

Support Material Agenda Item No. 4

General Policy Committee Meeting

November 9, 2016

9:00 AM

Location

SANBAG

First Floor Lobby

1170 W. 3rd Street, San Bernardino, CA 92410

Discussion Items

Administrative Matters

4. Measure I Local Pass-Through Compliance Audits for City of San Bernardino and City of Adelanto

That the General Policy Committee recommend the Board review and receive the Measure I Audit Reports of Local Pass-Through Funds for the City of San Bernardino for Fiscal Years 2012/2013 thru 2014/2015 and the City of Adelanto for Fiscal Year 2014/2015.

Full financial reports are attached in the order listed below.

City of San Bernardino

- *Fiscal Year 2012/2013*
- *Fiscal Year 2013/2014*
- *Fiscal Year 2014/2015*

City of Adelanto

- *Fiscal Year 2014/2015*

CITY OF SAN BERNARDINO, CALIFORNIA

MEASURE I FUND

**Financial Statements and
Independent Auditors' Reports**

For the year ended June 30, 2013

CITY OF SAN BERNARDINO, CALIFORNIA

**San Bernardino Associated Governments
Measure I Fund
For the Year Ended June 30, 2013**

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Financial Statements	
Balance Sheet	3
Statement of Revenues, Expenditures and Changes in Fund Balance	4
Notes to the Financial Statements	5
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	9
Note to Required Supplementary Information	10
Other Information	
Program Status: Comparison of 5 Year Plan Project Budget to Current Year Expenditures	11
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards and Measure I Compliance Requirements</i>	12
Schedule of Finding and Response	14



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure I Fund (Measure I Fund), of the City of San Bernardino, California (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the Measure I Fund's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure I Fund of the City as of June 30, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure I Fund and do not purport to, and do not, present fairly the financial position of the City of San Bernardino, California, as of June 30, 2013, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 9 and 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Measure I Fund of the City. The other information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2016, on our consideration of the City's internal control over financial reporting of the Measure I Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Rancho Cucamonga, California
August 22, 2016

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

**BALANCE SHEET
JUNE 30, 2013**

	<u>2013</u>
ASSETS	
Cash and investments	\$ 5,760,804
Receivables:	
Taxes	775,201
Interest	4,195
Total Assets	<u>\$ 6,540,200</u>
 LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	<u>\$ 30,548</u>
Fund Balance:	
Restricted	<u>6,509,652</u>
 Total Liabilities and Fund Balance	<u>\$ 6,540,200</u>

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

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE
 FOR THE YEAR ENDED JUNE 30, 2013**

	<u>2013</u>
REVENUES	
Measure I sales tax	\$ 3,075,929
Investment income (loss)	<u>(4,130)</u>
Total Revenues	<u>3,071,799</u>
EXPENDITURES	
Capital:	
Construction	<u>1,065,369</u>
REVENUES OVER EXPENDITURES	<u>2,006,430</u>
OTHER FINANCING SOURCES (USES)	
Transfers In	<u>250,000</u>
Net Change in fund balance	<u>2,256,430</u>
Fund Balance Beginning of year	<u>4,253,222</u>
Fund Balance End of year	<u><u>\$ 6,509,652</u></u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – GENERAL INFORMATION

Reporting Entity

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

Measure I

Measure I is the half-cent sales tax collected throughout San Bernardino County for transportation improvements. In 2004, San Bernardino County voters approved the extension of the Measure I sales tax through 2040. See Note 4 for a detailed description of the Measure.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Accounting

Governmental Fund Financial Statements

Fund Accounting

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

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

Measurement Focus and Basis of Accounting

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

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

B. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements and the reported amounts during the reporting period. Actual results could differ from those estimates.

C. Fund Balances

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

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

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

D. Cash and Investments

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

NOTE 3 – TAXES RECEIVABLE

The taxes receivable represent the Measure I sales tax revenues for the fiscal year received from the San Bernardino County Transportation Authority after June 30, 2013.

NOTE 4 – MEASURE I FUND

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

NOTE 4 – MEASURE I FUND, (CONTINUED)

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

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

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

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

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

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

NOTE 6– TRANSFER IN FROM THE CITY OF SAN BERNARDINO

Transfers in from the City of San Bernardino of \$250,000 represent the reimbursement of prior year amounts transferred from the Measure I Fund to other City Funds that were not sufficiently supported.

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

NOTE 7 – INTEREST INCOME (LOSS)

The interest income reflects the net effect of the interest earned on investments and the adjustment to investments to reflect fair market value. In the current year the fair market value adjustment exceeded the interest earned on investments resulting in an interest loss.

REQUIRED SUPPLEMENTARY INFORMATION

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
JUNE 30, 2013**

	Budget		Actual	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Measure I sales tax	\$ 2,934,364	\$ 2,934,364	\$ 3,075,929	\$ 141,565
Investment income (loss)			(4,130)	(4,130)
Total Revenues	<u>2,934,364</u>	<u>2,934,364</u>	<u>3,071,799</u>	<u>137,435</u>
EXPENDITURES				
Current:				
General Government - Administration	6,125	6,125	-	6,125
Capital:				
Construction	388,225	388,225	1,065,369	(677,144)
Total Expenditures	<u>394,350</u>	<u>394,350</u>	<u>1,065,369</u>	<u>(671,019)</u>
REVENUES OVER/(UNDER) EXPENDITURES	<u>2,540,014</u>	<u>2,540,014</u>	<u>2,006,430</u>	<u>(533,584)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	250,000	250,000
Transfers Out	(1,200,000)	(1,200,000)	-	1,200,000
Total Other Financing Sources (Uses)	<u>(1,200,000)</u>	<u>(1,200,000)</u>	<u>250,000</u>	<u>1,450,000</u>
Net Change in fund balance	<u>1,340,014</u>	<u>1,340,014</u>	<u>2,256,430</u>	<u>916,416</u>
Fund Balance Beginning of year	<u>4,253,222</u>	<u>4,253,222</u>	<u>4,253,222</u>	<u>-</u>
Fund Balance End of year	<u>\$ 5,593,236</u>	<u>\$ 5,593,236</u>	<u>\$ 6,509,652</u>	<u>\$ 916,416</u>

See accompanying note to required supplementary information.

