

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY

FINANCIAL STATEMENTS

June 30, 2019

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY

June 30, 2019

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Independent Auditor's Report

Members of the Governing Board
Tracy Area Public Facilities Financing Agency
Tracy, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tracy Area Public Facilities Financing Agency ("the Agency"), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, 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 and each major fund of the Agency, as of June 30, 2019, and the respective changes in financial position for the fiscal 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 3 through 7 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 supplemental 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.

Supplementary 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 schedule of cumulative intergovernmental expenditures is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of cumulative intergovernmental expenditures 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 2, 2020 on our consideration of the 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 Agency's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
March 2, 2020

**TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

This section of Tracy Area Public Facilities Financing Agency (TAPFFA)'s 2018/19 annual financial report presents our discussion and analysis of TAPFFA's financial performance during the fiscal year ended June 30, 2019. This management's discussion and analysis should be read in conjunction with TAPFFA's financial statements, including notes and supplementary information that immediately follow this section.

FINANCIAL HIGHLIGHTS

- Total government wide revenues for 2019 fiscal year were \$1,758,957.
- Expenses totaled \$93,282.
- Net position increased by \$1,665,675.
- Reduction in long-term debt of \$1,618,476.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of TAPFFA.

The first two statements are government-wide financial statements (statement of net position and statement of activities) that provide both short-term and long-term information about TAPFFA's overall financial status. These statements present the financial picture of TAPFFA from an economic resources measurement focus using the accrual basis of accounting.

The remaining statements are fund financial statements that focus on individual parts of TAPFFA, reporting TAPFFA's operation in more detail than the government-wide statements. These statements present the financial picture of TAPFFA from a current resources measurement focus using the modified accrual basis of accounting.

The fund financial statements consist of:

- Governmental fund statements (balance sheet and statement of revenues, expenditures, and changes in fund balances) which tell how basic services were financed in the short term, as well as what remains for future spending.

The Statement of Net Position and the Statement of Activities

The Statement of Net Position and Statement of Activities report information about TAPFFA as a whole and about its activities. These statements include all assets, deferred outflows of resources and liabilities of TAPFFA using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All the current fiscal year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report TAPFFA's net position and changes in it. Net position is the difference between assets plus deferred outflows of resources minus liabilities, which is one way to measure TAPFFA's financial health, or financial position. Over time, increases or decreases in TAPFFA's net position is one indicator of whether its financial health is improving or deteriorating.

In the government-wide financial statements, TAPFFA's activities are reported as governmental activities. All TAPFFA's services are included here such as regular financing, administration, and interest on long-term debt. Funding received from investment earnings and the special tax revenue fund these activities.

REPORTING TAPFFA's MOST SIGNIFICANT FUNDS

Fund financial statements

The fund financial statements provide more detailed information about TAPFFA's most significant funds - not TAPFFA as a whole. Funds are accounting devices TAPFFA uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and bond covenants.
- TAPFFA establishes other funds to control and manage money for particular purposes or to show that certain revenues have been properly used.

Governmental funds - TAPFFA's basic services are reported in governmental funds which generally focus on how money flows in and out of those funds and the balances left at fiscal year end that are available for spending. These funds are reported using an accounting method called modified accrual basis of accounting, which measures cash, and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of TAPFFA's general governmental operations and the basic services it provides. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide a reconciliation behind each fund financial statement that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF TAPFFA AS A WHOLE

Table 1: Net Position

<i>Assets:</i>	2019	2018
Cash and Investments	\$ 2,001,876	\$ 1,915,293
Receivables	-	1,968
Total Assets	<u>2,001,876</u>	<u>1,917,261</u>
Deferred Loss on Refunding of Debt	<u>45,784</u>	<u>82,420</u>
Total Asset and Deferred Outflows of Resources	<u>2,047,660</u>	<u>1,999,681</u>
<i>Liabilities:</i>		
Accounts payable	\$ 18,840	\$ 2,910
Long-Term Debt Outstanding	317,962	1,996,438
Other Liabilities, including current portion of long-term debt	<u>1,686,410</u>	<u>1,641,560</u>
Total Liabilities	<u>2,023,212</u>	<u>3,640,908</u>
<i>Net Position:</i>		
Restricted	1,903,727	1,767,339
Unrestricted	<u>(1,879,279)</u>	<u>(3,408,566)</u>
Total Net Position (Deficit)	<u>\$ 24,448</u>	<u>\$ (1,641,227)</u>

