

**ROCKLIN PUBLIC
FINANCING AUTHORITY**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018



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ROCKLIN PUBLIC FINANCING AUTHORITY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Rocklin Public Financing Authority
Rocklin, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Rocklin Public Financing Authority (the "Authority"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's 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, 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Rocklin Public 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.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and other required supplementary information, as listed in the table of contents, 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 November 19, 2018 on our consideration of the 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 the Authority's internal control over financial reporting and compliance.

C & A LLP

November 19, 2018
San Jose, California

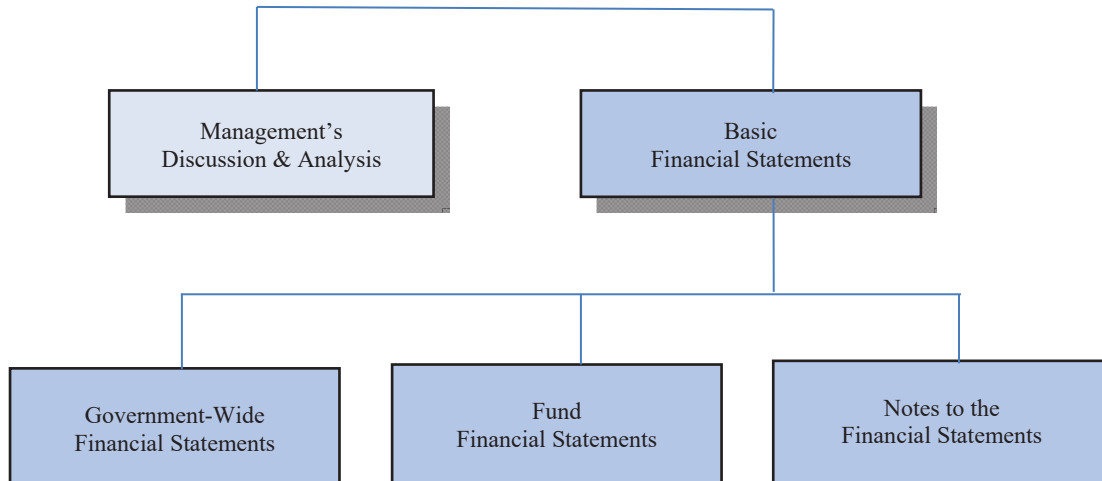
**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

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INTRODUCTION

The Management’s Discussion and Analysis (MD&A) is an integral component of the Authority’s Annual Financial Report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the Authority’s financial performance during the fiscal year that ended on June 30, 2018. This information, presented in conjunction with the Basic Financial Statements is intended to provide a comprehensive understanding of the Authority’s operations and financial standing.

Required Components of the Annual Financial Report



FISCAL YEAR 2017/18 FINANCIAL HIGHLIGHTS

In 1999, the Rocklin Public Financing Authority (Authority) issued \$14,810,000 in revenue bonds to purchase special tax bonds issued by Community Facilities Districts No. 6, No. 8 and No. 9 (the CFD’s). The CFD bonds provided financing for public facilities and infrastructure within the Sunset West plan area. The CFD bonds are paid for by special taxes levied on property within each district. The Authority bonds are paid for by funds received from the CFD’s debt service payments to the Authority. In 2003, the Authority revenue bonds were refunded providing a lower debt service and interest payment requirement.

During Fiscal Year 2017/2018 market conditions provided favorable interest rates for refunding both the outstanding 2003 Authority revenue bonds and the refunding/restructure of the 1999 CFD special tax bonds. In order to provide funds to refund the 1999 CFD bonds and, in turn, refund the 2003 Authority Bonds, the Authority borrowed \$5,000,0007 from OPUS Bank to loan to each CFD which in turn used the funds to refund the 1999 CFD bonds held by the Authority and thereby providing to the Authority the funds necessary to refund the 2003 Authority Bonds.

