Shafter Joint Powers Financing Authority

Shafter, California

Basic Financial Statements and Independent Auditors' Report

For the year ended June 30, 2005

Shafter Joint Powers Financing Authority
Basic Financial Statements
For the year ended June 30, 2005

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C&L
Caporicci & Larson
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members
of the Shafter Joint Powers Financing Authority
Shafter, California

We have audited the accompanying basic financial statements of the Shafter Joint Powers Financing Authority (Authority), a component unit of the City of Shafter, California (City), as of and for the year ended June 30, 2005, as listed in the foregoing table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2005, and the respective changes in financial position and cash flow for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the City adopted statement of the Governmental Accounting Standards Board No. 40, *Deposit and Investment Risk Disclosures (Amendment of GASB No. 3)*.

The Authority has not presented the management discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Caporicci & Larson

Oakland, California
October 28, 2005

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BASIC FINANCIAL STATEMENTS

Shafter Joint Powers Financing Authority
Statement of Net Assets
June 30, 2005

ASSETS	
Current assets:	
Cash and investments	$ 207
Cash and investments with fiscal agents	2,936,612
Total current assets	2,936,819
Noncurrent assets:	
Capital assets:	
Non-depreciable	325,400
Depreciable, net	10,700,963
Total capital assets	11,026,363
Other assets:	
Bond issuance costs, net	128,437
Cost in excess of net assets acquired, net	2,862,585
Total other assets	2,991,022
Total noncurrent assets	14,017,385
Total assets	16,954,204
LIABILITIES	
Current liabilities:	
Interest payable	471,214
Bonds payable - due in less than one year	940,000
Total current liabilities	1,411,214
Noncurrent liabilities:	
Bonds payable, net of bond discount - due in more than one year	14,693,363
Total noncurrent liabilities	14,693,363
Total liabilities	16,104,577
NET ASSETS	
Invested in capital assets, net of related debt	11,026,363
Unrestricted	(10,176,736)
Total net assets	$ 849,627

See accompanying Notes to Basic Financial Statements.

Shafter Joint Powers Financing Authority
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2005

OPERATING REVENUES:	
Other	$ 1,881,815
Total revenues	1,881,815
OPERATING EXPENSES:	
Contractual	2,750
Depreciation and amortization	930,460
Total operating expenses	933,210
Operating income (loss)	948,605
NONOPERATING REVENUES (EXPENSES):	
Interest income	36,595
Interest expense	(696,236)
Total nonoperating revenues (expenses)	(659,641)
Changes in net assets	288,964
NET ASSETS:	
Beginning of year	560,663
End of year	$ 849,627

See accompanying Notes to Basic Financial Statements.

Shafter Joint Powers Financing Authority
Statement of Cash Flows
For the year ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers/other funds	$	1,881,815
Cash payments to suppliers for goods and services		(2,750)
Net cash provided (used) by operating activities		1,879,065
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal reduction of debt		(890,000)
Interest paid		(991,379)
Net cash provided (used) by capital and related financing activities		(1,881,379)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest from investments		36,595
Net cash provided (used) by investing activities		36,595
Net increase (decrease) in cash and cash equivalents		34,281
CASH AND CASH EQUIVALENTS:		
Beginning of year		2,902,538
End of year	$	2,936,819
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	$	948,605
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization		930,460
Net cash provided (used) by operating activities	$	1,879,065

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Shafter Joint Powers Financing Authority (Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (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. Reporting Entity

The Authority was organized by the City of Shafter (City) and the Shafter Redevelopment Agency (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. 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 Board of Directors is the City's 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. Basis of Accounting and Measurement Focus

The basic financial statements (i.e. Statement of Net Assets, the Statement of Activities and Changes in Net Assets and the Statement of Cash Flows) report on all of the enterprise activities of the Authority. These basic financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments* and related standards.

The basic financial statements are presented on an *"economic resources"* measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, including capital assets, and long-term liabilities, are included on the Statement of Net Assets. The Statement of Activities and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. 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 Authority applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989 to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. The Authority applies all applicable FASB Statements and Interpretations issued after November 30, 1989 except those that conflict with or contradict GASB pronouncements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Use of Restricted/Unrestricted Net Assets

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

D. Cash, Cash Equivalents and Investments

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

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The Authority, with the City, participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

E. Cash and Investments with Fiscal Agents

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Capital Assets

Capital assets, which include land, buildings, and machinery and equipment are reported in the Government-Wide Financial Statements. The Authority's assets are capitalized at historical cost or estimated historical cost. Authority's policy has set the capitalization threshold for reporting general fixed assets at $1,000. Gifts or contributions of capital assets are recorded at fair market value when received. Depreciation is recorded on a 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, 2005.

