
PATTERSON PUBLIC FINANCING AUTHORITY
ANNUAL FINANCIAL REPORT
AS OF JUNE 30, 2015
WITH
INDEPENDENT AUDITOR'S REPORT

PATTERSON PUBLIC FINANCING AUTHORITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the City Council
Patterson Public Financing Authority
Patterson, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Patterson Public Financing Authority, as of and for the year ended June 30, 2015, 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

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Patterson Public Financing Authority, as of June 30, 2015, and the respective changes in financial position, thereof 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 budgetary comparison 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 27, 2016, on our consideration of the Patterson Public Financing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Patterson Public Financing Authority's internal control over financial reporting and compliance.

Man Int. Adv CPAs

Sacramento, California
October 27, 2016

PATTERSON PUBLIC FINANCING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS

Restricted cash and investments (Note 3)	\$ 74,712,397
Interest receivable	<u>1,401</u>
Total Assets	\$ <u>74,713,798</u>

LIABILITIES AND NET POSITION

Current Liabilities	
Accounts payable	\$ 26,922
Due to other governments	330,720
Bonds payable - current portion (Note 5)	<u>1,489,282</u>
Total Current Liabilities	<u>1,846,924</u>
Bonds payable - long-term (Note 5)	<u>74,711,128</u>
Total Liabilities	<u>76,558,052</u>
Net Position	
Unrestricted	(76,556,651)
Restricted for debt service	<u>74,712,397</u>
Total Net Position	<u>(1,844,254)</u>
Total Liabilities and Net Position	\$ <u>74,713,798</u>

See accompanying notes to the basic financial statements.

PATTERSON PUBLIC FINANCING AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

		Program Revenues		
	Expenses	Charges for Services	Capital Grants and Contributions	Net Revenue/ (Expense)
Governmental activities:				
General government	\$ 280,698	\$ -	\$ -	\$ (280,698)
Amortization of discounts	28,446	-	-	(28,446)
Interest on long-term liabilities	4,077,318	-	-	(4,077,318)
Total Governmental Activities	\$ 4,386,462	\$ -	\$ -	(4,386,462)
General Revenues:				
Investment income				4,502,874
Total general revenues				4,502,874
Capital contributions to the City of Patterson				(88,230)
Change in net position				28,182
Net Position, July 1, 2014				(1,872,436)
Net Position, June 30, 2015				\$ (1,844,254)

See accompanying notes to the basic financial statements.

PATTERSON PUBLIC FINANCING AUTHORITY
MAJOR FUNDS
BALANCE SHEET
JUNE 30, 2015

<u>ASSETS</u>	<u>PPFA 2013 HR Revenue Bonds</u>	<u>PPFA 2013 Authority Bonds</u>	<u>Total Governmental Funds</u>
Restricted cash and investments	\$ 898,597	\$ 1,114,664	\$ 2,013,261
Investment held in trust	4,090,604	68,608,532	72,699,136
Interest receivable	<u>-</u>	<u>1,401</u>	<u>1,401</u>
Total Assets	<u>\$ 4,989,201</u>	<u>\$ 69,724,597</u>	<u>\$ 74,713,798</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ 19,577	\$ 7,345	\$ 26,922
Due to other government	<u>22,003</u>	<u>308,717</u>	<u>330,720</u>
Total Liabilities	<u>41,580</u>	<u>316,062</u>	<u>357,642</u>
 FUND BALANCES:			
Restricted	<u>4,947,621</u>	<u>69,408,535</u>	<u>74,356,156</u>
Total Fund Balances	<u>4,947,621</u>	<u>69,408,535</u>	<u>74,356,156</u>
Total Liabilities and Fund Balances	<u>\$ 4,989,201</u>	<u>\$ 69,724,597</u>	<u>\$ 74,713,798</u>

Amounts reported for governmental activities in the Statement of Net Position are different because:

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:

Bonds payable \$ (76,200,410)

Net position of governmental activities \$ (1,844,254)

See accompanying notes to the basic financial statements.

