

## SEPARATE COVER ITEM

Board Meeting: February 28, 2012

Item No.: 14.1.6, Item 4.2

Document: TSFFA Audit



To the Audit Committee of the  
Tracy School Facilities Financing Authority JPA

We have audited the financial statements of the governmental activities and the major fund information of Tracy School Facilities Financing Authority JPA for the year ended June 30, 2011, and have issued our report thereon dated February 23, 2012. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 23, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our communication about planning matters on November 18, 2011.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Tracy School Facilities Financing Authority JPA are described in Note 1 to the financial statements. The JPA adopted GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred. The disclosures in the financial statements are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatement*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No such misstatements were noted.

*Disagreements with Management*

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

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 23, 2012.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issue*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of audit committee, 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.

*Vavrinek, Trine, Day & Co LLP*

Pleasanton, California  
February 23, 2012

**TRACY SCHOOL  
FACILITIES FINANCING  
AUTHORITY JPA**

**ANNUAL FINANCIAL REPORT  
JUNE 30, 2011**

# TRACY SCHOOLS FACILITIES FINANCING AUTHORITY JPA

## TABLE OF CONTENTS

JUNE 30, 2011

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### ***FINANCIAL SECTION***

|   |   |
|---|---|
| Independent Auditors' Report                              | 2 |
| Management Discussion and Analysis                        | 4 |
| Statement of Net Assets                                   | 6 |
| Statement of Revenues, Expenses and Changes in Net Assets | 7 |
| Statement of Cash Flows                                   | 8 |
| Notes to Financial Statements                             | 9 |

### ***INDEPENDENT AUDITOR'S REPORTS***

|  |    |
|--|----|
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters<br>Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i><br><i>Auditing Standards</i> | 15 |
|--|----|

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***FINANCIAL SECTION***

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VAVRINEK, TRINE, DAY  
& COMPANY, LLP  
*Certified Public Accountants*

VALUE THE DIFFERENCE

## INDEPENDENT AUDITORS' REPORT

Governing Board  
Tracy School Facilities Financing Authority JPA  
Tracy, California

We have audited the accompanying financial statements of Tracy School Facilities Financing Authority JPA (the Agency), a component unit of Tracy Unified School District, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. 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, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Tracy School Facilities Financing Authority JPA at June 30, 2011, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The required supplementary information, including management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California  
February 23, 2012



# TRACY SCHOOL FACILITIES FINANCING AUTHORITY JPA

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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This section of Tracy School Facilities Financing Authority Joint Powers Agency (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, 2011. 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. This is the first year of operations for the Agency. Comparative analyses will be presented after the first year of operations.

The Tracy School Facilities Financing Authority JPA ("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 Authority.

### OVERVIEW OF THE FINANCIAL STATEMENTS

#### The Financial Statements

The report consists of three basic financial statements: the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows and provides information about the Agency as a whole. The financial statements also include notes that explain some of the information in the statements and provide detailed data.

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

#### The Statement of Net Assets

The focus of the Statement of Net Assets includes 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. This statement combines and consolidates current financial resources with capital assets and long-term obligations. Net assets are the difference between assets and liabilities, and are one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in the Agency's net assets are one indicator of whether its financial health is improving or deteriorating.

#### The Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets focuses on the costs of the Agency's operational activities, which are supported primarily by repayments from District bonds. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

#### The Statement of Cash Flows

The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the Agency.

# TRACY SCHOOL FACILITIES FINANCING AUTHORITY JPA

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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### FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The Agency's total assets, liabilities, and net assets for the fiscal year ended June 30, 2011 are presented below.

|                          |                                     |
|--------------------------|-------------------------------------|
| <b>Assets</b>            | 2011                                |
| Current assets           | \$ 510,707                          |
| Note receivable          | 16,000,000                          |
| Deferred charges         | 218,503                             |
| <b>Total Assets</b>      | <b><u>16,729,210</u></b>            |
| <b>Liabilities</b>       |                                     |
| Current liabilities      | 114,320                             |
| Long-term obligations    | 19,770,000                          |
| <b>Total Liabilities</b> | <b><u>19,884,320</u></b>            |
| <b>Net Assets</b>        |                                     |
| Restricted               | (3,155,110)                         |
| <b>Total Net Assets</b>  | <b><u><u>\$ (3,155,110)</u></u></b> |

The Agency's total revenue and expenditures for the fiscal year ended June 30, 2011, are presented below:

|                             |                                     |
|-----------------------------|-------------------------------------|
| <b>Revenues</b>             | 2011                                |
| General revenues:           |                                     |
| Investment revenue          | \$ 16,000,000                       |
| Interest revenue            | 114,320                             |
| <b>Total Revenues</b>       | <b><u>16,114,320</u></b>            |
| <b>Expenses</b>             |                                     |
| Interest expense            | 114,320                             |
| Transfer to District        | 19,155,110                          |
| <b>Total Expenses</b>       | <b><u>19,269,430</u></b>            |
| <b>Change in Net Assets</b> | <b><u><u>\$ (3,155,110)</u></u></b> |

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.

