

SALIDA AREA PUBLIC FACILITIES
FINANCING AGENCY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2017

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Robert A. Hawks, Jr., CPA

• think **BOLDLY** • plan **CAREFULLY** • execute **PRECISELY** •

INDEPENDENT AUDITOR'S REPORT

Governing Board
Salida Area Public Facilities Financing Agency
Modesto, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Salida Area Public Facilities Financing Agency as of and for the year ended June 30, 2017, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Agency, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2017, on our consideration of the Salida Area Public Facilities Financing Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Salida Area Public Facilities Financing Agency's internal control over financial reporting and compliance.



Certified Public Accountant

November 29, 2017

Salida Area Public Facilities Financing Agency

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426 Locust Street
Modesto, CA 95351-2631
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*Gary Horton, President
Steve Grenbeaux, Vice President
Becky M Meredith, Secretary
Jaime Towe, Treasurer
Duane A. Wolterstorff, Controller*

Member Agencies:

*Salida Union School District
Salida Sanitary District
Salida Fire Protection District
Modesto High School District*

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY

MANAGEMENT DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2017

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements, and required supplementary information.

This discussion and analysis of the financial performance of the Salida Area Public Facilities Financing Agency (“SAPPFA”) provides an overview of the Agency’s financial activities for the fiscal year ended June 30, 2017. It is management’s view of the Agency’s financial condition. It should be read in conjunction with the Independent Auditor’s Report, the basic financial statements and the accompanying notes to those financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include two kinds of statements that present different views of the Agency:

- The first two statements are Agency-wide financial statements that provide both short-term and long-term information about the Agency’s overall financial status. Because these statements include all Agency funds, it should be noted that certain inter-fund and other types of transactions that net to zero have been eliminated so that Agency-wide revenues and expenditures are not artificially inflated.
- The remaining statements are fund-level financial statements that focus on individual parts of the Agency, reporting the Agency’s operations in more detail than the Agency-wide statements.

These two kinds of statements report the Agency’s net position and changes in position. Net position is the difference between assets plus deferred outflows and liabilities plus deferred inflows, which is one way to measure the Agency’s financial health. Generally, over time, increases or decreases in the Agency’s net position is one indicator of whether its financial health is improving or deteriorating.

However, it must be noted that this Agency is a financing agency and does not own any capital items, but instead purchases those capital assets for members of the Joint Powers Authority and hands the assets over to them. Therefore, this Agency will have a negative net asset value until all debt service payments have been made.

The financial statements also include notes that explain some of the information in the statements. These notes are considered to be an integral part of the financial statements and should be considered with them when looking at the Agency’s financial picture.

The financial statements would be followed by a section of required supplementary information but the Agency has no required supplementary information.

In the Agency-wide financial statements the Agency’s activities are shown as Governmental activities. The Agency has no funds that are classified as Business-type or fiduciary activities. The fund financial statements provide more detailed information about the Agency’s most significant funds—not the Agency as a whole. The Agency only has funds that would be categorized as governmental fund types.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

The Agency completed the current year with its funds reporting a *combined* fund balance of approximately \$4.3 million, an increase of \$114,676 or 2.75% over last year’s ending fund balance.

Table 1 – Ending Fund Balances

Fund	Ending Balance	
	06/30/16	06/30/17
Capital Projects	\$ 2,119,040	\$ 2,172,536
Debt Service	2,050,045	2,111,225
Total Fund Balances	\$ 4,169,085	\$ 4,283,761

There were no acquisition expenditures during the year ended June 30, 2017. The annual tax levy collections and interest earnings during the year were more than enough to cover the debt service payments and administrative costs during the year.

Net Position. The Statement of Net Position is shown in Table 2 and net position represents the portion of total assets actually owned free and clear by the Agency. The Agency’s primary asset is cash with fiscal agent. The Agency has a negative Net Position for the year ending June 30, 2017 of \$18.81 million. This figure represents the amount the Agency would owe if all operations were ceased and all receivables were collected.

Changes in Net Position. As noted previously, the Agency owns no capital assets. The possible expenditures are construction and acquisition costs for member agencies, administrative costs, and payment of debt service. Revenues are generated by an annual tax levy and interest on investments.

