

Shafter Joint Powers Financing Authority

Shafter, California

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2008

Shafter Joint Powers Financing Authority
Annual Financial Report
Year Ended June 30, 2008

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Shafter Joint Powers Financing Authority
Shafter, California

We have audited the accompanying financial statements of the business-type activities of the Shafter Joint Powers Financing Authority (the "Authority"), a component unit of the City of Shafter, as of and for the year ended June 30, 2008, which comprise the Authority's basic component unit financial statements, as listed in the table of contents. These basic component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these basic component unit 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 basic component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1.A, the basic component unit financial statements present only the Authority and are not intended to present fairly the financial position and results of operations of the City of Shafter, California in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 30, 2008 on our consideration of the City of Shafter's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic component unit financial statements.

Teaman Ramirez & Smith

December 30, 2008

Shafter Joint Powers Financing Authority
Statement of Net Assets
June 30, 2008

ASSETS

Current Assets:

| | |
|--|-----------|
| Cash and Investments | \$ 229 |
| Cash and Investments with Fiscal Agent | 3,201,310 |
| | 3,201,539 |

Total Current Assets

Noncurrent Assets:

| | |
|--|-------------|
| Capital Assets, Not Being Depreciated | 325,400 |
| Capital Assets, Being Depreciated | 14,598,635 |
| Less: Accumulated Depreciation | (5,065,050) |
| Bond Issuance Costs, Net | 94,932 |
| Cost in Excess of Net Assets Acquired, Net | 2,115,822 |
| | 12,069,739 |

Total Noncurrent Assets

Total Assets

15,271,278

LIABILITIES

Current Liabilities:

| | |
|---------------------------------|-----------|
| Interest Payable | 384,674 |
| Bonds Payable - Current Portion | 1,099,422 |
| | 1,484,096 |

Total Current Liabilities

Noncurrent Liabilities:

| | |
|--|------------|
| Bonds Payable, Net of Bond Discount - Less Current Portion | 11,585,675 |
| | 11,585,675 |

Total Noncurrent Liabilities

Total Liabilities

13,069,771

NET ASSETS

| | |
|-----------------------------|-----------|
| Restricted for Debt Service | 1,883,717 |
| Unrestricted | 317,790 |
| | 2,201,507 |

Total Net Assets

\$ 2,201,507

Shafter Joint Powers Financing Authority
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2008

OPERATING REVENUES

| | |
|--------------------------|--------------|
| Lease Revenue | \$ 1,881,043 |
| Total Operating Revenues | 1,881,043 |

OPERATING EXPENSES

| | |
|-------------------------------|-----------|
| Administrative and General | 45,364 |
| Depreciation and Amortization | 659,793 |
| Total Operating Expenses | 705,157 |
| Operating Income (Loss) | 1,175,886 |

NON-OPERATING REVENUES (EXPENSES)

| | |
|---|-----------|
| Interest Income | 94,692 |
| Interest Expense and Fiscal Charges | (800,585) |
| Total Non-Operating Revenues (Expenses) | (705,893) |

| | |
|-------------------------------|--------------|
| Change in Net Assets | 469,993 |
| Net Assets, Beginning of Year | 1,731,514 |
| Net Assets, End of Year | \$ 2,201,507 |

The accompanying notes are an integral part of this statement.

Shafter Joint Powers Financing Authority
Statement of Cash Flows
Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|------------------|
| Cash Received from Customers | \$ 1,881,043 |
| Cash Payments to Suppliers for Goods and Services | <u>(45,364)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>1,835,679</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|--------------------|
| Principal Paid on Long-term Debt | (1,050,000) |
| Interest Paid on Long-term Debt | <u>(831,822)</u> |
| Net Cash Provided (Used) By Capital and Related Financing Activities | <u>(1,881,822)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|---------------|
| Interest on Investments | <u>94,692</u> |
| Net Cash Provided (Used) By Investing Activities | <u>94,692</u> |
| Net increase (Decrease) in Cash and Cash Equivalents | 48,549 |

| | |
|---|----------------------------|
| Cash and Cash Equivalents - Beginning of Year | <u>3,152,990</u> |
| Cash and Cash Equivalents - End of Year | <u><u>\$ 3,201,539</u></u> |

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

| | |
|--|----------------------------|
| Operating Income (Loss): | \$ 1,175,886 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used by) Operating Activities: | |
| Depreciation and Amortization | <u>659,793</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>\$ 1,835,679</u></u> |

The accompanying notes are an integral part of this statement.