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

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 1 – BUDGETARY DATA

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

OTHER INFORMATION

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

**PROGRAM STATUS: COMPARISON OF 5 YEAR PLAN PROJECT
BUDGET TO CURRENT YEAR EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2013**

The Measure I Five Year Capital Improvement Plan for local streets was adopted by Council Resolution No. 2012-258. Of the funds allocated under the Measure I Five Year Capital Improvement Plan, the following programs were affected during the current fiscal year:

Local Projects:	5-Year Plan Project Budget	Current Fiscal Year Expenditures	Unexpended Budget
Construct Accessibility Improvements (Annual)	\$ 1,107,400	\$ 350,156	\$ 757,244
Street Safety Improvements (Annual)	198,100	19,648	178,452
Construct new State Street between Fifth Street and 16th Street	521,600	-	521,600
Widen Del Rosa Drive from 2 to 4 lanes (Design) - from 6th Street to Base Line	50,000	-	50,000
Construct curb & gutter and sidewalk - Mountain Avenue from 39th Street to 40th Street	167,500	585	166,915
Pavement rehabilitation - Rancho Ave at BNSF Railroad to Foothill Blvd	360,500	-	360,500
Construct Grade Separation - Hunts Lane at UPRR	38,600	2,544	36,056
Widen North Side @ Del Rosa Channel - Highland Avenue at Del Rosa Channel	63,800	-	63,800
Rehabilitate Pavement - Mountain View Avenue from 46th Street to 50th Street	122,000	-	122,000
Widen Street & Install Curb, Gutter & Sidwalk - H Street from Kendall Drive to 40th Street	10,000	-	10,000
Traffic Calming - 4th Street Tia Juana to Cabrera St	102,800	2,825	99,975
Extend Road and Construct Bridge - Mt. View Avenue Extension and Bridge over Santa River	27,300	1,092	26,208
Widen 3rd Street and 5th Street - between Tippecanoe Avenue and Palm Avenue	20,000	146	19,854
Bridge Replacement - Old Waterman Canyon Road	321,900	8,217	313,683
Install 2-Way Left-Turn Lane on Industrial Parkway - Hallmark Parkway to Palm Avenue	54,500	3,914	50,586
Inspection Cost - I-215 Freeway Widening: Segments 1, 2, 3, 5 & 11	21,900	2,145	19,755
Rehabilitate Pavement -			
Medical Center Drive from Home St to 16th St	80,000	-	80,000
California Street - 19th Street to Washington Avenue	30,000	-	30,000
46th Street - Mountain View Avenue to Sierra Way	49,200	1,024	48,176
48th Street - Electric Avenue to Mountain View	39,500	1,076	38,424
Waterman Avenue between 13th St and Gilbert Way	149,600	-	149,600
Magnolia Avenue - Western & Mt. Vernon Avenues	55,300	-	55,300
21st Street - Valencia Avenue to Perris Hill Park	127,100	-	127,100
Del Rosa Avenue - Pumalo Street to Date Street East	90,200	1,878	88,322
Little League Drive and Palm (2012 Five year Plan)	-	60	(60)
Perris Hill Park Road - 21st Street to Pacific Street	178,700	-	178,700
Belmont Avenue - Olive Avenue to Walnut Avenue	53,900	1,342	52,558
Davidson Street - 16th Street to 19th Street	45,000	-	45,000
Highland Avenue - Golden Avenue to Lawrence	161,700	7,791	153,909
15th Street - Mt. Vernon Avenue to Western Avenue	39,500	-	39,500
Waterman Avenue between Mill St and Central Avenue	283,100	-	283,100
Baseline St between Lugo St and Waterman Avenue	160,500	-	160,500
Electric Avenue between 44th St and 46th St	35,700	-	35,700
Mountain View Avenue between Electric Avenue and 40th St	53,400	-	53,400
Mountain View Avenue between Route 210 and 28th St	38,700	1,842	36,858
State St between University Parkway and Sheridan Road	190,000	-	190,000
Cajon Blvd between Devil's Creek Diversion and June St	174,900	-	174,900
Baseline St between Del Rosa Drive and Knob Hill Road	250,000	-	250,000
Commercial Road between Waterman Avenue and Steele Road	81,800	-	81,800
Garner Avenue between Baseline Street and 14th Street	42,400	-	42,400
Pico Avenue between 9th St and Olive St	23,000	-	23,000
Sheridan Road between Lakewood Drive and State St	32,000	-	32,000
Evans St between Western Ave and Medical Center Dr	59,600	-	59,600
Install New Traffic Signal -			
9th Street and Sierra Way	28,000	3,346	24,654
9th Street and Arrowhead Avenue	33,100	3,209	29,891
Replace Bridge - 2nd St Bridge at Warm Creek	45,000	14,743	30,257
Citywide - Street Maintenance	350,000	359,786	(9,786)
Citywide - Street Lighting Maintenance	364,182	278,000	86,182
13-14 Construct Accessibility Improvements (Annual)	500,000	-	500,000
13-14 Street Safety Improvements (Annual)	100,000	-	100,000
13-14 Citywide - Street Maintenance	350,000	-	350,000
13-14 Citywide - Street Lighting Maintenance	364,182	-	364,182
Widen Street & Install Curb, Gutter & Sidwalk - H Street from Kendall Drive to 40th Street	350,000	-	350,000
Rehabilitate Pavement Sterling Avenue between Highland and Date Place	90,000	-	90,000
14-15 Construct Accessibility Improvements (Annual)	500,000	-	500,000
14-15 Street Safety Improvements (Annual)	100,000	-	100,000
14-15 Citywide - Street Maintenance	350,000	-	350,000
14-15 Citywide - Street Lighting Maintenance	364,182	-	364,182
15-16 Construct Accessibility Improvements (Annual)	500,000	-	500,000
15-16 Street Safety Improvements (Annual)	100,000	-	100,000
15-16 Citywide - Street Maintenance	350,000	-	350,000
15-16 Citywide - Street Lighting Maintenance	364,182	-	364,182
16-17 Construct Accessibility Improvements (Annual)	500,000	-	500,000
16-17 Street Safety Improvements (Annual)	100,000	-	100,000
16-17 Citywide - Street Maintenance	350,000	-	350,000
16-17 Citywide - Street Lighting Maintenance	364,182	-	364,182
	\$ 12,229,710	\$ 1,065,369	\$ 11,164,341



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure I Fund (Measure I Fund) of the City of San Bernardino, California (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated August 22, 2016. Our report included an emphasis of matter stating that the financial statements of the Measure I Fund do not purport to, and do not, present fairly the financial position of the City as of June 30, 2013. In addition our report included an explanatory paragraph stating that the financial statements do not include Management's Discussion and Analysis.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Measure I Fund of the City are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including requirements of Measure I as specified in the agreement between the City and SANBAG, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including the Measure I requirements as specified in the agreement between the City and SANBAG, which is described in the accompanying schedule of finding and response as item 2013-001.

Purpose of this Report

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



Rancho Cucamonga, California
August 22, 2016

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

**SCHEDULE OF FINDING AND RESPONSE
JUNE 30, 2013**

Finding 2013-001

NON-COMPLIANCE: FIVE YEAR PLAN

Criteria:

Pursuant to Policy VLS-9 of the Strategic Guide, the Five Year Plan must include no more than 50% of planned expenditures in general program categories.