TAPFFA's net position is \$24,448 for the fiscal year ended June 30, 2019. Of this amount, \$1,903,727 was restricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the board's ability to use the net position for day-to-day operations. Analysis focuses on the net position (Table 1) and changes in net position (Table 2) of TAPFFA's governmental activities.

The outstanding long-term debt of \$1,985,722 is due to bonds payable and doesn't include \$1,667,760, which is due within one year.

Annual debt payments are made from the annual special tax levy.

A summary of total TAPFFA revenues, expenses and changes in net position is presented in the table below.

Table 2: Changes in Net Position

	2019	2018
Revenues		
Special Taxes	\$ 1,751,535	\$ 1,751,535
Investment Earnings	7,422	4,977
Total Revenues	<u>1,758,957</u>	<u>1,756,512</u>
Expenses		
General Government	70,372	67,909
Interest on long-term debt	<u>22,910</u>	<u>119,393</u>
Total Expenses	<u>93,282</u>	<u>187,302</u>
Increase in Net Position:	1,665,675	1,569,210
Net Position (Deficit), Beginning of the Fiscal Year	<u>(1,641,227)</u>	<u>(3,210,437)</u>
Net Position (Deficit), End of the Fiscal Year	<u>\$ 24,448</u>	<u>\$ (1,641,227)</u>

Governmental Activities

For 2018-2019 fiscal year, TAPFFA revenues were \$1,758,957. The total TAPFFA expenses were \$93,282. The difference of \$1,665,675 in net position bringing the total net position at June 30, 2019 to \$24,448.

The revenue sources for TAPFFA are TAPFFA special taxes and investment earnings.

The cost of all governmental activities this fiscal year was \$93,282. However, the amount that our taxpayers ultimately financed for these activities through local taxes was \$1,751,535.

Table 3: Summary of Revenues for Governmental Function

	2019	2018
General Revenues:		
Special Taxes	\$ 1,751,535	\$ 1,751,535
Investment Earnings	7,422	4,977
Total Revenues	<u>\$ 1,758,957</u>	<u>\$ 1,756,512</u>

Table 4: Summary of Expenses

	2019	2018
General Government	\$ 70,372	\$ 67,909
Interest on Long-Term Debt	22,910	119,393
Total Expenses	<u>\$ 93,282</u>	<u>\$ 187,302</u>

Table 5: Governmental Activities

	2019 Total Cost of Services	2018 Total Cost of Services
General Government	\$ 70,372	\$ 67,909
Long-Term Debt	22,910	119,393
Total Governmental Activities	<u>\$ 93,282</u>	<u>\$ 187,302</u>

This table displays, by function, the total and net costs of services provided for the 2017-2018 and 2018-2019 fiscal years.

Table 6: TAPFFA's Fund Balances

	Fund Balance June 30, 2019	Fund Balance June 30, 2018	Increase/ (Decrease)
Redemption Account	\$ 1,921,297	\$ 1,800,062	\$ 121,235
Expense Account	60,659	113,212	(52,553)
Optional Redemption	1,080	1,077	3
Total	<u>\$ 1,983,036</u>	<u>\$ 1,914,351</u>	<u>\$ 68,685</u>

As TAPFFA completed this fiscal year, our Governmental Funds reported a combined fund balance of \$1,983,036 which is an increase of \$68,685 from the prior fiscal year.

Long Term Obligations

TAPFFA's obligations consist of special tax bonds. We present more detailed information regarding our long-term liabilities in Note 4 of the notes to the financial statements.

