Shafter Joint Powers Financing Authority

Shafter, California

Independent Auditors' Report and Basic Financial Statements

For the year ended June 30, 2013

PUN & McGEADY LLP
Certified Public Accountants and Business Advisors

Shafter Joint Powers Financing Authority
Basic Financial Statements
For the year ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Shafter Joint Powers Financing Authority
Shafter, California

We have audited the accompanying statement of financial position of the Shafter Joint Powers Financing Authority (the "Authority"), a component unit of the City of Shafter, California (the "City"), as of June 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the basic financial statements.

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 an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2013, and the respective changes in financial position, and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 1 to the basic financial statements, the financial statements present only the Authority and do not purport to, and do not, present fairly the financial position of the City and the changes in its financial position, or where applicable, its cash flow, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statement. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Pun & McGeady LLP

San Diego, California
November 19, 2013

BASIC FINANCIAL STATEMENTS

Shafter Joint Powers Financing Authority
Statement of Net Position
June 30, 2013

ASSETS	
Current assets:	
Cash and investments	$ 267
Cash and investments with fiscal agent	3,186,664
Due from other governments	4,331,409
Total current assets	7,518,340
Noncurrent assets:	
Capital assets, nondepreciable	325,400
Capital assets, depreciable	19,577,049
Less accumulated depreciation	(11,117,874)
Total capital assets, net	8,784,575
Bond issuance costs	39,093
Total noncurrent assets	8,823,668
Total assets	16,342,008
LIABILITIES	
Current liabilities:	
Interest payable	196,766
Bond payable - due within one year	1,474,422
Total current liabilities	1,671,188
Noncurrent liabilities:	
Bond payable - due in more than one year	4,993,565
Total noncurrent liabilities	4,993,565
Total liabilities	6,664,753
NET POSITION	
Net investment in capital assets	5,503,252
Unrestricted	4,174,003
Total net assets	$ 9,677,255

See accompanying notes to basic financial statements.

Shafter Joint Powers Financing Authority
Statement of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2013

OPERATING REVENUES:	
Lease revenue	$ -
Total operating revenues	-
OPERATING EXPENSES:	
Administrative and general	6,131
Amortization	21,746
Depreciation	638,046
Total operating expenses	665,923
OPERATING INCOME (LOSS)	(665,923)
NONOPERATING REVENUES (EXPENSES):	
Interest income	319
Interest expenses and fiscal charges	(436,044)
Total nonoperating revenues (expenses)	(435,725)
TRANSFERS FROM CITY:	
Transfer in	639
Total transfers	639
Changes in net assets	(1,101,009)
NET POSITION:	
Beginning of year, as restated (Note 8)	10,778,264
End of year	$ 9,677,255

See accompanying notes to basic financial statements.

Shafter Joint Powers Financing Authority
Statement of Cash Flows
For the year ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$ 1,881,470
Cash payments to suppliers for goods and services	(6,131)
Net cash provided by operating activities	1,875,339
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers in	639
Net cash provided by noncapital financing activities	639
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on long-term debt	(1,405,000)
Interest paid on long-term debt	(478,556)
Net cash (used in) capital and related financing activities	(1,883,556)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	319
Net cash provided by investing activities	319
Net (decrease) in cash and cash equivalents	(7,259)
CASH AND CASH EQUIVALENTS:	
Beginning of year	3,194,190
End of year	$ 3,186,931
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	$ (665,923)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Amortization	21,746
Depreciation	638,046
Prior period adjustment	6,212,879
Accounts payable	(4,331,409)
Total adjustments	2,541,262
Net cash provided by operating activities	$ 1,875,339

See accompanying notes to basic financial statements.

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

A. *Reporting Entity*

The Shafter Joint Power Financing Authority (the “Authority”) was organized by the City of Shafter, California (the “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). On February 1, 2012, the Agency was dissolved by the State of California. 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.

