BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY

OF ORANGE COUNTY

COSTA MESA, CALIFORNIA

(A Joint Powers Entity)

JUNE 30, 2018

GOVERNING BOARD

MEMBER	PARTICIPANT	OFFICE
Mr. Timothy Holcomb	Newport-Mesa Unified School District	President
Mr. Dan Matusiewicz	City of Newport Beach	Vice President
Mr. Jeff Trader	Newport-Mesa Unified School District	Secretary/Treasurer
Mr. Steve Montano	City of Newport Beach	Alternate

ORGANIZATION

The Bonita Canyon Public Facilities Financing Authority was established December 9, 1997, under a joint powers agreement for the purpose of approving the issuance of bonds for the financing of certain public improvements and the imposition of the special tax and the method of apportionment thereof. The Bonita Canyon Public Facilities Financing Authority consisted of the Irvine Unified School District, Newport-Mesa Unified School District, and the City of Newport Beach. On July 1, 1999, Irvine Unified School District withdrew from the Authority. On March 18, 1998, the Governing Board passed the Resolution of Formation to establish the Community Facilities Agency and called for an election for the purpose of approving the issuance of bonds for the financing of certain public improvements and the imposition of the special tax and the method of apportionment thereof.

BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Governing Board
Bonita Canyon Public Facilities Financing Authority
Costa Mesa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Bonita Canyon Public Facilities Financing Authority (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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; and the State Controller's *Minimum Audit Requirements for California Special Districts*. 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 Authority'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 Authority'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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bonita Canyon Public Facilities Financing Authority, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such mission 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 statement in an appropriate operation, economic, or historical context. Our opinion on the basic financial statement is no affected by this missing information

Vavrinek, Trine, Day & Co, LLP

Rancho Cucamonga, California
December 19, 2018

BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Investments	$ 21,080
NET POSITION	
Restricted for:	
Capital projects	$ 21,080

A reconciliation summary to the Statement of Net Position has not been presented as there are no reconciling items.

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

BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Expenses	Net Governmental Activities
GOVERNMENTAL ACTIVITIES		
General administration:		
All other general administration	$ 290,026	$ 290,026
GENERAL REVENUES		
Dividend income		188
Miscellaneous		292,804
Total General Revenues		292,992
Change in Net Position		2,966
Net Position - Beginning		18,114
Net Position - Ending		$ 21,080

A reconciliation summary to the Statement of Activities has not been presented as there are no reconciling items.

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

BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	Capital Projects Fund
ASSETS	
Investments	$ 21,080
FUND BALANCES	
Restricted for:	
Capital projects funds	$ 21,080

A reconciliation summary to the Statement of Net Position has not been presented as there are no reconciling items.

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

BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	Capital Projects Fund
REVENUES	
Dividend income	$ 188
Other local sources	292,804
Total Revenues	292,992
EXPENDITURES	
Current	
All other general administration	290,026
Net Change in Fund Balances	2,966
Fund Balances - Beginning	18,114
Fund Balances - Ending	$ 21,080

A reconciliation summary to the Statement of Activities has not been presented as there are no reconciling items.

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

BONITA CANYON PUBLIC FACILITIES FINANCING AUTHORITY

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Agency Fund
ASSETS	
Investments	$ 2,854,930
LIABILITIES	
Due to bond holders	$ 2,854,930

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Bonita Canyon Public Facilities Financing Authority (the Authority) was formed on December 9, 1997, by a joint powers agreement among the following Orange County Government Agencies: Irvine Unified School District, Newport-Mesa Unified School District, and the City of Newport Beach. On July 1, 1999, Irvine Unified School District withdrew from the Authority. The purpose of the Authority is to finance the costs of certain school facilities, public parks and recreation facilities, and street improvements and facilities.

On March 18, 1998, the Governing Board passed the Resolution of Formation to establish the Community Facilities Agency and called an election for the purpose of approving the issuance of bonds for the financing of certain public improvements and the imposition of the Special Tax and the method of apportionment thereof. On March 18, 1998, qualified electors within the Community Facilities Agency, being The Irvine Company, voted to incur bonded indebtedness in the maximum aggregate principal amount of $45,000,000 with interest at a rate or rates established at such time as the Bonds were sold in one or more series to finance the facilities, secured by a pledge of, and are payable solely from, the proceeds of the annually levied Special Tax. The Special Tax is levied and collected according to the rate and method of apportionment as described in the Resolution of Formation. A notice of Special Tax levy was recorded on April 1, 1998, with the County Recorder.