Table 7: Long Term Obligations

	2019	2018
Long-Term Outstanding Debt	\$ 1,985,722	\$ 3,604,198
Total Long-Term Outstanding Debt	\$ 1,985,722	\$ 3,604,198

For the 2018-2019 fiscal year, TAPFFA's long-term outstanding debt 1,985,722, which is a decrease of \$1,618,476 from the prior fiscal year. Annual debt payments are made from investment funds and the annual special tax levy.

Economic Outlook and 2019-2019 Budget

In considering the TAPFFA Budget for the 2019-20 year, the TAPFFA Board used the following criteria:

The key assumptions in our revenue and expenditure forecast are:

Annual Special Taxes are levied to the taxpayers within the CFD 1987-1 based upon the annual operational and debt service requirements for the Agency less any interest or investment earnings that may be applied toward the obligations. The maximum allowable special tax for fiscal year 2019-2020 is \$1,790.32 per unit; however, the actual annual tax assessed for the 2019-2020 fiscal year is \$242.66 per unit.

Contacting TAPFFA Financial Management

This financial report is designed to provide our parents, citizens, taxpayers, investors and creditors with a general overview of TAPFFA's finances and to show TAPFFA's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, please contact Mr. Casey Goodall, Treasurer for the Tracy Area Public Facilities Financing Agency, 1875 W. Lowell Avenue, Tracy, CA 95376.

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
STATEMENT OF NET POSITION
June 30, 2019

	Governmental Activities
ASSETS	
Cash and Investments	\$ 2,001,876
Total Assets	2,001,876
DEFERRED OUTFLOW OF RESOURCES	
Deferred Loss on Refunding of Debt	45,784
Total Deferred Outflow of Resources	45,784
Total Assets and Deferred Outflow of Resources	2,047,660
LIABILITIES	
Accounts Payable	18,840
Interest Payable	18,650
Long-term Debt:	
Due within One Year	1,667,760
Due after One Year	317,962
Total Liabilities	2,023,212
NET POSITION	
Restricted for Debt Service	1,903,727
Unrestricted	(1,879,279)
Total Net Position	\$ 24,448

See accompanying notes to the basic financial statements

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2019

		Net (Expense) Revenue and Change in Net Position
	Expenses	Governmental Activities
<u>Functions/Programs</u>		
Governmental Activities:		
General government	\$ 70,372	\$ (70,372)
Interest on long-term debt	22,910	(22,910)
	<hr/>	<hr/>
Total governmental activities	\$ 93,282	(93,282)
	<hr/> <hr/>	<hr/> <hr/>
General Revenues:		
Taxes:		
Special taxes		1,751,535
Investment earnings		7,422
		<hr/>
Total general revenues		1,758,957
		<hr/>
Change in net position		1,665,675
Net position (Deficit), July 1, 2018		(1,641,227)
		<hr/>
Net position, June 30, 2019		\$ 24,448
		<hr/> <hr/>

See accompanying notes to the basic financial statements

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

	Expense Account	Redemption Account
<u>ASSETS</u>		
Cash and Investments	\$ 79,499	\$ 1,921,297
TOTAL ASSETS	\$ 79,499	\$ 1,921,297
<u>LIABILITIES AND FUND BALANCES</u>		
Accounts Payable	\$ 18,840	\$ -
TOTAL LIABILITIES	18,840	
Fund Balances:		
Restricted for:		
Debt Service		1,921,297
Unassigned	60,659	
TOTAL FUND BALANCES	60,659	1,921,297
TOTAL LIABILITIES AND FUND BALANCES	\$ 79,499	\$ 1,921,297

