31,852)
Total other financing sources (uses)	<u>91,874</u>	<u>-</u>	<u>10,648</u>	<u>102,522</u>
Net change in fund balances	2,347,206	34,908	355,332	2,737,446
Fund balances (deficit), beginning of year	4,016,535	(207,098)	17,820,487	21,629,924
Fund balances (deficit), end of year	<u>\$ 6,363,741</u>	<u>\$ (172,190)</u>	<u>\$ 18,175,819</u>	<u>\$ 24,367,370</u>

CITY OF SAN BERNARDINO, CALIFORNIA

Nonmajor Special Revenue Funds

Year Ended June 30, 2013

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The City maintains the following Nonmajor Special Revenue Funds for the purposes indicated:

Cable TV

For the regulatory oversight of the City's cable companies for franchise compliance, consumer protection, and franchise renewal negotiations, as well as operating two access channels.

Asset Seizure

For the investigation, detection and prosecution of criminal activities. Funding is provided by criminal assets seized under existing state and federal statutes.

Alternative Transportation

For receipt and disbursement of funds received per Transportation Development Act Article 3 (SB 821) of the Bikeway & Pedestrian Program and the State and Local Fiscal Assistance Act of 1972.

Special Gas Tax

For the receipt of gasoline tax revenue paid to the City as a subvention from the State of California. These funds are transferred to the General Fund to partially support maintenance activities and to finance street construction projects as provided by State law.

Traffic Safety

For the recording of the City's share of California Vehicle Code fines collected by San Bernardino County.

Sewerline Maintenance

For the cost of maintaining Sewer lines as paid for from a portion of Sewer revenues.

Fire Station

For the operation and maintenance of the Verdemont Fire Station.

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CITY OF SAN BERNARDINO, CALIFORNIA

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2013

	<u>Cable TV</u>	<u>Asset Seizure</u>	<u>Alternative Transportation</u>	<u>Special Gas Tax</u>
Assets:				
Cash and investments	\$ 515,101	\$ 1,317,241	\$ 270,295	\$ 693,195
Receivables, net:				
Accounts	1,898	-	-	-
Interest	-	1,052	80	243
Due from other governments	-	-	66,861	399,335
Advances to other funds	-	-	-	-
Total assets	<u>\$ 516,999</u>	<u>\$ 1,318,293</u>	<u>\$ 337,236</u>	<u>\$ 1,092,773</u>
 Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ 99,365	\$ 1,450	\$ 43,016
Accrued liabilities	-	-	-	-
Retentions payable	-	-	-	-
Deposits	-	20,000	-	-
Due to CalPERS	-	-	8,212	6,843
Total liabilities	<u>-</u>	<u>119,365</u>	<u>9,662</u>	<u>49,859</u>
 Deferred inflows of resources				
Unavailable revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>-</u>	<u>119,365</u>	<u>9,662</u>	<u>49,859</u>
 Fund balances:				
Restricted	<u>516,999</u>	<u>1,198,928</u>	<u>327,574</u>	<u>1,042,914</u>
Total fund balances	<u>516,999</u>	<u>1,198,928</u>	<u>327,574</u>	<u>1,042,914</u>
Total liabilities and fund balances	<u>\$ 516,999</u>	<u>\$ 1,318,293</u>	<u>\$ 337,236</u>	<u>\$ 1,092,773</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA

Combining Balance Sheet (Continued)

Nonmajor Special Revenue Funds

June 30, 2013

	<u>Traffic Safety</u>	<u>Sewerline Maintenance</u>	<u>Fire Station</u>	<u>Total</u>
Assets:				
Cash and investments	\$ 889,130	\$ 2,739,884	\$ 326,264	\$ 6,751,110
Receivables, net:				
Accounts	-	6,160	-	8,058
Interest	-	2,120	261	3,756
Due from other governments	40,893	17,413	-	524,502
Advances to other funds	-	82,000	-	82,000
Total assets	<u>\$ 930,023</u>	<u>\$ 2,847,577</u>	<u>\$ 326,525</u>	<u>\$ 7,369,426</u>
 Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 348,225	\$ 31,688	\$ -	\$ 523,744
Accrued liabilities	-	331	-	331
Retentions payable	-	19,647	-	19,647
Deposits	-	-	10,515	30,515
Due to CalPERS	-	116,330	-	131,385
Total liabilities	<u>348,225</u>	<u>167,996</u>	<u>10,515</u>	<u>705,622</u>
Deferred inflows of resources:				
Unavailable revenues	-	-	300,063	300,063
Total liabilities and deferred inflows of resources	<u>348,225</u>	<u>167,996</u>	<u>310,578</u>	<u>1,005,685</u>
Fund balances:				
Restricted	<u>581,798</u>	<u>2,679,581</u>	<u>15,947</u>	<u>6,363,741</u>
Total fund balances	<u>581,798</u>	<u>2,679,581</u>	<u>15,947</u>	<u>6,363,741</u>
Total liabilities and fund balances	<u>\$ 930,023</u>	<u>\$ 2,847,577</u>	<u>\$ 326,525</u>	<u>\$ 7,369,426</u>

CITY OF SAN BERNARDINO, CALIFORNIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2013

	<u>Cable TV</u>	<u>Asset Seizure</u>	<u>Alternative Transportation</u>	<u>Special Gas Tax</u>
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	279,585	-	-	-
Investment income	(3)	10,841	880	4,955
Intergovernmental	-	535,594	255,864	4,752,338
Charges for services	-	-	-	-
Other	2,970	-	5,200	-
Total revenues	<u>282,552</u>	<u>546,435</u>	<u>261,944</u>	<u>4,757,293</u>
Expenditures:				
Current:				
General government	-	-	91,657	-
Public safety	-	487,262	-	-
Streets	-	-	-	3,279,831
Community service	6,521	-	-	-
Debt service:				
Principal	-	-	-	1,135,367
Interest and fiscal charges	-	-	-	112,182
Total expenditures	<u>6,521</u>	<u>487,262</u>	<u>91,657</u>	<u>4,527,380</u>
Excess of revenues over expenditures	<u>276,031</u>	<u>59,173</u>	<u>170,287</u>	<u>229,913</u>
Other financing sources (uses):				
Transfers in	-	-	91,874	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>91,874</u>	<u>-</u>
Net change in fund balances	<u>276,031</u>	<u>59,173</u>	<u>262,161</u>	<u>229,913</u>
Fund balances (deficit), beginning of year	<u>240,968</u>	<u>1,139,755</u>	<u>65,413</u>	<u>813,001</u>
Fund balances, end of year	<u>\$ 516,999</u>	<u>\$ 1,198,928</u>	<u>\$ 327,574</u>	<u>\$ 1,042,914</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2013