### LONG TERM DEBT

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.

### 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 [cgoodall@tusd.net](mailto:cgoodall@tusd.net).

**TRACY SCHOOL FACILITIES FINANCING AUTHORITY JPA**

**STATEMENT OF NET ASSETS  
JUNE 30, 2011**

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**ASSETS**

**Current Assets**

|                             |    |                |
|-----------------------------|----|----------------|
| Deposits and investments    | \$ | 396,387        |
| Interest receivable         |    | 114,320        |
| <b>Total Current Assets</b> |    | <u>510,707</u> |

**Noncurrent Assets**

|                                |  |                   |
|--------------------------------|--|-------------------|
| Note receivable                |  | 16,000,000        |
| Deferred charges               |  | 218,503           |
| <b>Total Noncurrent Assets</b> |  | <u>16,218,503</u> |
| <b>Total Assets</b>            |  | <u>16,729,210</u> |

**LIABILITIES**

|   |  |                   |
|---|--|-------------------|
| Interest payable from long term debt        |  | 114,320           |
| Noncurrent portion of long-term obligations |  | 19,770,000        |
| <b>Total Liabilities</b>                    |  | <u>19,884,320</u> |

**NET ASSETS**

|                         |    |                    |
|-------------------------|----|--------------------|
| Restricted for:         |    |                    |
| Debt service            |    | (3,155,110)        |
| <b>Total Net Assets</b> | \$ | <u>(3,155,110)</u> |

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

**TRACY SCHOOL FACILITIES FINANCING AUTHORITY JPA**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**REVENUES**

|                    |    |                   |
|--------------------|----|-------------------|
| Investment revenue | \$ | 16,000,000        |
| Interest revenue   |    | 114,320           |
| Total Revenue      |    | <u>16,114,320</u> |

**EXPENSES**

|                       |  |                   |
|-----------------------|--|-------------------|
| Interest expense      |  | 114,320           |
| Transfers to District |  | 19,155,110        |
| Total Expenses        |  | <u>19,269,430</u> |

|                               |    |                           |
|-------------------------------|----|---------------------------|
| Change in Net Assets          |    | (3,155,110)               |
| Net Assets, Beginning of Year |    | -                         |
| Net Assets, End of Year       | \$ | <u><u>(3,155,110)</u></u> |

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

**TRACY SCHOOL FACILITIES FINANCING AUTHORITY JPA**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**CASH FLOWS FROM INVESTING ACTIVITIES**

|   |                            |
|---|----------------------------|
| Purchase of District bonds                      | \$ (16,000,000)            |
| Grant to District                               | <u>(3,155,110)</u>         |
| <b>Net Cash Flows From Investing Activities</b> | <u><u>(19,155,110)</u></u> |

**CASH FLOWS FROM FINANCING ACTIVITIES**

|                    |                   |
|--------------------|-------------------|
| Proceeds from debt | <u>19,551,497</u> |
|--------------------|-------------------|

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

396,387

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR**

-

**CASH AND CASH EQUIVALENTS, END OF YEAR**

\$ 396,387

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

# TRACY SCHOOL FACILITIES FINANCING AUTHORITY JPA

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2011**

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### **NOTE 1 – DESCRIPTION OF AGENCY**

The Tracy School Facilities Financing Authority Joint Powers Agency (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**

#### **Basis of Presentation - Fund Accounting**

All activities of the Agency are presented as proprietary funds. The Agency's financial statements are presented on the accrual basis of accounting. Under this method income is recognized when earned, expenses are recorded when incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

#### **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, 2011, 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.

# TRACY SCHOOL FACILITIES FINANCING AUTHORITY JPA

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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### Deferred Issue Costs

The Agency has capitalized deferred issue costs associated with bond issues. The deferred issue costs are being amortized over the term of the respective bonds using the straight line method.

### Net Assets

In accordance with generally accepted governmental accounting standards, a statement of net assets, a statement of revenues and expenses and changes in net assets, and a statement of cash flow are presented. Net assets can be classified into restricted and unrestricted. These classifications are defined as follows:

Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net assets consists of net assets that do not meet the “restricted”, or “invested in capital assets, net of related debt definitions.