This refunding resulted in a net savings or gain to the Authority of \$1,989,923 in principal and a reduction in the interest rate of approximately 2.3%. Per the Governmental Accounting Standards Board Statement No. 65, the gain is required to be reported as a deferred inflow of resources (unearned gain) on the Statement of Net Position. Because this unearned gain will be amortized (recognized) over the life of the new debt this deferral creates a negative Unrestricted Net Position and negative Total Net Position on the Authority’s Government-wide Financial Statements. This negative Net Position will be reduced to zero over the life of the debt. Generally, the Net Position may serve over time as an

indicator of an entities' financial position. However, with regards to the Authority, the negative net position is a result of the accounting construct and not a result of an unhealthy financial position.

THE BASIC FINANCIAL STATEMENTS

The Basic Financial Statements are comprised of 1) Government-wide (Authority-wide) Financial Statements, and; 2) Fund Financial Statements. These two sets of financial statements provide the reader two different perspectives of the Authority's financial activities and financial position.

Government-Wide Financial Statements provide a longer-term view of the Authority's activities as a whole, and comprise the *Statement of Net Position* and the *Statement of Activities*. The *Statement of Net Position* provides information about the financial position of the Authority as a whole, including all its capital assets and long-term liabilities on a full accrual basis, similar to that used by corporations. The *Statement of Activities* provides information about all the Authority's revenues and all its expenses, also on a full accrual basis, with the emphasis on measuring net revenues and/or expenses for each of the Authority's programs. The *Statement of Activities* explains in detail the change in Net Position for the fiscal year.

All of the Authority's activities are required to be grouped into government activities and business-type activities. The entire amount in the *Statement of Net Position* and the *Statement of Activities* are also required to be separated into governmental activities or business-type activities in order to distinguish between these two types of activities of the Authority.

Fund Financial Statements report the Authority's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the Authority's general fund and other major funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt, and other long-term amounts.

NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found immediately following the fund financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information other than through the MD&A follows the Notes and includes a budgetary comparison for the Authority's operating fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table summarized the Authority's ending net position:

Table 1 - Net Position				
	Governmental Activities		Dollar Change	Percent Change
	2018	2017		
Assets				
Current	\$ 4,227,332	\$ 9,971,049	\$ (5,743,717)	-57.6%
Total Assets	\$ 4,227,332	\$ 9,971,049	\$ (5,743,717)	-57.6%
Liabilities				
Current	\$ 548,451	\$ 805,000	\$ (256,549)	-31.9%
Noncurrent liabilities	3,634,290	6,290,000	(2,655,710)	-42.2%
Total Liabilities	\$ 4,182,741	\$ 7,095,000	\$ (2,912,259)	-41.0%
Deferred Inflows of Resources	\$ 1,989,923	\$ -	\$ 1,989,923	100.0%
Net Position				
Restricted	\$ 67,213	\$ 2,876,049	\$ (2,808,836)	-97.7%
Unrestricted	(2,012,545)	-	(2,012,545)	100.0%
Total Net Position	\$ (1,945,332)	\$ 2,876,049	\$ (4,821,381)	-167.6%

The changes in current assets, total liabilities and deferred inflow of resources were the results of refunding the special assessment bonds using available cash and a loan from OPUS bank. See note 3 in the note to the financial statements for additional information.

GOVERNMENTAL ACTIVITIES

An analysis of the changes in revenues, special items and expenses by type of significant events follows:

Table 2 - Statement of Changes in Net Position

Functions/Programs	Governmental Activities		Dollar Change	Percent Change
	2018	2017		
General Revenues and Special Items				
Investment earnings	\$ 58,382	\$ 499,703	\$ (441,321)	-88.3%
Special item - payments received from the Community Facilities Districts	228,999	-	228,999	100.0%
Special item - payments made to the Community Facilities Districts	(4,810,118)	-	(4,810,118)	-100.0%
Total General Revenues and Special Items	(4,522,737)	499,703	(5,022,440)	-1005.1%
Expenses				
General government	42,687	22,700	19,987	88.0%
Interest and fiscal charges	255,957	319,722	(63,765)	-19.9%
Total Expenses	298,644	342,422	(43,778)	-12.8%
Increase / (Decrease) in Net Position	(4,821,381)	157,281	(4,978,662)	3165.5%
Net Position, Beginning of Year	2,876,049	2,718,768	157,281	5.8%
Net Position, End of Year	\$ (1,945,332)	\$ 2,876,049	\$ (4,821,381)	-167.6%

Significant changes in governmental revenues consisted of the following:

- Investment earnings accounted for 100% of all revenue, not including special items. Interest rates on Authority investments are predetermined and, therefore, subject to limited interest rate risk providing a stable revenue source for the Authority.
- Interest earnings decreased by \$441,321 because of the debt refunding.
- Payments totaling \$4,810,118 were made to the Community Facilities Districts to retire the special assessment bonds. The Authority also received \$228,999 from the CFD'S to cover issuance cost.