	Traffic Safety	Sewerline Maintenance	Fire Station	Total
Revenues:				
Taxes	\$ -	\$ -	\$ 601,410	\$ 601,410
Licenses and permits	-	-	-	279,585
Investment income	-	(42,359)	3,293	(22,393)
Intergovernmental	860,378	-	-	6,404,174
Charges for services	-	3,180,848	-	3,180,848
Other	-	-	-	8,170
Total revenues	<u>860,378</u>	<u>3,138,489</u>	<u>604,703</u>	<u>10,451,794</u>
Expenditures:				
Current:				
General government	-	-	-	91,657
Public safety	278,580	-	585,600	1,351,442
Streets	-	2,219,462	-	5,499,293
Community service	-	-	-	6,521
Debt service:				
Principal	-	-	-	1,135,367
Interest and fiscal charges	-	-	-	112,182
Total expenditures	<u>278,580</u>	<u>2,219,462</u>	<u>585,600</u>	<u>8,196,462</u>
Excess of revenues over expenditures	<u>581,798</u>	<u>919,027</u>	<u>19,103</u>	<u>2,255,332</u>
Other financing sources (uses):				
Transfers in	-	-	-	91,874
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,874</u>
Net change in fund balances	<u>581,798</u>	<u>919,027</u>	<u>19,103</u>	<u>2,347,206</u>
Fund balances (deficit), beginning of year	<u>-</u>	<u>1,760,554</u>	<u>(3,156)</u>	<u>4,016,535</u>
Fund balances, end of year	<u>\$ 581,798</u>	<u>\$ 2,679,581</u>	<u>\$ 15,947</u>	<u>\$ 6,363,741</u>

CITY OF SAN BERNARDINO, CALIFORNIA

Nonmajor Debt Service Funds

Year Ended June 30, 2013

Debt Service Funds are used to account for the accumulation of resources that are restricted, committed, or assigned for, and payment of, principal, interest and related costs of the long-term debt. The City maintains the following Nonmajor Debt Service Funds for the purposes indicated:

Assessment District #985

For the collection of assessments from property owners and for the remittance of such assessments to bondholders as required by the Improvement Bond Act of 1915 and related California State statutes for this district.

Assessment District #987

For the collection of the Verdemon infrastructure fees on developing properties used to repay a loan from bondholders as required by the Improvement Bond Act of 1915 and related California State statutes for this district.

Assessment District #1015

For the collection of assessments from property owners and for the remittance of such assessments to the Successor Agency of the former redevelopment agency (Economic Development Agency) and other City funds as required by the Improvement Bond Act of 1915 and related California State statutes for this district.

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CITY OF SAN BERNARDINO, CALIFORNIA

Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2013

	Assessment District #985	Assessment District #987	Assessment District #1015	Total
Assets:				
Cash and investments	\$ 68,540	\$ 19,108	\$ 39,609	\$ 127,257
Receivables, net:				
Interest	-	-	21	21
Special assessments	-	-	267,093	267,093
Due from other governments	-	11	946	957
Total assets	\$ 68,540	\$ 19,119	\$ 307,669	\$ 395,328
Liabilities, Deferred Inflows of Resources and Fund Balances (Deficit):				
Liabilities:				
Deposits	\$ -	\$ 6,725	\$ -	\$ 6,725
Unearned revenue	-	-	-	-
Advances from other funds	-	-	293,700	293,700
Total liabilities	-	6,725	293,700	300,425
Deferred inflows of resources:				
Unavailable revenues	-	-	267,093	267,093
Total liabilities and deferred inflows of resources	-	6,725	560,793	567,518
Fund balances (deficit):				
Restricted	68,540	12,394	-	80,934
Unassigned	-	-	(253,124)	(253,124)
Total fund balances (deficit)	68,540	12,394	(253,124)	(172,190)
Total liabilities and fund balances (deficit)	\$ 68,540	\$ 19,119	\$ 307,669	\$ 395,328

CITY OF SAN BERNARDINO, CALIFORNIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
For the Year Ended June 30, 2013

	Assessment District #985	Assessment District #987	Assessment District #1015	Total
Revenues:				
Taxes	\$ -	\$ 83	\$ 64,859	\$ 64,942
Investment income	252	(93)	362	521
Total revenues	<u>252</u>	<u>(10)</u>	<u>65,221</u>	<u>65,463</u>
Expenditures:				
Current:				
General government	-	-	1,845	1,845
Investment expense	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	28,710	28,710
Total expenditures	<u>-</u>	<u>-</u>	<u>30,555</u>	<u>30,555</u>
Excess (deficiency) of revenues over (under) expenditures	<u>252</u>	<u>(10)</u>	<u>34,666</u>	<u>34,908</u>
Net change in fund balances	252	(10)	34,666	34,908
Fund balances (deficit), beginning of year	<u>68,288</u>	<u>12,404</u>	<u>(287,790)</u>	<u>(207,098)</u>
Fund balances (deficit), end of year	<u><u>\$ 68,540</u></u>	<u><u>\$ 12,394</u></u>	<u><u>\$ (253,124)</u></u>	<u><u>\$ (172,190)</u></u>

CITY OF SAN BERNARDINO, CALIFORNIA

Nonmajor Capital Projects Funds

Year Ended June 30, 2013

Capital Projects Funds are used to account for the financial resources that are restricted, committed, or assigned for the acquisition or construction of major capital facilities and other capital assets (other than those financed by Proprietary Funds). The City maintains the following Nonmajor Capital Projects Funds for the purposes indicated:

Verdemont

For improvements in the Verdemont area from development fees collected.