See accompanying notes to the basic financial statements

Optional Redemption Account	Total Governmental Funds
<u>\$ 1,080</u>	<u>\$ 2,001,876</u>
<u><u>\$ 1,080</u></u>	<u><u>\$ 2,001,876</u></u>
<u>\$ -</u>	<u>\$ 18,840</u>
<u><u> </u></u>	<u><u>18,840</u></u>
<u>1,080</u>	<u>1,922,377</u>
	<u>60,659</u>
<u>1,080</u>	<u>1,983,036</u>
<u><u>\$ 1,080</u></u>	<u><u>\$ 2,001,876</u></u>

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TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2019

Fund balances - total governmental funds	\$	1,983,036
Deferred loss on refunding, net of accumulated amortization has not been reported in the governmental funds. This was capitalized and amortized over the life of the new debt or old debt, whichever is shorter, in the Statement of Net Position.		45,784
Bonds payable and premium on bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.		(1,985,722)
Accrued interest payable from the current portion of interest due on long-term debt has not been reported in the governmental funds.		<u>(18,650)</u>
Net position of governmental activities	\$	<u><u>24,448</u></u>

See accompanying notes to the basic financial statements

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2019

	Expense Account	Redemption Account
<u>Revenues</u>		
Special Taxes	\$ -	\$ 1,751,535
Interest on Special Taxes		3,686
Interest on Cash and Investments	304	3,429
	<u>304</u>	<u>3,429</u>
Total Revenues	<u>304</u>	<u>1,758,650</u>
<u>Expenditures</u>		
Administrative Fees	19,900	17,515
General Government	32,957	
Debt Service:		
Principal		1,515,000
Interest		104,900
	<u>52,857</u>	<u>1,637,415</u>
Total Expenditures	<u>52,857</u>	<u>1,637,415</u>
Net Changes in Fund Balances	(52,553)	121,235
Fund Balances - July 1, 2018	<u>113,212</u>	<u>1,800,062</u>
Fund Balances - June 30, 2019	<u>\$ 60,659</u>	<u>\$ 1,921,297</u>

See accompanying notes to the basic financial statements

Optional Redemption Account	Total Governmental Funds
\$ -	\$ 1,751,535
	3,686
3	3,736
3	1,758,957
	37,415
	32,957
	1,515,000
	104,900
	1,690,272
3	68,685
1,077	1,914,351
\$ 1,080	\$ 1,983,036

**TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2019**

Net change in fund balances - total governmental funds	\$ 68,685
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position	1,515,000
Amortization of the deferred loss on refunding is an addition to interest expense on the statement of net position, but not in the governmental funds.	(36,636)
Amortization of the premium on the bond payable is a reduction in interest expense on the statement of net position, but not in the governmental funds.	103,476
Accrued interest payable is interest due on long-term debt. This is the net change in accrued interest in the current period.	<u>15,150</u>
Change in net position of governmental activities	<u><u>\$ 1,665,675</u></u>

See accompanying notes to the basic financial statements

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Tracy Area Public Facilities Financing Agency (Agency) was created pursuant to a Joint Powers Agreement between the City of Tracy, Tracy School District, Tracy Joint Union High School District, and Jefferson School District for the purpose of forming a community facilities district under the provisions of the Mello-Roos Community Facility Act of 1982. The Agency has established Community Facilities District Number 1987-1 for the purpose of financing, constructing, and acquiring school facilities for each of the school districts and public facilities for the Agency. 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 1987-1 are controlled by a Governing Board consisting of seven members: two members of the City Council of the City of Tracy, three members of the School Board of the Tracy Unified School District, and two members of the School Board of the Jefferson School District. All such members of the Agency's Governing Board are independently elected to their respective member entities.

The Officers of the Agency include a Chairman and Vice-Chairman of the Governing Board, a Treasurer, a Controller, and a Secretary. The office of Treasurer is filled, ex-officio, by the Associate Superintendent for Business Services of the Tracy Unified School District. The office of Controller is filled, ex-officio, by the Director of Finance of the City of Tracy. The office of Secretary is filled by the Associate Superintendent for Business Services.

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. Basis of Presentation

Government-wide Financial Statements: The Statement of Net Position and the Statement of Activities include the financial activities of the overall Agency.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Agency's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column.

