

-
- San Bernardino County Transportation Commission
 - San Bernardino County Transportation Authority
 - San Bernardino County Congestion Management Agency
 - Service Authority for Freeway Emergencies
-

Additional Support Material Agenda Item No. 4

Board of Directors Meeting

June 3, 2015

10:30 a.m.

Location:

San Bernardino Associated Governments
Santa Fe Depot- SANBAG Lobby 1st Floor
1170 W. 3rd Street, San Bernardino, California 92410

Consent Calendar

Administrative Matters

Measure I Local Pass-Through Compliance Audits for Fiscal Year 2013/2014

Review and receive the Measure I Audit Reports of Local Pass-Through Funds for the City of Victorville and City of Grand Terrace for the year ended June 30, 2014.

Summaries of the individual agency audits are attached.

CITY OF VICTORVILLE, CALIFORNIA

MEASURE I FUNDS

**Financial Statements and
Independent Auditors' Reports**

For the year ended June 30, 2014

CITY OF VICTORVILLE, CALIFORNIA

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

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 Funds 1990-2010	10
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual Measure I Funds 2010-2040	11
Note to the Required Supplementary Information	12
Other Information	
Program Status: Comparison of 5 Year Plan Project Budget to Current Year Expenditures	13
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>	14
Schedule of Findings and Responses	16



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 Funds 1990-2010 Fund and the Measure I Fund 2010-2040 (Measure I Funds) of the City of Victorville, 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 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, 2014, 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 Victorville, 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 10 through 12 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 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 statement, 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 February 24, 2015, 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 City's internal control over financial reporting and compliance.

Vowinckel, Trini, Day, Co., LLP

Rancho Cucamonga, California
February 24, 2015

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

**BALANCE SHEET
JUNE 30, 2014**

	<u>Measure I Fund 1990-2010</u>	<u>Measure I Fund 2010-2040</u>
ASSETS		
Cash and Investments	\$ 1,098,272	\$ 5,642,951
Receivables:		
Taxes	-	675,097
Other	-	21,364
Total Assets	<u>\$ 1,098,272</u>	<u>\$ 6,339,412</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts Payable	\$ 62,230	\$ 82,407
Retentions Payable	138	-
Unearned Revenues	-	16,645
Contribution to SANBAG Payable (Note 5)	-	675,097
Total Liabilities	<u>62,368</u>	<u>774,149</u>
Fund Balance:		
Restricted	<u>1,035,904</u>	<u>5,565,263</u>
Total Fund Balance	<u>1,035,904</u>	<u>5,565,263</u>
Total Liabilities and Fund Balance	<u>\$ 1,098,272</u>	<u>\$ 6,339,412</u>

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

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

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

	Measure I Fund 1990-2010	Measure I Fund 2010-2040
REVENUES		
Measure I Sales Tax Fund	\$ -	\$ 4,310,638
Reimbursements	33,115	270,565
Interest Income	2,741	15,571
Total Revenues	<u>35,856</u>	<u>4,596,774</u>
EXPENDITURES		
Capital:		
Construction	253,363	2,070,045
Intergovernmental:		
Contribution to SANBAG (Note 5)	-	4,310,638
Total Expenditures	<u>253,363</u>	<u>6,380,683</u>
Net Change in Fund Balance	(217,507)	(1,783,909)
Fund Balance Beginning of Year	<u>1,253,411</u>	<u>7,349,172</u>
Fund Balance End of Year	<u>\$ 1,035,904</u>	<u>\$ 5,565,263</u>

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

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

**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 1990-2010 fund and the Measure I 2010-2040 fund (Measure I Funds) of the City of Victorville, 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 VICTORVILLE, CALIFORNIA
MEASURE I FUNDS**

**NOTES TO THE FINANCIAL STATEMENTS
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 of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

C. Fund Balances

In accordance with GASB Statement No. 54, 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 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 RECEIVABLES

The taxes receivables 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 – 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 transaction 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 VICTORVILLE, CALIFORNIA
MEASURE I FUNDS**

