



March 29, 2022

To the Governing Board of the  
Tracy School Facilities Financing Authority JPA  
Tracy, California

We have audited the financial statements of Tracy School Facilities Financing Authority JPA (TSFFA) as of and for the year ended June 30, 2021, and have issued our report thereon dated March 29, 2022. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and Government Auditing Standards**

As communicated in our letter dated October 1, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the TSFFA solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our 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* dated March 29, 2022.

**Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

**Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

**Qualitative Aspects of the Entity's Significant Accounting Practices***Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by TSFFA is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2021. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

*Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. No such significant accounting estimates were identified.

*Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. There were no significant judgments identified.

**Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

**Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures and the financial statements as a whole. There were no uncorrected misstatements identified as a result of our audit procedures.

The misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management are related to the correction of the financial statement presentation from an enterprise fund to a governmental fund. The impact of these corrections was to restate fund balance at the beginning to \$13,471,856, and to restate net position at the beginning of the year to (\$582,091).

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

**Representations Requested from Management**

We have requested certain written representations from management which are included in the management representation letter dated March 29, 2022.

**Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the TSFFA, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the TSFFA's auditors.

**Modification of the Auditor's Report**

We have made the following modifications to our auditor's report.

**Emphasis of Matter – Correction of Errors**

As discussed in Note 9 to the financial statements, in prior year, Tracy School Facilities Financing Authority (the Agency) incorrectly presented the financial statements as an enterprise fund rather than a major governmental fund. As a result, the Agency has corrected this error by changing the accounting from an enterprise fund to a major governmental fund in the current year. Our opinions are not modified with respect to this matter.

This report is intended solely for the information and use of the governing board, and management of Tracy School Facilities Financing Authority JPA and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

San Ramon, California



Annual Financial Report  
June 30, 2021

Tracy School Facility Financing Authority,  
A Component Unit of  
Tracy Unified School District

# Tracy School Facilities Financing Authority

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June 30, 2021

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## Independent Auditor's Report

The Board of Directors  
Tracy School Facilities Financing Authority  
Tracy, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the governmental fund of the Tracy School Facilities Financing Authority (the Agency), a component unit of Tracy Unified School District, as of and for the year ended June 30, 2021, 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.

### Auditors' Responsibility

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Tracy School Facilities Financing Authority at June 30, 2021, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Emphasis of Matter – Correction of an Error**

As discussed in Note 9 to the financial statements, in prior year, Tracy School Facilities Financing Authority (the Agency) incorrectly presented the financial statements as an enterprise fund rather than a major governmental fund. As a result, the Agency has corrected this error by changing the accounting from an enterprise fund to a major governmental fund in the current year. Our opinions are not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's decision and analysis, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2022, on our consideration of the Tracy School Facilities Financing Authority'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 Tracy School Facilities Financing Authority's internal control over financial reporting and compliance.



San Ramon, California  
March 29, 2022

This section of Tracy School Facilities Financing Authority (Agency)'s annual financial report presents management's discussion and analysis of the Agency's financial performance during the fiscal year that ended on June 30, 2021. Please read it in conjunction with the Agency's financial statements, which immediately follow this section. The financial statements are presented in accordance with the Governmental Accounting Standards Board Statement (GASB) No. 34.

The Tracy School Facilities Financing Authority ("the Agency") was established April 1, 2011 and commenced operations on April 6, 2011 to aid in the financing and refinancing of public capital improvements for the benefit of the Tracy Unified School District ("the District").

Tracy Unified School District manages the financial records and monitors financial activities of the Agency.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

### **The Financial Statements**

The financial statements presented herein include all of the activities of the Agency and its component units using the integrated approach as prescribed by *Governmental Accounting standards Board* (GASB) Statement No. 34.

The Government-Wide Financial Statements present the financial picture of the Agency from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the Agency, as well as all liabilities (including long-term liabilities).

The *Fund Financial Statements* include statements for governmental activities.

- The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The Primary unit of the government is the Tracy School Facilities Financing Authority. The Agency does not have any component units.

### **The Statement of Net Position and the Statement of Activities**

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



These two statements report the Agency's net position and changes in them. Net position is the difference between assets and liabilities, which is one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in the Agency's net position will serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The relationship between revenues and expenses is the Agency's operating results.