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting

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 comprise 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. The fund types and funds utilized by the Agency are described below:

The Agency reports the following major governmental funds:

Expense Account – This fund is used to account for the operations of the general government (General Fund).

Redemption Account – This debt service fund is used to account for collection of taxes and to pay for debt obligations.

Optional Redemption Account – This debt service fund is used to account for collection of taxes and to pay for debt obligations.

Governmental Funds

All governmental funds are accounted for on a spending or “economic 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 assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Capital Projects Funds

The capital projects funds are used to account for financial resources to be used by member entities to acquire or construct major capital facilities. The capital projects funds include the Agency's construction accounts used to account for bond proceeds distributed to member entities for facilities acquisition and construction, the expense account used to pay related administrative expenses, and the community facilities district accounts used to account for special tax collections in excess of amounts required for all other funds.

Debt Service Funds

The debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs. The debt service funds include 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 money set aside to pay bond principal and interest should money in the redemption account be insufficient, and the optional redemption account used to account for the collection of the prepayment of special taxes.

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Capital Assets and Long-Term Liabilities

The accounting and reporting treatment to be applied to capital assets when acquired by the Agency and long-term debt of the Agency are determined by the measurement focus as discussed in Note C above.

Capital assets acquired or owned by the Agency, costing more than \$200, and used in its governmental fund type operations will be, when acquired, accounted for on the Statement of Net Position, rather than in the governmental funds. Such assets, when and if acquired, are capitalized at historic cost. Gifts or contributions of such assets are recorded at estimated fair value in the year received.

Long-term liabilities expected to be financed from governmental funds are accounted for on the Statement of Net Position, not in the governmental funds. Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by long-term liabilities.

E. Basis of Accounting

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; 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 long-term debt which is recognized when due.

F. 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 appropriation, is not used.

G. Investments

The Agency follows the practice of purchasing specifically identifiable and separate investments for certain funds and accounts. Such investments are stated at amortized cost, which approximates fair value. Investments are held in the US Bank Corporate Trust Services Fund where the Agency's investment is not evidenced by specifically identifiable securities.

H. Special Taxes Receivable and Unearned Revenue

Special taxes are recorded as a receivable when levied, the date at which the tax ordinance takes effect and is in force. Special tax collection dates are November 1 and February 1 of each fiscal year. The due dates, after which date the taxes become delinquent, are December 10 and April 10, respectively.

Revenue from special taxes is recognized as revenue in the fiscal year for which it was levied and is available. Available means when due or past due; due dates are December 10 and April 10, and expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Accordingly, the Agency followed the practice of recording special tax revenues when levied and recognizing as tax revenues in two installments on the respective due dates.

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Special Taxes Receivable and Unearned Revenue (Continued)

Since July 1, 1993, the Agency has participated in the Teeter Plan, which the County of San Joaquin (County) adopted. Under the Teeter Plan, the County has apportioned 100% of the special tax assessment levy to the Agency. This means that the Agency receives 100% of its special assessment. The Agency then records special tax revenues when levied. The County assumes the responsibility for collection of delinquent special taxes.

I. Compensated Absences, Insurance, and Claims

The Agency recognizes no liability for unpaid vacation, sick leave, or compensatory time due employees as the Agency has no employees entitled to such benefits.

The Agency carries no insurance coverage for property, liability, or workers compensation. The Agency owns no property or facilities, and it has no employees. Incurred and unbilled claims, if any, are accrued as a liability when it is probable an asset has been impaired and the amount of the obligation can be reasonably estimated.

J. Interfund Transactions

Transfers are recognized when transfers from a fund required to receive revenues are made to the fund through which the resources are to be expended.