Condition:

While testing the Fiscal Year 2013-2017 Five Year Plan, it was noted that planned expenditures in general program categories exceeded 50%.

Context:

The condition noted above was identified while testing the Five Year Plan for compliance with the Measure I Strategic Plan. Planned expenditures in Fiscal Year 2012/13 for general program categories were less than 50% of total annual planned expenditures, but the following fiscal years exceeded the 50% limit.

Effect:

The adopted Five Year Plan exceeded the 50% limit on general program category spending.

Cause:

The City did not include named projects totaling a minimum of 50% of annual expenditures in all five years of the Five Year Plan.

Recommendation:

The City should ensure that Five Year Plans include named projects totaling a minimum of 50% of annual expenditures in all five years of the Five Year Plan.

View of Responsible Official and Planned Corrective Actions:

Management concurs with the finding and will do a better job reviewing future CIP schedules to ensure they comply with SANBAG's guidelines for preparation and submission of the 5-year capital spending plan.

CITY OF SAN BERNARDINO, CALIFORNIA

MEASURE I FUND

**Financial Statements and
Independent Auditors' Reports**

For the year ended June 30, 2014

CITY OF SAN BERNARDINO, CALIFORNIA

**San Bernardino Associated Governments
Measure I Fund
For the Year Ended June 30, 2014**

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Financial Statements	
Balance Sheet	3
Statement of Revenues, Expenditures and Changes in Fund Balance	4
Notes to the Financial Statements	5
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	8
Note to Required Supplementary Information	9
Other Information	
Program Status: Comparison of 5 Year Plan Project Budget to Current Year Expenditures	10
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards and Measure I Compliance Requirements</i>	11
Schedule of Finding and Response	13
Schedule of Prior Year Finding	14



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure I Fund (Measure I Fund), of the City of San Bernardino, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Measure I Fund's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure I Fund of the City as of June 30, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure I Fund and do not purport to, and do not, present fairly the financial position of the City of San Bernardino, California, as of June 30, 2014, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 8 and 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Measure I Fund of the City. The other information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2016, on our consideration of the City's internal control over financial reporting of the Measure I Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Rancho Cucamonga, California
September 12, 2016

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

**BALANCE SHEET
JUNE 30, 2014**

	<u>2014</u>
ASSETS	
Cash and investments	\$ 7,150,698
Receivables:	
Taxes	503,259
Interest	14,372
Due from other governments	<u>502,129</u>
Total Assets	<u><u>\$ 8,170,458</u></u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 914,350
Retention payable	<u>49,617</u>
Total Liabilities	<u>963,967</u>
 Deferred Inflows of Resources:	
Unavailable Revenue	<u>502,129</u>
 Fund Balance:	
Restricted	<u>6,704,362</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u><u>\$ 8,170,458</u></u>

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

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>2014</u>
REVENUES	
Measure I sales tax	\$ 3,164,622
Investment income	44,572
Total Revenues	<u>3,209,194</u>
EXPENDITURES	
Capital:	
Construction	<u>3,014,484</u>
Net Change in fund balance	<u>194,710</u>
Fund Balance Beginning of year	<u>6,509,652</u>
Fund Balance End of year	<u><u>\$ 6,704,362</u></u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – GENERAL INFORMATION

Reporting Entity

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

Measure I

Measure I is the half-cent sales tax collected throughout San Bernardino County for transportation improvements. In 2004, San Bernardino County voters approved the extension of the Measure I sales tax through 2040. See Note 5 for a detailed description of the Measure.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Accounting

Governmental Fund Financial Statements

Fund Accounting

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

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

Measurement Focus and Basis of Accounting

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

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

B. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements and the reported amounts during the reporting period. Actual results could differ from those estimates.

C. Fund Balances

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

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

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

D. Cash and Investments

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

E. Deferred Inflows of Resources

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

NOTE 3 – TAXES RECEIVABLE

The taxes receivable represent the Measure I sales tax revenues for the fiscal year received from the San Bernardino County Transportation Authority after June 30, 2014.

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Due from other governments represents funding for the State Street to Foothill Blvd. project that will be reimbursed through San Bernardino Associated Governments. The amount was not considered available for revenue recognition purposes and therefore has been recorded as a deferred inflow of resources – unavailable revenue as of June 30, 2014.

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE 5 – MEASURE I FUND

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

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

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

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014**

	Budget		Actual	Variance From
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Measure I sales tax	\$ 2,995,716	\$ 2,995,716	\$ 3,164,622	\$ 168,906
Investment income	2,000	2,000	44,572	42,572
Total Revenues	<u>2,997,716</u>	<u>2,997,716</u>	<u>3,209,194</u>	<u>211,478</u>
EXPENDITURES				
Capital:				
Construction	<u>2,956,754</u>	<u>3,603,921</u>	<u>3,014,484</u>	<u>589,437</u>
Net Change in fund balance	<u>40,962</u>	<u>(606,205)</u>	<u>194,710</u>	<u>800,915</u>
Fund Balance Beginning of year	<u>6,509,652</u>	<u>6,509,652</u>	<u>6,509,652</u>	<u>-</u>
Fund Balance End of year	<u>\$ 6,550,614</u>	<u>\$ 5,903,447</u>	<u>\$ 6,704,362</u>	<u>\$ 800,915</u>

See accompanying note to required supplementary information.

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

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014**

NOTE 1 – BUDGETARY DATA

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

OTHER INFORMATION

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

**PROGRAM STATUS: COMPARISON OF 5 YEAR PLAN PROJECT
BUDGET TO CURRENT YEAR EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014**

The Measure I Five Year Capital Improvement Plan for local streets was adopted by Council Resolution No. 2013-296. Of the funds allocated under the Measure I Five Year Capital Improvement Plan, the following programs were affected during the current fiscal year:

Local Projects:	5-Year Plan Project Budget	Current Fiscal Year Expenditures	Unexpended Budget
SS04-009 State Street Extension (PA & ED)	\$ 1,643,300	375,426	1,267,874
SS04-018 Mountain Ave Street Imps (Curb, Sidewalk, Pvmnt Rehab) 39th to 40th	640,000	6,052	633,948
SS04-051 Hunts Lane Grade Separation over UPRR (Inspection, Coord.)	40,000	100	39,900
SS04-150 Mt. View Ave Pavement Rehabilitation between 46th and 50th	161,900	10,940	150,960
SS07-003 Mt. View Ave Extension South of Santa Ana River	30,000	2,250	27,750
SS07-014 Old Waterman Canyon Road Bridge Repair	350,000	318,321	31,679
SS12-001 46th St Pavement Rehabilitation between Mt. View and Sierra Way	68,600	2,295	66,305
SS12-002 48th St Pavement Rehabilitation between Electric and Mt. View	39,500	6,021	33,479
SS12-007 Del Rosa Ave Pavement Rehabilitation between Pumalo and Date St (East)	275,000	272,940	2,060
SS12-012 Belmont Ave Pavement Rehabilitation between Olive and Walnut	74,300	2,741	71,559
SS12-014 Highland Ave Pavement Rehabilitation between Cedar and Golden	366,600	351,068	15,532
SS13-001 2nd Street Bridge at Warm Creek (HBP Replacement Local Match)	759,000	413	758,587
SS14-005 Mt. Vernon Ave Pavement Rehabilitation between Grant and Walnut	506,000	436,247	69,753
TC12-001 9th St and Sierra Way Traffic Signal Modification (Local Match)	40,000	2,011	37,989
TC12-002 9th St and Arrowhead Ave Traffic Signal Modification (Local Match)	40,000	1,636	38,364
Street lighting - citywide	1,800,000	256,757	1,543,243
Construct accessibility improvements - citywide	2,500,000	3,999	2,496,001
Street maintenance - citywide	1,750,000	965,267	784,733
		<u>\$ 3,014,484</u>	
Total expenditures for Measure I Funds 2010-2040		<u>\$ 3,014,484</u>	



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure I Fund (Measure I Fund) of the City of San Bernardino, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated September 12, 2016. Our report included an emphasis of matter stating that the financial statements of the Measure I Fund do not purport to, and do not, present fairly the financial position of the City as of June 30, 2014. In addition our report included an explanatory paragraph stating that the financial statements do not include Management's Discussion and Analysis.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of finding and response as item 2014-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Measure I Fund of the City are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including requirements of Measure I as specified in the agreement between the City and SANBAG, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including the Measure I requirements as specified in the agreement between the City and SANBAG, which is described in the accompanying schedule of finding and response as item 2014-001.

Purpose of this Report

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



Rancho Cucamonga, California
September 12, 2016

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

**SCHEDULE OF FINDING AND RESPONSE
JUNE 30, 2014**

Finding 2014-001

CATEGORICAL PROJECT TRACKING

Criteria:

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

Condition:

While testing the current year categorical projects, it was noted that the City did not track categorical project costs by individual project.

Context:

The condition noted above was identified while testing the actual expenditures for compliance with the Measure I Strategic Plan.

Effect:

Individual projects included in the general program category may exceed \$100,000.

Cause:

The City did not track individual projects in the general program category.

Recommendation:

The City should enhance its tracking of Measure I costs of general program projects to ensure compliance with the Strategic Plan requirement that individual projects that exceed \$100,000 are identified separately in the Five Year Plan.

View of Responsible Official and Planned Corrective Actions:

Management concurs with the finding and indicates that it has undertaken a comprehensive, citywide capital improvement planning effort that will strengthen the strategic planning for the City's extensive capital needs. In that effort, greater attention to properly completing the project tracking information for the Measure I report will occur.

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

**SCHEDULE OF PRIOR YEAR FINDING
JUNE 30, 2014**

<u>Finding No.</u>	<u>Description</u>	<u>Status</u>
2013-001	Five Year Plan Categorical Project Percentage	No instance of non-compliance noted in the current year related to this item.

CITY OF SAN BERNARDINO, CALIFORNIA

MEASURE I FUND

**Financial Statements and
Independent Auditors' Reports**

For the year ended June 30, 2015

CITY OF SAN BERNARDINO, CALIFORNIA

**San Bernardino Associated Governments
Measure I Fund
For the Year Ended June 30, 2015**

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Financial Statements	
Balance Sheet	3
Statement of Revenues, Expenditures and Changes in Fund Balance	4
Notes to the Financial Statements	5
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	9
Note to Required Supplementary Information	10
Other Information	
Program Status: Comparison of 5 Year Plan Project Budget to Current Year Expenditures	11
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards and Measure I Compliance Requirements</i>	12
Schedule of Finding and Response	14
Schedule of Prior Year Finding	15



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure I Fund (Measure I Fund), of the City of San Bernardino, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements which collectively comprise the Measure I Fund's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure I Fund of the City as of June 30, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure I Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2015, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. As described in Note 6, the City filed a case on August 1, 2012, seeking bankruptcy protection and adjustment of its liabilities under Chapter 9 of the United States Bankruptcy Code. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 9 and 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Measure I Fund of the City. The other information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2016, on our consideration of the City's internal control over financial reporting of the Measure I Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Rancho Cucamonga, California
September 29, 2016

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

**BALANCE SHEET
JUNE 30, 2015**

	<u>2015</u>
ASSETS	
Cash and investments	\$ 7,231,097
Receivables:	
Taxes	838,211
Interest	11,666
Due from other governments	<u>502,358</u>
Total Assets	<u><u>\$ 8,583,332</u></u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 227,426
Retention payable	<u>136,325</u>
Total Liabilities	<u>363,751</u>
 Deferred Inflows of Resources:	
Unavailable Revenue	<u>502,358</u>
 Fund Balance:	
Restricted	<u>7,717,223</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u><u>\$ 8,583,332</u></u>

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

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>2015</u>
REVENUES	
Measure I sales tax	\$ 3,384,653
Investment income	<u>77,274</u>
Total Revenues	<u>3,461,927</u>
EXPENDITURES	
Capital:	
Construction	<u>2,449,066</u>
Net Change in fund balance	<u>1,012,861</u>
Fund Balance Beginning of year	<u>6,704,362</u>
Fund Balance End of year	<u>\$ 7,717,223</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – GENERAL INFORMATION

Reporting Entity

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

Measure I

Measure I is the half-cent sales tax collected throughout San Bernardino County for transportation improvements. In 2004, San Bernardino County voters approved the extension of the Measure I sales tax through 2040. See Note 5 for a detailed description of the Measure.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Accounting

Governmental Fund Financial Statements

Fund Accounting

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

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

Measurement Focus and Basis of Accounting

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

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

B. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements and the reported amounts during the reporting period. Actual results could differ from those estimates.

C. Fund Balances

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

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

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

D. Cash and Investments

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

E. Deferred Inflows of Resources

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

NOTE 3 – TAXES RECEIVABLE

The taxes receivable represent the Measure I sales tax revenues for the fiscal year received from the San Bernardino County Transportation Authority after June 30, 2015.

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Due from other governments represents funding for the State Street to Foothill Blvd. project that will be reimbursed through San Bernardino Associated Governments. The amount was not considered available for revenue recognition purposes and therefore has been recorded as a deferred inflow of resources – unavailable revenue as of June 30, 2015.