### **Fund Financial Statements**

A fund is a fiscal and accounting entity with a self-balancing set of accounts used to record cash and other financial resources and related liabilities and residual equities segregated for the purpose of carrying on specific activities or attaining certain objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related regulations, requirements, restrictions or limitations. All of the Agency's funds are governmental funds.

Governmental Funds – The governmental fund financial statements provide a detailed short-term view of the Agency's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in the adjustment column of the financial statements.

### **FINANCIAL HIGHLIGHTS OF THE PAST YEAR**

The Agency's total assets, liabilities, and net position for the fiscal year ended June 30, 2021 are presented below. Changes in total assets, liabilities, and net position (deficit) between the two years are primarily due to the debt service payments required.

	2021	2020 (as rsted)	Change	Percent Change
Total Assets	\$ 12,171,165	\$ 13,610,493	\$ (1,439,328)	-11%
Total Liabilities	12,793,244	14,192,584	\$ (1,399,340)	-10%
Net Position (Deficit) Restricted	(622,079)	(582,091)	(39,988)	7%

The Agency's total revenue and expenditures for the fiscal year ended June 30, 2021, are presented below. The changes in interest revenue primarily due to market adjustment and less funds available to earn interest as the entity is paying down the debt.

	2021	2020 (as restated)	Change	Percent Change
Revenues				
Program revenues				
Interest revenue	\$ 609,297	\$ 1,019,674	\$ (410,377)	-40%
Total revenues	609,297	1,019,674	(410,377)	-40%
Expenses				
Interest expense	649,285	676,836	(27,551)	-4%
Total expenses	649,285	676,836	(27,551)	-4%
Change in Net Position	<u>\$ (39,988)</u>	<u>\$ 342,838</u>	<u>\$ (382,826)</u>	<u>-112%</u>

Qualified School Construction Bonds (QSCB) interest subsidies to be received from the U.S. Treasury are expected to provide the additional funding necessary to repay the QSCB debt.

## FUND STATEMENTS

TSFFA completed this year with an ending fund balance of \$12,044,790, a decrease of \$1,427,066 from the prior year. This is primarily due to timing difference of debt service payments and the receivables from the District to repay the debt service payments.

## LONG TERM DEBT

In May 2011, the Agency issued bonds in the amount of \$19,770,000 that mature on May 1, 2026. \$16 million of the proceeds were used to purchase Measure S bonds from the District and \$3.77 million was deposited into a fund to be used by District Measure S projects. As of June 30, 2021, the bonds outstanding were \$12,525,000.

## CONTACTING THE AGENCY FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Associate Superintendent, Business Services, at Tracy Unified School District, 1875 West Lowell Avenue, Tracy, California, 95376, or e-mail at [jquintanal@tusd.net](mailto:jquintanal@tusd.net).

Tracy School Facilities Financing Authority  
Governmental Fund Balance Sheet/Statement of Net Position  
June 30, 2021

	General Fund	Adjustment (Note 2)	Statement of Net Position
<b>Assets</b>			
Deposits and investments	\$ 1,934,790	\$ -	\$ 1,934,790
Interest receivable	-	126,375	126,375
Advance	10,110,000	-	10,110,000
	<u>12,044,790</u>	<u>126,375</u>	<u>12,171,165</u>
<b>Total Assets</b>	<u>12,044,790</u>	<u>126,375</u>	<u>12,171,165</u>
<b>Liabilities and Fund Balance/Net Position</b>			
<b>Liabilities</b>			
Interest payable	-	268,244	268,244
<b>Noncurrent Liabilities</b>			
Current portion of long-term obligations	-	1,440,000	1,440,000
Noncurrent portion of long-term obligations	-	11,085,000	11,085,000
	<u>-</u>	<u>12,793,244</u>	<u>12,793,244</u>
<b>Total liabilities</b>	<u>-</u>	<u>12,793,244</u>	<u>12,793,244</u>
<b>Fund Balances/Net Position (Deficit)</b>			
<b>Fund Balance/Net Position:</b>			
Nonspendable -			
long-term loan receivable	10,110,000	(10,110,000)	-
<b>Restricted for</b>			
Debt service	1,934,790	(2,556,869)	(622,079)
	<u>1,934,790</u>	<u>(2,556,869)</u>	<u>(622,079)</u>
<b>Total Fund Balance/Net Position (Deficit)</b>	<u>\$ 12,044,790</u>	<u>\$ (12,666,869)</u>	<u>\$ (622,079)</u>