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

NOTE 4 – MEASURE I FUNDS, (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. The City of Victorville 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

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

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

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

NOTE 5 – AGREEMENTS

The City has entered into an agreement with the San Bernardino County Transportation Authority (Authority) for the construction of an interchange at La Mesa/Nisqualli road in the City of Victorville. The cooperative agreement is dated May 4, 2011. The agreement notes that the project is identified in both the Measure I 2010-2040 Expenditure Plan and the SANBAG Nexus Study and that the project will be carried out in accordance with the policies of the Measure I 2010-2040 Strategic Plan. The agreement details specific responsibilities for both the City and the Authority. The agreement notes that the projected construction work to be \$58,464,500 and that the City is responsible for a 50% share of the total eligible project construction work in an amount not to exceed \$28,932,250. The agreement also specifies that in the event that the City is unable to deposit funds into an escrow account (per the terms of the agreement) that the Authority is authorized to withhold from the City the disbursement of any current or future allocations of Measure I Local Streets funds and to apply such funds to the City's 50% share.

In accordance with the agreement the Authority has withheld the Measure I allocations to the City which pertain the 2013-2014 fiscal year totaling \$4,310,638. This includes amounts due to the City for Measure I allocations that were distributed in July and August, 2014 for sales tax transactions that took place during May and June, 2014, respectively, in the amount of \$675,097.

NOTE 6 – REIMBURSEMENTS

The City received the following reimbursements:

Reimbursements	Measure I Fund 1990-2010	Measure I Fund 2010-2040
Adelanto Elementary School District	\$ -	\$ 58,355
WMR Development Company	-	175,000
Reimbursements from other government agencies	-	37,210
Changes in funding sources for prior year projects	33,115	-
Total Revenues	<u>\$ 33,115</u>	<u>\$ 270,565</u>

The City received \$75,000 from the Adelanto Elementary School District for the Mojave Drive/Cobalt Road Traffic Signal Project as approved in the 5-Year Plan. The City incurred expenditures of \$58,355 related to the project in fiscal year 2013-2014. The remaining \$16,645 is recorded as unearned revenue as of June 30, 2014.

The City also received \$175,000 in the form of cash bond proceeds from WMR Development Company on August 16, 2010 for the construction of Seneca Roadway Improvements from Hesperia Road to Woodland Drive as approved in the 5-Year Plan. The project was completed on March 6, 2014.

\$34,483 of the remaining reimbursements revenue relates to traffic signal maintenance fees that the City charges to the City of Hesperia, the City of Adelanto, and the County of San Bernardino and \$2,727 relates to traffic control supplies that the City is to be reimbursed for by Victor Valley Transit Authority.

\$33,115 of the reimbursements revenue in the Measure I 1990-2010 Fund relate to changes of funding sources for projects with expenditures that were incurred in prior years.

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

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

NOTE 7 – ALLOCATED COSTS

In accordance with the City's cost allocation plan, \$131,954 of allocated costs have been charged to the Measure I 2010-2040 Fund. These costs include allocations for departmental costs such as the city manager, risk management, city clerk, finance, information services, city attorney, human resources, fleet maintenance, and city facilities.

REQUIRED SUPPLEMENTARY INFORMATION

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
MEASURE I FUNDS 1990-2010
FOR THE YEAR ENDED JUNE 30, 2014**

	Budget		Actual	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Reimbursements	\$ -	\$ -	\$ 33,115	\$ 33,115
Interest Income	-	-	2,741	2,741
Total Revenues	-	-	35,856	35,856
EXPENDITURES				
Capital:				
Construction	699,645	699,645	253,363	446,282
Total Expenditures	699,645	699,645	253,363	446,282
Net Change in Fund Balance	(699,645)	(699,645)	(217,507)	482,138
Fund Balance Beginning of Year	1,253,411	1,253,411	1,253,411	-
Fund Balance End of Year	\$ 553,766	\$ 553,766	\$ 1,035,904	\$ 482,138

See accompanying note to required supplementary information.