Shafter Joint Powers Financing Authority
Notes to Financial Statements
Year Ended June 30, 2008

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Shafter Joint Powers Financing Authority
Notes to Financial Statements
Year Ended June 30, 2008

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The Authority was organized by the City of Shafter (City) and the Shafter Redevelopment Agency (the "Agency"), on November 12, 1996, under the laws of the State of California and operates pursuant to the Joint Exercise of Powers Act (Article 1, commencing with Section 6500, of Chapter 5, Division 7, Title 1 of the Government Code of the State). The Authority was organized to provide a financial mechanism to finance the purchase of the privately owned correctional facility. Some administration and related normal business expenses incurred in the day-to-day operation of the Authority are provided by the City and are not included in the Authority's basic financial statements. Management believes that such expenses are not material to the Authority's operations.

The Authority's office and records are located at 336 Pacific Avenue, Shafter, California 93263.

The Authority's Board of Directors is the City Council. The Authority is a separate legal entity which is financially accountable to the City. It is considered a component unit of the City and accordingly, is included in the Comprehensive Annual Financial Report of the City.

B) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Authority reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Authority is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Authority's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by utility services while operating expenses pertain directly to the furnishing of those services. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of utility services.

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

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental enterprise funds. In accordance with GASB Statement 20, the Authority has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, with the exception of those that conflict with or contradict GASB Pronouncements.

Shafter Joint Powers Financing Authority
Notes to Financial Statements
Year Ended June 30, 2008

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C) Cash and Cash Equivalents

The Authority pools cash and investments with the City for the purpose of increasing income through investment activities. The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for deposits and investment risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

Additional information related to cash and cash equivalents can be found in Note 2.

D) Cash and Investments with Fiscal Agents

Cash and investments with fiscal agents are for the redemption of bonded debt.

E) Capital Assets

Capital assets, which include land, buildings, and machinery and equipment, are reported in the Statement of Net Assets. The Authority's assets are capitalized at historical cost or estimated historical cost. The Authority's policy has set the capitalization threshold for reporting capital assets at \$1,000. Gifts or contributions of capital assets are recorded at fair market value when received. Depreciation is recorded on straight-line basis over the useful lives of the assets as follows:

| | |
|----------------------------|---------------|
| Buildings and Improvements | 20 - 40 years |
| Machinery and Equipment | 3 -10 years |

GASB Statement No. 34 requires the inclusion of infrastructure capital assets in local governments' basic financial statements. The Authority did not have any infrastructure capital assets at June 30, 2008.

F) Interest Payable

Interest payable of long-term debt is recognized as the liability is incurred.

G) Bond Premiums, Discounts, Issuance Costs, and Costs in Excess of Net Assets Acquired

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using a straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs and costs in excess of net assets acquired are reported as noncurrent assets in the statement of net assets.

Shafter Joint Powers Financing Authority
Notes to Financial Statements
Year Ended June 30, 2008

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H) Long-Term Debt

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

I) Net Assets

Net assets are comprised of the various net earnings from operating income, non-operating revenues and expenses. Net assets are classified in the following categories.

Invested in Capital Assets, Net of Related Debt - This component of net assets consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets - This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - This component of net assets consists of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

J) Use of Estimates

The preparation of financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by Management. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

2) CASH AND INVESTMENTS

The Authority maintains a cash and investment pool, which includes cash balances and authorized investment of all funds, which the City Treasurer invests to enhance interest earnings.