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and American Institute of Certified Public Accountants (AICPA), requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

L. Net Position

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 2: CASH AND INVESTMENTS

A. Classification

The cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Agency debt instruments or Agency agreements:

Cash and investments in Money Market Funds	\$ 2,001,876
Total cash and investments	<u>\$ 2,001,876</u>

Cash and investments, as of June 30, 2019, consist of the following:

Cash and investments, Statement of Net Position	\$ 2,001,876
Total cash and investments	<u>\$ 2,001,876</u>

B. Investments Authorized by the California Government Code and the Agency's Investment Policy

The following table identifies the investment types that are authorized for the Agency by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Investment pools authorized under California Statutes governed by the Government Code	N/A	None	\$65 million
U.S. Treasury Obligations	None	None	None
Bank Savings Account	N/A	None	None
Mutual Funds	None	None	None
Commercial Paper	None	None	None
Negotiable Certificates of Deposit	None	None	None
Re-purchase Agreements	None	None	None
Corporate Debt	None	None	None
Small Business Administration Loans	None	None	None
Bankers Acceptances	None	None	None

C. Investments Authorized by Debt Agreements

Investments held by trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code. The table below identifies the investment types that are authorized for investments held by trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Investment pools authorized under California			
Statutes governed by the Government Code	N/A	None	None
U.S. Treasury Obligations	None	None	None
Bank Savings Accounts	N/A	None	None
Commercial Paper	None	None	None
Negotiable Certificates of Deposit	None	None	None
Re-purchase Agreements	None	None	None
Money Market Accounts	N/A	None	None
Bankers Acceptances	1 year	None	None
Investment Agreements	None	None	None

D. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the Agency's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining maturity (in Months)</u>					
		<u>12 Months or less</u>	<u>13 to 24 Months</u>	<u>25 to 36 Months</u>	<u>37 to 48 Months</u>	<u>49-60 Months</u>	<u>Over 60 months</u>
Money Market Funds	\$ 2,001,876	\$ 2,001,876	\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$ 2,001,876	\$ 2,001,876	\$ -	\$ -	\$ -	\$ -	\$ -

E. Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, or debt, and the actual rating as of June 30, 2019 for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of June 30, 2019</u>			
				<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Not Rated</u>
Money Market Funds	\$ 2,001,876	N/A	\$ -	\$ -	\$ -	\$ -	\$ 2,001,876
Total	\$ 2,001,876		\$ -	\$ -	\$ -	\$ -	\$ 2,001,876

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

F. Concentration of Credit Risk

The investment policy of the Agency contains limitations on the amount that can be invested in any one issuer. There are no investments in any one issuer (other than external investment pools and money market funds) that represent 5% or more of total Agency investments.

G. Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2019, the Agency's deposits with financial institutions were not in excess of federal depository insurance limits.

H. Fair Value Measurements

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered active; and,
- Level 3: Investments reflect prices based upon unobservable sources.

The Agency did not have any investments applicable to recurring fair value measurements as of June 30, 2019.

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 3: SPECIAL TAX REVENUES AND OTHER TAXES

Special taxes of \$1,751,535 were levied on Community Facilities District Number 1987-1 (the District) for the 2018-2019 fiscal year, and are to be levied and collected annually according to the rates and method of apportionment set forth in a special tax formula. The special tax formula apportions the total debt service requirement (principal, interest, minimum sinking fund payments, and redemption premium, if any), restoration of the reserve account (if required), current annual expense, and other costs each fiscal year in the District among the taxable land in the District.

Except as otherwise provided in the bond resolution, the special tax is to be subject to the same penalties and the same procedure, sale, and lien priority in the case of delinquency, as is provided for ad valorem property taxes. The special tax is to be collected directly by the County of San Joaquin and such tax receipts are to be forwarded to the fiscal agent, U.S. Bank, for deposit into the trust account required by the bond resolution in connection with Community Facilities District Number 1987-1.

The basic unit for measuring the special tax is equivalent consumer unit (ECU). ECU's representing the number of sewer allocations and development allotments will generally be assigned to taxable properties according to land use. The levy of the special tax against ECU's will depend upon whether the property is deemed to be final use property, vacant land, or veteran property.