Fire Equipment Acquisition

For the acquisition of fire equipment from lease proceeds.

Park Construction Fee

For park land acquisition and development. Principal revenue sources are parks acquisition and development fees collected from developers and state revenues for park development.

Cemetery Construction

For improvements of the City-owned cemetery from a portion of fees collected for services.

Sewerline Construction

For construction of sewer collection systems from development revenues.

Storm Drain Construction

For the construction of storm drain facilities throughout the City from development revenues.

Special Assessments

For assessment districts related to improvement, construction, and maintenance including landscape maintenance, sewerline maintenance, and security paid by assessments on properties.

Cultural Development Construction Fee

For collection of development fees used to pay for cultural improvements and activities.

Assessment District #1015

For construction of improvements from loans related to assessment district #1015.

Impact Fees

For the specific revenue sources that are legally restricted to fund expenditures for specific purposes.

Street Construction

For right-of-way acquisition, construction, and improvements related to the City's street system. These projects are funded by various state and federal programs and matching City funds.

Public Improvements

For maintenance and construction of improvements around the Indian Bingo Casino located on the reservation.

Prop 1b Local Street

Established to account for monies received from the State through Prop 1b. This proposition provided \$19 billion in bond funds for a variety of transportation projects, including \$2 billion for cities and counties for maintenance and improvements of local transportation facilities.

CITY OF SAN BERNARDINO, CALIFORNIA

Combining Balance Sheet
 Nonmajor Capital Project Funds
 June 30, 2013

	<u>Verdemont</u>	<u>Fire Equipment Acquisition</u>	<u>Park Construction Fee</u>	<u>Cemetery Construction</u>
Assets:				
Cash and investments	\$ 247,469	\$ 68,457	\$ 169,342	\$ 52,877
Accounts receivable	-	-	-	-
Interest receivable	198	55	135	42
Due from other governments	-	-	-	-
Advances to other funds	-	-	-	-
Other assets	-	-	-	-
Total assets	<u>\$ 247,667</u>	<u>\$ 68,512</u>	<u>\$ 169,477</u>	<u>\$ 52,919</u>
Liabilities and Fund Balances (Deficit):				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
Retentions payable	-	-	47,900	-
Deposits	-	-	-	-
Due to CalPERS	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>47,900</u>	<u>-</u>
Fund balances (deficit):				
Restricted	247,667	68,512	121,577	52,919
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances (deficit)	<u>247,667</u>	<u>68,512</u>	<u>121,577</u>	<u>52,919</u>
Total liabilities and fund balances (deficit)	<u>\$ 247,667</u>	<u>\$ 68,512</u>	<u>\$ 169,477</u>	<u>\$ 52,919</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA

Combining Balance Sheet (Continued)

Nonmajor Capital Project Funds

June 30, 2013

<u>Sewerline Construction</u>	<u>Storm Drain Construction</u>	<u>Special Assessments</u>	<u>Cultural Development Construction Fee</u>
\$ 2,543,088	\$ 3,586,823	\$ -	\$ 1,159,808
-	-	-	-
2,052	2,860	-	667
-	-	10,556	-
82,000	-	-	-
214,671	-	-	-
<u>\$ 2,841,811</u>	<u>\$ 3,589,683</u>	<u>\$ 10,556</u>	<u>\$ 1,160,475</u>
\$ 34,602	\$ 288	\$ 166,547	\$ -
-	-	134,086	-
14,053	12,804	-	-
-	-	16,869	-
2,737	8,212	88,958	-
<u>51,392</u>	<u>21,304</u>	<u>406,460</u>	<u>-</u>
2,790,419	3,568,379	-	1,160,475
-	-	(395,904)	-
<u>2,790,419</u>	<u>3,568,379</u>	<u>(395,904)</u>	<u>1,160,475</u>
<u>\$ 2,841,811</u>	<u>\$ 3,589,683</u>	<u>\$ 10,556</u>	<u>\$ 1,160,475</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA

Combining Balance Sheet (Continued)

Nonmajor Capital Project Funds

June 30, 2013

	<u>Assessment District #1015</u>	<u>Impact Fees</u>	<u>Street Construction</u>
Assets:			
Cash and investments	\$ 34,009	\$ 12,384,113	\$ -
Accounts receivable	-	-	52,756
Interest receivable	27	8,585	-
Due from other governments	-	-	-
Advances to other funds	-	-	-
Other assets	-	-	-
Total assets	<u>\$ 34,036</u>	<u>\$ 12,392,698</u>	<u>\$ 52,756</u>
Liabilities and Fund Balances (Deficit):			
Liabilities:			
Accounts payable	\$ -	\$ 1,142,690	\$ 263,299
Due to other funds	-	-	1,643,305
Retentions payable	-	-	-
Deposits	-	-	-
Due to CalPERS	-	4,106	1,369
Total liabilities	<u>-</u>	<u>1,146,796</u>	<u>1,907,973</u>
Fund balances (deficit):			
Restricted	34,036	11,245,902	-
Unassigned	<u>-</u>	<u>-</u>	<u>(1,855,217)</u>
Total fund balances (deficit)	<u>34,036</u>	<u>11,245,902</u>	<u>(1,855,217)</u>
Total liabilities and fund balances (deficit)	<u>\$ 34,036</u>	<u>\$ 12,392,698</u>	<u>\$ 52,756</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA

Combining Balance Sheet (Continued)

Nonmajor Capital Project Funds

June 30, 2013

<u>Public Improvements</u>	<u>Prop 1b Local Street</u>	<u>Total</u>
\$ 1,086,794	\$ 74,621	\$ 21,407,401
-	-	52,756
868	-	15,489
-	-	10,556
-	-	82,000
-	-	214,671
<u>\$ 1,087,662</u>	<u>\$ 74,621</u>	<u>\$ 21,782,873</u>
\$ -	\$ 2,367	\$ 1,609,793
-	-	1,777,391
-	16,019	90,776
-	-	16,869
-	6,843	112,225
<u>-</u>	<u>25,229</u>	<u>3,607,054</u>
1,087,662	49,392	20,426,940
-	-	(2,251,121)
<u>1,087,662</u>	<u>49,392</u>	<u>18,175,819</u>
<u>\$ 1,087,662</u>	<u>\$ 74,621</u>	<u>\$ 21,782,873</u>