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

NOTE 5 – MEASURE I FUND

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015**

NOTE 5 – MEASURE I FUND, (CONTINUED)

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

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

NOTE 6 – CITY OF SAN BERNARDINO BANKRUPTCY FILING

On July 18, 2012 the Mayor and Common Council of the City declared a fiscal emergency and on August 1, 2012 the City commenced a bankruptcy case under Chapter 9 of the Bankruptcy Code. The City's auditors have expressed concern with respect to the City's ability to continue as a going concern. Under the City's Proposed Plan of Adjustment the restricted resources or special use funds of the City, such as the funds accumulated in the Measure I Fund, remain unimpaired. The full Plan of Adjustment and related bankruptcy filings can be found on the City's website at: http://www.ci.sanbernardino.ca.us/home_nav/chapter_9_bankruptcy/default.asp.

REQUIRED SUPPLEMENTARY INFORMATION

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance From
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Measure I sales tax	\$ 3,055,630	\$ 3,055,630	\$ 3,384,653	\$ 329,023
Investment income	-	-	77,274	77,274
Total Revenues	<u>3,055,630</u>	<u>3,055,630</u>	<u>3,461,927</u>	<u>406,297</u>
EXPENDITURES				
Capital:				
Construction	<u>9,903,297</u>	<u>9,938,174</u>	<u>2,449,066</u>	<u>7,489,108</u>
Net Change in fund balance	<u>(6,847,667)</u>	<u>(6,882,544)</u>	<u>1,012,861</u>	<u>7,895,405</u>
Fund Balance Beginning of year	<u>6,704,362</u>	<u>6,704,362</u>	<u>6,704,362</u>	<u>-</u>
Fund Balance End of year	<u>\$ (143,305)</u>	<u>\$ (178,182)</u>	<u>\$ 7,717,223</u>	<u>\$ 7,895,405</u>

See accompanying note to required supplementary information.

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

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 1 – BUDGETARY DATA

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

OTHER INFORMATION

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

**PROGRAM STATUS: COMPARISON OF 5 YEAR PLAN PROJECT
BUDGET TO CURRENT YEAR EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2015**

The Measure I Five Year Capital Improvement Plan for local streets was adopted by Council Resolution No. 2014-374. Of the funds allocated under the Measure I Five Year Capital Improvement Plan, the following programs were affected during the current fiscal year:

Local Projects:	5-Year Plan Project Estimate	Current Fiscal Year Expenditures	Unexpended Estimate
SS04-018 Mountain Ave Street Imps (Curb, Sidewalk, Pvmnt Rehab) 39th to 40th	\$ 640,000	\$ 12,458	\$ 627,542
SS04-051 Hunts Lane Grade Separation over UPRR (Inspection/Coord.)	40,000	2,093	37,907
SS04-150 Mt. View Ave Pavement Rehabilitation between 46th and 50th	235,000	160,882	74,118
SS07-003 Mt. View Ave Extension South of Santa Ana River (Inspection/Coord)	30,000	265	29,735
SS11-010 California St Pavement Rehabilitation between 19th and Washington	31,400	562	30,838
SS12-001 46th St Pavement Rehabilitation between Mt. View and Sierra Way	115,400	71,312	44,088
SS12-002 48th St Pavement Rehabilitation between Electric and Mt. View	116,300	54,987	61,313
SS12-004 Waterman Ave Pavement Rehabilitation between 13th and Gilbert	166,300	562	165,738
SS12-007 Del Rosa Ave Pavement Rehabilitation between Pumalo and Date St (East)	275,600	84	275,516
SS12-012 Belmont Ave Pavement Rehabilitation between Olive and Walnut	174,000	115,902	58,098
SS12-013 Davidson Ave Pavement Rehabilitation between 16th and 19th	86,300	666	85,634
SS12-014 Highland Ave Pavement Rehabilitation between Cedar and Golden	366,600	1,588	365,012
SS13-001 2nd Street Bridge at Warm Creek (HBP Replacement Local Match)	2,000,000	93,882	1,906,118
SS13-005 Baseline St Pavement Rehabilitation between Arrowhead and Waterman	437,400	2,112	435,288
SS13-007 Electric Ave Pavement Rehabilitation between 44th and 46th	39,600	83,430	(43,830)
SS13-008 Mt. View Ave Pavement Rehabilitation between Electric and 40th	111,700	1,759	109,941
SS13-009 Mt. View Ave Pavement Rehabilitation between 28th and SR 210	85,800	136,700	(50,900)
SS13-013 State Street Pavement Rehabilitation between University and Sheridan	210,900	186,927	23,973
SS13-014 Cajon Blvd Pavement Rehabilitation between June and Devil Creek Diversion	249,900	198,309	51,591
SS13-022 Baseline St Pavement Rehabilitation between Del Rosa Ave and Alamo	41,300	426	40,874
SS13-034 Garner Ave Pavement Rehabilitation between Baseline and 16th	45,100	1,114	43,986
SS13-035 Pico Ave Pavement Rehabilitation between 9th and Olive	51,600	495	51,105
SS13-037 Sheridan Rd Pavement Rehabilitation between State St and Little Mtn Dr	146,900	1,230	145,670
SS13-039 Evans St Pavement Rehabilitation between Medical Center and Western	66,300	764	65,536
SS14-005 Mt. Vernon Ave Pavement Rehabilitation between Grant and Walnut	506,000	159	505,841
SS14-007 Tippecanoe Ave Pavement Rehabilitation between Harry Sheppard and 3rd	315,600	3,784	311,816
SS14-008 Mill St Pavement Rehabilitation between Waterman and Frontage Rd	219,500	862	218,638
SS14-009 40th St Pavement Rehabilitation between Harrison and Mountain	197,500	1,128	196,372
SS14-010 University Pkwy Pavement Rehabilitation between I-215 and Northpark	300,000	149,694	150,306
SS14-011 48th St Pavement Rehabilitation between Little Mtn Dr and Magnolia	26,000	38,960	(12,960)
SS14-013 Wilson St Pavement Rehabilitation between 9th and Baseline	108,500	640	107,860
SS14-014 28th St Pavement Rehabilitation between Waterman and Valencia	62,600	1,245	61,355
SS14-015 28th St Pavement Rehabilitation between H St and Arrowhead	63,800	2,294	61,506
SS14-016 28th St Pavement Rehabilitation between Arrowhead and Waterman	81,000	834	80,166
SS14-017 Arrowhead Ave Pavement Rehabilitation between 7th St and 9th St	113,300	581	112,719
SS14-018 9th St Pavement Rehabilitation between Tippecanoe and Del Rosa Dr	198,200	736	197,464
SS14-019 Sierra Way Pavement Rehabilitation between 9th St and Baseline	107,300	774	106,526
SS14-020 Del Rosa Ave Pavement Rehabilitation between Del Rosa Dr and Highland	132,000	952	131,048
SS14-022 Harrison St Pavement Rehabilitation between Lynwood and 40th St	411,300	1,625	409,675
SS14-023 Little Mtn Dr Pavement Rehabilitation between Kendall and Michelle	31,100	83,495	(52,395)
SS14-024 G St Pavement Rehabilitation between 4th St and 6th St	113,400	626	112,774
SS14-025 8th St Pavement Rehabilitation between Medical Center and Mt. Vernon	158,700	2,888	155,812
SS14-026 Western Ave Pavement Rehabilitation between Union and 9th	20,800	489	20,311
SS14-027 College Ave Pavement Rehabilitation between Varsity and State	83,600	97,281	(13,681)
SS14-028 F St Pavement Rehabilitation between 30th St and 33rd St	54,600	45,171	9,429
SS14-029 Morgan Rd Pavement Rehabilitation between State and Park	91,000	84,809	6,191
SS14-030 Union St Pavement Rehabilitation between Mt. Vernon and Western	85,300	665	84,635
SS14-032 Cambridge Ave Pavement Rehabilitation between 48th St and Universal	22,500	70,484	(47,984)
SS14-035 29th St Pavement Rehabilitation between Waterman and Valencia	62,600	889	61,711
SS14-036 Broadmoor Blvd Pavement Rehabilitation between 30th St and Parkdale	40,500	1,705	38,795
SS14-038 I St Pavement Rehabilitation between Northpark and 57th St	38,500	39,509	(1,009)
SS14-040 Spruce Street Pavement Rehabilitation between Pico and Mt. Vernon	26,900	464	26,436
SS14-041 Eucalyptus Ave Pavement Rehabilitation between Santolinas and Park Vista	123,900	691	123,209
SS14-042 Rialto Ave Pavement Rehabilitation between Meridian and Pepper	132,900	518	132,382
TC09-003 Industrial Parkway Two-Way Left-Turn Lane Striping Hallmark to Palm	54,500	1,817	52,683
TC12-001 9th St and Sierra Way Traffic Signal Modification (Local Match)	50,000	4,386	45,614
TC12-002 9th St and Arrowhead Ave Traffic Signal Modification (Local Match)	50,000	4,957	45,043
SS-B Construct Accessibility Improvements at Various Locations - Citywide	2,500,000	33,193	2,466,807
Street Maintenance - Citywide	1,750,000	334,288	1,415,712
Street Lighting - Citywide	1,800,000	307,964	1,492,036
		<u>\$ 2,449,066</u>	
Total expenditures for Measure I Funds 2010-2040		<u>\$ 2,449,066</u>	