As shown in Table 3, the Agency’s total negative net position decreased by \$1.57 million, or 7.71%, over the prior year, indicating that tax revenues were in excess of debt service interest payments and administrative costs.

The decrease in Noncurrent Liabilities reflects the paying down of debt associated with long-term bonds issued by the Agency.

Table 2 – Statement of Net Position

	<u>June 30, 2017</u>
Assets	
Investments with Fiscal Agent	\$ 4,275,395
Receivables	61,881
Prepaid Bond Issuance Costs	311,619
Total Assets	<u>\$ 4,648,895</u>
Liabilities	
Current Liabilities	
Accounts Payable and Other Current Liabilities	\$ 321,811
Bonds Payable	1,515,000
Noncurrent Liabilities	
Bonds Payable	21,620,000
Total Liabilities	<u>23,456,811</u>
Net Position	
Unrestricted Amount	<u>(18,807,916)</u>
Total Liabilities and Net Position	<u>\$ 4,648,895</u>

Table 3 – Change in Net Position

	<u>06/30/16</u>	<u>06/30/17</u>	<u>Change</u>
Assets			
Investments with Fiscal Agent	\$ 4,148,583	\$ 4,275,395	\$ 126,812
Receivables	67,003	61,881	(5,122)
Prepaid Bond Issuance Costs	335,590	311,619	(23,971)
Total Assets	<u>\$ 4,551,176</u>	<u>\$ 4,648,895</u>	<u>\$ 97,719</u>
Liabilities			
Current Liabilities			
Accounts Payable and Other Current Liabilities	\$ 326,083	\$ 321,811	\$ (4,272)
Bonds Payable	1,470,000	1,515,000	45,000
Noncurrent Liabilities			
Bonds Payable	23,135,000	21,620,000	(1,515,000)
Total Liabilities	24,931,083	23,456,811	(1,474,272)
Net Position			
Unrestricted Amount	<u>(20,379,907)</u>	<u>(18,807,916)</u>	1,571,991
Total Liabilities and Net Position	<u>\$ 4,551,176</u>	<u>\$ 4,648,895</u>	<u>\$ 97,719</u>

Table 4 – Statement of Activities

	<u>06/30/16</u>	<u>06/30/17</u>	<u>Change</u>
Program Expenses			
Administrative	\$ 70,127	\$ 74,073	\$ 3,946
Interest on Long-Term Debt	985,075	941,175	(43,900)
Total Program Expenses	<u>1,055,202</u>	<u>1,015,248</u>	<u>(39,954)</u>
General Revenues			
Special Taxes	2,533,947	2,536,620	2,673
Interest Income	22,610	50,619	28,009
Total General Revenues	<u>2,556,557</u>	<u>2,587,239</u>	<u>30,682</u>
 Change in Net Position	 <u>\$ 1,501,355</u>	 <u>\$ 1,571,991</u>	 <u>\$ 70,636</u>

Table 4 shows an increase of \$70,636 in Change in Net Position between fiscal years ended June 30, 2016 and 2017. The decrease in Interest on Long-Term Debt is evidence of making the annual principal payment on the outstanding bonds – lower remaining principal balance results in lower interest payments. The increase in Interest Income is evidence of an increase in interest rates on investments.

FINANCIAL ANALYSIS OF THE AGENCY’S FUNDS

The Agency’s funds are divided into two categories for financial statement representation purposes – major funds and non-major funds. The major funds are the Redemption Fund for the Series 2011 bond issue, which are used for collections of the annual tax levy to fund debt service payments, and the Community Facilities District Account Fund, which funds capital projects on a “pay as you go” basis from collections of the annual tax levy. The non-major fund is the Expense Fund, which finances administrative activity.

All funds have a positive ending fund balance and an annual analysis is made to determine the tax rate in each succeeding year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By its very nature, this Agency has no capital assets. The Agency had no expenditures on capital assets for its member agencies during the fiscal year ending June 30, 2017 because all facilities for its member agencies are complete.

Long-Term Debt

At year-end the Agency had \$23.14 million in long-term debt outstanding, a decrease of \$1.47 million from the previous year, which represents the amount of debt retired during the current year.

The Agency does not plan on issuing any new debt during the coming fiscal year.