The accompanying financial statements present only the Authority and are not intended to present fairly the financial position, changes in financial position, or cash flows of the City in conformity with accounting principles generally accepted in the United States of America.

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 leasing activities 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 leasing activities.

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.

C. *Cash 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 or acquisition. Cash and cash equivalents are combined with investments and displayed as cash and investments.

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

C. Cash and Investments (Continued)

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 position. 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 $5,000. 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

F. Interest Payable

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

G. ***Bond Premiums, Discounts, and Issuance Costs***

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 are reported as noncurrent assets in the statement of Net position.

H. Long-Term Debt

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

I. Net position

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

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

I. Net position (Continued)

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

J. 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.

K. Accounting Changes

GASB has issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (SCA).* The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement became effective for periods beginning after December 15, 2011 and did not have an impact on these financial statements for the year ended June 30, 2013.

GASB has issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34.* The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This Statement became effective for periods beginning after June 15, 2012 and did not have an impact on these financial statements for the year ended June 30, 2013.

GASB has issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement combines the authoritative accounting and financial reporting of the Financial Accounting Standards Board (“FASB”) and the American Institute of Certified Public Accountants (“AICPA”). The Statement eliminates the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments. This Statement became effective for periods beginning after December 15, 2011 and did not have a significant impact on these financial statements for the year ended June 30, 2013.

GASB has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The requirement of this Statement standardizes the presentation of the deferred inflows and outflows of resources and their effects on a government’s net position. This Statement became effective for periods beginning after December 15, 2011. The implementation of this Statement to the Authority was limited to renaming “Net Assets” to “Net Position” in these financial statements.

Note 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 Position:		
Cash and investments	$	267
Cash and investments with fiscal agent		3,186,664
Total cash and investments	$	3,186,931

Cash and investments consist of the following:

City of Shafter's Pooled Cash	$	267
Money Market Fund		3,186,664
Total cash and investments	$	3,186,931

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.

Note 2 – Cash and Investments (Continued)

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.

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.

		Remaining Maturity (in Months)
Investment Type	Fair Value	12 Months Or Less
Held by Bond Trustee:		
Money Market Fund	$ 3,186,664	$ 3,186,664
Total	$ 3,186,664	$ 3,186,664

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

			Rating as of Year End
Investment Type	Fair Value	Minimum Legal Rating	AAA
Held by Bond Trustee:			
Money Market Fund	$ 3,186,664	N/A	$ 3,186,664
Total	$ 3,186,664		$ 3,186,664

Note 2 – Cash and Investments (Continued)

Disclosure Relating to 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.

Disclosure Relating to 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 deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2013, no deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2013, 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 $250,000 by the FDIC.

Note 3 – Due from Other Government

In 1997 the Shafter Joint Powers Financing Authority ("JPFA") issued bonds to acquire the Shafter Community Correctional Facility ("CCF") and leased the CCF to the City of Shafter who operated the CCF under contract with the State of California. On November 30, 2011 the State cancelled their contract with the City as part of the 2011 Public Safety Realignment Act. Pursuant to the terms of the contract, even after termination, the State has continued to make all minimum lease payment required to fund the semiannual JPFA debt service on the bonds used to purchase the CCF. Due to this contract the city has recorded Due from other governments in the amount of $4,331,409, which is the balance of the outstanding lease payments netted against the Cash with fiscal agents held by the City for the States use at the end of the lease.

Note 4 – Capital Assets

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

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets, not depreciated:				
Land	$ 325,400	$ -	$ -	$ 325,400
Total capital assets, not depreciated	325,400	-	-	325,400
Capital assets, being depreciated				
Building and improvements	18,986,948	-	-	18,986,948
Machinery and equipment	590,101	-	-	590,101
Total capital assets, being depreciated	19,577,049	-	-	19,577,049
Less accumulated depreciation				
Building and improvements	(9,889,727)	(638,046)	-	(10,527,773)
Machinery and equipment	(590,101)	-	-	(590,101)
Total accumulated depreciation	(9,841,783)	(638,046)	-	(11,117,874)
Total capital assets, being depreciated, net	9,735,266	(638,046)	-	8,459,175
Total capital assets, net	$ 10,060,666	$ (638,046)	$ -	$ 8,784,575

Depreciation expense in the amount of $638,046 is included in operating expenses for the year ended June 30, 2013.