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure I Fund (Measure I Fund) of the City of San Bernardino, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2016. Our report included an emphasis of matter stating that the financial statements of the Measure I Fund do not purport to, and do not, present fairly the financial position of the City as of June 30, 2015. Our report also noted that the City filed bankruptcy on August 1, 2012. In addition our report included an explanatory paragraph stating that the financial statements do not include Management's Discussion and Analysis.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of finding and response as item 2015-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Measure I Fund of the City are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including requirements of Measure I as specified in the agreement between the City and SANBAG, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including the Measure I requirements as specified in the agreement between the City and SANBAG, which is described in the accompanying schedule of finding and response as item 2015-001.

Purpose of this Report

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



Rancho Cucamonga, California
September 29, 2016

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

**SCHEDULE OF FINDING AND RESPONSE
JUNE 30, 2015**

Finding 2015-001

CATEGORICAL PROJECT TRACKING

Criteria:

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

Condition:

While testing the current year categorical projects, it was noted that the City did not track categorical project costs by individual project.

Context:

The condition noted above was identified while testing the actual expenditures for compliance with the Measure I Strategic Plan.

Effect:

Individual projects included in the general program category may exceed \$100,000.

Cause:

The City did not track individual projects in the general program category.

Recommendation:

The City should enhance its tracking of Measure I costs of general program projects to ensure compliance with the Strategic Plan requirement that individual projects that exceed \$100,000 are identified separately in the Five Year Plan.

View of Responsible Official and Planned Corrective Actions:

Management concurs with the finding and indicates that it has undertaken a comprehensive, citywide capital improvement planning effort that will strengthen the strategic planning for the City's extensive capital needs. In that effort, greater attention to properly completing the project tracking information for the Measure I report will occur.

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

**SCHEDULE OF PRIOR YEAR FINDING
JUNE 30, 2015**

<u>Finding No.</u>	<u>Description</u>	<u>Status</u>
2014-001	Five Year Plan Tracking of Categorical Costs	Not implemented – see current year finding 2015-001

CITY OF ADELANTO, CALIFORNIA

MEASURE I FUNDS

**Financial Statements and
Independent Auditors' Reports**

For the year ended June 30, 2015

CITY OF ADELANTO, CALIFORNIA

**San Bernardino Associated Governments
Measure I Funds
For the Year Ended June 30, 2015**

TABLE OF CONTENTS

Independent Auditors' Report	1
Financial Statements	
Balance Sheet	3
Statement of Revenues, Expenditures and Changes in Fund Balance	4
Notes to the Financial Statements	5
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual Measure I Fund 1990-2010	9
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual Measure I Fund 2010-2040	10
Note to Required Supplementary Information	11
Other Information	
Program Status: Comparison of 5 year Plan Project Budget to Current Year Expenditures	12
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards and Measure I Compliance Requirements</i>	13
Schedule of Findings and Responses	15
Schedule of Prior Year Findings	18



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure I Fund 1990-2010 and the Measure I Fund 2010-2040 (Measure I Funds), of the City of Adelanto, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Measure I Funds' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure I Funds of the City as of June 30, 2015, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Measure I Funds and do not purport to, and do not, present fairly the financial position of the City of Adelanto, California, as of June 30, 2015, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 9 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Measure I Funds of the City. The other information on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2016, on our consideration of the City's internal control over financial reporting of the Measure I Funds and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Measure I Funds' internal control over financial reporting and compliance.