Significant changes in governmental expenses consisted of the following:

- The 2017-18 expenses for Governmental Activities decreased by \$43,788. This decrease is due to a combination of an increase in General government expenses of \$19,987 and a decrease in Interest on fiscal charges of \$63,765.

DEBT ADMINISTRATION

The following table summarizes the Authority’s debt at the end of the year:

Table 3 - Long-Term Debt				
	Governmental Activities			
	2018	2017	Dollar Change	% Change
2003 PFA Refunding Revenue				
Bonds-Senior	\$ -	\$ 6,440,000	\$ (6,440,000)	-100.0%
2003 PFA Refunding Revenue				
Bonds - Subordinate	-	550,000	(550,000)	-100.0%
OPUS Bank Loan -				
RPFA Refunding	4,151,706	-	4,151,706	100.0%
Total Long-Term Debt	<u>\$ 4,151,706</u>	<u>\$ 6,990,000</u>	<u>\$ (2,838,294)</u>	-40.6%

Additional detail and information on long-term debt activity is described in the notes to the financial statements (Note 3).

BUDGETARY HIGHLIGHTS

Changes from the Authority's original budget to the final budget are detailed in the Required Supplementary Information Section along with a comparison to actual activity for the year ended. Changes to the Authority's budget that increase or decrease appropriations in a fund must be approved by a resolution of the Board. Appropriations did not change during the year. The Debt Service Fund’s adopted and final budgeted revenues were \$452,600. The adopted and final expenditure budget was \$1,023,600.

REQUEST FOR FINANCIAL INFORMATION

This financial report is designed to provide our customers and creditors a general overview of the Rocklin Public Financing Authority's finances and seeks to demonstrate the Authority's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, 3970 Rocklin Road, Rocklin, California, 95677.

**BASIC FINANCIAL
STATEMENTS**

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Rocklin Public Financing Authority
Statement of Net Position
June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	Governmental Activities	
	2018	2017
ASSETS		
Current Assets:		
Cash and investments	\$ 8,413	\$ 624
Restricted cash and investments	4,218,919	9,970,425
Total Assets	\$ 4,227,332	\$ 9,971,049
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,035	\$ -
Interest payable	30,000	105,000
Long-term debt - due within one year	517,416	700,000
Total Current Liabilities	548,451	805,000
Noncurrent Liabilities:		
Long-term debt - due after one year	3,634,290	6,290,000
Total Liabilities	\$ 4,182,741	\$ 7,095,000
DEFERRED INFLOWS OF RESOURCES		
Deferred Gain on Early Defeasance of Long-Term Debt	\$ 1,989,923	\$ -
NET POSITION		
Restricted	\$ 67,213	\$ 2,876,049
Unrestricted	(2,012,545)	-
Total Net Position	\$ (1,945,332)	\$ 2,876,049

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

Rocklin Public Financing Authority
Statement of Activities
For the year ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

Functions/Programs	Expenses	Net (Expense) Revenue and Change in Net Position	
		2018	2017
Governmental Activities			
General government	\$ 42,687	\$ (42,687)	\$ (22,700)
Interest and fiscal charges	255,957	(255,957)	(319,722)
Total Governmental Activities	\$ 298,644	(298,644)	(342,422)
General Revenues:			
Investment earnings		58,382	499,703
Special Items:			
Payments made to the Community Facilities Districts		(4,810,118)	
Payments received from the Community Facilities Districts		228,999	-
Total General Revenues and Special Items		(4,522,737)	499,703
Change in Net Position		(4,821,381)	157,281
Net Position - Beginning of Year		2,876,049	2,718,768
Net Position - End of Year		\$ (1,945,332)	\$ 2,876,049