CITY OF SAN BERNARDINO, CALIFORNIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Capital Projects Funds
For the Year Ended June 30, 2013

	<u>Verdemont</u>	<u>Fire Equipment Acquisition</u>	<u>Park Construction Fee</u>	<u>Cemetery Construction</u>
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-
Impact fees	-	-	2,989	-
Investment income	1,874	540	4,638	585
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Total revenues	<u>1,874</u>	<u>540</u>	<u>7,627</u>	<u>585</u>
Expenditures:				
Current:				
Public safety	-	11,999	-	-
Streets	-	-	-	-
Culture and recreation	-	-	7,512	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>-</u>	<u>11,999</u>	<u>7,512</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,874</u>	<u>(11,459)</u>	<u>115</u>	<u>585</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>1,874</u>	<u>(11,459)</u>	<u>115</u>	<u>585</u>
Fund balances (deficit), beginning of year	<u>245,793</u>	<u>79,971</u>	<u>121,462</u>	<u>52,334</u>
Fund balances (deficit), end of year	<u>\$ 247,667</u>	<u>\$ 68,512</u>	<u>\$ 121,577</u>	<u>\$ 52,919</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)

Nonmajor Capital Projects Funds

For the Year Ended June 30, 2013

<u>Sewerline Construction</u>	<u>Storm Drain Construction</u>	<u>Special Assessments</u>	<u>Cultural Development Construction Fee</u>
\$ -	\$ -	\$ 1,329,163	\$ -
-	-	-	747,270
-	-	-	-
2,018	(72,835)	10,386	5,673
-	-	-	-
<u>265,934</u>	<u>928,519</u>	<u>-</u>	<u>-</u>
<u>267,952</u>	<u>855,684</u>	<u>1,339,549</u>	<u>752,943</u>
-	-	-	-
105,058	95,972	1,732,753	-
-	-	-	-
-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>105,058</u>	<u>95,972</u>	<u>1,732,753</u>	<u>-</u>
<u>162,894</u>	<u>759,712</u>	<u>(393,204)</u>	<u>752,943</u>
-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,852)</u>
-	-	-	(31,852)
<u>162,894</u>	<u>759,712</u>	<u>(393,204)</u>	<u>721,091</u>
<u>2,627,525</u>	<u>2,808,667</u>	<u>(2,700)</u>	<u>439,384</u>
<u>\$ 2,790,419</u>	<u>\$ 3,568,379</u>	<u>\$ (395,904)</u>	<u>\$ 1,160,475</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Nonmajor Capital Projects Funds
For the Year Ended June 30, 2013

	<u>Assessment District #1015</u>	<u>Impact Fees</u>	<u>Street Construction</u>
Revenues:			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Impact fees	-	1,768,435	-
Investment income	376	(37,201)	-
Intergovernmental	-	-	1,381,034
Charges for services	-	-	-
	<hr/>	<hr/>	<hr/>
Total revenues	376	1,731,234	1,381,034
Expenditures:			
Current:			
Public safety	-	96,442	-
Streets	-	1,159,553	289,186
Culture and recreation	-	3,923	-
Debt service:			
Principal	-	88,919	-
Interest and fiscal charges	-	65,260	-
	<hr/>	<hr/>	<hr/>
Total expenditures	-	1,414,097	289,186
Excess (deficiency) of revenues over (under) expenditures	<hr/>	<hr/>	<hr/>
	376	317,137	1,091,848
Other financing sources (uses):			
Transfers in	-	42,500	-
Transfers out	-	-	-
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	-	42,500	-
Net change in fund balances	376	359,637	1,091,848
Fund balances (deficit), beginning of year	<hr/>	<hr/>	<hr/>
	33,660	10,886,265	(2,947,065)
Fund balances (deficit), end of year	<hr/>	<hr/>	<hr/>
	\$ 34,036	\$ 11,245,902	\$ (1,855,217)

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
 Nonmajor Capital Projects Funds
 For the Year Ended June 30, 2013

<u>Public Improvements</u>	<u>Prop 1b Local Street</u>	<u>Total</u>
\$ -	\$ -	\$ 1,329,163
-	-	747,270
-	-	1,771,424
12,301	(55,506)	(127,151)
-	-	1,381,034
-	-	1,194,453
<u>12,301</u>	<u>(55,506)</u>	<u>6,296,193</u>
-	-	108,441
-	2,294,932	5,677,454
-	-	11,435
-	-	88,919
-	-	65,260
<u>-</u>	<u>2,294,932</u>	<u>5,951,509</u>
<u>12,301</u>	<u>(2,350,438)</u>	<u>344,684</u>
-	-	42,500
-	-	(31,852)
<u>-</u>	<u>-</u>	<u>10,648</u>
<u>12,301</u>	<u>(2,350,438)</u>	<u>355,332</u>
<u>1,075,361</u>	<u>2,399,830</u>	<u>17,820,487</u>
<u>\$ 1,087,662</u>	<u>\$ 49,392</u>	<u>\$ 18,175,819</u>

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CITY OF SAN BERNARDINO, CALIFORNIA

Internal Service Funds

Year Ended June 30, 2013

Internal Service Funds are used to account for activities and services performed for other organizational units within the City. Charges to other City departments are made to support these activities. The City maintains the following Internal Service Funds for the purposes indicated:

Unemployment Insurance

For administration of unemployment insurance claims paid to the Employment Development Department of the State of California.

Workers' Compensation

For administration of the City's self-insurance for worker's compensation.

Liability Insurance

For administration of the City's liability claims, combined self-insurance and umbrella coverage for liability.