Cash and investments are classified in the accompanying financial statements as follows:

| | |
|--|---------------------|
| Statement of Net Assets: | |
| Cash and Investments | \$ 229 |
| Cash and Investments with Fiscal Agent | <u>3,201,310</u> |
| Total Cash and Investments | <u>\$ 3,201,539</u> |

Shafter Joint Powers Financing Authority
Notes to Financial Statements
Year Ended June 30, 2008

2) CASH AND INVESTMENTS - Continued

Cash and investments consist of the following:

| | | | |
|-------------------------------|--|------------------|------------------|
| City of Shafter's Pooled Cash | | \$ | 229 |
| Investments | | <u>3,201,310</u> | |
| Total Cash and Investments | | <u>\$</u> | <u>3,201,539</u> |

Investments Authorized by the California Government Code and the Authority's Investment Policy

The table below identifies the investment types that are authorized for the Authority by the Authority's investment policy. The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Authority, rather than the general provisions of the California Government Code or the Authority's investment policy.

| Authorized Investment Type | Maximum Maturity ⁽¹⁾ | Maximum Percentage Of Portfolio ⁽²⁾ | Maximum Investment In One Issuer |
|-------------------------------------|------------------------------------|--|--|
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | 30% | None |
| U.S. Corporate Bonds | N/A | 25% | 5% |
| Banker's Acceptances | 270 days | 40% | None |
| Commercial Paper | 270 days | 15% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Demand Deposits | N/A | None | None |
| Repurchase Agreements | 2 weeks | 10% | None |
| Reverse Repurchase Agreements | 92 days | 20% of base value | None |
| Mutual Funds | N/A | 15% | None |
| Money Market Mutual Funds | N/A | 10% | 10% |
| County Pooled Investment Funds | N/A | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |
| JPA Pools (Other Investment Pools) | N/A | None | None |

⁽¹⁾ No more than 50% of the portfolio shall have maturity dates in excess of 2 years at any given time.

⁽²⁾ Excluding amounts held by bond trustee that are not subject to California Government Code Restrictions.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy.

Shafter Joint Powers Financing Authority
Notes to Financial Statements
Year Ended June 30, 2008

2) CASH AND INVESTMENTS - Continued

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 manages its exposure to interest rate risk 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 (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity.

| <u>Investment Type</u> | <u>Remaining Maturity (in Months)</u> | | | |
|--------------------------|---------------------------------------|----------------------------|----------------------------|--------------------------------|
| | <u>12 Months Or Less</u> | <u>13 to 24 Months</u> | <u>25 to 60 Months</u> | <u>More Than 60 Months</u> |
| Held by Bond Trustee: | | | | |
| U.S. Treasury Obligation | \$ 3,201,310 | \$ 3,201,310 | \$ _____ | \$ _____ |
| Total | <u>\$ 3,201,310</u> | <u>\$ 3,201,310</u> | <u>\$ _____ 0</u> | <u>\$ _____ 0</u> |

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 the Authority's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

| <u>Investment Type</u> | <u>Minimum Legal Rating</u> | <u>Exempt From Disclosure</u> | <u>Rating as of Year End</u> | | |
|---------------------------|-------------------------------------|---------------------------------------|------------------------------|-------------------|----------------------|
| | | | <u>AAA</u> | <u>Aa</u> | <u>Not Rated</u> |
| Held by Bond Trustee: | | | | | |
| U.S. Treasury Obligations | \$ 3,201,310 | \$ _____ | \$ 3,201,310 | \$ _____ | \$ _____ |
| Total | <u>\$ 3,201,310</u> | <u>\$ _____ 0</u> | <u>\$ 3,201,310</u> | <u>\$ _____ 0</u> | <u>\$ _____ 0</u> |

Concentration 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. The Authority has no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total Authority's investments.

Shafter Joint Powers Financing Authority
Notes to Financial Statements
Year Ended June 30, 2008

2) CASH AND INVESTMENTS - Continued

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 and the Authority's investment policy do 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 government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental 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 deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2008, no deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2008, the Authority had no investments held by the same broker-dealer (counterparty) that was used by the Authority to buy the securities.

Cash with Fiscal Agent

Cash and investments held and invested by fiscal agents on behalf of the Authority are pledged for payment or security of certain long-term debt issuances. Fiscal agents are mandated by bond indentures as to the types of investments in which debt proceeds can be invested.

Collateral for Deposits

Under the provisions of the California Government Code, California banks and savings and loan associations are required to secure a city's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of a city's deposits. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits.