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

Rocklin Public Financing Authority
Balance Sheet
Governmental Funds
June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

ASSETS	<u>2018</u>	<u>2017</u>
Cash and investments	\$ 8,413	\$ 624
Restricted cash and investments	4,218,919	9,970,425
Total assets	<u>\$ 4,227,332</u>	<u>\$ 9,971,049</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,035	\$ -
Fund Balance		
Restricted	4,226,297	9,971,049
Total liabilities and fund balance	<u>\$ 4,227,332</u>	<u>\$ 9,971,049</u>

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

Rocklin Public Financing Authority
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2018

Total Fund Balances - Total Governmental Funds \$ 4,226,297

Amounts reported for governmental activities in the statement of net position were different because:

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet. (30,000)

Long-term debt defeasances are reported in the funds as other financing uses based on cash payments related to the repayment of debt. However, the difference between the refunded debt and the refunding debt is reported as a deferred gain or loss in the government-wide statement of net position. (1,989,923)

Long-term obligations were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:

OPUS Bank Loan (4,151,706)

Net Position of Governmental Activities \$ (1,945,332)

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

Rocklin Public Financing Authority
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	2018	2017
REVENUES		
Use of money and property	\$ 58,382	\$ 499,703
Total Revenues	<u>58,382</u>	<u>499,703</u>
EXPENDITURES		
Current:		
General government	42,687	22,700
Debt service:		
Principal	848,371	675,000
Interest and fiscal charges	330,957	329,722
Total Expenditures	<u>1,222,015</u>	<u>1,027,422</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,163,633)</u>	<u>(527,719)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from debt issuance	5,000,077	-
Defeasance of debt	(5,000,077)	-
Payments from Community Facilities Districts	228,999	-
Payments to Community Facilities Districts	(4,810,118)	-
Total Other Financing Sources (Uses)	<u>(4,581,119)</u>	<u>-</u>
Net Change in Fund Balances	(5,744,752)	(527,719)
Fund Balances Beginning	<u>9,971,049</u>	<u>10,498,768</u>
Fund Balances Ending	<u>\$ 4,226,297</u>	<u>\$ 9,971,049</u>

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

Rocklin Public Financing Authority
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Government-Wide
Statement of Activities
For the year ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds \$(5,744,752)

Amounts reported for governmental activities in the Statement of Activities and Changes
in net position were different because:

Repayment of long-term debt was an expenditure in governmental funds, but the repayment
reduced long-term liabilities in the Government-Wide Statement of net position. 848,371

Interest expense on long-term debt was reported in the Government-Wide Statement of
Activities and Changes in net position, but it did not require the use of current financial
resources. Therefore, interest expense was not reported as expenditures in governmental
funds. The following amount represented the net change in accrued interest from
from prior year. 75,000

Change in Net Position of Governmental Activities \$(4,821,381)

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

**NOTES TO FINANCIAL
STATEMENTS**

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Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

On December 13, 1994, pursuant to Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, the City of Rocklin (City) authorized the formation of a joint powers authority with the former Rocklin Redevelopment Agency to be known as the Rocklin Public Financing Authority (Authority).

The Authority is governed by a Board consisting of members of the City Council. Oversight responsibility, the ability to conduct independent financial affairs, issue debt instruments, approve budgets, and otherwise influence operations and account for fiscal matters is exercised by the Authority's governing board. The Authority is a blended component unit of the City for financial reporting purposes and the accompanying basic financial statements reflect the assets, liabilities, fund balances/net position, revenues, and expenditures/expenses of the Authority only.

The basic financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Financial Reporting Entity

As defined by GASB Statement No. 39, *The Financial Reporting Entity*, the Authority is not financially accountable for any other entity other than itself, nor are there any other entities for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete.