Motorpool

For the maintenance and operating costs for the City's fleet of vehicles.

Telephone Support

For the operation cost and acquisition of the City's telephone communications systems.

Information Systems

For the acquisition and maintenance of the City's computer and emergency communications systems.

Utility

For the control and allocation of the City's utility costs.

Central Services

For the provision of printing, duplication and postal services and operation of City Stores for supply costs.

CITY OF SAN BERNARDINO, CALIFORNIA

Combining Statement of Net Position

Internal Service Funds

June 30, 2013

	<u>Unemployment Insurance</u>	<u>Workers' Compensation</u>	<u>Liability Insurance</u>	<u>Motorpool</u>
Assets:				
Current assets:				
Cash and investments	\$ -	\$ -	\$ 2,372,336	\$ 1,260,702
Prepays	-	-	126,383	-
Due from other funds	-	-	967,018	-
Accounts receivable	-	-	-	5,166
Inventory	-	-	-	252,086
Due from other governments	-	-	-	100,223
Total current assets	<u>-</u>	<u>-</u>	<u>3,465,737</u>	<u>1,618,177</u>
Noncurrent assets:				
Capital assets:				
Intangible assets, net	-	-	-	-
Other capital assets being depreciated, net	-	-	-	293,717
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>293,717</u>
Total assets	<u>-</u>	<u>-</u>	<u>3,465,737</u>	<u>1,911,894</u>
Liabilities:				
Current liabilities:				
Accounts payable	91,110	14,328	13,797	37,336
Accrued liabilities	-	-	-	-
Due to other funds	215,832	972,360	-	-
Due to CalPERS	-	31,477	16,423	175,179
Claims and judgments payable	-	3,815,102	-	-
Compensated absences	-	-	3,986	30,784
Capital lease payable	-	-	-	-
Due to New World	-	-	-	-
Total current liabilities	<u>306,942</u>	<u>4,833,267</u>	<u>34,206</u>	<u>243,299</u>
Noncurrent liabilities:				
Claims and judgments payable	-	18,798,523	8,121,417	-
Compensated absences	-	-	21,985	71,829
Due to New World	-	-	-	-
Capital lease payable	-	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>18,798,523</u>	<u>8,143,402</u>	<u>71,829</u>
Total liabilities	<u>306,942</u>	<u>23,631,790</u>	<u>8,177,608</u>	<u>315,128</u>
Net Position:				
Net investment in capital assets	-	-	-	293,717
Unrestricted (deficit)	(306,942)	(23,631,790)	(4,711,871)	1,303,049
Total net position (deficit)	<u>\$ (306,942)</u>	<u>\$ (23,631,790)</u>	<u>\$ (4,711,871)</u>	<u>\$ 1,596,766</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA

Combining Statement of Net Position (Continued)

Internal Service Funds

June 30, 2013

Telephone Support	Information Systems	Utility	Central Services	Total
\$ 442,747	\$ 685,754	\$ -	\$ -	\$ 4,761,539
-	-	-	-	126,383
-	1,226,430	-	-	2,193,448
932	5,600	-	1,372	13,070
-	-	-	-	252,086
-	-	-	-	100,223
<u>443,679</u>	<u>1,917,784</u>	<u>-</u>	<u>1,372</u>	<u>7,446,749</u>
-	4,509,298	-	-	4,509,298
160,086	464,506	236,303	-	1,154,612
<u>160,086</u>	<u>4,973,804</u>	<u>236,303</u>	<u>-</u>	<u>5,663,910</u>
603,765	6,891,588	236,303	1,372	13,110,659
80,234	800,957	1,136,739	2,684	2,177,185
-	1,158	-	-	1,158
97,810	75,998	892,905	117,693	2,372,598
26,003	169,705	6,843	6,843	432,473
-	-	-	-	3,815,102
5,949	-	2,023	1,178	43,920
-	-	67,840	-	67,840
-	528,381	-	-	528,381
<u>209,996</u>	<u>1,576,199</u>	<u>2,106,350</u>	<u>128,398</u>	<u>9,438,657</u>
-	-	-	-	26,919,940
12,620	262,976	4,721	3,630	377,761
-	3,506,864	-	-	3,506,864
-	-	390,540	-	390,540
<u>12,620</u>	<u>3,769,840</u>	<u>395,261</u>	<u>3,630</u>	<u>31,195,105</u>
222,616	5,346,039	2,501,611	132,028	40,633,762
160,086	938,559	(222,077)	-	1,170,285
221,063	606,990	(2,043,231)	(130,656)	(28,693,388)
<u>\$ 381,149</u>	<u>\$ 1,545,549</u>	<u>\$ (2,265,308)</u>	<u>\$ (130,656)</u>	<u>\$ (27,523,103)</u>

CITY OF SAN BERNARDINO, CALIFORNIA
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Funds
For the Year Ended June 30, 2013

	Unemployment Insurance	Workers' Compensation	Liability Insurance	Motorpool
Operating revenues:				
Charges for services	\$ 254,479	\$ 4,333,142	\$ 3,137,946	\$ 6,783,353
Total operating revenues	<u>254,479</u>	<u>4,333,142</u>	<u>3,137,946</u>	<u>6,783,353</u>
Operating expenses:				
Cost of sales and services	3,666	1,069,808	225,405	5,637,149
Claims expense	429,374	13,135,834	917,204	-
Amortization expense	-	-	-	-
Depreciation	-	-	77	679,889
Total operating expenses	<u>433,040</u>	<u>14,205,642</u>	<u>1,142,686</u>	<u>6,317,038</u>
Operating income (loss)	<u>(178,561)</u>	<u>(9,872,500)</u>	<u>1,995,260</u>	<u>466,315</u>
Nonoperating revenues				
(expenses):				
Investment loss	-	-	(25,181)	-
Interest expense	-	-	-	(3,105)
Miscellaneous income	-	-	-	845,167
Total nonoperating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>845,167</u>
(expenses)	<u>-</u>	<u>-</u>	<u>(25,181)</u>	<u>842,062</u>
Change in net position	<u>(178,561)</u>	<u>(9,872,500)</u>	<u>1,970,079</u>	<u>1,308,377</u>
Net position (deficit), beginning of year	(128,381)	(13,759,290)	(6,681,950)	288,389
Prior period adjustment	-	-	-	-
Net position (deficit) beginning of year, as restated	<u>(128,381)</u>	<u>(13,759,290)</u>	<u>(6,681,950)</u>	<u>288,389</u>
Net position (deficit), end of year	<u>\$ (306,942)</u>	<u>\$ (23,631,790)</u>	<u>\$ (4,711,871)</u>	<u>\$ 1,596,766</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA
 Combining Statement of Revenues, Expenses and Changes in Fund Net Position (Continued)
 Internal Service Funds
 For the Year Ended June 30, 2013