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
MEASURE I FUNDS 2010-2040
FOR THE YEAR ENDED JUNE 30, 2014**

	Budget		Actual	Variance From Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Measure I Sales Tax Fund	\$ -	\$ -	\$ 4,310,638	\$ 4,310,638
Reimbursements	-	-	270,565	270,565
Interest Income	-	-	15,571	15,571
Total Revenues	<u>-</u>	<u>-</u>	<u>4,596,774</u>	<u>4,596,774</u>
EXPENDITURES				
Capital:				
Construction	2,952,794	2,952,794	2,070,045	882,749
Intergovernmental:				
Contribution to SANBAG (Note 5)	-	-	4,310,638	(4,310,638)
Total Expenditures	<u>2,952,794</u>	<u>2,952,794</u>	<u>6,380,683</u>	<u>(3,427,889)</u>
REVENUES OVER/(UNDER) EXPENDITURES	(2,952,794)	(2,952,794)	(1,783,909)	1,168,885
Fund Balance Beginning of Year	<u>7,349,172</u>	<u>7,349,172</u>	<u>7,349,172</u>	<u>-</u>
Fund Balance End of Year	<u>\$ 4,396,378</u>	<u>\$ 4,396,378</u>	<u>\$ 5,565,263</u>	<u>\$ 1,168,885</u>

See accompanying note to required supplementary information.

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

**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.

The City had excess budget appropriations of Measure I 2010-2040 Fund in the amount of \$4,310,638 in fiscal year 2013-2014 due to the City not budgeting the contribution of Measure I funds to SANBAG.

OTHER INFORMATION

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

**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. 13-048. 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
Amethyst Road at Hook Blvd - Construct Traffic Signal	\$ 68,000	\$ 2,319	\$ 65,681
Bear Valley Road - Bridge Widening at BNSF Railroad Environmental & Design	167,284	1,262	166,022
Bear Valley Road - I-15 to Coltonwood, Rehabilitation, Concrete	25,000	-	25,000
Bear Valley Road - El Oro Grande Wash - Sidewalk & Railing	60,000	-	60,000
Green Tree Blvd., Hesperia Road to Ridgecrest Road/Yates Road - Match for Environmental	77,000	24,541	52,459
La Mesa Road - New Traffic Signals at Del Gado Road, El Evado Road & Pacoima Road & Interconnect Conduit El Rio Road to Amethyst Road	74,315	2,263	72,052
La Mesa/Nisqualli/I-15 Interchange:			
Construction	4,321,511	4,316,208	5,303
Right of Way - Match to Grants	40,000	-	40,000
Utility Relocation	215,000	113,405	101,595
Fencing for Security	30,000	-	30,000
Oro Grande Wash Access	50,000	-	50,000
Plans, Specifications, & Estimates, Design & Environmental Support	29,000	-	29,000
Staff Charges & Miscellaneous Charges	110,000	27,255	82,745
Mojave Drive at Cobalt Road - Construct Traffic Signal	250,000	58,355	191,645
National Trials Hwy, Bridge Over Mojave River - Analysts & Funding Application	35,000	15,726	19,274
Seneca Road, Hesperia Road to Woodland Drive	174,000	206,823	(32,823)
Village Drive/Capeseal	-	327	(327)
City Wide:			
Citywide, Asphalt Overlays & Seals	300,000	161,090	138,910
Traffic Signal Maintenance	384,908	407,594	(22,686)
Traffic Engineering	304,790	308,672	(3,882)
Traffic Control	843,010	795,871	47,139
Measure I Projects Cost Allocation	10,825	30,743	(19,918)
Medians to Control Left Turns	75,000	131	74,869
Traffic Signal LED Replacements	80,000	147,975	(67,975)
Various Traffic Controls	20,000	2,446	17,554
F-450 Cab & Chassis Replacement	10,000	10,000	-
Traffic Signal Maintenance High Lift Truck	130,000	-	130,000
Cisco Catalyst 29065 - Replace Aging Switches at McArt Yard, Corp. Yard East, SCLA (Traffic signal maintenance share)	1,042	1,040	2
Totals	\$ 7,885,685	\$ 6,634,046	\$ 1,251,639
Measure I Funds 1990-2010		\$ 253,363	
Measure I Funds 2010-2040		6,380,683	
Total expenditures for year ending June 30, 2014		<u>\$ 6,634,046</u>	

* The above noted 5-year plan project budget amounts are included in the current 5-year plan covering the fiscal year 2014 - 2018 plan with the exception of these amounts which were included in a prior 5-year plan.