FACTORS BEARING ON THE AGENCY'S FINANCIAL FUTURE

All the projects approved at the formation of the Agency have been completed. Because the projects were complete, the Board decided, in June 2011, to stop increasing the annual tax levy by 2% each year as permitted by its formation documents. As a result of issuing refunding bonds, in November 2011, at lower interest rates, the Agency was able to decrease the annual tax rate per parcel by an average of \$143 per parcel for the fiscal year 2012/13 and an additional \$18 per parcel for the fiscal year 2013/14 which is a total average of \$161 per parcel since the refunding of the bonds in November 2011. The Agency will continue to re-evaluate the annual tax levy amount on a regular basis and adjust the annual tax levy as needed.

The housing market and the economy in the Greater Modesto area and in California had experienced a significant downturn but are seeing improvements. The Agency has seen a decline in the tax delinquency rate since fiscal year 2006/07 and a steady low delinquency rate over the last few years. The Agency's annual tax delinquency rate was 7.77% for fiscal year 2006/07, 7.58% for 2007/08, 5.75% for 2008/09, 2.71% for 2009/10, 1.55% for 2010/11, 1.26% for 2011/12, 1.07% for 2012/13, 0.75% for 2013/14, 0.78% for 2014/15, 0.75% for 2015/16 and 0.90% for 2016/17. However, an annual tax delinquency rate in excess of 10% in future years could have a financial impact on the Agency and might require an upward adjustment of the annual tax levy amount.

At the time these financial statements were prepared and audited, the Agency was not aware of any other circumstances that could significantly affect its financial health in the future.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Office of Controller, Salida Area Public Facilities Financing Agency, c/o Modesto City Schools, 426 Locust Street, Modesto, CA 95351-2631 or (209) 574-8497.

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
ASSETS	
Current Assets:	
Investments with Fiscal Agent	\$ 4,275,395
Receivables:	
Special Tax Revenues	61,881
Total Current Assets	4,337,276
Prepaid Bond Insurance Costs	311,619
Total Assets	\$ 4,648,895
LIABILITIES AND NET POSITION	
Current Liabilities:	
Accounts Payable	\$ 10,536
Interest Payable	311,275
Bonds Payable	1,515,000
Total Current Liabilities	1,836,811
Noncurrent Liabilities:	
Bonds Payable	21,620,000
Total Liabilities	23,456,811
NET POSITION	
Unrestricted	(18,807,916)
Total Liabilities and Net Position	\$ 4,648,895

See accompanying notes and accountant's report.

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	Governmental Activities
Program Expenses:	
Administrative	\$ 74,073
Interest on Long-Term Debt	941,175
Total Program Expenses	1,015,248
General Revenues:	
Special Taxes	2,536,620
Interest Income	50,619
Total General Revenues	2,587,239
Change in Net Position	1,571,991
Net Position July 1, 2016	(20,379,907)
Net Position June 30, 2017	\$ (18,807,916)

See accompanying notes and accountant's report.

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
BALANCE SHEET
MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
	Community Facilities District Fund	2011 Bond Redemption Fund	Expense Fund	<u>Total</u>
ASSETS				
Current Assets:				
Investment with Fiscal Agent	\$ 2,112,708	\$ 2,092,323	\$ 70,364	\$ 4,275,395
Receivables:				
Special Tax Revenues	<u>-</u>	<u>61,881</u>	<u>-</u>	<u>61,881</u>
Total Current Assets	<u>\$ 2,112,708</u>	<u>\$ 2,154,204</u>	<u>\$ 70,364</u>	<u>\$ 4,337,276</u>
LIABILITIES AND FUND BALANCE				
Current Liabilities:				
Accounts Payable	\$ -	\$ -	\$ 10,536	\$ 10,536
Deferred Revenue	<u>-</u>	<u>42,979</u>	<u>-</u>	<u>42,979</u>
Total Current Liabilities	<u>-</u>	<u>42,979</u>	<u>10,536</u>	<u>53,515</u>
Fund Balances:				
Restricted	-	2,111,225	-	2,111,225
Assigned	<u>2,112,708</u>	<u>-</u>	<u>59,828</u>	<u>2,172,536</u>
Total Fund Balances	<u>2,112,708</u>	<u>2,111,225</u>	<u>59,828</u>	<u>4,283,761</u>
Total Liabilities and Fund Balance	<u>\$ 2,112,708</u>	<u>\$ 2,154,204</u>	<u>\$ 70,364</u>	<u>\$ 4,337,276</u>

See accompanying notes and accountant's report.