Tracy School Facilities Financing Authority

Statement of Governmental Fund Revenues, Expenses and Changes in Fund Balance/ Statement of Activities  
For the Year Ended June 30, 2021

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	General Fund	Adjustment (Note 2)	Statement of Net Position
Expenditures/expenses:			
Debt service			
Principal	\$ 1,370,000	\$ (1,370,000)	\$ -
Interest and other	678,626	(29,341)	649,285
	<u>2,048,626</u>	<u>(1,399,341)</u>	<u>649,285</u>
Total Expenditures/expenses			
Program revenues:			
Operating grants and contributions:			
Interest revenue - U.S. Treasury	\$ 303,545	\$ -	\$ 303,545
local sources/charges for services	318,015	(12,263)	305,752
	<u>621,560</u>	<u>(12,263)</u>	<u>609,297</u>
Total revenue			
Excess of revenue over (under) expenditures	(1,427,066)	1,427,066	-
Change in Net Position	-	(39,988)	(39,988)
Fund balance/net position, Beginning, as restated	<u>13,471,856</u>	<u>(14,053,947)</u>	<u>(582,091)</u>
Fund balance/net position, Ending	<u>\$ 12,044,790</u>	<u>(12,666,869)</u>	<u>\$ (622,079)</u>

**Note 1 - Description of Agency**

The Tracy School Facilities Financing Authority (Agency) was created pursuant to a Joint Exercise of Powers Agreement (the Agreement), dated April 1, 2011, between the Tracy Unified School District (District) and the California Municipal Finance Authority (CMFA).

The purpose of the Agency includes but is not limited to, the issuance of bonds for any purpose or activity permitted under Articles 1, 2 and 4 of Chapter 5 of Division 7 of Title I of the Government Code of the State of California, or any other applicable law, for the benefit of the Tracy Unified School District. The financial position and results of operations of the services are reflected in the funds of the joint powers authority. Under California law and the Agreement, the Agency is a public entity separate and apart from the parties to the Agreement and the debts, liabilities and obligations of the Agency are not the debts, liabilities or obligations of CMFA, the District or any representatives of CMFA or the District.

The Agency is deemed to be a component unit of the Tracy Unified School District, although it is a legally separate entity. The governing board of the Agency is appointed by the District. The Agency provides services entirely to the District. The Agency is fiscally responsible for its own operation, major financing arrangements and contracts. Tracy Unified School District manages the financial records and monitors the Agency's financial activities.

**Note 2 - Summary of Significant Accounting Policies****Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The statement of net position column on the governmental fund balance sheet/statement of net position and the statement of activities column on the statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Interfund activity has been eliminated from the statement of net position column on the governmental fund balance sheet/statement of net position and the statement of activities column on the statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities.

The statement of activities column on the statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by the function's program revenues

A function's direct expenses are those that are clearly identifiable with the specific function or segment. A function's program revenues include charges to customers or applicants for goods or services, operating grants and contributions, and capital grants and contributions, if any.

The General Fund column on the governmental fund balance sheet/statement of net position and the statement of governmental revenues, expenditures, and changes in fund balance/statement of activities are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. When both restricted and unrestricted resources are available for use, it is the Agency's policy to use unrestricted resources first, and then restricted resources as they are needed. Revenue items considered to be susceptible to accrual are interest earnings. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The Agency only has General Fund, which is used to account for all financial resources for the purpose of the paying the debt services.

**Cash and Cash Equivalents**

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**Investments**

Investments held at June 30, 2021, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

**Advance**

The advance is between TSFFA and the District.

**Accrued Liabilities and Long-Term Liabilities**

All payables, accrued liabilities, and long-term liabilities are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full, from current financial resources are reported as liabilities of the governmental funds.

**Fund Balances - Governmental Funds**

As of June 30, 2021, the Agency's fund balances are classified as follows:

**Nonspendable** - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

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

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Agency considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Agency considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

**Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Agency or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Agency first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. All of the Agency's net position are restricted.

**Adjustment**

Adjustment column of the financial statements represent transactions required to convert the governmental fund activities to the government-wide financial statements.