Telephone Support	Information Systems	Utility	Central Services	Total
\$ 1,074,570	\$ 4,135,159	\$ 3,882,388	\$ 65,867	\$ 23,666,904
<u>1,074,570</u>	<u>4,135,159</u>	<u>3,882,388</u>	<u>65,867</u>	<u>23,666,904</u>
826,658	2,643,730	5,123,168	104,092	15,633,676
-	-	-	-	14,482,412
-	594,633	-	-	594,633
81,493	245,449	117,785	-	1,124,693
<u>908,151</u>	<u>3,483,812</u>	<u>5,240,953</u>	<u>104,092</u>	<u>31,835,414</u>
<u>166,419</u>	<u>651,347</u>	<u>(1,358,565)</u>	<u>(38,225)</u>	<u>(8,168,510)</u>
(9)	(11)	(12)	-	(25,213)
-	(39,177)	(23,735)	-	(66,017)
<u>2,728</u>	<u>3,595</u>	<u>-</u>	<u>-</u>	<u>851,490</u>
<u>2,719</u>	<u>(35,593)</u>	<u>(23,747)</u>	<u>-</u>	<u>760,260</u>
<u>169,138</u>	<u>615,754</u>	<u>(1,382,312)</u>	<u>(38,225)</u>	<u>(7,408,250)</u>
212,011	915,386	(882,996)	(92,431)	(20,129,262)
-	14,409	-	-	14,409
<u>212,011</u>	<u>929,795</u>	<u>(882,996)</u>	<u>(92,431)</u>	<u>(20,114,853)</u>
<u>\$ 381,149</u>	<u>\$ 1,545,549</u>	<u>\$ (2,265,308)</u>	<u>\$ (130,656)</u>	<u>\$ (27,523,103)</u>

CITY OF SAN BERNARDINO, CALIFORNIA

Combining Statement of Cash Flows

Internal Service Funds

For the Year Ended June 30, 2013

	<u>Unemployment Insurance</u>	<u>Workers' Compensation</u>	<u>Liability Insurance</u>	<u>Motorpool</u>
Cash flows from operating activities:				
Cash received from user departments	\$ 254,479	\$ 4,395,630	\$ 3,138,113	\$ 6,677,964
Cash payments to suppliers for goods and services	(3,666)	(1,335,166)	(219,029)	(5,952,575)
Cash payments for claims and insurance	(338,264)	(3,121,931)	(1,118,037)	-
Cash received from (paid for) for other activities	-	-	(126,383)	845,166
Net cash provided by (used for) operating activities	<u>(87,451)</u>	<u>(61,467)</u>	<u>1,674,664</u>	<u>1,570,555</u>
Cash flows from noncapital financing activities:				
Proceeds (disbursements) interfund loans	<u>87,451</u>	<u>61,467</u>	<u>722,477</u>	<u>(194,704)</u>
Net cash provided by (used for) noncapital financing activities	<u>87,451</u>	<u>61,467</u>	<u>722,477</u>	<u>(194,704)</u>
Cash flows from capital and related financing activities:				
Principal payments on long-term debt	-	-	-	(112,044)
Interest paid on long-term debt	-	-	-	(3,105)
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(115,149)</u>
Cash flows from investing activities:				
Investment loss	-	-	(24,805)	-
Net cash used for investing activities	<u>-</u>	<u>-</u>	<u>(24,805)</u>	<u>-</u>
Net (decrease) increase in cash and investments	-	-	2,372,336	1,260,702
Cash and investments, beginning of year	-	-	-	-
Cash and investments, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,372,336</u>	<u>\$ 1,260,702</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA
Combining Statement of Cash Flows (Continued)
Internal Service Funds
For the Year Ended June 30, 2013

Telephone Support	Information Systems	Utility	Central Services	Total
\$ 1,086,009	\$ 4,132,199	\$ 3,882,388	\$ 64,977	\$ 23,631,759
(786,426)	(1,941,672)	(5,091,353)	(97,799)	(15,427,686)
-	-	-	-	(4,578,232)
2,728	3,595	-	-	725,106
302,311	2,194,122	(1,208,965)	(32,822)	4,350,947
140,436	(900,830)	1,297,474	32,822	1,246,593
140,436	(900,830)	1,297,474	32,822	1,246,593
-	(513,540)	(64,774)	-	(690,358)
-	(93,998)	(23,735)	-	(120,838)
-	(607,538)	(88,509)	-	(811,196)
-	-	-	-	(24,805)
-	-	-	-	(24,805)
442,747	685,754	-	-	4,761,539
-	-	-	-	-
\$ 442,747	\$ 685,754	\$ -	\$ -	\$ 4,761,539

CITY OF SAN BERNARDINO, CALIFORNIA
Combining Statement of Cash Flows (Continued)
Internal Service Funds
For the Year Ended June 30, 2013