The Authority is governed by an appointed Governing Board. The Governing Board is comprised of two members selected by each participant agency. The Authority is fiscally responsible for its own operation, major financing arrangements, and contracts. Its significant accounting policies, as described below, are the same as for any independent Joint Powers Authority.

Description of Funds

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The Authority's funds are identified as governmental funds and fiduciary funds.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Authority's governmental funds:

Capital Projects Fund The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the Authority's own programs. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the Authority under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Authority's own programs. The Authority does not have any trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Authority's agency fund accounts for the receipt of special taxes and assessments used to pay principal and interest on related bonds with no Authority liability.

Basis of Accounting – Measurement Focus

Government-Wide Financial Statements The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, which is different from the manner in which governmental fund financial statements are prepared.

Since the Authority does not have program revenues, the financial Statement of Activities presents all revenues as general revenues. Expenses are reported on a functional basis.

Net position should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Fund Financial Statements Fund financial statements report detailed information about the Authority. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The Authority only has one fund, of which is a major governmental fund.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the financial statements because they do not represent resources of the Authority.

Revenues – Exchange and Non-Exchange Transactions On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 90 days. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include contributions from property owners. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds.

Investments

Investments held at June 30, 2018, 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.

Fund Balances - Governmental Funds

As of June 30, 2018, fund balance of the governmental fund is classified as follows:

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

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Authority 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 liabilities. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Budgets and Budgetary Accounting

Annually, the Authority's Governing Board adopts an operating budget. The Board and Treasurer revise this budget during the year to give consideration to unanticipated revenues and expenses partially resulting from events unknown at the time of budget adoption.

Income Taxes

The Authority's income is exempt from Federal and State income taxes under *Internal Revenue Code* Section 115 and the corresponding section of the *California Revenue and Taxation Code*.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - INVESTMENTS

Policies and Practices

The Authority 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 as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	$	21,080
Fiduciary funds		2,854,930
Total Investments	$	2,876,010

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Specific Identification

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

Investment Type	Amount Reported	Average Maturity in Days
Goldman Sachs Financial Square Governmental Mutual Fund #465	$ 2,876,010	35

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. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority manages its exposure to interest rate risk by investing in short-term money market funds for cash flow requirements.

Credit Risk

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. The investment in the Goldman Sachs Financial Square Governmental Mutual Fund #465 has not been rated.

NOTE 3 - FAIR MARKET VALUE MEASUREMENTS

The Authority determines the fair market 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 Authority 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 Authority's own data. The Authority should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the Authority are not available to other market participants.

The Authority's fair value measurements are as follows at June 30, 2018:

Investment Type	Reported Amount	Fair Value Measurements Using Level 2 Inputs
Goldman Sachs Financial Square Governmental Mutual Fund #465	$ 2,876,010	$ 2,876,010

All assets have been valued using a market approach, with quoted market prices.

NOTE 4 - FUND BALANCES

Fund balances are composed of the following elements:

	Capital Projects Fund
Restricted	
Administrative expense	$ 21,080

NOTE 5 - NON-OBLIGATORY DEBT

Summary

These bonds are authorized pursuant to the Mello-Roos Community Facilities Act of 1982 as amended, and are payable from special taxes levied on property within Community Facilities District No. 98-1 according to a methodology approved by the voters within the Authority. Neither the faith and credit nor taxing power of the Authority is pledged to the payment of the bonds. The Authority acts solely as an agent for those paying taxes levied. As a result, this debt is considered non-obligatory debt of the Authority. During the 2017-2018 fiscal year, the outstanding obligations of Community Facilities District No. 98-1's Special Tax Bonds, Series 2012 were refunded through the issuance of Community Facilities District No. 98-1's 2017 Special Tax Refunding Bonds. At June 30, 2018, Community Facilities District No. 98-1' 2017 Special Tax Refunding Bonds had a remaining balance of $28,245,000.

During the year, a total of $3,269,434 in special tax assessment revenues was received in connection with paying the annual debt service obligation. Total debt service payments, including principal and interest, made during the current year were $2,646,580.

The Special Tax Bonds mature through 2029 as follows:

Year Ending June 30,	Principal	Interest	Total
2019	$ 2,490,000	$ 715,500	$ 3,205,500
2020	2,230,000	652,960	2,882,960
2021	2,360,000	592,143	2,952,143
2022	2,490,000	527,880	3,017,880
2023	2,620,000	460,173	3,080,173
2024-2028	15,305,000	1,153,876	16,458,876
2029	750,000	9,938	759,938
Total	$ 28,245,000	$ 4,112,470	$ 32,357,470