The following adjustments were posted to reconcile the governmental fund balance sheet to the statement of net position:

- In governmental funds, unmatured interest on long-term liabilities is recognized in the period in which is due. On the government-wide financial statements, unmatured interest on long-term liabilities is recognized when it is incurred: \$268,244.
- Long-term liabilities are not due and payable in the current period, and therefore, are not reported as liabilities in the funds: \$12,525,000.
- Long-term interest receivable of \$126,375 is recognized government-wide financial statements when it is earned. It is recognized in the governmental funds when it is received.

The following adjustments were posted to reconcile the governmental fund statement of revenues, expenditures and change in fund balance to the statement of activities:

- Payment of principal on long-term liabilities is an expenditure in the governmental funds, but is reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities: \$1,370,000.
- Interest on long-term liabilities is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due: \$29,341.
- Interest on long-term receivable is recorded as an revenue in the funds when it is received; however, in the Statement of Activities, interest receivable is recognized when earned regardless of when it is received: \$12,263.

**Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note 3 - Deposits and Investments****Summary of Deposits and Investments**

The Bank of New York Mellon acting as a fiscal agent on behalf of the Agency held all cash and investments from long term debt issuances. Deposits and investments as of June 30, 2021, consists of \$1,934,790 of funds held by Bank of New York Mellon.

**Policies and Practices**

The Agency is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by bond trustees are further governed by the provisions of the debt agreements.

**Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency does not have a policy for custodial credit risk for deposits. However, 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. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2021, the Agency was not exposed to custodial credit risk.



**Note 4 - Fair Value Measurements**

The Agency categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets that the Agency has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.
- Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.
- Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the Agency's own data. The Agency should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the Agency are not available to other market participants.

The Agency's fair value measurements are as follows at June 30, 2021:

Investment Type	Fair Value Measurements Using			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. Treasuries	\$ 1,934,790	\$ 1,842,973	\$ 91,817	\$ -

**Note 5 - Advance**

The Agency has long-term advance from the District. The Advance is a result of an initial transaction that occurred in April 2011, in which the District issued \$16 million of Series 2011A bonds that were purchased by the Agency. The bonds have a stated interest rate of 3.00% and mature on May 1, 2026. Future receivable of the advance is as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2022	\$ 1,054,000	\$ 287,490	\$ 1,341,490
2023	1,126,000	254,790	1,380,790
2024	1,207,000	219,795	1,426,795
2025	1,288,000	182,370	1,470,370
2026	5,435,000	162,525	5,597,525
Total	<u>\$ 10,110,000</u>	<u>\$ 1,106,970</u>	<u>\$ 11,216,970</u>

**Note 6 - Long Term Debt**

On May 10, 2011, the Agency issued \$19,770,000 of Qualified School Construction Bonds (QSCB). The bonds were issued to provide funds to purchase bonds from the District.

**Summary**

The changes in the Agency's long-term liabilities during the year consisted of the following:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2020	Issued	Redeemed	Bonds Outstanding June 30, 2021	Current Portion
5/10/11	5/1/2026	5.14%	<u>\$ 19,770,000</u>	<u>\$ 13,895,000</u>	<u>\$ -</u>	<u>\$ 1,370,000</u>	<u>\$ 12,525,000</u>	<u>\$ 1,440,000</u>

# Tracy School Facilities Financing Authority

Notes to Financial Statements

June 30, 2021 and 2020

The bonds mature through fiscal year 2026 is as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2022	\$ 1,440,000	\$ 606,777	\$ 2,046,777
2023	1,520,000	530,705	2,050,705
2024	1,600,000	450,521	2,050,521
2025	1,685,000	366,097	2,051,097
2026	6,280,000	335,064	6,615,064
Total	<u>\$ 12,525,000</u>	<u>\$ 2,289,164</u>	<u>\$ 14,814,164</u>

## Note 7 - Net Position

The net deficit of \$(480,210) is the result of the transfer of \$19.7 million of funds to the District in exchange for a repayment agreement in the amount of \$16 million, plus interest. The principal and interest received from the district will be used to pay the principal on the Agency's debt. The majority of the interest on the Agency debt will be covered by an interest subsidy from the government and is expected to result in a small interest cost to the Agency which will be paid for by interest revenue generated from the cash balance in the investment or by the District. As of June 30, 2021, the future interest receivables from the District on QSCB is estimated at \$1.1 million. In addition, the Agency receives interest subsidies from the federal government which is estimated to cover the future interest payments on the QSCB.