	Unemployment Insurance	Workers' Compensation	Liability Insurance	Motorpool
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (178,561)	\$ (9,872,500)	\$ 1,995,260	\$ 466,315
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Amortization	-	-	-	-
Depreciation	-	-	77	679,889
Other nonoperating revenues	-	-	-	845,166
(Increase) decrease in assets:				
Other receivables	-	-	-	-
Inventory	-	-	-	(35,705)
Prepays	-	-	(126,383)	-
Accounts receivable	-	-	167	(5,165)
Due from other governments	-	62,488	-	(100,223)
Increase (decrease) in liabilities:				
Accounts payable	91,110	(187,275)	(22,731)	(243,025)
Accrued liabilities	-	-	-	-
Due to CalPERS	-	31,477	16,423	175,179
Claims and judgments	-	10,013,903	(200,833)	-
Compensated absences	-	(109,560)	12,684	(211,876)
Net cash provided by (used for) operating activities	<u>\$ (87,451)</u>	<u>\$ (61,467)</u>	<u>\$ 1,674,664</u>	<u>\$ 1,570,555</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA
Combining Statement of Cash Flows (Continued)
Internal Service Funds
For the Year Ended June 30, 2013

Telephone Support	Information Systems	Utility	Central Services	Total
\$ 166,419	\$ 651,347	\$ (1,358,565)	\$ (38,225)	\$ (8,168,510)
-	594,633	-	-	594,633
81,493	245,449	117,785	-	1,124,693
2,727	3,595	-	-	851,488
(931)	-	-	-	(931)
-	-	-	-	(35,705)
-	-	-	-	(126,383)
1,875	(5,600)	-	(1,372)	(10,095)
10,496	2,640	-	481	(24,118)
15,490	676,751	51,717	(1,430)	380,607
-	156,022	-	-	156,022
26,003	-	6,843	6,843	262,768
-	-	-	-	9,813,070
(1,261)	(130,715)	(26,745)	881	(466,592)
<u>\$ 302,311</u>	<u>\$ 2,194,122</u>	<u>\$ (1,208,965)</u>	<u>\$ (32,822)</u>	<u>\$ 4,350,947</u>

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CITY OF SAN BERNARDINO

Agency Funds

Year Ended June 30, 2013

The Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds. The City maintains the following Agency Funds for the purposes indicated:

Assessment District #961

For the collection of assessments from property owners and for the remittance of such assessments to bondholders as required by the Improvement Bond Act of 1915 and related California State statutes for this district.

Assessment District #977A

For the collection of assessments from property owners and for the remittance of such assessments to bondholders as required by the Improvement Bond Act of 1915 and related California State statutes for this district.

Assessment District #977B

For the collection of assessments from property owners and for the remittance of such assessments to bondholders as required by the Improvement Bond Act of 1915 and related California State statutes for this district.

Assessment District #1003

For the collection of assessments from property owners and for the remittance of such assessments to bondholders as required by the Improvement Bond Act of 1915 and related California State statutes for this district.

Special Deposits

For deposits made by developers, other government agencies or others for disposition under the terms for which the deposits were made.

Cemetery Perpetual Care

For funds collected for the perpetual maintenance of the City owned and operated Cemetery.

San Bernardino Regional Water Resource Authority

For the collection and disposition of funds received for the San Bernardino Regional Water Resource Authority.

Sturges Center for the Arts

For the collection and disposition of funds received for the Sturges Center for the Arts.

CITY OF SAN BERNARDINO, CALIFORNIA
 Combining Statement of Fiduciary Assets and Liabilities
 June 30, 2013

	Assessment District #961	Assessment District #977A	Assessment District #977B	Assessment District #1003
Assets:				
Cash and investments	\$ 370,055	\$ 63,124	\$ 26,751	\$ 57,758
Accounts receivable, net	-	-	-	-
Prepays	-	-	-	-
	<u>370,055</u>	<u>63,124</u>	<u>26,751</u>	<u>57,758</u>
Total assets	<u>\$ 370,055</u>	<u>\$ 63,124</u>	<u>\$ 26,751</u>	<u>\$ 57,758</u>
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deposits payable	-	-	-	-
Due to bond holders	370,055	63,124	26,751	57,758
	<u>370,055</u>	<u>63,124</u>	<u>26,751</u>	<u>57,758</u>
Total liabilities	<u>\$ 370,055</u>	<u>\$ 63,124</u>	<u>\$ 26,751</u>	<u>\$ 57,758</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA
Combining Statement of Fiduciary Assets and Liabilities (Continued)
June 30, 2013

Special Deposits	Cemetery Perpetual Care	San Bernardino Regional Water Resource Authority	Total
\$ 3,181,570	\$ 659,526	\$ 73,792	\$ 4,432,576
16,650	-	-	16,650
238	-	-	238
<u>\$ 3,198,458</u>	<u>\$ 659,526</u>	<u>\$ 73,792</u>	<u>\$ 4,449,464</u>
\$ 227,693	\$ -	\$ -	\$ 227,693
2,970,765	659,526	73,792	3,704,083
-	-	-	517,688
<u>\$ 3,198,458</u>	<u>\$ 659,526</u>	<u>\$ 73,792</u>	<u>\$ 4,449,464</u>

CITY OF SAN BERNARDINO, CALIFORNIA
Combining Statement of Changes in Fiduciary Assets and Liabilities
For the Year Ended June 30, 2013