PATTERSON PUBLIC FINANCING AUTHORITY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>PPFA 2013 HR Revenue Bonds</u>	<u>PPFA 2013 Authority Bonds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Interest income	\$ <u>259,962</u>	\$ <u>4,242,912</u>	\$ <u>4,502,874</u>
Total Revenues	<u>259,962</u>	<u>4,242,912</u>	<u>4,502,874</u>
<u>EXPENDITURES</u>			
General government	-	280,698	280,698
Capital outlay	41,580	46,650	88,230
Debt service:			
Principal	321,661	1,155,000	1,476,661
Interest and fiscal charges	<u>179,142</u>	<u>3,898,176</u>	<u>4,077,318</u>
Total Expenditures	<u>542,383</u>	<u>5,380,524</u>	<u>5,922,907</u>
Deficiency of revenues under expenditures	<u>(282,421)</u>	<u>(1,137,612)</u>	<u>(1,420,033)</u>
Net change in fund balances	(282,421)	(1,137,612)	(1,420,033)
Fund balances - July 1, 2014	<u>5,230,042</u>	<u>70,546,147</u>	<u>75,776,189</u>
Fund balances - June 30, 2015	<u>\$ 4,947,621</u>	<u>\$ 69,408,535</u>	<u>\$ 74,356,156</u>

See accompanying notes to the basic financial statements.

PATTERSON PUBLIC FINANCING AUTHORITY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds	\$ (1,420,033)
<p>Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>	
Capital assets purchased	88,230
Capital contributions to the City of Patterson	(88,230)
<p>The issuance of long-term liabilities provides current financial resources to governmental funds, while the repayment of the principal of long-term liabilities consumes the current financial resources of governmental funds.</p>	
Bond principal payments	1,476,661
Bond discount and premium costs	<u>(28,446)</u>
Change in net position of governmental activities	<u><u>\$ 28,182</u></u>

See accompanying notes to the basic financial statements.

PATTERSON PUBLIC FINANCING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Patterson Public Financing Authority (the Authority) was formed in 2001 pursuant to a joint exercise of powers agreement between the City of Patterson and the Redevelopment Agency of the City of Patterson. The primary activity of the Authority is issuing special tax bonds on behalf of the City. The proceeds of the special tax bonds were used to finance the costs of certain engineering, design, construction and other expenses related to public infrastructure improvements as well as to invest into WPFA & Heartland Ranch municipal bonds.

B. Basis of Presentation

The Authority's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These standards require that the financial statements described below be presented.

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all the activities of the Authority. Eliminations have been made to minimize the double counting of internal activities. The Authority's net position is reported in three parts - invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The Authority first utilizes restricted resources to finance qualifying activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Authority's funds. The funds are accounted for by providing a separate set of self-balancing accounts that constitute their assets, liabilities, fund equity, revenues and expenditure/expenses.

The funds of the financial reporting entity are described below:

Major Governmental Funds

The City reported the following major governmental funds in the accompanying financial statements:

PPFA 2013 HR Revenue Bonds - This fund is used to account for the debt service payments, investment income, and projects related to the 2013 Heartland Ranch Revenue Bonds.

PPFA 2013 Authority Bonds - This fund is used to account for the debt service payments, investment income, and projects related to the 2013 Authority Bonds.

PATTERSON PUBLIC FINANCING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus as defined in item "b" below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds are accounted for using a "current financial resources" measurement focus. With this measurement focus, only current assets and current liabilities generally are included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. Governmental activities utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and all liabilities (whether current or noncurrent) associated with the operation of these funds are reported.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Authority defines available to be within 60 days of year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds for governmental long-term liabilities and acquisitions under capital leases are reported as other financing sources.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services. Certain indirect costs are included in program expenses reported for individual functions and activities.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the Authority may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position are available to finance program expenditures. The Authority's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

D. Cash and Investments

The Authority pools the cash of all funds with the City of Patterson, except for monies deposited with a fiscal agent in accordance with a related bond fiscal agent agreement. The cash and investments balance in the fund represents the fund's equity share of the City's cash and investment pool. As the Authority places no restrictions on the deposit or withdrawal of a particular fund's equity in the pool, the pool operates like a demand deposit account for the participating funds.