The collateral for certificates of deposit is generally held in safekeeping by the Federal Home Loan Bank in San Francisco as the third-party trustee. The securities are physically held in an undivided pool for all California public agency depositors. The State Public Administrative Office for public agencies and the Federal Home Loan Bank maintain detailed records of the security pool which are coordinated and updated weekly.

The Authority Treasurer, at his/her discretion, may waive the 100% collateral requirement for deposits which are insured up to \$100,000 by the FDIC.

Shafter Joint Powers Financing Authority
Notes to Financial Statements
Year Ended June 30, 2008

3) CAPITAL ASSETS

The following is a summary of changes in capital assets for the year:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|---|------------------------------|---------------------|------------------|---------------------------|
| Capital Assets, Not Depreciated: | | | | |
| Land | \$ 325,400 | \$ _____ | \$ _____ | \$ 325,400 |
| Total Capital Assets, Not Depreciated | <u>325,400</u> | _____ | _____ | <u>325,400</u> |
| Capital Assets, Being Depreciated: | | | | |
| Buildings and Improvements | 14,008,534 | | | 14,008,534 |
| Machinery and Equipment | <u>590,101</u> | _____ | _____ | <u>590,101</u> |
| Total Capital Assets, Being Depreciated | <u>14,598,635</u> | _____ | _____ | <u>14,598,635</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | (4,085,823) | (389,126) | | (4,474,949) |
| Machinery and Equipment | <u>(590,101)</u> | _____ | _____ | <u>(590,101)</u> |
| Total Accumulated Depreciation | <u>(4,675,924)</u> | <u>(389,126)</u> | _____ | <u>(5,065,050)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>9,922,711</u> | <u>(389,126)</u> | _____ | <u>9,533,585</u> |
| Capital Assets, Net of Depreciation | <u>\$ 10,248,111</u> | <u>\$ (389,126)</u> | <u>\$ _____</u> | <u>\$ 9,858,985</u> |

Depreciation expense in the amount of \$389,126 is included in operating expenses for the year ended June 30, 2008.

4) BOND ISSUANCE COSTS

The following is a summary of bond issuance costs at June 30, 2008:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| | \$ 106,100 | \$ _____ | \$ (11,168) | \$ 94,932 |

Amortization expense of bond issuance costs in the amount of \$11,168 is included in operating expense for the year ended June 30, 2008.

Shafter Joint Powers Financing Authority
Notes to Financial Statements
Year Ended June 30, 2008

5) COST IN EXCESS OF NET ASSETS ACQUIRED

Upon acquiring the Community Correction Facility (CCF), the Authority recognized "Cost in Excess of Net Assets Acquired" in the amount of \$4,978,414. Cost in Excess of Net Assets Acquired was calculated as follows:

| | | |
|--|--|----------------------------|
| CCF Purchase Price | | \$ 19,902,449 |
| Net Assets Acquired at Fair Market Value | | <u>14,924,035</u> |
| Cost in Excess of Net Assets Acquired | | 4,978,414 |
| Less Accumulated Amortization | | <u>(2,862,592)</u> |
| Cost in Excess of Net Assets Acquired at June 30, 2008 | | <u><u>\$ 2,115,822</u></u> |

The following is a summary of cost in excess of net assets acquired:

| <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|------------------------------|------------------|------------------|---------------------------|
| \$ 2,364,743 | \$ | \$ (248,921) | \$ 2,115,822 |

Amortization expense of cost in excess of net assets acquired in the amount of \$248,922 is included in operating expense for the year ended June 30, 2008.

6) LONG-TERM LIABILITIES

The following is a summary of the changes in long-term liabilities for the year.