B. Basis of Presentation, Accounting and Measurement Focus

The accounts of the Authority are organized and accounted for in a governmental type debt service fund, which is considered a separate accounting entity. This debt service fund was established to account for the debt service activity of the Public Financing authority. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in a fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Authority's government-wide financial statements include a *Statement of Net Position* and a *Statement of Activities*. These statements present summaries of governmental activities for the Authority.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources (including capital assets, as well as infrastructure assets, and long-term liabilities), are included in the accompanying *Statement of Net Position*, as applicable. The *Statement of Activities* presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2018

function or segment is offset by program revenues. *Direct expenses* are those clearly identifiable with a specific function or segment.

Governmental Fund Financial Statements

Governmental fund financial statements include a *Balance Sheet* and a *Statement of Revenues, Expenditures and Changes in Fund Balances* for the Authority's one major governmental fund. An accompanying schedule is presented to reconcile and explain the differences in fund balance as presented in these statements to the net position presented in the government-wide financial statements.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources are included on the balance sheets, as applicable. The *Statement of Revenues, Expenditures and Changes in Fund Balances* present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (up to 60 days after year-end) are recognized when due. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Unearned revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the unearned revenue is removed from the combined balance sheet and revenue is recognized.

C. Cash Deposits and Investments

For the purposes of the Statement of Net Position, "cash and investments" includes all demand, savings accounts, and certificates of deposits, or short-term investments with an original maturity of three months or less.

The City/Authority has oversight responsibility for all Authority cash and investments.

The California Government Code requires California banks and savings and loan associations to secure government cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral is considered to be held in the government's name.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2018

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized

D. Deferred Outflows/Deferred Inflows

Deferred outflows of resources is a consumption of net position by the Authority that is applicable to a future reporting period; for example, prepaid items and deferred charges. Deferred inflows of resources is an acquisition of net position by the Authority that is applicable to a future reporting period; for example, advance collections or deferred gains from the early defeasance of long-term debt.

E. Interest Payable

In the government-wide financial statements, interest payable for long-term debt is recognized as an incurred liability. In the fund financial statements, governmental fund types do not recognize the interest payable when the liability is incurred. Interest on long-term debt is recorded in the fund statements when the payment is made.

F. Long-Term Debt

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. The Long-term debt consists of a bank loan from OPUS Bank.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenue and payment of principal and interest reported as expenditures.

G. Fund Balances

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Authority classifies governmental fund balances as follows:

Nonspendable

Nonspendable fund balance includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted

Restricted fund balance includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2018

Committed

Committed fund balance includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the Authority's governing board.

Assigned

Assigned fund balance includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Authority Manager.

Unassigned

The Unassigned fund balance category represents fund balance which may be held for specific types of uses or stabilization purposes, but is not yet directed to be used for a specific purpose. The detail of amounts reported for each of the above defined fund balance categories is reported in the governmental funds balance.

Flow Assumption / Spending Order Policy

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to be spent first. When expenditures are incurred for which committed, assigned, or unassigned fund balances are available, the Authority considers amounts to be spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Authority's governing board has directed otherwise.

H. Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets

This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. The Authority did not report any capital assets at the end of the year.

Restricted Net Position

This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments. Certain proceeds from debt are reported as restricted net position because their use is limited by applicable debt or other covenants.

Unrestricted Net Position

This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

The detail of amounts reported for each of the above defined net position categories is reported in the government-wide Statement of Net Position.

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2018

Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Authority's policy is to apply restricted net position first.

I. Budgets

Budgets are prepared on the modified accrual basis of accounting, in which debt principal and interest, and capital assets acquired are recorded as expenditures and depreciation is not recorded.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. By June 30, management recommends to the Board a proposed operating budget for the year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is legally enacted through passage of a motion during a Board meeting prior to the commencement of the new fiscal year.
3. The Board approves all budget transfers and revisions.
4. Formal budgeting is employed as a management control device during the year.
5. Budgets for the Debt Service Fund are adopted on a basis consistent with accounting principles generally accepted in the United States (GAAP).

Budgeted amounts are as originally adopted or as amended by the Board. There were no amendments recorded for the fiscal year.

J. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Subsequent Events

Management has considered subsequent events through November 19, 2018, the date which the financial statements were available to be issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined there are no non-recognized subsequent events that require additional disclosure.

L. Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the government's financial position and operations.