PATTERSON PUBLIC FINANCING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Capital Assets

The accounting treatment over property, plant and equipment depends on whether the assets are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, capital expenditures over \$1,000 are capitalized and accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

F. Long-term Liabilities

In the government-wide financial statements, long-term liabilities, and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Initial issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bond issuance costs, including deferred refunding amounts and underwriters' discounts, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

G. Equity Classifications

Government-wide Statements

Net position is the excess of all the Authority's assets over all its liabilities, regardless of fund. Net position is divided into three categories under GASB Statement 34. These categories apply only to net position, which is determined at the government-wide level, and are described below:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - Consists of net position with constraints place on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

PATTERSON PUBLIC FINANCING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Statements

Governmental fund equity is classified as fund balance. The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- a. Nonspendable - Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted - Amounts that are restricted for specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- c. Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.
- d. Assigned - Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted or committed.
- e. Unassigned - Amounts representing the residual classification for the general fund.

For further detail on fund balance, see Note 6.

H. Use of Estimates

The preparation of financial statements in accordance 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 these estimates.

PATTERSON PUBLIC FINANCING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2: BUDGET

A. Budgets and Budgetary Accounting

The Authority follows the City of Patterson's budgetary procedures which are as follows:

- 1) Prior to July 1, the City Manager submits to the City Council a proposed operating budget for the coming fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain taxpayers' comments.
- 3) The appropriated budget is prepared by fund, department, and division. The government department head may make transfers of appropriation within a department. Transfers of appropriations between departments requires approval of the City Manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.
- 4) The budget is legally adopted through the passage of a council resolution.
- 5) The City Council may amend the budget by resolution during the fiscal year. The City Manager may transfer appropriations from one program, activity, or object to another within the same fund. All appropriations lapse at the end of the fiscal year to the extent they have not been expended. Capital Project funds are based on a project time frame, rather than a fiscal year "operating" time frame reappropriating unused appropriations from year to year until project completion.
- 6) A budget review is presented to the City Council by the City Manager mid-year and approved additions or changes are legally adopted through Council resolution.
- 7) Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and the Capital Project Funds.
- 8) Budgets for the General, Special Revenue, and Capital Project Funds are adopted on a basis consistent with United States generally accepted accounting principles.

B. Excess of Expenditures or Expense over Appropriations

The funds below incurred expenditures in excess of budgets in the amounts below. Sufficient resources were available in the General Fund to finance the excess.

<u>Fund</u>	<u>Amount</u>
PPFA 2013 Authority Bonds	\$ 344,310

PATTERSON PUBLIC FINANCING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3: CASH AND INVESTMENTS

The Authority follows the City of Patterson's practice of pooling cash and investments except for cash and investments required to be held by outside fiscal agents under the provisions of bond indentures.

Cash and investments as of June 30, 2015 were classified in the accompanying financial statements as follows:

	Unrestricted	Restricted	Total
Governmental activities	\$ <u> -</u>	\$ <u> 74,712,397</u>	\$ <u> 74,712,397</u>

Cash and investments were carried at fair value as of June 30, 2015 and consisted of the following:

	Amount
Cash with fiscal agent	\$ 2,013,261
Investments	<u>72,699,136</u>
Total cash and investments	<u>\$ 74,712,397</u>

Authorized Investments of the Authority

The Authority follows the City's investment policy with respect to any investment of funds; except that funds held by the fiscal agent are invested as permitted under the fiscal agent agreement for the Community Facilities District. The table below identifies the investment types that are authorized by the City's investment policy. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Authority, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Certificates of Deposit	2 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Money market Funds	N/A	None	None
Annuities	N/A	None	None
Mutual Funds	N/A	5%	None
Corporate Notes (Minimum rating of "AAA")	5 years	5%	None

PATTERSON PUBLIC FINANCING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

Investments Authorized by Debt Agreements

Investment of debt issuances held by the fiscal agent are governed by provisions of the fiscal agent agreement, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized by the fiscal agent. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in one Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Repurchase Agreements secured by federal securities	30 days	None	None
Investment Agreements and Contracts	None	None	None
Money Market Funds in the highest rating category by S&P or Moody's	N/A	None	None
Certificates of Deposit	None	None	None
Commercial Paper rated "A-1" or better	None	None	None
Local Agency Investment Fund (LAIF)	None	None	None

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority's interest rate risk is mitigated is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments to market rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity as of June 30, 2015:

	<u>Remaining Maturity</u>				<u>Fair Value</u>
	<u>12 months or less</u>	<u>1-5 years</u>	<u>6-10</u>	<u>Thereafter</u>	
Municipal bonds (WPFA)	\$ 801,252	\$ 4,430,030	\$ 8,812,309	\$ 54,564,941	\$ 68,608,532
Municipal bonds (HR)	272,833	1,674,120	1,792,416	351,235	4,090,604
Held by fiscal agent:					
Money market funds	<u>2,013,261</u>	-	-	-	<u>2,013,261</u>
Total	<u>\$ 2,814,513</u>	<u>\$ 4,430,030</u>	<u>\$ 8,812,309</u>	<u>\$ 54,564,941</u>	<u>\$ 74,712,397</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Authority had no investments that were highly sensitive to interest rate fluctuations as of June 30, 2015.

PATTERSON PUBLIC FINANCING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or debt agreements, and the actual rating as of the fiscal year for each investment type.

	Total	Minimum Legal Rating	Rating as of Fiscal Year End		
			S&P	Moody's	N/A
Municipal bonds	72,699,136	N/A	Not Rated	Not Rated	
Held by fiscal agent:					
Money Market Funds	2,013,261	N/A	AAAm	Aaa	
Total	<u>\$ 74,712,397</u>	N/A	AAAm	Aaa	

Concentration of Credit Risk

The Authority held the following investments in a single issuer (other than U.S. Treasury securities, external investment pools and mutual funds) that represented 5% or more of total Authority investment as of June 30, 2015.

Issuer	Investment Type	Amount
City of Patterson (Heartland Ranch)	Municipal Bonds	\$ 4,090,604
West Patterson Financing Authority	Municipal Bonds	\$ 68,608,532

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. See the City of Patterson annual financial report for information regarding the Authority's pooled cash with the City and credit risk.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2015</u>
Governmental Activities				
Capital assets not being depreciated				
Construction in progress	\$ -	\$ 88,230	\$ (88,230)	\$ -

Disposals consisted of capital contributions to the City of Patterson.

PATTERSON PUBLIC FINANCING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5: LONG-TERM LIABILITIES

The following is a summary of debt transactions of the Authority for the year ended June 30, 2015. The Authority issued each of the respective bonds and notes for and on behalf of the City of Patterson.

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2015</u>	<u>Due within one year</u>
Governmental Activities					
2013 Heartland Ranch Revenue Bonds	4,963,568	-	(321,661)	4,641,907	350,836
2013 PPFA Series A Bonds	67,055,000	-	(1,075,000)	65,980,000	1,030,000
Discount on bonds	(824,943)	-	28,446	(796,497)	28,446
2013 PPFA Series B Bonds	<u>6,455,000</u>	<u>-</u>	<u>(80,000)</u>	<u>6,375,000</u>	<u>80,000</u>
Total Governmental Long-Term Liabilities	<u>\$ 77,648,625</u>	<u>\$ -</u>	<u>\$ (1,448,215)</u>	<u>\$ 76,200,410</u>	<u>\$ 1,489,282</u>

Governmental activities future debt obligations at June 30, 2015 consisted of the following:

2013 Heartland Ranch Revenue Bond

On July 30, 2013, the Authority issued \$4,963,568 of revenue refunding bonds (Series 2013 Heartland Ranch Revenue Bonds) to repay, in part, the principal of the Authority's 2002 Heartland Ranch Revenue bond. Interest on the bonds is payable semi-annually on March 2 and September 2 of each year through September 2, 2027, beginning on March 2, 2014. The interest rates on the bonds is 3.73 percent. Principal payments are due annually beginning on September 2, 2014. The notes are secured by a first pledge of the investment revenues and funds on deposit in the Bond Fund, Reserve Fund, and Special Tax Fund. The outstanding balance of the 2013 Heartland Ranch Revenue bonds at June 30, 2015 was \$4,641,907.