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> | <u>Due Within On Year</u> |
|-------------------------------|------------------------------|-------------------------|----------------------------|----------------------------|-------------------------------|
| Lease Revenue Bonds, Series A | \$ 13,825,000 | \$ | \$ 1,050,000 | \$12,775,000 | \$ 1,110,000 |
| Total Revenue Bonds | <u>13,825,000</u> | <u></u> | <u>1,050,000</u> | <u>12,775,000</u> | <u>1,110,000</u> |
| Less Deferred Amounts: | | | | | |
| Bond Discounts | <u>(100,481)</u> | <u>10,578</u> | <u></u> | <u>(89,903)</u> | <u>(10,578)</u> |
| Refunding Gain/Loss | <u>(100,481)</u> | <u>10,578</u> | <u></u> | <u>(89,903)</u> | <u>(10,578)</u> |
| Total Long-Term Liabilities | <u><u>\$ 13,724,519</u></u> | <u><u>\$ 10,578</u></u> | <u><u>\$ 1,050,000</u></u> | <u><u>\$12,685,097</u></u> | <u><u>\$ 1,099,422</u></u> |

Shafter Joint Powers Financing Authority
Notes to Financial Statements
Year Ended June 30, 2008

6) LONG-TERM LIABILITIES - Continued

Lease Revenue Bonds Series A

On January 7, 1997, the Lease Revenue Bonds 1997 Series A in the amount of \$21,740,000 were issued by the Shafter Joint Power Financing Authority. The bond proceeds were used to acquire a Community Correctional Facility (CCF) in which includes land, building, and equipment located in the City. The bonds consist of serial bonds of \$2,690,000 maturing from 1998 through 2001 with interest ranging from 4.35% to 5.00%, and term bonds of \$19,050,000 maturing from 2006 through 2017 with interest ranging from 5.5% to 6.05%. Interest on the bonds is payable July 1st and January 1st of each year. Principal on the bonds is payable in annual installments from \$620,000 to \$1,775,000, commencing January 1, 1998 through January 1, 2017. At June 30, 2008, the Authority had a cash reserve balance for debt service of \$1,883,717 which is sufficient to cover the Bond Indenture Reserve Requirement.

The bonds are secured by a pledge of all State of California (State) payments and interest earnings pursuant to a CCF contract in which the State covenants to pay CCF lease costs which include an amount sufficient to pay all base rental and insurance premiums attributable to the CCF. Base rental payments will be in an amount sufficient to pay certain administrative and other expenses of the Authority. These payments under the CCF contract represent the sole security for the base rental payments.

The bonds maturing before January 1, 2007, are not subject to redemption prior to their stated maturities. The bonds maturing on or after January 1, 2007 are subject, at the option of the Authority, to redemption prior to their stated maturities, as a whole or in part or on any date on or after January 1, 2007, at the following redemption prices (expressed as a percentage of the principal amount to redeemed):

| Redemption Period (dates inclusive) | Redemption Price |
|--|---------------------|
| January 1 to December 31, 2007 | 101.00% |
| January 1 to December 31, 2008 | 100.50% |
| January 1, 2009 | 100.00% |

The bonds were acquired at a discount amounting to \$211,549. The bond discount is amortized on a straight-line method over the life of the bonds, which is 20 years.

The following is a summary of bond discounts outstanding at June 30, 2008:

| Beginning Balance | Additions | Deletions | Ending Balance |
|----------------------|-----------|-------------|-------------------|
| \$ 100,481 | \$ | \$ (10,578) | \$ 89,903 |

Amortization expense in the amount of \$10,578 is included in operating expense for the year ended June 30, 2008.

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6) LONG-TERM LIABILITIES - Continued

The future debt requirements of the revenue bonds are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|----------------------|---------------------|----------------------|
| 2009 | \$ 1,110,000 | \$ 769,348 | \$ 1,879,348 |
| 2010 | 1,180,000 | 703,302 | 1,883,302 |
| 2011 | 1,250,000 | 633,092 | 1,883,092 |
| 2012 | 1,325,000 | 558,717 | 1,883,717 |
| 2013 | 1,405,000 | 478,555 | 1,883,555 |
| 2014-2017 | <u>6,505,000</u> | <u>1,013,073</u> | <u>7,518,073</u> |
| Total | <u>\$ 12,775,000</u> | <u>\$ 4,156,087</u> | <u>\$ 16,931,087</u> |

7) OTHER INFORMATION

A) Commitments and Contingencies

As of the end of the fiscal year, the Authority is not aware of any outstanding litigations or matters which would materially affect the financial position of the Authority.