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2017

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	4,283,761
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Issued debt increases long-term liabilities in the government-wide statement of net position.</p>		(23,135,000)
<p>Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position but does not require the use of current financial resources. Therefore, accrued interest expense is not reported as expenditures in governmental funds.</p>		(311,275)
<p>Revenues are not recorded in the fund financial statement unless they are received within 60 days of year-end.</p>		42,979
<p>Bond insurance costs are recorded as a prepaid expenditure and amortized over the life of the bonds in the government-wide statement of net position.</p>		311,619
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	(18,807,916)

See accompanying notes and accountant's report.

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 ALL MAJOR GOVERNMENTAL FUND TYPES
 YEAR ENDED JUNE 30, 2017

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
	Community Facilities District Fund	2011 Bond Redemption Fund	Expense Fund	<u>Total</u>
REVENUES				
Special Tax Revenues	\$ -	\$ 2,540,034	\$ -	\$ 2,540,034
Interest Revenue	16,472	33,719	428	50,619
Total Revenues	16,472	2,573,753	428	2,590,653
EXPENDITURES				
Current:				
General Government	-	-	50,102	50,102
Debt Service:				
Principal Retirement	-	1,470,000	-	1,470,000
Interest and Fiscal Agent Fees	-	955,875	-	955,875
Total Expenditures	-	2,425,875	50,102	2,475,977
Other Financing Sources (Uses)				
Transfers In	101,895	15,862	100,665	218,422
Transfers Out	(115,862)	(102,560)	-	(218,422)
Net Other Financing Sources (Uses)	(13,967)	(86,698)	100,665	-
Excess of Revenues Over (Under) Expenditures	2,505	61,180	50,991	114,676
Fund Balance, July 1, 2016	2,110,203	2,050,045	8,837	4,169,085
Fund Balance, June 30, 2017	\$ 2,112,708	\$ 2,111,225	\$ 59,828	\$ 4,283,761

See accompanying notes and accountant's report.

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUND TYPES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

NET CHANGE IN TOTAL FUND BALANCES PER FUND FINANCIAL STATEMENTS	\$	114,676
<p>Prior year revenues received in the current year are recorded in the fund financial statement but are a reduction to receivables in the government-wide statement of net position.</p>		
		(3,414)
<p>Current year net repayment of bond principal is an expenditure in governmental funds but the repayment reduces long-term liabilities in the government-wide statement of net position.</p>		
		1,470,000
<p>Current year payment of bond interest is recorded as an expenditure in the governmental funds, while accrued interest expense is recorded in the government-wide statement of activities and change in net position.</p>		
		14,700
<p>Current year amortization of prepaid bond insurance costs is recognized in the government - wide statement of net position.</p>		
		(23,971)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	1,571,991

See accompanying notes and accountant's report.

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Agency was created pursuant to a Joint Powers Agreement between the Salida Sanitary District, Salida Union School District, the Modesto High School District, and the Salida Fire Protection District for the purpose of forming a community facilities district (CFD) under the provisions of the Mello-Roos Community Facility Act of 1982. The Agency has established Community Facilities District Number 1988-1 for the purpose of collectively financing public facilities for each of the Agency's members. The Agency has no employees or property and equipment, and its powers are limited to implementation of the Mello-Roos financing plan contemplated in the Joint Powers Agreement.

The Agency and its Community Facilities District Number 1988-1, are controlled by a governing board consisting of five members: two members from the Salida Sanitary District, and one each from the other member entities. All such members of the Agency's governing board are independently elected or appointed by their respective member entities.

The officers of the Agency include a president and vice-president of the governing board and a treasurer, controller and secretary. The board elects its president and vice-president from among its members for a one-year term. The treasurer, controller, and secretary are appointed by the board and serve at its pleasure. These officers need not be members of the board.

Oversight responsibility, the ability to conduct independent financial affairs, issue debt instruments, approve budgets, sign contracts, levy taxes, and otherwise influence operations, and account for fiscal matters, is exercised by the Agency's governing board. Accordingly, the Agency is considered to be a separate reporting entity for financial reporting purposes and the accompanying financial statements reflect only the assets, liabilities, fund balances, revenues and expenditures of the Agency.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate set of self-balancing accounts that are comprised of its assets, liabilities, fund balances, revenues and expenditures. Financial resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the provisions of the bond resolution.

