

**ROCKLIN PUBLIC
FINANCING AUTHORITY**

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016



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ROCKLIN PUBLIC FINANCING AUTHORITY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditor’s Report.....	3
Management’s Discussion and Analysis (Required Supplementary Information)	5
Basic Financial Statements:	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position	13
Statement of Activities	14
<i>Fund Financial Statements</i>	
<i>Governmental Funds:</i>	
Balance Sheet	15
Reconciliation of the Government Funds Balance Sheet to the Government-Wide Financial Statement of Net Position	16
Statement of Revenues, Expenditures and Changes in Fund Balances.....	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities	18
Notes to the Basic Financial Statements	20

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (GAAP Basis) – Public Finance Authority Debt Service Fund.....	33
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OTHER INDEPENDENT AUDITOR’S REPORT

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	37
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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, 2016, 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, 2016, 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 October 31, 2016 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

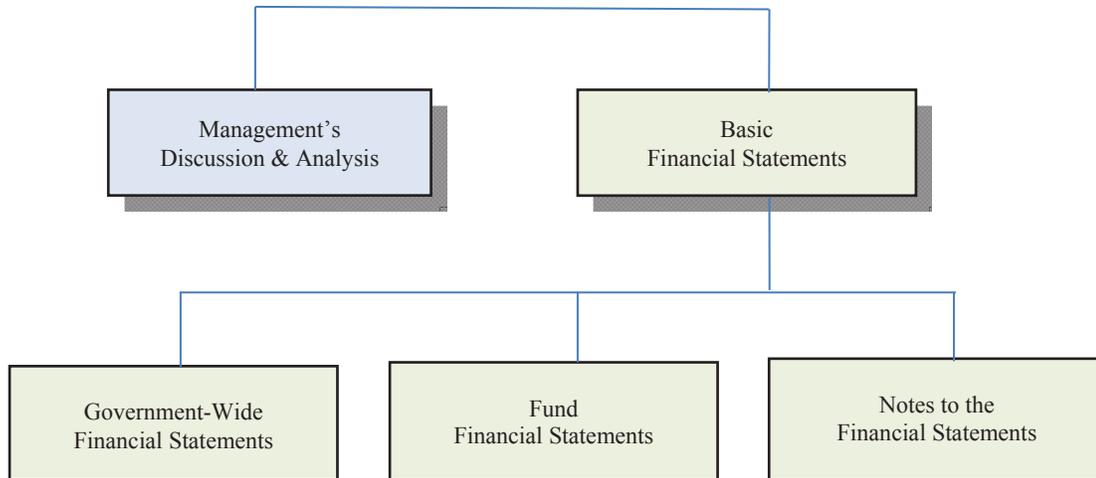
October 31, 2016
San Jose, California

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

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, 2016. 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 2015/16 FINANCIAL HIGHLIGHTS

- Total net position increased by \$157,572 from last fiscal year due to lower General government expenses. The decrease in General government expenses was due to the remaining bond issuance costs and discounts being expensed in 2014/15.
- The Authority's assets exceeded its liabilities by \$2.719 million.
- Net position consisted of \$2.719 million classified as restricted.
- Total Authority-wide revenues were \$531,178 which consisted entirely of investment earnings.
- Total Authority expenses were \$373,606.
- Total Governmental Fund, fund balances were \$10.499 million. Total fund balance decreased by \$495,428 from last year due to decreases in restricted cash and investments.
- In October 2016, the Authority issued Lease Revenue Bonds of \$9.455 million to refinance the outstanding 2003 certificates of participation and finance the acquisition and construction of various capital improvement projects.