Different maximum special taxes may be levied for City purposes and school purposes. The maximum special tax for the 2018-2019 fiscal year is \$1,751.53 per ECU for Community Facilities District Number 1987-1. If certain development fees are not available to the School Districts, the maximum special tax for school purposes on each Community Facilities District may be increased by \$285 annually.

Other taxes include amounts received or accrued, which represent special tax revenues that were collected outside of the property tax rolls due to permits issued during the fiscal year, but subsequent to the tax roll levy date.

NOTE 4: LONG-TERM DEBT

The Agency is authorized to issue special tax bonds in the total amount of \$75 million to finance the construction and acquisition of the facilities specified in the Resolution of Formation. The special tax bond authority was reduced in fiscal year 1998-1999 to \$62,116,151. The bonds are special obligations of the Agency by and through its Community Facilities District 1987-1, secured by an irrevocable first pledge of, and payable from, the special tax, in favor of all present and future bondholders without preference, priority or distinction, except as provided in the bond resolution, of any bond or series over any other.

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 4: LONG-TERM DEBT (CONTINUED)

The change in long-term debt for the fiscal year ended June 30, 2019 was:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Due within one year
<u>Governmental Activities</u>					
2015 Special Tax Refunding Bonds	\$ 3,380,000	\$ -	\$ (1,515,000)	\$ 1,865,000	\$ 1,575,000
Premium on Refunding Bond	224,198		(103,476)	120,722	103,476
Total	<u>\$ 3,604,198</u>	<u>\$ -</u>	<u>\$ (1,618,476)</u>	<u>\$ 1,985,722</u>	<u>\$ 1,678,476</u>

Future debt service requirements on long-term debt are:

For Twelve Months Ending June 30,	Principal	Interest	Total
2020	\$ 1,575,000	\$ 43,100	\$ 1,618,100
2021	<u>290,000</u>	<u>5,800</u>	<u>295,800</u>
Total	<u>\$ 1,865,000</u>	<u>\$ 48,900</u>	<u>\$ 1,913,900</u>

2015 Special Tax Refunding Bonds

On January 7, 2015, the Agency issued \$7,775,000 of special tax refunding bonds, with principal payable each October 1 and with interest rates of 2.0% to 4.0%, payable each April 1 and October 1, beginning April 1, 2015. The 2015 Special Tax Refunding Bonds mature on October 1, 2020. The purpose of the Bonds is to fund an escrow to defease the 1996 Series G and Series H Bonds and to pay the costs incurred in connection with the issuance of the Bonds.

\$11,388,169, which included \$3,353,706 from available cash and investments and a reserve account from the 1996 Series G and Series H Bonds, was placed in escrow accounts to be used to pay off the Series G and Series H Bonds on April 1, 2015. Accordingly, the escrow account and the liability for the defeased Series G and Series H Bonds are not included in the Agency's financial statements. During the month of April 2015, the outstanding principal balance was fully redeemed.

The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$1,725,968.

NOTE 5: COMMITMENTS AND CONTINGENCIES

Advances to the City of Tracy - Under certain circumstances, certain elements of the special tax referred to as the "back-up" tax, shall be available to provide funds to be advanced to the City of Tracy, if necessary or desirable, in Agency Assessment District 84-1 and in the proposed water assessment district to cover the same area as the Community Facilities District, if the reserve funds in those districts have been depleted. Any monies so provided shall be reimbursed to the Agency, when available, from the Agency Assessment Districts. To date, the City of Tracy has not requested any of the additional funds allowed by this provision.

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

NOTE 6: INVESTMENT OF STATE APPORTIONMENT AND ECONOMIC DEFEASANCE
OF CFD NO. 1987-1 SERIES H BONDS

The Tracy Unified School District applied to the Office of Public School Construction of the State of California ("OPSC") for a project apportionment to fund a portion of school construction costs that were previously funded by the Agency through the issuance and sale of bonds on behalf of the Agency's Community Facilities District No. 1987-1 ("CFD No. 87-1"). As a result of such application, the Tracy Unified School District received funds suitable to be applied to the credit of CFD No. 87-1 in the amount of \$19,900,000 (the "State Apportionment"). The Tracy Unified School District received \$5,708,438 and \$5,761,976 additional funds from the State in December 1998 and September 2000, respectively.