M. New Accounting Pronouncements

GASB Statement No. 86, *Certain Debt Extinguishment Issues*

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged. This statement did not have an impact on the Authority's financial statements.

N. Upcoming Accounting and Reporting Changes

GASB Statement No. 83, *Certain Asset Retirement Obligations*

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The Authority doesn't believe this statement will have a significant impact on the Authority's financial statements.

GASB Statement No. 87, *Leases*

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the fiscal year ending June 30, 2021. The Authority doesn't believe this statement will have a significant impact on the Authority's financial statements.

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June 30, 2018

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The Authority doesn't believe this statement will have a significant impact on the Authority's financial statements.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of the Construction Period

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The Authority doesn't believe this statement will have a significant impact on the Authority's financial statements.

NOTE 2 - CASH AND INVESTMENTS

As of June 30, 2018, cash and investments were reported in the financial statements as follows:

	Fair Value		Total Cash and Investments
	Unrestricted	Restricted	
Cash held with City of Rocklin	\$ 8,413	\$ -	\$ 8,413
OPUS Bank money market accounts	-	67,213	67,213
Special Assessment Investments	-	4,151,706	4,151,706
Total cash and investments	<u>\$ 8,413</u>	<u>\$ 4,218,919</u>	<u>\$ 4,227,332</u>

A. Cash Deposits

The California Government Code requires California banks and savings and loan associations to secure the Authority's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest, and places the Authority ahead of general creditors of the institution.

The market value of pledged securities must equal at least 110 percent of the Authority's cash deposits. California law also allows institutions to secure Authority deposits by pledging first trust deed mortgage notes that have a value of 150 percent of the Authority's total cash deposits. The Authority has waived

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2018

the collateral requirements for cash deposits which are fully insured to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

B. Safekeeping

Securities purchased from broker-dealers are held in third party safekeeping by the trust department of the broker-dealer or other designated third party trust in the Authority/City's name and control, whenever possible.

C. Investment

Loans to CFD's No. 6, No. 8 and No. 9 (special assessments) are investments of the Authority. The balance at June 30, 2018 was \$4,151,706.

Investment Policies

Under the provisions of the Authority's investment policy, and in accordance with California Government Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity ⁽¹⁾	Maximum Total of Portfolio	Maximum Investment in Any One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	5%
Commercial Paper	270 days	25%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Repurchase Agreements	90 days	15%	5%
Reverse Repurchase Agreements	90 days	15%	5%
Medium-Term Notes	5 years	30%	5%
Time Deposits	5 years	10%	5%
Mutual Funds (Including Money Markets)	N/A	15%	5%
Mortgage Pass-Through Securities	5 years	20%	5%
Local Agency Investment Fund (LAIF)	N/A	None	None
Placer County Investment Pool	N/A	25%	N/A
Collateralized Obligations	None	10%	5%

⁽¹⁾ However, if in the judgement of the Investment Committee it is to the advantage of the City, investments may be made with maturities longer than five years, as long as the weighted average maturity of the City's Fund is five years or less.

D. Risk Disclosures

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 term of an investment's maturity, the greater the sensitivity to changes in market interest rates.

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2018

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2018, the Authority's investments were in compliance with the ratings required by the Authority's investment policy, indenture agreements and Government Code.

Concentrations of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2018, the Authority invested 2% of its cash in money market accounts with OPUS Bank and 98% in special assessment debt.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

E. Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

In the table on page 23, money market accounts are valued using Level 2 inputs and special assessment bonds are valued using Level 1 inputs.

NOTE 3 - NONCURRENT LIABILITIES

The Authority's noncurrent liabilities consisted of the following as of June 30, 2018:

Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
2003 Public Financing Authority (PFA)					
Refunding Revenue Bonds-Senior	\$ 6,440,000	\$ -	\$ 6,440,000	\$ -	\$ -
2003 PFA Refunding Revenue					
Bonds - Subordinate	550,000	-	550,000	-	-
OPUS Bank Loan - RPFA Refunding	-	5,000,077	848,371	4,151,706	517,416
Total Noncurrent Liabilities	\$ 6,990,000	\$ 5,000,077	\$ 7,838,371	\$ 4,151,706	\$ 517,416

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2018

2003 Senior and Subordinate Refunding Revenue Bonds

In January 2004, the Rocklin Public Financing Authority issued \$12,575,000 of 2003 Senior Refunding Revenue Bonds and \$1,455,000 of 2003 Subordinate Refunding Revenue Bonds. Proceeds from the 2003 bonds were used to refund the outstanding 1999 Rocklin Public Financing Authority Revenue Bonds. On July 1, 2017, the Authority issued the 2017 Special Tax Revenue Refunding Loan Agreement for \$5,000,077 to pay off the remaining balance of the 2003 Refunding Revenue Bonds.

