

El Cerrito Public Financing Authority

(A Component Unit of the City
of El Cerrito, California)

*Basic Financial Statements
and Independent Auditor's Report*

For the year ended June 30, 2017

El Cerrito Public Financing Authority

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of the El Cerrito Public Financing Authority
El Cerrito, California

Report on the Financial Statements

We have audited the accompanying financial statements of the El Cerrito Public Financing Authority (Authority), a component unit of the City of El Cerrito, California (City), as of and for the year ended June 30, 2017, 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 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 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 opinion.

To the Board of Directors
of the El Cerrito Public Financing Authority
El Cerrito, California
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Authority and do not purport to, and do not, present fairly the financial positions of the City as of June 30, 2017, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

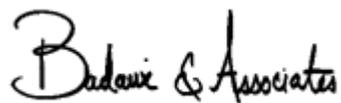
Other Matters

Required Supplementary Information

Management has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report date MONTH, XX, 2018, on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing and not to provide and opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority’s internal control over financial reporting and on compliance.



Badawi and Associates
Certified Public Accountants
Oakland, California
August 29, 2018

BASIC FINANCIAL STATEMENTS

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El Cerrito Public Financing Authority
Statement of Net Position
June 30, 2017

ASSETS

Cash and investments	\$	4,043
Cash and investments held by trustee		187,995
Interest receivable		22,363
Net investment in leases and installment agreement		3,379,805
Total assets		<u>3,594,206</u>

LIABILITIES

Accounts payable		1,091
Interest payable		22,363
Long-term debt:		
Due in one year		592,500
Due in more than one year		2,975,300
Total liabilities		<u>3,591,254</u>

NET POSITION

Restricted for debt service		187,995
Unrestricted net position (deficit)		(185,043)
Net position	\$	<u>2,952</u>

El Cerrito Public Financing Authority
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2017

OPERATING REVENUES:

Lease interest revenue	\$ 713,348
Interest income	18,880
Total operating revenues	<u>732,228</u>

OPERATING EXPENSES:

Interest on long-term debt	772,835
Total operating expenditures	<u>772,835</u>

Change in net position	(40,607)
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NET POSITION:

Beginning of year	43,559
End of year	<u>\$ 2,952</u>

El Cerrito Public Financing Authority
Statement of Cash Flows
For the year ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from customers	\$	17,952,330
Receipt of interest		19,971
Payments of interest		(880,627)
Net cash provided by (used in) operating activities		<u>17,091,674</u>

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:

Principal payments		(18,433,000)
Net cash provided by (used in) noncapital and related financing activities		<u>(18,433,000)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (1,341,326)

CASH AND CASH EQUIVALENTS - Beginning of year 1,533,364

CASH AND CASH EQUIVALENTS - End of year \$ 192,038

FINANCIAL STATEMENT PRESENTATION:

Cash and investments	\$	4,043
Cash and investments held by trustee		187,995
Total	<u>\$</u>	<u>192,038</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET

CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:

Operating income (loss)	\$	(40,607)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Changes in assets, deferred outflows and inflows of resources, and liabilities		
Lease receivable		17,131,190
Interest receivable		107,792
Accounts payable		1,091
Interest payable		(107,792)
Total adjustments		<u>17,132,281</u>
Net cash provided by (used in) operating activities	<u>\$</u>	<u>17,091,674</u>

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NOTES TO BASIC FINANCIAL STATEMENTS

El Cerrito Public Financing Authority
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

A. *Description of Reporting Entity*

The El Cerrito Public Financing Authority (Authority) is a nonprofit corporation organized by the City of El Cerrito and the El Cerrito Redevelopment Agency on July 1, 2002 under the laws of the State of California. The El Cerrito Redevelopment Agency was dissolved effective January 31, 2012. The Authority was organized to provide financial assistance to the City by financing real and personal property and improvements for the benefit of the residents of the City and surrounding areas. Administrative and related normal business expenses incurred in the day-to-day operations of the Authority are provided by the City and are not included in the accompanying financial statements. Such expenses are insignificant to the Authority's operations.

The Authority obtains financing for City sponsored projects using leases signed by the City as collateral. The amounts of the leases are calculated to provide sufficient resources to repay the debt incurred to finance the projects.