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
	2016	2015		
Assets				
Current	\$ 10,498,768	\$ 10,994,196	\$ (495,428)	-4.5%
Total Assets	\$ 10,498,768	\$ 10,994,196	\$ (495,428)	-4.5%
Liabilities				
Current	\$ 790,000	\$ 768,000	\$ 22,000	2.9%
Noncurrent liabilities	6,990,000	7,665,000	(675,000)	-8.8%
Total Liabilities	\$ 7,780,000	\$ 8,433,000	\$ (653,000)	-7.7%
Net Position				
Restricted	2,718,768	2,561,196	157,572	6.2%
Total Net Position	\$ 2,718,768	\$ 2,561,196	\$ 157,572	6.2%

Governmental Activities

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

Table 2 - Statement of Changes in Net Position

Functions/Programs	Governmental Activities		Dollar Change	Percent Change
	2016	2015		
General Revenues				
Investment earnings	\$ 531,178	\$ 565,028	\$ (33,850)	-6.0%
Total General Revenues	<u>531,178</u>	<u>565,028</u>	<u>(33,850)</u>	-6.0%
Expenses				
General government	24,500	221,857	(197,357)	-89.0%
Interest and fiscal charges	349,106	373,894	(24,788)	-6.6%
Total Expenses	<u>373,606</u>	<u>595,751</u>	<u>(222,145)</u>	-37.3%
Increase / (Decrease) in Net Position	157,572	(30,723)	188,295	-612.9%
Net Position, Beginning of Year	<u>2,561,196</u>	<u>2,591,919</u>	<u>(30,723)</u>	-1.2%
Net Position, End of Year	<u>\$ 2,718,768</u>	<u>\$ 2,561,196</u>	<u>\$ 157,572</u>	6.2%

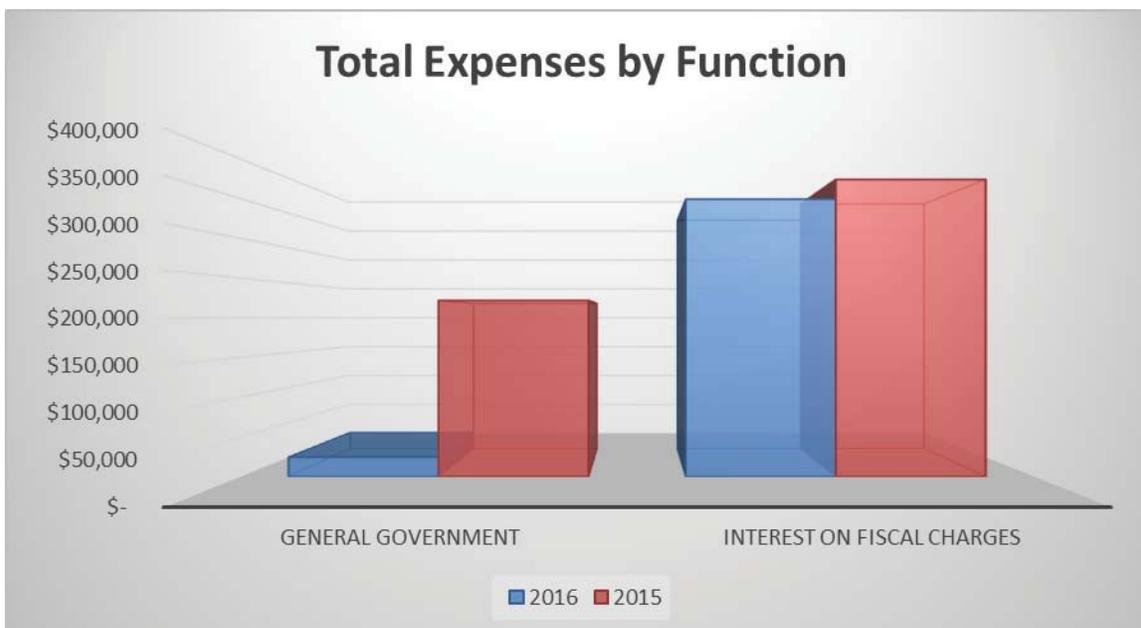
Governmental Revenues

Significant changes in governmental revenues consisted of the following:

- Investment earnings accounted for 100% of all revenue. 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 \$33,850 because cash and investments decreased by \$495,428.