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 1990-2010 fund and the Measure I Fund 2010-2040 (Measure I Funds) of the City of Victorville, 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 Funds' basic financial statements, and have issued our report thereon dated February 24, 2015. 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, 2014. In addition our report included an explanatory paragraph stating that the financial statements do not include Management 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 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 identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 2014-001 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 deficiency described in the accompanying schedule of findings and responses as Finding 2014-002 to be a significant deficiency.

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 no instances 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.

City's Responses to Findings

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

Purpose of this Report

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

Vawter, Tami, Day, Co., LLP

Rancho Cucamonga, California
February 24, 2015

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

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014**

Finding 2014-001

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.

Context:

This was discovered while testing revenues and receivables for sales tax transactions that occurred during the fiscal year.

Effect:

It was noted that the City did not record a receivable in the amount of \$675,097.

Cause:

The City inadvertently did not include the Measure I Fund in its assessment of derived tax revenues not collected within the period of availability.

Recommendation:

We recommend the City review their year end closing procedures to evaluate transactions in the context of the nonexchange transactions and timing of recognition of those transactions.

View of Responsible Officials and Planned Corrective Action:

The City has added this review to its closing evaluation of revenue accounts to assure proper timing and recognition of tax revenues.

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

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014**

Finding 2014-002

FINANCIAL REPORTING

Criteria:

Identification of funding sources is a critical element of compliance with laws and regulations applicable to programs and projects.

Condition:

The City did not record expenditures in the correct fund.

Context:

During our audit, we identified expenditures for a project that was supposed to be funded through AB 2766 revenues.

Effect:

Expenditures were overstated by \$134,101.

Cause:

The City did not appropriately identify funding sources for current projects.

Recommendation:

The City should develop a process by which project funding sources are reconciled to budgets.

View of Responsible Officials and Planned Corrective Action:

The City has incorporated into its processes a step for verifying that coding for projects is charged to appropriate funding sources.

CITY OF GRAND TERRACE, CALIFORNIA

MEASURE I FUND

**Financial Statements and
Independent Auditors' Reports**

For the year ended June 30, 2014

CITY OF GRAND TERRACE, 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	9
Note to Required Supplementary Information	10
Other Information	
Program Status: Comparison of 5-Year Capital 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



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 J Fund (Measure I Fund), of the City of Grand Terrace, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure I Fund of the City as of June 30, 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 Grand Terrace, 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 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 March 6, 2015, 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.

Vermile, Tami, Day, Co., LLP

Rancho Cucamonga, California
March 6, 2015

**CITY OF GRAND TERRACE, CALIFORNIA
MEASURE I FUND**

**BALANCE SHEET
JUNE 30, 2014**

	<u>2014</u>
ASSETS	
Cash and Investments	\$ 340,554
Receivables:	
Taxes	<u>29,142</u>
Total Assets	<u><u>\$ 369,696</u></u>
 LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts Payable	<u>\$ -</u>
Total Liabilities	<u>-</u>
 Fund Balance:	
Restricted	<u>369,696</u>
Total Fund Balance	<u><u>369,696</u></u>
 Total Liabilities and Fund Balance	<u><u>\$ 369,696</u></u>

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

**CITY OF GRAND TERRACE, 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 Fund	\$ 182,711
Interest Income	223
Total Revenues	<u>182,934</u>
OTHER FINANCING SOURCES (USES)	
Transfers Out	<u>(232,855)</u>
Total	<u>(232,855)</u>
Net Change in Fund Balance	<u>(49,921)</u>
Fund Balance Beginning of Year	<u>419,617</u>
Fund Balance End of Year	<u>\$ 369,696</u>

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

**CITY OF GRAND TERRACE, 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 Grand Terrace, 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 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 in separate general ledger accounts 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 assets.