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
<u>Assessment District #961</u>				
Assets:				
Cash and investments	\$ 368,257	\$ 1,798	\$ -	\$ 370,055
Interest receivable	47	-	47	-
	<u>368,304</u>	<u>1,798</u>	<u>47</u>	<u>370,055</u>
Total assets	<u>\$ 368,304</u>	<u>\$ 1,798</u>	<u>\$ 47</u>	<u>\$ 370,055</u>
Liabilities:				
Due to bond holders	\$ 368,304	\$ 1,798	\$ 47	\$ 370,055
	<u>368,304</u>	<u>1,798</u>	<u>47</u>	<u>370,055</u>
Total liabilities	<u>\$ 368,304</u>	<u>\$ 1,798</u>	<u>\$ 47</u>	<u>\$ 370,055</u>
<u>Assessment District #977A</u>				
Assets:				
Cash and investments	\$ 61,914	\$ 1,210	\$ -	\$ 63,124
Interest receivable	8	-	8	-
Due from other governments	-	315	315	-
	<u>61,922</u>	<u>1,525</u>	<u>323</u>	<u>63,124</u>
Total assets	<u>\$ 61,922</u>	<u>\$ 1,525</u>	<u>\$ 323</u>	<u>\$ 63,124</u>
Liabilities:				
Due to bond holders	\$ 61,922	\$ 1,202	\$ -	\$ 63,124
	<u>61,922</u>	<u>1,202</u>	<u>-</u>	<u>63,124</u>
Total liabilities	<u>\$ 61,922</u>	<u>\$ 1,202</u>	<u>\$ -</u>	<u>\$ 63,124</u>
<u>Assessment District #977B</u>				
Assets:				
Cash and investments	\$ 26,629	\$ 122	\$ -	\$ 26,751
Interest receivable	3	-	3	-
	<u>26,632</u>	<u>122</u>	<u>3</u>	<u>26,751</u>
Total assets	<u>\$ 26,632</u>	<u>\$ 122</u>	<u>\$ 3</u>	<u>\$ 26,751</u>
Liabilities:				
Due to bond holders	\$ 26,632	\$ 122	\$ 3	\$ 26,751
	<u>26,632</u>	<u>122</u>	<u>3</u>	<u>26,751</u>
Total liabilities	<u>\$ 26,632</u>	<u>\$ 122</u>	<u>\$ 3</u>	<u>\$ 26,751</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA
Combining Statement of Changes in Fiduciary Assets and Liabilities (Continued)
For the Year Ended June 30, 2013

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
<u>Assessment District #1003</u>				
Assets:				
Cash and investments	\$ 58,192	\$ -	\$ 434	\$ 57,758
Interest receivable	7	-	7	-
Total assets	<u>\$ 58,199</u>	<u>\$ -</u>	<u>\$ 441</u>	<u>\$ 57,758</u>
Liabilities:				
Due to bond holders	\$ 58,199	\$ -	\$ 441	\$ 57,758
Total liabilities	<u>\$ 58,199</u>	<u>\$ -</u>	<u>\$ 441</u>	<u>\$ 57,758</u>
<u>Special Deposits</u>				
Assets:				
Cash and investments	\$ 2,027,617	\$ 1,153,953	\$ -	\$ 3,181,570
Accounts receivable, net	13,970	3,034	354	16,650
Prepays	-	238	-	238
Interest receivable	13	-	13	-
Due from other governments	55,103	-	55,103	-
Total assets	<u>\$ 2,096,703</u>	<u>\$ 1,157,225</u>	<u>\$ 55,470</u>	<u>\$ 3,198,458</u>
Liabilities:				
Accounts payable	\$ -	\$ 227,693	\$ -	\$ 227,693
Deposits payable	2,096,703	1,012,525	138,463	2,970,765
Total liabilities	<u>\$ 2,096,703</u>	<u>\$ 1,240,218</u>	<u>\$ 138,463</u>	<u>\$ 3,198,458</u>
<u>Cemetery Perpetual Care</u>				
Assets:				
Cash and investments	\$ -	\$ 659,526	\$ -	\$ 659,526
Due from City of San Bernardino	659,486	-	659,486	-
Total assets	<u>\$ 659,486</u>	<u>\$ 659,526</u>	<u>\$ 659,486</u>	<u>\$ 659,526</u>
Liabilities:				
Deposits payable	\$ 659,486	\$ 40	\$ -	\$ 659,526
Total liabilities	<u>\$ 659,486</u>	<u>\$ 40</u>	<u>\$ -</u>	<u>\$ 659,526</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA
 Combining Statement of Changes in Fiduciary Assets and Liabilities (Continued)
 For the Year Ended June 30, 2013

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
<u>San Bernardino Regional</u>				
<u>Water Resource Authority</u>				
Assets:				
Cash and investments	\$ 74,584	\$ 74,584	\$ 75,376	\$ 73,792
Total assets	<u>\$ 74,584</u>	<u>\$ 74,584</u>	<u>\$ 75,376</u>	<u>\$ 73,792</u>
Liabilities:				
Deposits payable	\$ 74,584	\$ -	\$ 792	\$ 73,792
Total liabilities	<u>\$ 74,584</u>	<u>\$ -</u>	<u>\$ 792</u>	<u>\$ 73,792</u>
<u>Sturges Center for the Arts</u>				
Assets:				
Cash and investments	\$ 12,743	\$ -	\$ 12,743	\$ -
Total assets	<u>\$ 12,743</u>	<u>\$ -</u>	<u>\$ 12,743</u>	<u>\$ -</u>
Liabilities:				
Deposits payable	\$ 12,743	\$ -	\$ 12,743	\$ -
Total liabilities	<u>\$ 12,743</u>	<u>\$ -</u>	<u>\$ 12,743</u>	<u>\$ -</u>

(Continued)

CITY OF SAN BERNARDINO, CALIFORNIA
Combining Statement of Changes in Fiduciary Assets and Liabilities (Continued)
For the Year Ended June 30, 2013

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
<u>Totals - All Agency Funds</u>				
Assets:				
Cash and investments	\$ 2,629,936	\$ 1,891,193	\$ 88,553	\$ 4,432,576
Accounts receivable, net	13,970	3,034	354	16,650
Prepays	-	238	-	238
Interest receivable	78	-	78	-
Due from other governments	55,103	315	55,418	-
Due from City of San Bernardino	659,486	-	659,486	-
	<u>659,486</u>	<u>-</u>	<u>659,486</u>	<u>-</u>
 Total assets	 <u>\$ 3,358,573</u>	 <u>\$ 1,894,780</u>	 <u>\$ 803,889</u>	 <u>\$ 4,449,464</u>
Liabilities:				
Accounts payable	\$ -	\$ 227,693	\$ -	\$ 227,693
Deposits payable	2,843,516	1,012,565	151,998	3,704,083
Due to bond holders	515,057	3,122	491	517,688
	<u>515,057</u>	<u>3,122</u>	<u>491</u>	<u>517,688</u>
 Total liabilities	 <u>\$ 3,358,573</u>	 <u>\$ 1,243,380</u>	 <u>\$ 152,489</u>	 <u>\$ 4,449,464</u>