Debt Service Fund – The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The debt service fund includes the redemption account used to account for special tax collections and the payment of bond interest and principal, the reserve account used to account for monies set aside to pay bond principal and interest should monies in the redemption account be insufficient, the capitalized interest account for monies set aside from bond proceeds to pay bond interest the future debt

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

service account used to account for special tax proceeds to be applied to debt service, and the arbitrage rebate account for excess earnings to be rebated to the federal government. There was no activity in the capitalized interest account, the future debt service account, and the arbitrage rebate account during the period. The Agency has purchased a municipal bond debt service reserve insurance policy in lieu of setting aside monies in the reserve account.

Capital Projects Fund – The capital projects fund is used to account for financial resources to be used by member entities to acquire or construct major capital facilities. The capital projects fund includes the Agency's construction account used to account for bond proceeds distributed to member entities for facilities acquisition and construction, the expense account used to pay related administrative expenses, the special tax rate account used to account for the commercial one-time special taxes from Tax Area B (Landmark Business Park) collected through the Salida Union School District to be used to help pay the costs for the facilities, and the Community Facilities District account used to account for funds to be used to help pay the costs for the facilities. There was no activity in the construction account or the special tax rate account during the period.

The Agency has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. In the fund financial statements, governmental funds report the following classifications of fund balances:

Restricted fund balance – amounts that can be spent only for specific purposes because of restrictions from external sources (creditors, laws of other governments, etc.) or constitutional provisions or enabling legislation. The Agency's Redemption Funds are restricted by the Trustee Agreement.

Assigned fund balance – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Agency's board is the highest level of decision making authority for the agency. Under the board adopted policy the controller may assign funds for specific purposes. The Agency's Capital Project Funds have assigned balances.

It is the Agency's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available; and to first apply committed, then assigned, then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Government-Wide Financial Statements

The Agency's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These statements present summaries of Governmental Type Activities for the Agency.

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary funds and fiduciary component units, if any, are excluded from the Government-Wide Financial Statements.

These statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the Agency’s assets, liabilities and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Inter-fund and other internal activity, if any, is eliminated by offsetting entries in the Government-Wide Financial Statements.

The Agency applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as following the Financial Accounting Standards Board (FASB) Accounting Standards Codification except when it conflicts with or contradicts GASB pronouncements.

Governmental Funds Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in governmental fund balances as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The Agency has presented all major funds that met the applicable criteria.

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

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available to finance expenditures of the current fiscal period, which is normally up to 60 days post year end. Taxes and interest on investments are revenues susceptible to accrual. Expenditures are recognized when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt which is recognized when due.

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Intergovernmental Expenditures

Facilities acquired or constructed with capital project funds are the property of (and are under the ownership control of) the member entities party to the Joint Powers Agreement. Accordingly, such expenditures are not capitalized as general fixed assets by the Agency, nor recorded as capital outlay expenditures. Instead, the Agency follows the practice of recording such uses of funds as intergovernmental expenditures. Each member entity administers the actual acquisition and construction of its own facilities, and is responsible for the payment of project vendors, contractors and costs.

D. Budgetary Policies

Formal budgetary policies are not employed by the Agency because effective budgetary control is alternatively achieved through the special tax bond resolution provisions and the Resolution of Formation. Accordingly, encumbrance accounting, a method wherein purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve appropriations, is not used.

E. Risk Management

The Agency does not own any non-financial assets nor have any employees. Accordingly, the Agency believes it is not exposed to most types of routine risks of loss such as those due to torts; asset theft or damage; employee injuries; and natural disasters. Risk exposures that may exist in connection with activities of the Agency on behalf of the member districts, and in connection with activities of the member districts that are financed by the Agency, are addressed by the respective member district's risk management policy.

The Agency believes its exposure to risks of loss due to business interruption and errors or omissions is insignificant; accordingly, no provisions for such losses are made. The Agency has purchased Municipal Bond Insurance and Municipal Bond Debt Service Reserve Insurance policies in connection with bond issues outstanding.