Through the adoption of Resolution No. 187 on July 22, 1998, the Governing Board of the Agency authorized the establishment of escrow funds with the Fiscal Agent to hold certain monies, securities, and investments acquired from the proceeds of the State Apportionment. The monies, securities, and investments held in such funds have been irrevocably pledged by the Agency's Governing Board subject to certain exceptions, to secure the payment of debt service on CFD 87-1 Series H Bonds as such debt service comes due. The exceptions to such an irrevocable pledge include authorization to the Fiscal Agent, at the direction of the Governing Board of the Agency, to substitute securities in such escrow fund subject to certain preconditions. Proceeds derived from the investments contained in such escrow funds are to be utilized on an annual basis to pay debt service on CFD No. 87-1 Series H Bonds. The Series H Bonds are not considered to be legally defeased as such term is described in Article VII of the Indenture Authorizing the Series H Bonds. As of June 30, 2019, the Agency no longer held these funds, as they were used for debt service and bond calls.

NOTE 7: FUND BALANCE CLASSIFICATION

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance. The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form such as inventories, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations. Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. The Agency does not have any committed or assigned fund balances as of June 30, 2019.

TRACY AREA PUBLIC FACILITIES FINANCING AGENCY
SCHEDULE OF CUMULATIVE INTERGOVERNMENTAL EXPENDITURES (UNAUDITED)
FOR THE PERIOD FROM MAY 15, 1987 THROUGH JUNE 30, 2019

<u>Number</u>	<u>Project Description</u>	<u>Estimated Costs</u>	<u>Actual Costs</u>
<u>Tracy School District</u>			
1)	Villa Elementary School	\$ 875,000	\$ 953,103
2)	Poet- Christian Elementary School	4,000,000	4,685,311
3)	Bohn Elementary School	4,000,000	951,566
4)	Jacobson Elementary School	4,000,000	2,441,253
5)	Hirsch Elementary School	4,000,000	3,034,662
6)	Freiler Elementary School	3,500,000	4,987,368
7)	Monte Vista Middle School Expansion (with Prep Kitchen)	1,000,000	1,948,190
8)	Williams Middle School (with Prep Kitchen)	6,614,000	9,951,918
9)	Freiler Middle School	5,500,000	171,441
10)	Portable Acquisition (10)	300,000	255
11)	Bus Acquisition (5)	400,000	240,150
12)	Joint District Service Center	603,750	2,787,584
13)	Joint District Service Vehicles (6)	45,000	32,698
14)	Joint District Administrative Center Expansion	184,000	709,020
15)	Joint District Administrative Vehicles	10,000	13,000
16)	Joint District Food Service Vehicles	18,000	23,211
	Subtotal	35,049,750	32,930,730
<u>Tracy Joint Unified High School District</u>			
21)	West High School (with Prep Kitchen)	24,925,929	21,856,409
22)	New Continuation High School	1,977,111	1,352,289
23)	Bus Acquisition	297,600	168,720
24)	Joint District Service Center	561,488	3,267,489
25)	Joint District Service Vehicles (6)	41,850	32,698
26)	Joint District Administrative Center Expansion	167,400	709,020
27)	Joint District Administrative Vehicles	9,300	13,000
28)	Joint District Food Service Vehicles	11,160	18,474
	Subtotal	27,991,838	27,418,099
<u>Jefferson School District</u>			
31)	Monticello	4,343,500	7,246,508
33)	City of Tracy Projects		2,964,590
	Subtotal	4,343,500	10,211,098
	TOTAL	\$ 67,385,088	\$ 70,559,927