Note 5 – Long-Term Liabilities

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

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Amounts Due Within One Year	Amounts Due In More Than One Year
Lease Revenue Bonds, Series A	$ 7,910,000	$ -	$ (1,405,000)	$ 6,505,000	$ 1,485,000	$ 5,020,000
Less bond discounts	(47,590)	-	10,577	(37,013)	(10,578)	(26,435)
Total long-term liabilities	$ 9,176,832	$ -	$ (1,394,423)	$ 6,467,987	$ 1,474,422	$ 4,993,565

Certificates of Participation – Community Correctional Facility (CCF) – Original Issue $21,740,000

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 2008 through 2017 with interest ranging from 5.5% to 6.05%.

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, 2008, are not subject to redemption prior to their stated maturities. The bonds maturing on or after January 1, 2008 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, 2008, at the following redemption prices (expressed as a percentage of the principal amount to redeemed):

Redemption Period (dates inclusive)	Redemption Price
January 1, 2009	100%

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 annual amortization expense was $10,577. At June 30, 2013, the outstanding bond discount was $37,013.

Note 5 – Long-Term Liabilities (Continued)

The annual debt service requirements on the bonds outstanding at June 30, 2013, were as follows:

Year End June 30,	Principal	Interest	Total
2014	$ 1,485,000	$ 393,553	$ 1,878,553
2015	1,575,000	303,710	1,878,710
2016	1,670,000	208,423	1,878,423
2017	1,775,000	107,388	1,882,388
	$ 6,505,000	$ 1,013,074	$ 7,518,074

Total bonds outstanding as of June 30, 2012, net of unamortized bond discount were as follows:

Principal outstanding at June 30, 2013	$ 6,505,000
Less unamortized bond discount	(37,013)
Total Certificates of Participation, net	$ 6,467,987

Note 6 – Commitment 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.

Note 7 – Community Correctional Facility ("CCF") Operation

In 1997 the Shafter Joint Powers Financing Authority ("JPFA") issued bonds to acquire the Shafter Community Correctional Facility ("CCF") and leased the CCF to the City of Shafter who operated the CCF under contract with the State of California. On November 30, 2011 the State cancelled their contract with the City as part of the 2011 Public Safety Realignment Act. The City is currently negotiating a new contract with the State that would reopen the CCF but as of the date of the audit report a new contract had not been executed.

Note 8 – Prior Period Adjustment

In 1997 the Shafter Joint Powers Financing Authority issued tax exempt bonds to purchase the Shafter Community Correctional Facility which was concurrently leased to the City of Shafter to be used as a correctional facility pursuant to a contract with the California Department of Corrections and Rehabilitation (CDCR). Additionally, as a part of this transaction the City and CDCR entered into a Settlement Agreement to bring an end to disputes and litigation that were ongoing at the time. This Settlement Agreement provides that CDCR is obligated to continue to make all minimum lease payments to the City, which the City has assigned to the Trustee for bond payments, regardless of the status of the contract. Additionally, when the bondholders are repaid in full, title to the Community Correctional Facility shall transfer to the City and CDCR shall have 99 1-year lease options for $1 per year to Lease the Community Correctional Facility from the City under the terms of the conditional use permit issued in 1998.

Note 8 – Prior Period Adjustment

Due to the above situation, the Authority recorded a prior period adjustment in order to record a due from other governments balance for the amount the State of California is obligated to pay over the remainder of the lease payments. The effect of the adjustment on the Statement of Net Position is as follows:

Beginning Net Position, as previously reported	$	4,565,385
Prior period adjustment		6,212,879
Beginning Net Position, as restated	$	10,778,264