G. Interest Payable

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

H. 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 other assets in the basic financial statements.

I. Long-Term Debt

Long-term debt and other long-term obligations are reported as liabilities in the basic financial statements.

J. Net Assets

In the basic financial statements, net assets are classified in the following categories:

Invested in Capital Assets, net of Related Debt – 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.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. 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.

L. Implementation of New GASB Pronouncements

In 2005, the City adopted a new accounting standard in order to conform to the following Governmental Accounting Standards Board Statements:

- Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3*) – The Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The Statement requires certain disclosures of investments to address the different risk factors.

2. CASH AND INVESTMENTS

The Authority maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the City Treasurer invests to enhance interest earnings. At June 30, 2005, cash and investments consisted of $207 for operation of the Authority which were pooled with the City. Investment policies and associated risk factors applicable to the Authority's funds are those of the City and are included in the City's basic financial statements.

At June 30, 2005, cash and investments restricted with fiscal agents consisted of $2,936,612 which are restricted for repayment of long-term debt.

See the City's basic financial statements for the year ended June 30, 2005, for additional disclosures on cash and investments.

3. CAPITAL ASSETS

The following is a summary of capital assets:

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	$ 325,400	$ -	$ -	$ 325,400
Total capital assets, not being depreciated	325,400	-	-	325,400
Capital assets, being depreciated:				
Machinery and equipment	590,101	-	-	590,101
Buildings and improvements	14,008,534	-	-	14,008,534
Total capital assets being depreciated	14,598,635	-	-	14,598,635
Accumulated depreciation				
Machinery and equipment	(590,101)	-	-	(590,101)
Buildings and improvements	(2,918,445)	(389,126)	-	(3,307,571)
Total accumulated depreciation	(3,508,546)	(389,126)	-	(3,897,672)
Total capital assets, being depreciated, net	11,090,089	(389,126)	-	10,700,963
Total business-type activities	$ 11,415,489	$ (389,126)	$ -	$ 11,026,363

Depreciation expense was $389,126 for the year ended June 30, 2005.

4. OTHER ASSETS

A. Bond Issuance Costs

The following is a summary of bond issuance costs at June 30, 2003:

Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
$ 139,603	$ -	$ (11,166)	$ 128,437

Amortization expense of bond issuance costs was $11,166 for the year ended June 30, 2005.

B. 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:

4. OTHER ASSETS, Continued

B. Cost In Excess of Net Assets Acquired, Continued

CCF purchase price	$ 19,902,449
Net assets acquired at fair market value	14,924,035
Cost in excess of net assets acquired	4,978,414
Less accumulated amortization	(2,115,829)
Cost in excess of net assets acquired at June 30, 2005	$ 2,862,585

The following is a summary of cost in excess of net assets acquired at June 30, 2005:

Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
$ 3,111,507	$ -	$ (248,922)	$ 2,862,585

Amortization expense of cost in excess of net assets acquired was $248,922 for the year ended June 30, 2005.

5. LONG-TERM LIABILITIES

A summary of the Authority's long-term liabilities at June 30, 2005 is as follows:

					Classification	
	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Amounts Due Within One Year	Amounts Due in More than One Year
Lease Revenue Bonds, Series A	$ 16,645,000	$ -	$ (890,000)	$ 15,755,000	$ 940,000	$ 14,815,000
Less unamortized bond discount	(132,215)	-	10,578	(121,637)	-	(121,637)
Total long-term liabilities, net	$ 16,512,785	$ -	$ (879,422)	$ 15,633,363	$ 940,000	$ 14,693,363

On January 7, 1997, the Lease Revenue Bonds 1997 Series A in the amount of $21,740,000 were issued by the Shafter Joint Powers Financing Authority. The bond proceeds were used to acquire a Community Correctional Facility (CCF) which included 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%.

5. LONG-TERM LIABILITIES, Continued

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 the principal and interest of the bonds and additional 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, and are 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, 2005:

Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
$ 132,215	$ -	$ (10,578)	$ 121,637

Amortization expense was $10,578 for June 30, 2005.

The annual debt service requirements on the bonds outstanding at June 30, 2005, were as follows:

Year Ending June 30,	Principal	Interest	Total
2006	$ 940,000	$ 942,428	$ 1,882,428
2007	990,000	890,728	1,880,728
2008	1,050,000	831,822	1,881,822
2009	1,110,000	769,348	1,879,348
2010	1,180,000	703,302	1,883,302
2011-2017	7,040,000	2,367,568	9,407,568
2016-2020	3,445,000	315,810	3,760,810
Total	$ 15,755,000	$ 6,821,006	$ 22,576,006