2013 Heartland Ranch Revenue Bond			
<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 350,836	\$ 166,600	\$ 517,436
2017	373,583	153,090	526,673
2018	385,717	138,929	524,646
2019	397,349	124,324	521,673
2020	408,446	109,296	517,742
2021 - 2025	2,084,963	303,040	2,388,003
2026 - 2028	<u>641,013</u>	<u>32,028</u>	<u>673,041</u>
Totals	<u>\$ 4,641,907</u>	<u>\$ 1,027,307</u>	<u>\$ 5,669,214</u>

PATTERSON PUBLIC FINANCING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

2013 PPFA Series A Bond

On August 14, 2013, the Authority issued \$67,190,000 of special tax refunding bonds (Senior Series 2013A) to purchase, in part, the 2013-A1, 2013-A2, and 2013-B special tax bonds Issued by the West Patterson Financing Authority. Interest on the bonds is payable semi-annually on March 1 and September 1 of each year through September 1, 2039, beginning on March 1, 2014. The interest rates on the bonds is 3.00 percent. Principal payments are due annually beginning on September 1, 2014. The notes are secured by a first pledge of the special tax revenues and funds on deposit in the Bond Fund, Reserve Fund, and Special Tax Fund. The outstanding balance of the 2013 PPFA Series A bonds at June 30, 2015 was \$65,980,000.

2013 PPFA Series A Bond			
Years Ended June 30,	Principal	Interest	Total
2016	\$ 1,030,000	\$ 3,496,638	\$ 4,526,638
2017	1,105,000	3,465,738	4,570,738
2018	1,225,000	3,432,588	4,657,588
2019	1,340,000	3,383,588	4,723,588
2020	1,450,000	3,329,988	4,779,988
2021 - 2025	9,035,000	15,626,863	24,661,863
2026 - 2030	12,645,000	12,956,313	25,601,313
2030 - 2034	15,980,000	9,160,238	25,140,238
2035 - 2039	22,170,000	4,025,575	26,195,575
Totals	\$ 65,980,000	\$ 58,877,529	\$ 124,857,529

2013 PPFA Series B Bond

On August 14, 2013, the Authority issued \$6,465,000 of special tax refunding bonds (Subordinate Series 2013B) to purchase, in part, the 2013-A1, 2013-A2, and 2013-B special tax bonds Issued by the West Patterson Financing Authority. Interest on the bonds is payable semi-annually on March 1 and September 1 of each year through September 1, 2039, beginning on March 1, 2014. The interest rates on the bonds is 5.875 percent. Principal payments are due annually beginning on September 1, 2014. The notes are secured by a first pledge of the special tax revenues and funds on deposit in the Bond Fund, Reserve Fund, and Special Tax Fund. The outstanding balance of the 2013 PPFA Series B bonds at June 30, 2015 was \$6,375,000.

2013 PPFA Series B Bond			
Years Ended June 30,	Principal	Interest	Total
2016	\$ 80,000	\$ 374,531	\$ 454,531
2017	85,000	369,831	454,831
2018	100,000	364,838	464,838
2019	110,000	358,963	468,963
2020	125,000	352,500	477,500
2021 - 2025	845,000	1,635,013	2,480,013
2026 - 2030	1,230,000	1,341,850	2,571,850
2031 - 2035	1,600,000	932,950	2,532,950
2036 - 2040	2,200,000	407,138	2,607,138
Totals	\$ 6,375,000	\$ 6,137,614	\$ 12,512,614

PATTERSON PUBLIC FINANCING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5: LONG-TERM LIABILITIES (CONTINUED)

Total Governmental Activities:

Total Governmental Activities Long-Term Liabilities			
Years Ended June 30,	Principal	Interest	Total
2016	\$ 1,460,836	\$ 4,037,769	\$ 5,498,605
2017	1,563,583	3,988,659	5,552,242
2018	1,710,717	3,936,355	5,647,072
2019	1,847,349	3,866,875	5,714,224
2020	1,983,446	3,791,784	5,775,230
2021 - 2025	11,964,963	17,564,916	29,529,879
2026 - 2030	14,516,013	14,330,191	28,846,204
2031 - 2035	17,580,000	10,093,188	27,673,188
2036 - 2040	<u>24,370,000</u>	<u>4,432,713</u>	<u>28,802,713</u>
Totals	<u>\$ 76,996,907</u>	<u>\$ 66,042,450</u>	<u>\$ 143,039,357</u>

NOTE 6: FUND BALANCE

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. As the members of the City Council also sit as the members of the Board of Directors for the Authority, the policy also applies to the Authority. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

The Authority established the following fund balance policies:

Committed Fund Balance: The City Council, as the City's highest level of decision making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action to establish the commitment.