Governmental Expenses

The 2015/16 expenses for Governmental Activities decreased by \$222,145 as illustrated in the chart below:



Significant changes in governmental expenses consisted of the following:

- In prior years, bond issuance costs and discounts were amortized over the bond term. In 2014/15, the remaining costs of \$202,832 were expensed.

DEBT ADMINISTRATION

During the year, Long-Term Debt from governmental activities decreased by \$645,000 because of principal debt service payments.

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

	Governmental Activities			
	2016	2015	Dollar Change	% Change
2003 PFA Refunding Revenue				
Bonds-Senior	\$ 7,020,000	\$ 7,575,000	\$ (555,000)	-7.3%
2003 PFA Refunding Revenue				
Bonds - Subordinate	645,000	735,000	(90,000)	-12.2%
Total Long-Term Debt	\$ 7,665,000	\$ 8,310,000	\$ (645,000)	-7.8%

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

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 adopted and final budgeted revenue was \$529,500. The adopted and final expenditure budget was \$1,024,400.

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.

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**BASIC FINANCIAL
STATEMENTS**

Rocklin Public Financing Authority
Statement of Net Position
June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	Governmental Activities	
	2016	2015
ASSETS		
Current Assets:		
Cash and investments	\$ 2,224	\$ 1,725
Restricted cash and investments	10,496,544	10,992,471
Total Assets	\$ 10,498,768	\$ 10,994,196
LIABILITIES		
Current Liabilities:		
Interest payable	\$ 115,000	\$ 123,000
Long-term debt - due within one year	675,000	645,000
Total Current Liabilities	790,000	768,000
Noncurrent Liabilities:		
Long-term debt - due after one year	6,990,000	7,665,000
Total Liabilities	\$ 7,780,000	\$ 8,433,000
NET POSITION		
Restricted	\$ 2,718,768	\$ 2,561,196
Total Net Position	\$ 2,718,768	\$ 2,561,196

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

Rocklin Public Financing Authority
Statement of Activities
For the year ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

Functions/Programs	Expenses	Net (Expense) Revenue and Change in Net Position	
		2016	2015
Governmental Activities			
General government	\$ 24,500	\$ (24,500)	\$ (221,857)
Interest and fiscal charges	349,106	(349,106)	(373,894)
Total Governmental Activities	<u>\$ 373,606</u>	<u>(373,606)</u>	<u>(595,751)</u>
General Revenues:			
Investment earnings		531,178	565,028
Total General Revenues		<u>531,178</u>	<u>565,028</u>
Change in Net Position		157,572	(30,723)
Net Position - Beginning of Year		<u>2,561,196</u>	<u>2,591,919</u>
Net Position - End of Year		<u>\$ 2,718,768</u>	<u>\$ 2,561,196</u>

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

Rocklin Public Financing Authority

Balance Sheet

Governmental Funds

June 30, 2016

(With Comparative Totals for the Year Ended June 30, 2015)

ASSETS	2016	2015
Cash and investments	\$ 2,224	\$ 1,725
Restricted cash and investments	10,496,544	10,992,471
Total assets	\$ 10,498,768	\$ 10,994,196
LIABILITIES AND FUND BALANCES		
Fund Balances:		
Restricted	10,498,768	10,994,196
Total fund balances	10,498,768	10,994,196
Total liabilities and fund balances	\$ 10,498,768	\$ 10,994,196

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, 2016

Total Fund Balances - Total Governmental Funds \$ 10,498,768

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. (115,000)

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:

Long-term debt	(7,665,000)
Total Long-Term Obligations	<u>(7,665,000)</u>

Net Position of Governmental Activities \$ 2,718,768

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, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	2016	2015
REVENUES		
Use of money and property	\$ 531,178	\$ 565,028
Total Revenues	<u>531,178</u>	<u>565,028</u>
EXPENDITURES		
Current:		
General government	24,500	19,025
Debt service:		
Principal	645,000	620,000
Interest and fiscal charges	357,106	382,225
Total Expenditures	<u>1,026,606</u>	<u>1,021,250</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(495,428)</u>	<u>(456,222)</u>
Net Change in Fund Balances	(495,428)	(456,222)
Fund Balances Beginning	<u>10,994,196</u>	<u>11,450,418</u>
Fund Balances Ending	<u>\$ 10,498,768</u>	<u>\$ 10,994,196</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, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ (495,428)
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.	645,000
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.	<u>8,000</u>
Change in Net Position of Governmental Activities	<u><u>\$ 157,572</u></u>

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

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**NOTES TO FINANCIAL
STATEMENTS**

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Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2016

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, 2016

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.

MUFG Union Bank is the fiscal agent for the Authority and maintains all other cash balances and authorized investments of Authority funds. 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. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2016

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. The Authority did not have any deferred outflows or inflows of resources at the end of the year.

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 the revenue refunding bonds of the Public Financing Authority.

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 Government Accounting Standards Board 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.

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2016

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.

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 sheet and in the combining nonmajor fund balance sheets.

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."

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2016

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

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 October 31, 2016, 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, other than the following:

In October 2016, the Authority issued lease revenue bonds in the amount of \$9,455,000 to defease the outstanding 2003 certificates of participation and finance the acquisition and construction of various capital improvement projects. These include a new City fire station, remodel of existing City fire stations, remodel of the City's Administrative Building, phase II of the City's Quarry Park, and police radio consoles and ancillary equipment. The security for the bonds is the pledge of lease payment revenues received by the Authority under a lease agreement with the City. The term of the bonds is 25 years. Interest rates on the bonds range from 2% to 5%.

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2016

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. 72, Fair Value Measurement and Application

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The provisions of GASB Statement No. 72 (GASB 72) are effective for reporting periods beginning after June 15, 2015. Earlier application is encouraged.

GASB 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement generally requires state and local governments to measure investments at fair value. The statement defines an *investment* as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. *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 between participants at the measurement date.

The statement requires that acquisition value (an entry price) be used to measure the following assets:

- a. donated capital assets;
- b. donated works of art, historical treasures, and other similar assets; and
- c. capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

GASB 72 requires that sound and consistent valuation techniques be used to determine fair value. The valuation techniques should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The valuation technique used should be consistent with one or more of three approaches that are appropriate in the circumstances: the market approach, cost approach, and income approach. Valuation techniques should be applied consistently from period to period. A change in valuation technique or its application is appropriate if it achieves a measurement that is equally or more representative of an asset's fair value under the circumstances.

Inputs to valuation techniques used to measure fair value are categorized into three levels as noted in the investments disclosure section.

The implementation of GASB 72 did not have a significant impact on the Authority's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

The purpose of GASB Statement No. 76 (GASB 76) is to identify the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 76 supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2016

GASB 76 reduces the authoritative sources of GAAP from four categories to two. According to the statement, "The sources of authoritative GAAP are categorized in descending order of authority as follows:

- a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A).
- b. GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB (Category B)."

Sources of nonauthoritative accounting literature are identified in paragraph 7 of GASB 76, and includes GASB Concepts Statements.

The implementation of GASB 76 did not have a significant impact on the Authority's financial statements and did not result in any prior period restatements or adjustments.

NOTE 2 - CASH AND INVESTMENTS

As of June 30, 2016, 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	\$ 2,224	\$ -	\$ 2,224
MUFG Union Bank money market accounts	-	2,091,543	2,091,543
Special assessment bond investments	-	8,405,001	8,405,001
Total cash and investments	\$ 2,224	\$ 10,496,544	\$ 10,498,768

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 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.