The Authority is an integral part of the City and accordingly, the accompanying financial statements are included as a component of the Comprehensive Annual Financial Report prepared by the City. A component unit is a separate governmental unit, agency, or nonprofit corporation controlled by the City which, when combined with all other component units, constitutes the reporting entity as defined in the City's Comprehensive Annual Financial Report.

B. *Basis of Accounting*

The Authority reports its activities as a proprietary fund type (Enterprise Fund) which is maintained on the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned regardless of whether they are received, and expenses are recognized in the period the related fund liability is incurred.

The Authority's revenues and expenses are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Certain indirect costs are included in program expenses reported for individual functions and activities.

C. *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows/inflows of resources and liabilities and disclosure of contingent assets, deferred outflows/inflows of resources and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

El Cerrito Public Financing Authority
Notes to Basic Financial Statements
For the year ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs - other than quoted prices included within level 1 - that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

2. CASH AND INVESTMENTS

The Authority pools cash from all sources and all funds with the City of El Cerrito, except cash and investments held by trustee, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. Policies

The Authority and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. Individual investments are generally made by the Authority's fiscal agents as required under its debt issues.

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. Investments Authorized by the California Government Code and the City's Investment Policy

The City's Investment Policy and the California Government Code allow the Authority to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded.

El Cerrito Public Financing Authority
Notes to Basic Financial Statements
For the year ended June 30, 2017

2. CASH AND INVESTMENTS, Continued

B. Investments Authorized by the California Government Code and the City's Investment Policy, Continued

The table below also identifies certain provisions of the California Government Code, or the City's Investment Policy:

Authorized Investment Type	Maximum Maturity	Maximum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
State of California Local Agency Investment Fund (LAIF Pool)	On Demand	N/A	\$ 65,000,000 per account	\$ 65,000,000 per account
U.S. Treasury Bonds, Notes and Bills	5 Years	N/A	No Limit	No Limit
U.S. Federal Agency and U.S. Government Sponsored Enterprise Securities	5 Years	N/A	No Limit	No Limit
Banker's Acceptances	180 Days	N/A	30%	30%
Commercial Paper	270 Days	P-1, A-1, F-1	10%*	10%
Certificates of Deposit	5 Years	N/A	30%	10%
Negotiable Certificates of Deposit	5 Years	A	30%	No Limit
Medium-Term Corporate Notes	5 Years	A	10%*	No Limit
Derivative Securities (limited to Federal Agency callable issues)	5 Years	N/A	10%	No Limit
Money Market Mutual Funds	On Demand	Highest Rating Category	5%	No Limit

* Total combined corporate debt (Commercial Paper and Medium-Term Notes) may not exceed 20% of the cost value of the portfolio.

The City's investment policy prohibits investments in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages in accordance with California Government Code 53601.6. With the exception of callable Federal Agency securities, any security that derives its value from another asset or index is prohibited. In addition, the City may not invest any funds in any security that could result in zero interest accrual if held to maturity.

C. Investments Authorized by Debt Agreements

The Authority must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the Authority fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Authority ordinance, bond indentures or State statute.

El Cerrito Public Financing Authority
Notes to Basic Financial Statements
For the year ended June 30, 2017

2. CASH AND INVESTMENTS, Continued

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

E. Credit Risk

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. The actual ratings as of Error! Unknown **switch argument.** for the Blackrock Institutional and Liquidity Money Market Funds were AAAM as provided by Standard and Poor's investment ratings service.

F. GASB 72 Fair Value Hierarchy

The Authority categorizes its fair value measurements within the fair value hierarchy established by Generally Accepted Accounting Principles (GAAP). The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Money market funds are classified as Level 2 investments of the fair value hierarchy are valued at one dollar per share.