**CITY OF GRAND TERRACE, CALIFORNIA
MEASURE I FUND**

**NOTES TO THE FINANCIAL STATEMENTS
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 of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

C. Fund Balances

In accordance with GASB Statement No. 54, 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 RECEIVABLES

The taxes receivables 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 – 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 GRAND TERRACE, CALIFORNIA
MEASURE I FUND**

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

NOTE 4 – MEASURE I FUNDS, (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

**CITY OF GRAND TERRACE, CALIFORNIA
MEASURE I FUND**

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

NOTE 5 – TRANSFERS OUT

The City transferred \$15,602 from the Measure I Fund to the General Fund for overhead costs based on salaries and benefits of the City's Public Works department. The remaining transfers out of \$217,253 are costs incurred by the Public Works department for general street maintenance activities and street improvement activities in accordance with the City's Measure I 5 Year Plan.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF GRAND TERRACE, 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 Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Measure I Sales Tax	\$ 102,510	\$ 102,510	\$ 182,711	\$ 80,201
Interest Income	510	510	223	(287)
Total Revenues	<u>103,020</u>	<u>103,020</u>	<u>182,934</u>	<u>79,914</u>
EXPENDITURES				
Capital:				
Construction	48,000	48,000	-	48,000
Total Expenditures	<u>48,000</u>	<u>48,000</u>	<u>-</u>	<u>48,000</u>
REVENUES OVER/(UNDER) EXPENDITURES	<u>55,020</u>	<u>55,020</u>	<u>182,934</u>	<u>127,914</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	(15,605)	(329,100)	(232,855)	96,245
Total	<u>(15,605)</u>	<u>(329,100)</u>	<u>(232,855)</u>	<u>96,245</u>
Net Change in Fund Balance	<u>39,415</u>	<u>(274,080)</u>	<u>(49,921)</u>	<u>224,159</u>
Fund Balance Beginning of Year	<u>-</u>	<u>419,617</u>	<u>419,617</u>	<u>-</u>
Fund Balance End of Year	<u>\$ 39,415</u>	<u>\$ 145,537</u>	<u>\$ 369,696</u>	<u>\$ 224,159</u>

See note to required supplementary information.

**CITY OF GRAND TERRACE, 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 GRAND TERRACE, CALIFORNIA
MEASURE I FUND**

**PROGRAM STATUS: COMPARISON OF 5-YEAR CAPITAL 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. 2013-45. Of the funds allocated under the Measure I Five Year Capital Improvement Plan, the following programs were affected during the current fiscal year:

<u>Local Projects:</u>	<u>5-Year Plan Project Budget</u>	<u>Current Fiscal Year Expenditures</u>	<u>Unexpended Budget</u>
DeBerry Street - Mt. Vernon to Michigan Pavement Overlay	\$ 177,200	\$ -	\$ 177,200
DeBerry Street - Mt. Vernon to Observation Pavement Overlay	182,500	217,253	(34,753)
Barton Road, Mt. Vernon to Vivenda Drive	188,000	-	188,000
Barton Road, Mt. Vernon to Vivenda Drive	193,650	-	193,650
Robin Way and Warbler Avenue Pavement Overlay	199,500	-	199,500
Glendora Street and Monona Street Pavement Overlay	205,400	-	205,400
Indirect Overhead Cost Allocation	-	15,602	(15,602)
	<u>\$ 1,146,250</u>	<u>\$ 232,855</u>	<u>\$ 913,395</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 Grand Terrace, 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 March 6, 2015. 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. 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 no instances 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.

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.

Vawter, Tami, Day, Co., LLP

Rancho Cucamonga, California
March 6, 2015