Assigned Fund Balance: The City Council delegates authority to the City Manager and Finance Director for the purposes of reporting these amounts in the annual financial statements. Examples of assigned fund balance include continuing appropriations, debt service obligations, and budget balancing measures.

The accounting policies of the City consider restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts, and unassigned amounts.

As of June 30, 2015, fund balances were comprised of:

	<u>PPFA 2013 HR Revenue Bonds</u>	<u>PPFA 2013 Authority Bonds</u>	<u>Total</u>
Restricted:			
Debt service	\$ <u>4,947,621</u>	\$ <u>69,408,535</u>	\$ <u>74,356,156</u>
Total Restricted	<u>4,947,621</u>	<u>69,408,535</u>	<u>74,356,156</u>
Total Fund Balance	<u>\$ 4,947,621</u>	<u>\$ 69,408,535</u>	<u>\$ 74,356,156</u>

PATTERSON PUBLIC FINANCING AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7: TRANSFERS TO THE CITY OF PATTERSON

During the year ended June 30, 2015, \$88,230 was transferred to the City of Patterson for various capital projects.

REQUIRED SUPPLEMENTARY INFORMATION

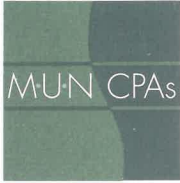
CITY OF PATTERSON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
PPFA 2013 HR REVENUE BONDS
FOR THE YEAR ENDING JUNE 30, 2015

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>REVENUES</u>				
Interest income	\$ <u>500</u>	\$ <u>500</u>	\$ <u>259,962</u>	\$ <u>259,462</u>
Total Revenues	<u>500</u>	<u>500</u>	<u>259,962</u>	<u>259,462</u>
<u>EXPENDITURES</u>				
Capital outlay	400,000	400,000	41,580	358,420
Debt service:				
Principal	321,661	321,661	321,661	-
Interest and fiscal charges	<u>179,142</u>	<u>179,142</u>	<u>179,142</u>	<u>-</u>
Total Expenditures	<u>900,803</u>	<u>900,803</u>	<u>542,383</u>	<u>358,420</u>
Excess (deficit) of revenues over (under) expenditures	<u>(900,303)</u>	<u>(900,303)</u>	<u>(282,421)</u>	<u>617,882</u>
Net change in fund balance	\$ <u>(900,303)</u>	\$ <u>(900,303)</u>	<u>(282,421)</u>	\$ <u>617,882</u>
Fund Balance - July 1, 2014			<u>5,230,042</u>	
Fund Balance - June 30, 2015			<u>\$ 4,947,621</u>	

CITY OF PATTERSON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
PPFA 2013 AUTHORITY BONDS
FOR THE YEAR ENDING JUNE 30, 2015

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>REVENUES</u>				
Interest income	\$ -	\$ -	\$ 4,242,912	\$ 4,242,912
Total Revenues	<u>-</u>	<u>-</u>	<u>4,242,912</u>	<u>4,242,912</u>
<u>EXPENDITURES</u>				
General government	-	-	280,698	(280,698)
Capital outlay	-	-	46,650	(46,650)
Debt service:				
Principal	855,000	855,000	1,155,000	(300,000)
Interest and fiscal charges	<u>3,900,516</u>	<u>3,900,516</u>	<u>3,898,176</u>	<u>2,340</u>
Total Expenditures	<u>4,755,516</u>	<u>4,755,516</u>	<u>5,380,524</u>	<u>(625,008)</u>
Excess (deficit) of revenues over (under) expenditures	<u>(4,755,516)</u>	<u>(4,755,516)</u>	<u>(1,137,612)</u>	<u>3,617,904</u>
Net change in fund balance	<u>\$ (4,755,516)</u>	<u>\$ (4,755,516)</u>	<u>(1,137,612)</u>	<u>\$ 3,617,904</u>
Fund Balance - July 1, 2014			<u>70,546,147</u>	
Fund Balance - June 30, 2015			<u>\$ 69,408,535</u>	

OTHER REPORTS



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

Members of the Board of Directors
Patterson Public Financing Authority
Patterson, California

We have audited, in accordance with the 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 governmental activities and the major funds of Patterson Public Financing Authority, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Patterson Public Financing Authority's basic financial statements, and have issued our report thereon dated October 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Patterson Public Financing 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 Patterson Public Financing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Patterson Public Financing 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify the following deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 2015-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Patterson Public Financing Authority's financial statements are free from 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*.