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 CASH AND INVESTMENTS

Investments of the Agency are made at the direction of the governing board and include investments authorized to be made in accordance with the California Government Code. Under Section 53601 of the code, governmental agencies may invest in securities of the U.S. government or its agencies, Small Business Administration loans, negotiable certificates of deposit, bankers acceptances, commercial paper, local agency investment funds, repurchase agreements, reverse repurchase agreements and certain mutual funds. In the unlikely event that all investments became worthless, the total recognized loss would be \$4,275,395.

Deposits and investments of the Agency are summarized below. All deposits and investments, are held by the Agency's fiscal agent for safekeeping in separate accounts in the name of the Agency. The fiscal agent has invested funds with California Asset Management Program Cash Reserves Portfolio.

<u>Description of Deposit or Investment</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Capital Projects Funds:		
California Asset Management Program - CAMP Pool	\$ 2,183,072	\$ 2,183,072
Debt Service Funds:		
California Asset Management Program - CAMP Pool	<u>2,092,323</u>	<u>2,092,323</u>
Total	<u>\$ 4,275,395</u>	<u>\$ 4,275,395</u>

The Agency's deposits and investments are categorized below to give an indication of the level of risk assumed by the Agency. Uncategorized includes investments in pools managed by other governments or in mutual funds or money market funds.

California Asset Management Program is rated AAAM by Standard & Poor's. The Pool is managed to maintain a dollar-weighted average portfolio maturity of 90 days or less.

<u>Deposit or Investment</u>	<u>Uncategorized</u>
California Asset Management Program - CAMP Pool	<u>4,275,395</u>
Total	<u>\$ 4,275,395</u>

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 GENERAL LONG-TERM DEBT

The Agency is authorized within certain conditions to issue special tax bonds in the total amount of \$41 million to pay the costs of acquisition and construction of the identified public facilities. As of June 30, 2017, the Agency has issued \$38,360,000 of bonds. The bonds are the obligation of the Agency by and through its Community Facilities District No. 1988-1. The bonds are payable from the proceeds of an annual special tax to be levied and collected from the taxable land within the District.

The special tax bond debt issued by the Salida Area Public Facilities Financing Agency as of June 30, 2017 is:

	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>
Series 2011	11-09-11	3.000-5.000%	09-01-30	\$ 30,465,000

Activity for the fiscal year ended June 30, 2017:

	<u>Outstanding Balance at 06-30-16</u>	<u>Issued During Current Year</u>	<u>Principal Repayments</u>	<u>Outstanding Balance at 06-30-17</u>
Series 2011	<u>\$24,605,000</u>	<u>-</u>	<u>\$ (1,470,000)</u>	<u>\$ 23,135,000</u>
Total of all bonds	<u>24,605,000</u>	<u>-</u>	<u>(1,470,000)</u>	<u>23,135,000</u>
Less: Current Portion				<u>(1,515,000)</u>
Long-Term Debt				<u>\$21,620,000</u>

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 SPECIAL TAX BONDS, SERIES 2011

The sixth issue of bonds, Special Tax Bonds, Series 2011 was sold on November 9, 2011. Standard & Poor's assigned the Series 2011 bonds the rating of "AA+/Credit Watch Negative." This rating was based on the issuance of the municipal bond insurance policy by Assured Guaranty Municipal Corp. The Series 2011 bonds are currently rated "AA/Stable" by Standard & Poor's. The Series 2011 bonds in the aggregate principal amount of \$30,465,000, were issued to provide funds to pay costs of refunding the prior two bond issues, including the following:

Refunding of Series D (1997) Bonds on December 30, 2011, at 100% plus accrued interest.

Refunding of Series E (2000) Bonds on December 30, 2011, at 100% plus accrued interest.

The refunding will save approximately \$8 million in future debt service costs.