## Note 8 - Commitments and Contingencies

### Grants

The Agency receives financial assistance from Federal agencies in the form of Qualified School Construction Bonds (QSCB). Amount received for the fiscal year ended June 30, 2021 was \$303,545 and this amount is recorded in the interest income in the Agency's financial statement. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. A condition of the QCSB funds is that the proceeds must be spent within three years. In the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Agency at June 30, 2021.

### Services Provided by Others

The Tracy Unified School District provides general accounting services and computer processing services for transactions and financial reports on behalf of the Agency.

**Litigation**

The Agency is not currently a party to any legal proceedings.

**Note 9 - Restatement - Correction of an Error – Change to Debt Service Governmental Fund Rather Than Enterprise Fund**

As of July 1, 2020, the Tracy School Facilities Financing Authority (the Agency) corrected the presentation of the Agency's financial statements as an enterprise fund to a governmental fund type, in accordance with Governmental Accounting Standards Board (GASB) Codification Section 2600.

The following table describes the effects of the change of the accounting from an enterprise fund to a major governmental fund as well as account for the error correction in previously unrecorded interest receivable. The effect of these errors on the prior year change in net position would be to decrease the change in net position by \$158,946, and the effect of these in the general fund would be to report an excess of expenditures over revenues in the amount of \$1,355,276.

	Enterprise Fund	Governmental Fund	Governmental Activities
Net Position (Deficit) / Fund Balance Beginning of Year, as previously reported	\$ (423,144)	\$ -	\$ -
To reconcile enterprise fund net position (deficit) to opening governmental fund balance	423,144	(423,144)	(423,144)
To correct for known error in prior year financial statements - overstatement of interest receivable	-	(158,947)	(158,947)
To derecognize long-term assets and liabilities not recorded in modified accrual statements			
Unmatured Bonds Payable, not recognized in governmental funds	-	13,895,000	-
Unmatured Interest Payable, not recognized in governmental funds	-	297,585	-
Interest Receivable (subsidy), not recognized in governmental funds because not available	-	(138,638)	-
Net Position (Deficit) / Fund Balance beginning of year, as restated	<u>\$ -</u>	<u>\$ 13,471,856</u>	<u>\$ (582,091)</u>



Independent Auditors' Report  
June 30, 2021

# Tracy School Facilities Financing Authority



**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Governing Board  
Tracy School Facilities Financing Authority  
Tracy, California

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tracy School Facilities Financing Authority (the Agency) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 29, 2022.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2021-001 that we consider to be a material weakness.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of 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 financial statements. 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*.

**Tracy School Facilities Financing Authority's Response to Findings**

Tracy School Facilities Financing Authority's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. Tracy School Facilities Financing Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

San Ramon, California  
March 29, 2022



Schedule of Findings and Questioned Costs  
June 30, 2021

# Tracy School Facilities Financing Authority



## 2021-001 Financial Statements Preparation

### Criteria

Management is responsible for the design, implementation, and maintenance of internal controls to ensure the financial statements are being prepared for the audit free from material misstatement, whether due to error or fraud. Such internal controls should also include consideration for the proper presentation of fund types as defined by *Government Accounting Standards Board (GASB) Codification Section 1300, "Fund Accounting"*.

### Condition

The prior year financial statements were incorrectly presented as an enterprise fund instead of a governmental fund. Additionally, we were requested to draft the financial statements and accompanying notes to the financial statements.

### Cause

The Agency's internal control system designed to provide for the preparation and fair presentation of the financial statements was not operating at an optimal level.

### Effect

The presentation of the financial statements was changed from an enterprise fund presentation to a governmental fund presentation.

### Recommendation

We recommended corrections to appropriately present for the Agency's financial statements in accordance with the *Government Accounting Standards Board (GASB) Codification Section 1300, "Fund Accounting"*.

### Repeat Finding

No.

### Corrective Action Plan and Views of Responsible Officials

We agree with the finding. Tracy School Facilities Financing Authority will perform a more in-depth review of the financial statements presentation to ensure compliance with GASB. With the Auditor's clarification it is unlikely that the Agency's financial statements will be incorrectly reported in the future.

Note Reported.