Patterson Public Financing Authority's Response to Findings

Patterson Public Financing Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Patterson Public Financing Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

Man United CPAs

Sacramento, California
October 27, 2016

CITY OF PATTERSON
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015

Finding 2015-01: Year End Close (Significant Deficiency)

Criteria

An effective internal control system and timely financial reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulations.

Condition

During the performance of the audit, we noted that the processes utilized for closing and reporting of financial activity for the fiscal year year ended June 30, 2015 were not effective, which contributed to the delayed closing of the Authority's trial balances. Additionally we noted major differences in revenue, net assets, and investments which ultimately required adjustments to correct.

Cause

The Authority does not have adequate controls in place to ensure accounting records are closed timely and accurately.

Recommendation

We recommend that the Authority incorporate review procedures and checklists over the Authority's financial reporting process to ensure accurate and complete preparation of the Authority's financial statements.

Management Response:

The Authority is in agreement with this finding and recommendation. The City has struggled with competing demands in the department and the loss of key personnel such as the Finance Director. The City began hiring an interim Finance Director in September 2015 and a permanent new Finance Director in February 2016 with increased skills, expertise and knowledge of municipal finance. Since then the new Finance Director has been dealing with a number of substantial City's needs such as preparation of FY 2016-2017 Budget with compressed timeline, FY 2014 Single Audit and PPFA Audit. As the City increased activities in both operations and borrowings, the volume of transaction activities and account analysis increased without increase in resources in Finance. City management has reviewed year end close process and improvement has been made and establish the following in fiscal year 2016:

- Establish Year-end close procedure and checklist for fiscal year 2016.
- Identify critical due dates and develop a listing of assignment.
- Hold periodic meetings to monitor the progress of assignments and responsibilities.
- Conduct management review of financial statements and audit schedules prior to presenting them to the auditor.
- Thorough review and segregation of duties in journal entry preparation, review, and approval.
- Finance Director has proposed an additional staff Accounting Technician during FY 2016-17 Budget and was asked to bring back to mid-year budget review due to funding priority and constraint.

CITY OF PATTERSON
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2015

Finding 2014-01: Year End Close (Material Weakness)

Criteria

An effective internal control system and timely financial reporting provides reasonable assurance for the safeguarding of assets, the reliability of financial information, and compliance with laws and regulations.

Condition

During the performance of the audit, we noted that the processes utilized for closing and reporting of financial activity for the fiscal year year ended June 30, 2014 were not effective, which contributed to the delayed closing of the Authority's trial balances. Additionally we noted major differences in revenue, net assets, and investments which ultimately required adjustments to correct.

Cause

The Authority does not have adequate controls in place to ensure accounting records are closed timely and accurately.

Recommendation

We recommend that the Authority incorporate review procedures and checklists over the Authority's financial reporting process to ensure accurate and complete preparation of the Authority's financial statements.

Status:

Recommendation not implemented. See current year finding 2015-01.

CITY OF PATTERSON
SCHEDULE OF PRIOR YEAR FINDINGS (CONTINUED)
JUNE 30, 2015

Finding 2014-02: Implement Additional Funds (Material Weakness)

Criteria

The implementation of fund accounting will segregate accounting records from the parent government, and provide accurate financial records for the Authority.

Condition

Management had extreme difficulty in producing an accurate trial balance as a result of the Authority's financial activity being comingled with the City of Patterson's accounting records. As a result, numerous adjusting journal entries were necessary to amend the original trial balance.

Cause

Management had not established separate accounting records for the Patterson Public Financing Authority.

Recommendation

We recommend the City establish a new fund to timely and separately track the Authority's activity within the City of Patterson's accounting records.

Status:

Recommendation implemented.