The proceeds were distributed as follows to accounts established with the fiscal agent for purposes of administering the proceeds:

Cost of Issuance Account	\$ 602,318
Escrow Account	29,453,509
Underwriter's Discount	<u>198,023</u>
Proceeds from Bond Issue	30,253,850
Original Issue Discount	<u>211,150</u>
Par Amount of Bonds	<u>\$ 30,465,000</u>

Principal on the bonds is due September 1 of each year. Interest on the bonds is due March 1 and September 1, of each year. Future debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Serial Bonds</u>	<u>Term Bonds</u>	<u>Interest</u>	<u>Total</u>
2018	1,515,000	-	911,100	2,426,100
2019	1,560,000	-	864,975	2,424,975
2020	1,610,000	-	815,413	2,425,413
2021	1,660,000	-	760,200	2,420,200
2022	1,715,000	-	700,066	2,415,066
2023 – 2027	9,640,000	-	2,397,478	12,037,478
2028 – 2031	<u>-</u>	<u>5,435,000</u>	<u>372,625</u>	<u>5,807,625</u>
Total	<u>\$ 17,770,000</u>	<u>\$ 5,435,000</u>	<u>\$ 6,821,857</u>	<u>\$ 29,956,857</u>

The serial bonds bear interest at rates between 3.000% and 4.250% and mature at various dates from September 1, 2016 through September 1, 2026.

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 SPECIAL TAX BONDS, SERIES 2011 (Continued)

The term bonds bear interest at 5.000% and mature on September 1, 2030 for \$5,435,000. Series 2011 bonds maturing by their terms on or after September 1, 2022 are subject to optional redemption by the Agency prior to their respective maturity date in whole or in part on September 1, 2021 and on any date thereafter, at a redemption price of 100 percent of the principal amount plus accrued interest to the date of redemption.

The Series 2011 term bonds due September 1, 2030 are subject to mandatory redemption on September 1 in each year on and after September 1, 2027, by lot, at a redemption price equal to the principal amount to be redeemed together with accrued interest thereon to the date of redemption without premium, solely from sinking fund payments deposited in the Redemption Account as follows:

<u>September 1,</u>	<u>Sinking Fund Payment</u>
2027	\$ 2,175,000
2028	2,285,000
2029	475,000
2030 (Maturity)	<u>500,000</u>
Total	<u>\$ 5,435,000</u>

NOTE 5 ASSOCIATED ENTITIES

Administrative services are provided by Salida Union School District and Modesto High School District for the Salida Area Public Facilities Financing Agency. The districts are reimbursed for these services provided to the Agency. Expenses for these services during the year are estimated to be \$1,699 and \$16,362, respectively, for each District. These expenses are reimbursable subject to the availability of funds and approval by the board. The board has not approved the expenses for the year ended June 30, 2017 fiscal year and, therefore, they are not accrued in the financial statements. Amounts paid and expensed in these financial statements are \$1,427 and \$15,507, respectively, to each District.

NOTE 6 SPECIAL TAX

Special taxes include commercial one-time taxes due at the time when a building permit is obtained within Tax Area B (Landmark Business Park) and annual special taxes on residential and commercial properties. Secured annual special taxes attach as an enforceable lien on property as of March 1. Taxes are due in two installments on December 10 and April 10. The County of Stanislaus bills and collects the taxes for the Agency. Tax revenues are recognized by the Agency when levied. Delinquent taxes collected or to be collected by the County of Stanislaus may not be remitted to the Agency within one year.

SALIDA AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 SPECIAL TAX (Continued)

Special taxes not collected within sixty days of June 30, 2017, are recorded as deferred revenue in the Agency's Government Fund Financial Statements. As of June 30, 2017, \$42,979 was charged to deferred revenue for assessments uncollected.

Special taxes, secured by the property itself, are levied on property owners in the Salida area. In the unlikely event that all uncollected special taxes due the Agency failed to be collected, the maximum recognized loss would be \$18,902, in the government funds financial statements, which is the difference between special tax revenue receivable and deferred revenue.

NOTE 7 INTERFUND BALANCES AND TRANSFERS

Transfers between funds were made for the purpose of funding operation expenses.

NOTE 8 SUBSEQUENT EVENTS

The Agency has evaluated subsequent events through November 29, 2017, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION



Robert A. Hawks, Jr., CPA

• think **BOLDLY** • plan **CAREFULLY** • execute **PRECISELY** •

INDEPENDENT AUDITOR'S 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

Governing Board
Salida Area Public Facilities Financing Agency
Modesto, California

We have audited, in accordance with the 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 governmental activities, each major fund, and the aggregate remaining fund information of Salida Area Public Facilities Financing Agency, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

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.



Certified Public Accountant

November 29, 2017