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2016

C. Investment in Special Assessment Bonds

Proceeds from the issuance of the 2003 Refunding Revenue Bonds were used to purchase \$14,030,000 of special tax bonds issued by special assessment districts in the City. These bonds mature through September 1, 2025, and are authorized investments of the Authority. The balance at June 30, 2016 was \$8,405,001.

D. 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.

E. 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.

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, 2016, the Authority's investments were in compliance with the ratings required by the Authority's investment policy, indenture agreements and Government Code.

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2016

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, 2016, the Authority invested 20% of its cash in money market accounts with Union Bank and 80% in special assessment bonds held by a fiscal agent.

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.

F. 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 28, 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, 2016:

Description	Beginning			Ending Balance	Due Within One Year
	Balance	Additions	Deletions		
2003 Public Financing Authority (PFA)					
Refunding Revenue Bonds-Senior	\$ 7,575,000	\$ -	\$ 555,000	\$ 7,020,000	\$ 580,000
2003 PFA Refunding Revenue					
Bonds - Subordinate	735,000	-	90,000	645,000	95,000
Total Noncurrent Liabilities	<u>\$ 8,310,000</u>	<u>\$ -</u>	<u>\$ 645,000</u>	<u>\$ 7,665,000</u>	<u>\$ 675,000</u>

2003 Senior and Subordinate Refunding Revenue Bonds

In January 2004, the Rocklin Public Financing Authority issued \$12,575,000 of Senior Refunding Revenue Bonds and \$1,455,000 of Subordinate Refunding Revenue Bonds. Proceeds from these bonds were used to refund the outstanding 1999 Rocklin Public Financing Authority Revenue Bonds. The Bonds are secured by revenues from specific assessment districts. Interest rates range from 2% to 4.6% for the Senior issue and 3.125% to 5.625% for the Subordinate issue. Principal payments ranging from \$555,000 to \$850,000 are payable annually on September 1 and interest payments ranging from \$19,550

Rocklin Public Financing Authority
Notes to the Basic Financial Statements
June 30, 2016

to \$154,568 are payable semi-annually on March 1 and September 1 through September 1, 2025, for the Senior issue. Principal payments ranging from \$95,000 to \$120,000 are payable annually on September 1 and interest payments ranging from \$3,375 to \$17,311 are payable on March 1 and September 1 through September 1, 2021, for the Subordinate issuance.

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

Year Ending June 30,	Principal	Interest	Total
2017	\$ 675,000	\$ 329,722	\$ 1,004,722
2018	700,000	301,088	1,001,088
2019	730,000	271,205	1,001,205
2020	760,000	239,154	999,154
2021	795,000	203,923	998,923
2022-2026	4,005,000	466,250	4,471,250
Total	<u>\$ 7,665,000</u>	<u>\$ 1,811,341</u>	<u>\$ 9,476,341</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, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property	\$ 529,500	\$ 529,500	\$ 531,178	\$ 1,678
Total Revenues	<u>529,500</u>	<u>529,500</u>	<u>531,178</u>	<u>1,678</u>
EXPENDITURES				
Current:				
General government	22,300	22,300	24,500	(2,200)
Debt service:				
Principal retirement	645,000	645,000	645,000	-
Interest and fiscal charges	357,100	357,100	357,106	(6)
Total Expenditures	<u>1,024,400</u>	<u>1,024,400</u>	<u>1,026,606</u>	<u>(2,206)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(494,900)</u>	<u>(494,900)</u>	<u>(495,428)</u>	<u>(528)</u>
Net Change in Fund Balances	(494,900)	(494,900)	(495,428)	(528)
Fund Balances Beginning	<u>10,994,196</u>	<u>10,994,196</u>	<u>10,994,196</u>	<u>-</u>
Fund Balances Ending	<u>\$ 10,499,296</u>	<u>\$ 10,499,296</u>	<u>\$ 10,498,768</u>	<u>\$ (528)</u>

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**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, 2016, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated October 31, 2016.

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
October 31, 2016