When both restricted and unrestricted resources are available for use, it is the Agency’s policy to use restricted funds first, then unrestricted resources as they are needed.

### 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.

### New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, the Financial Reporting Entity: Omnibus-an amendment of GASB Statement No. 14 and No. 34. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No 14, the Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component unit in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government’s management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

# TRACY SCHOOL FACILITIES FINANCING AUTHORITY JPA

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2011**

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This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the “substantively the same governing body” criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also classifies the reporting of equity interest in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

### **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, 2011, consists of \$396,387 of cash 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, 2011, the Agency was not exposed to custodial credit risk.



**TRACY SCHOOL FACILITIES FINANCING AUTHORITY JPA**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**NOTE 4 – RECEIVABLE FROM DISTRICT**

Receivables at June 30, 2011, consisted of bond payments to be received from the Tracy Unified School District as follows:

| Fiscal Year | Principal            | Interest to<br>Maturity | Total                |
|-------------|----------------------|-------------------------|----------------------|
| 2012        | \$ -                 | \$ 348,000              | \$ 348,000           |
| 2013        | 400,000              | 474,000                 | 874,000              |
| 2014        | 497,000              | 460,545                 | 957,545              |
| 2015        | 535,000              | 445,065                 | 980,065              |
| 2016        | 578,000              | 428,370                 | 1,006,370            |
| 2017-2021   | 3,880,000            | 1,832,820               | 5,712,820            |
| 2022-2026   | 10,110,000           | 1,106,970               | 11,216,970           |
| Total       | <u>\$ 16,000,000</u> | <u>\$ 5,095,770</u>     | <u>\$ 21,095,770</u> |

**NOTE 5 – LONG TERM DEBT**

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

**Summary**

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

| Issue<br>Date | Maturity<br>Date | Interest<br>Rate | Original<br>Issue    | Bonds<br>Outstanding<br>July 1, 2010 | Issued               | Redeemed    | Bonds<br>Outstanding<br>June 30, 2011 |
|---------------|------------------|------------------|----------------------|--------------------------------------|----------------------|-------------|---------------------------------------|
| 5/10/11       | 8/1/2026         | 5.14%            | <u>\$ 19,770,000</u> | <u>\$ -</u>                          | <u>\$ 19,770,000</u> | <u>\$ -</u> | <u>\$ 19,770,000</u>                  |

| Fiscal Year | Principal            | Interest to<br>Maturity | Total                |
|-------------|----------------------|-------------------------|----------------------|
| 2012        | \$ -                 | \$ 736,729              | \$ 736,729           |
| 2013        | -                    | 1,016,178               | 1,016,178            |
| 2014        | -                    | 1,016,178               | 1,016,178            |
| 2015        | -                    | 1,016,178               | 1,016,178            |
| 2016        | 1,055,000            | 989,064                 | 2,044,064            |
| 2017-2021   | 6,190,000            | 4,047,493               | 10,237,493           |
| 2022-2026   | 12,525,000           | 2,289,163               | 14,814,163           |
| Total       | <u>\$ 19,770,000</u> | <u>\$ 11,110,983</u>    | <u>\$ 30,880,983</u> |

# TRACY SCHOOL FACILITIES FINANCING AUTHORITY JPA

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2011**

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### **NOTE 6 – NET ASSETS**

The net asset deficit 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 interest on the Agency debt will be covered by an interest subsidy from the government, and is expected to result in no interest cost to the Agency.

### **NOTE 7 - COMMITMENTS AND CONTINGENCIES**

#### **Grants**

The Agency receives financial assistance from Federal agencies in the form of Qualified School Construction Bonds (QSCB). 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, 2011.

#### **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.

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***INDEPENDENT AUDITORS' REPORTS***

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VAVRINEK, TRINE, DAY  
& COMPANY, LLP  
*Certified Public Accountants*

VALUE THE DIFFERENCE

**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 JPA  
Tracy, California

We have audited the financial statements of Tracy School Facilities Financing Authority JPA as of and for the year ended June 30, 2011, which collectively comprise Tracy School Facilities Financing Authority JPA's basic financial statements and have issued our report thereon dated February 23, 2012. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Tracy School Facilities Financing Authority JPA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tracy School Facilities Financing Authority JPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tracy School Facilities Financing Authority JPA's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Tracy School Facilities Financing Authority JPA'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the governing board, audit committee, management, the California Department of Education, the State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California  
February 23, 2012

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**TRACY SCHOOL FACILITIES FINANCING AUTHORITY JPA**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

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None reported.