El Cerrito Public Financing Authority
Notes to Basic Financial Statements
For the year ended June 30, 2017

3. LEASES/INSTALLMENTS RECEIVABLE

The Authority financed the City Swim Center project, City Hall project and the City's annual street maintenance/improvement program. The Authority's net investment in lease and installment agreements at Error! Unknown switch argument. is calculated as follows:

	Leases		
	Swim Center Revenue Refunding	Recycling Facility Revenue Refunding	Total
	Total minimum lease/installment payments to be received	\$ 1,075,218	\$ 2,605,823
Less future interest payments	(43,313)	(257,923)	(301,236)
Net investment in leases/installment	<u>\$ 1,031,905</u>	<u>\$ 2,347,900</u>	<u>\$ 3,379,805</u>

Anticipated receipts of principal and interest on the leases and installment agreement are scheduled to mirror the schedule of Repayment Requirements as shown at Note 4, less unspent bond proceeds held by the Authority to be used to make debt service payments.

4. LEASE AND SALES TAX REVENUE BONDS

A. Current Year Transactions and Balances

	Original Issue Amount	Balance July 1, 2016	Retirements	Balance June 30, 2017	Due Within One Year	Due in More Than One Year
2006 Lease Revenue Bonds						
3.60%-5.00%, due 12/31/2036	\$ 9,610,000	\$ 8,115,000	\$ (8,115,000)	\$ -	\$ -	\$ -
2008 Sales Tax Revenue Bonds						
3.30%-4.75%, due 5/1/2037	11,750,000	9,740,000	(9,740,000)	-	-	-
2012 Lease Revenue Refunding Bonds						
1.960%, due 9/1/2020	2,516,500	1,552,200	(332,300)	1,219,900	340,800	879,100
2012 Recycling Facility Revenue Refunding Bonds						
2.36%, due 10/1/2025	3,405,600	2,593,600	(245,700)	2,347,900	251,700	2,096,200
Total Debt	<u>\$ 27,282,100</u>	<u>\$ 22,000,800</u>	<u>\$ (18,433,000)</u>	<u>\$ 3,567,800</u>	<u>\$ 592,500</u>	<u>\$ 2,975,300</u>

B. 2012 Public Financing Authority Lease Revenue Refunding Bonds

On September 26, 2012, the Authority issued Lease Revenue Refunding Bonds, Series 2012, in the original principal amount of \$2,516,500 at 1.960% interest to provide for the refunding of the City's outstanding 2002 Swim Center Lease Revenue Bonds. Principal payments are due annually on September 1, with interest payments payable semi-annually on March 1 and September 1 through September 1, 2020. Parcel tax revenues are pledged for the repayment of these Bonds. If parcel tax revenues are insufficient to pay the annual principal and interest payments on the bonds the City has covenanted to use General Fund revenues.

El Cerrito Public Financing Authority
Notes to Basic Financial Statements
For the year ended June 30, 2017

4. LEASE AND SALES TAX REVENUE BONDS, Continued

C. 2012 Public Financing Authority Recycling Facility Revenue Refunding Bonds

On September 19, 2012, the Authority issued Recycling Facility Revenue Refunding Bonds in the original principal amount of \$3,405,600 at 2.36% interest to provide for the refunding and retirement of the City's outstanding Recycling Center Lease Purchase Agreement and related Site Lease. The Authority transferred \$3,359,176 to the City to retire the prior lease. Principal and interest payments are due quarterly on July 1, October 1, January 1, and April 1, through October 1, 2025. Repayment of these bonds is from charges for services received by the Integrated Waste Management Enterprise Fund.

D. Debt Service Requirements

Future principal and interest payments on the Bonds are as follows:

Year ending June 30,	Principal	Interest
2018	\$ 592,500	\$ 75,342
2019	601,500	62,463
2020	614,800	49,335
2021	456,000	37,603
2022	277,400	29,148
2023 - 2026	1,025,600	47,345
	\$ 3,567,800	\$ 301,236

5. NET POSITION

Net Position is divided into two captions and is described below:

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Authority cannot unilaterally alter. These principally include debt service requirements.

Unrestricted describes the portion of Net Position which is not restricted as to use.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
of the El Cerrito Public Financing Authority
El Cerrito, 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 El Cerrito Public Financing Authority (Authority), a component unit of the City of El Cerrito, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

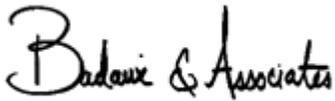
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free 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*.

To the Board of Directors
of the El Cerrito Public Financing Authority
El Cerrito, California
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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.



Badawi and Associates
Certified Public Accountants
Oakland, California
August 29, 2018