Rancho Cucamonga, California
May 20, 2016

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**BALANCE SHEET
JUNE 30, 2015**

	Measure I Fund 1990-2010	Measure I Fund 2010-2040
ASSETS		
Cash and Investments	\$ 2,416,004	\$ 2,043,177
Receivables:		
Taxes	-	128,769
Due from City of Adelanto	-	32,499
Total Assets	<u>\$ 2,416,004</u>	<u>\$ 2,204,445</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Accounts Payable	<u>\$ -</u>	<u>\$ 6,644</u>
Deferred inflows of resources		
Unavailable revenues - repayments of unallowable costs	<u>-</u>	<u>32,499</u>
Fund Balance:		
Restricted	<u>2,416,004</u>	<u>2,165,302</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 2,416,004</u>	<u>\$ 2,204,445</u>

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

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Measure I Fund 1990-2010</u>	<u>Measure I Fund 2010-2040</u>
REVENUES		
Measure I Sales Tax	\$ -	\$ 735,495
Interest Income	767	207
Total Revenues	<u>767</u>	<u>735,702</u>
EXPENDITURES		
Current:		
General Government	-	1,263
Street Maintenance Projects	-	128,492
Capital:		
Construction	904,567	34,950
Total Expenditures	<u>904,567</u>	<u>164,705</u>
REVENUES OVER/(UNDER) EXPENDITURES	<u>(903,800)</u>	<u>570,997</u>
Fund Balance Beginning of Year	<u>3,319,804</u>	<u>1,594,305</u>
Fund Balance End of Year	<u>\$ 2,416,004</u>	<u>\$ 2,165,302</u>

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

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 – GENERAL INFORMATION

Reporting Entity

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

Measure I

Measure I is the half-cent sales tax collected throughout San Bernardino County for transportation improvements. In 2004, San Bernardino County voters approved the extension of the Measure I sales tax through 2040. See Note 4 for a detailed description of the Measure.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Accounting

Governmental Fund Financial Statements

Fund Accounting

The accounts of the City are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related benefits, and equity, segregated for the purpose of carrying out specific activities. The City accounts for the Measure I activities within its Measure I 1990-2010 and Measure I 2010-2040 Special Revenue Funds.

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

Measurement Focus and Basis of Accounting

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

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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

B. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

C. Deferred Inflows of Resources

Deferred inflows of resources, unavailable revenues, represents revenues earned during the period but unavailable to liquidate current liabilities. These amounts are deferred and recognized in the period that the amounts become available.

D. Fund Balances

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

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

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

E. Cash and Investments

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

NOTE 3 – TAXES RECEIVABLE

The taxes receivable represent the Measure I sales tax revenues for the fiscal year received from the San Bernardino County Transportation Authority after June 30, 2015.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 – MEASURE I FUNDS

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

Early in the second decade of Measure I, it became apparent that continuation of the half cent sales tax would be critical to maintaining funding for transportation in San Bernardino County. SANBAG member jurisdictions and transportation stakeholders worked to identify transportation needs, and an expenditure plan was developed to serve as a basis for the renewal of Measure I. Ordinance No. 04-01 was placed before voters in November 2004, and Measure I was renewed. The new Measure I extends the half cent sales tax for 30 years, from April 1, 2010 through March 31, 2040. The new Measure is referred to as Measure I 2010-2040 to distinguish it from the first Measure I. The City of Adelanto accounted for these funding sources in separate Funds which are referred to as Measure I Funds 1990-2010 and Measure I Funds 2010-2040 in these financial statements.

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

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

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

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 – MEASURE I FUNDS, (CONTINUED)

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

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

NOTE 5 – DUE FROM THE CITY OF ADELANTO

The amount due from the City of Adelanto of \$32,499 represents expenditures incurred by the fund that were not allowable by the Measure I Strategic Plan. \$31,236 was incurred in fiscal year 2013-14 and \$1,263 was incurred in fiscal year 2014-15. The City has asserted that it will return the funds during fiscal year ended June 30, 2016. The amount is also reported as a deferred inflow of resources as the reimbursements were not received within the availability period.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
MEASURE I FUND 1990-2010
FOR THE YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest Income	\$ 500	\$ 500	\$ 767	\$ 267
EXPENDITURES				
Capital:				
Construction	3,270,000	3,320,000	904,567	2,415,433
Net Change in Fund Balance	(3,269,500)	(3,319,500)	(903,800)	2,415,700
Fund Balance Beginning of Year	3,319,804	3,319,804	3,319,804	-
Fund Balance End of Year	\$ 50,304	\$ 304	\$ 2,416,004	\$ 2,415,700

See accompanying note to required supplementary information.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
MEASURE I FUND 2010-2040
FOR THE YEAR ENDED JUNE 30, 2015**

	Budget		Actual	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Measure I Sales Tax	\$ 572,634	\$ 572,634	\$ 735,495	\$ 162,861
Interest Income	150	150	207	57
Total Revenues	<u>572,784</u>	<u>572,784</u>	<u>735,702</u>	<u>162,918</u>
EXPENDITURES				
Current:				
General Government	-	1,300	1,263	37
Street Maintenance Projects	265,000	263,700	128,492	135,208
Capital:				
Construction	-	1,005,000	34,950	970,050
Total Expenditures	<u>265,000</u>	<u>1,270,000</u>	<u>164,705</u>	<u>1,105,295</u>
Net Change in Fund Balance	307,784	(697,216)	570,997	1,268,213
Fund Balance Beginning of Year	<u>1,594,305</u>	<u>1,594,305</u>	<u>1,594,305</u>	<u>-</u>
Fund Balance End of Year	<u>\$ 1,902,089</u>	<u>\$ 897,089</u>	<u>\$ 2,165,302</u>	<u>\$ 1,268,213</u>

See accompanying note to required supplementary information.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUND**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 1 – BUDGETARY DATA

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

OTHER INFORMATION

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**PROGRAM STATUS: COMPARISON OF FIVE YEAR PLAN PROJECT
BUDGET TO CURRENT YEAR EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2015**

The Measure I Five Year Capital Improvement Plan for local streets was adopted by Council Resolution No. 15-51. Of the funds allocated under the Measure I Five Year Capital Improvement Plan, the following programs were affected during the current fiscal year:

Local Projects:	5-Year Plan Project Budget	Current Fiscal Year Expenditures	Unexpended Budget
Palmdale & Pearmain Pedestrian Improvements (Pearmain East to existing sidewalk and access ramps at begorian & pearmain)	\$ 50,000	\$ -	\$ 50,000
Bellflower Widening Project (Palmdale to existing improvents)	684,932	34,950	649,982
Adelanto Road (Holly to Air Expressway) Rehab & South Bound Closure @395	1,000,000	-	1,000,000
Non-Motorized Transportation Bicycle lane Cactus Rd (Jonathan to 395)	125,000	-	125,000
Aster Rd. Pedestrian Improvements (East Side from North of Seneca to Victor)	100,000	-	100,000
Jonathan Pedestrian trail (East Side from Seneca north to Tara)	100,000	-	100,000
Non-Motorized Transportation Bicycle lane Adelanto Rd (Air Express to Holly)	200,000	-	200,000
Non-MorORIZED Transportation Bicycle lane Mojave Drive (Aster to 395)	175,000	-	175,000
Victor Pedestrian Improvements (Aster to Pearmain, south side, including connectors from Victor)	616,000	-	616,000
Victor and Pearmain Street Maintenance	1,185	22,778	(21,593)
Cactus and Pearmain Street Maintenance	2,895	-	2,895
HWY 395 Road Widening project Maintenance	4,525,000	880,526	3,644,474
Traffic Survey & Warrant Studies	30,000	-	30,000
City Wide Pavement Management System	797,000	129,755	667,245
City Wide Streetscapeing and Complete Streets Modifications	797,000	-	797,000
	<u>\$9,204,012</u>	<u>\$ 1,068,009</u>	<u>\$ 8,136,003</u>
Total expenditures for Measure I Fund 1990-2010		\$ 904,567	
Total expenditures for Measure I Fund 2010-2040		164,705	
Less questioned costs included in Measure I Fund 2010-2040		(1,263)	
Total expenditures for the year ended June 30, 2015		<u>\$ 1,068,009</u>	



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure I 1990-2010 and the Measure I 2010-2040 Funds (Measure I Funds) of the City of Adelanto, California (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Measure I Funds' basic financial statements, and have issued our report thereon dated May 20, 2016. Our report included an emphasis of matter stating that the financial statements of the Measure I Funds do not purport to, and do not, present fairly the financial position of the City as of June 30, 2015. In addition our report included an explanatory paragraph stating that the financial statements do not include Management's Discussion and Analysis.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control described that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2015-003 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2015-001 and 2015-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Measure I Funds of the City are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including requirements of Measure I as specified in the agreement between the City and SANBAG, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including the requirements of the Measure I requirements as specified in the agreement between the City and SANBAG, which is described in the accompanying schedule of findings and responses as finding 2015-002.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit and, accordingly, we express no opinion on them.

Purpose of this Report

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



Rancho Cucamonga, California
May 20, 2016

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

Finding 2015-001

FINANCIAL REPORTING - REVENUE RECOGNITION

Criteria:

Governmental Accounting Standards Board (GASB) Statement No. 33 states that a receivable is recognized for derived tax revenue when the underlying exchange occurs or resources are received, whichever is first.

Condition:

The City did not recognize a receivable for derived nonexchange transactions that occurred during the months of May and June and which the related receipts occurred in July and August.

Context:

The condition was discovered during our procedures over revenues.

Effect:

Adjustments were proposed to fairly state revenues recognized as of June 30, 2015.

Cause:

The City did not accrue sales tax revenue appropriately.

Recommendation:

We recommend that the City enhance its closing process to ensure that sales tax revenues are properly accrued to the appropriate fiscal year.

View of Responsible Officials and Planned Corrective Action:

The City will prepare and record journal entries to properly accrue July and August receipts of tax revenue for the period of May and June as proposed as audit adjustments, and will insure that current year accruals are properly recorded for FY15-16.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

Finding 2015-002

EXPENDITURES NOT INCLUDED IN MEASURE I FIVE YEAR CAPITAL IMPROVEMENT PLAN

Criteria:

Policy VVLS-15 of the SANBAG Victor Valley Local Street (VVLS) Program Measure I Strategic Plan states that expenditures of the Measure I Local Street Funds must be included in the Five Year Capital Improvement Plan and adopted by resolution of the governing body.

Condition:

Expenditures totaling \$1,263 were made for membership costs. These costs were not included on the Measure I Five Year Capital Improvement Plan and are not eligible costs to be funded with Measure I sales tax revenue.

Context:

The condition above was noted during our testing of Measure I compliance.

Effect:

The City had instances of noncompliance with Policy VVLS-15 of the SANBAG Victor Valley Local Streets (VVLS) Strategic Guide.

Cause:

The City incurred expenditures for projects not listed on the Measure I Five Year Capital Improvement Plan and that were not eligible to be funded with Measure I sales tax revenue.

Recommendation:

We recommend the City enhance controls over Measure I compliance to ensure that only eligible costs are funded by Measure I sales tax. Additionally, we recommend that all costs being funded with Measure I funds be included on the adopted Measure I Five Year Capital Improvement Plan.

View of Responsible Officials and Planned Corrective Action:

City finance staff will be reviewing all expenditures made during the FY15-16 year to assure compliance with VVLS-15, and any necessary adjustments made prior to the next audit.

The City Finance department will be coordinating efforts with the City Public Works/Engineering department and the Street Maintenance department in order that the adopted amendments to the Five Year Capital Improvement Plan and the Annual City Budget For FY17, so that they will be in alignment. The City has issued a purchase order to acquire a “project management” software module that will work with our general ledger to better account for Measure I projects (as well as other City projects) to be implemented for FY17.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015**

Finding 2015-003

MONEY MARKET ACCOUNT RECONCILIATION/INTEREST ALLOCATION

Criteria:

Policy MDLS-18 of the SANBAG Mountain/Desert Subareas (MDLS) Program Measure I Strategic Plan states that any interest earned on the investment of Measure I Transportation Sales Tax Funds must be deposited in the Special Measure I Transportation Sales Tax Fund. Any jurisdiction not electing to invest its Measure I funds but at the same time investing most of its other available funds should deposit the Measure I funds in a separate account to clearly indicate that no such monies were invested. If Measure I Transportation Sales Tax funds are invested, they must receive their equitable proration of interest earned on the total funds invested.

Condition:

The City maintains a money market account that earns interest. The money market account balance is held by the Measure I 1990-2010 Fund and the Measure I 2010-2040 Fund. The account was not reconciled timely and the interest earned had not been recorded in the general ledger.

Context:

The condition above was noted during our testing of cash and investment balances reported in the Measure I Funds.

Effect:

Adjustments were proposed to reconcile the trial balance with the balances held in the financial institution and to credit the Measure I Funds with the earned interest.

Cause:

The City did not reconcile the money market account timely.

Recommendation:

We recommend the City enhance its bank reconciliation process to include the money market account.

View of Responsible Officials and Planned Corrective Action:

The City Finance department will make sure that the City's money market account is reconciled and the interest earned recorded in the general ledger. It will also transfer 80% of Measure I Tax funds received into the City's pooled cash account to the money market account as funds are received in FY17 for Capital Projects reserve, retaining 20% for general street maintenance in the pooled account.

**CITY OF ADELANTO, CALIFORNIA
MEASURE I FUNDS**

**SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2015**

<u>Finding No.</u>	<u>Description</u>	<u>Status</u>
2014-001	Year end closing	Partially Implemented – see Finding 2015-001
2014-002	Expenditures not included in Five-Year Plan	Not implemented – see Finding 2015-002