Rocklin Public Finance Authority OPUS Loan

On July 1, 2017, the City, on behalf of Community Facilities Districts (CFD) 6, 8 and 9, agreed to borrow from the Rocklin Public Financing Authority (Authority) an amount necessary to refund 1999 CFD special tax bonds and pledged the special tax revenues levied in each CFD to the Authority. In the 2017 Special Tax Revenue Refunding Loan Agreement, the Authority agrees to borrow from OPUS Bank, the funds necessary to refund the 1999 CFD special tax bonds and in turn, refund the Authority's 2003 refunding revenue bonds. The OPUS Bank loan is secured by a pledge of the revenues received by the Authority from the 2017 CFD loan payments. Opus Bank has no remedy against the City if special taxpayers in the CFD's fail to make their payments. The loan was \$5,000,077 at a fixed interest rate of 2.2% and matures on September 1, 2025. This loan was reported as City debt as required by GASB 62 and NCGA Statement 5. The refunding resulted in an economic gain of \$1,989,923, which will be amortized over the life of the loan.

The annual debt service requirements on long-term debt is as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 517,416	\$ 85,646	\$ 603,062
2020	528,461	74,141	602,602
2021	540,963	62,378	603,341
2022	551,712	50,358	602,070
2023	486,348	38,940	525,288
2024-2026	1,526,806	50,899	1,577,705
Total	<u>\$ 4,151,706</u>	<u>\$ 362,362</u>	<u>\$ 4,514,068</u>

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Lawsuits

The Authority could be exposed to certain matters of litigation that arise in the normal course of conducting Authority business. Management believes, based upon consultation with the Authority Attorney, that any cases, in the aggregate, would not be expected to result in a material adverse financial impact on the Authority.

**REQUIRED SUPPLEMENTARY
INFORMATION**

Rocklin Public Financing Authority
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (GAAP Basis)
Public Financing Authority Debt Service Fund
For the year ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property	\$ 452,600	\$ 452,600	\$ 58,382	\$ (394,218)
Total Revenues	452,600	452,600	58,382	(394,218)
EXPENDITURES				
Current:				
General government	22,500	22,500	42,687	(20,187)
Debt service:				
Principal retirement	700,000	700,000	848,371	(148,371)
Interest and fiscal charges	301,100	301,100	330,957	(29,857)
Total Expenditures	1,023,600	1,023,600	1,222,015	(198,415)
Excess (Deficiency) of Revenues over Expenditures	(571,000)	(571,000)	(1,163,633)	(592,633)
OTHER FINANCING SOURCES (USES)				
Proceeds from debt issuance	-	-	5,000,077	(5,000,077)
Defeasance of debt	-	-	(5,000,077)	5,000,077
Payments received from the Community Facilities Districts	-	-	228,999	(228,999)
Payments made to the Community Facilities Districts	-	-	(4,810,118)	4,810,118
Total Other Financing Sources (Uses)	-	-	(4,581,119)	4,581,119
Net Change in Fund Balances	(571,000)	(571,000)	(5,744,752)	3,988,486
Fund Balances Beginning	9,971,049	9,971,049	9,971,049	-
Fund Balances Ending	\$ 9,400,049	\$ 9,400,049	\$ 4,226,297	\$ 3,988,486

**OTHER INDEPENDENT
AUDITOR'S REPORTS**

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**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***

To the Board of Directors of the
Rocklin Public Financing Authority
Rocklin, 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 the Rocklin Public Financing Authority (the "Authority") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 19, 2018.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

San Jose, California
November 19, 2018