SACRAMENTO COUNTY
PUBLIC FINANCING AUTHORITY
(A Component Unit of the
County of Sacramento, California)

Independent Auditors' Reports,
Basic Financial Statements,
and Required Supplementary Information

For the Year Ended June 30, 2018

SACRAMENTO COUNTY PUBLIC FINANCING AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Sacramento County Public Financing Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Sacramento County Public Financing Authority (Authority), a component unit of the County of Sacramento, California, as of and for the year ended June 30, 2018, 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.

Auditors' 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.

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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, 2018, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
August 27, 2018

SACRAMENTO COUNTY PUBLIC FINANCING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Sacramento County Public Financing Authority (the Authority) a component unit of the County of Sacramento, California, we offer readers of our financial statements this narrative overview and analysis of the financial activities for the period ended June 30, 2018.

Financial Highlights

- The Authority's total assets are $72,606,560. The primary asset of the Authority is a receivable from loans made to the Sacramento Housing and Redevelopment Agency (the Agency) in the amount of $63,242,073.00 and cash and investments of $9,068,171.
- The Authority's liabilities consisted mainly of revenue bonds payable totaling $72,310,244, the net proceeds of which were loaned to the Agency in previous years.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements.

Financial Statements are designed to provide readers with a broad overview of the Authority's finances.

The *statement of net position* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses, and changes in net position* presents information showing how the Authority's net position changed during the most recent period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The *statement of cash flows* presents information about the cash receipts and cash payments of the Authority during the most recent period. When used with related disclosures and information in the other financial statements, the information provided in this statement should help financial report users assess the Authority's ability to generate future net cash flows, its ability to meet its obligations as they become due and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects on the Authority's financial position of its cash and its noncash investing, capital and related financing transactions during the period.

The financial statements can be found on pages 7 through 9 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 10 through 17 of this report.

Financial Analysis

The primary asset of the Authority is the receivable from the Agency which decreased by $1,428,900 during the year. The primary liability is the outstanding balance of the revenue bonds. Both the receivable and bonds payable balances will reduce over time, as the bonds are paid-off.

In compliance with the loan agreement, the Agency paid $5,282,042 in interest and principal to the Authority. The Authority used those funds, in addition to investment interest earnings, to make the scheduled debt service payments on the tax revenue bonds.

The following table summarizes the changes between assets, liabilities and net position as of June 30, 2018 and 2017:

Authority's Condensed Statements of Net Position

	2018	% Change	2017
Cash and cash equivalents	$ 9,068,171	0.6%	$ 9,016,840
Accrued interest receivable	296,316	-2.3%	303,193
Loans receivable from participating government	63,242,073	-6.8%	64,670,974
Total Assets	72,606,560	-5.9%	73,991,007
Accrued interest payable	296,316	-2.3%	303,193
Long-term Liabilities	72,310,244	-5.9%	73,687,814
Total Liabilities	72,606,560	-5.9%	73,991,007
Net position:			
Unrestricted	-	0%	-
Total Net Position	$ -	0%	$ -

Net position did not change during the year ended June 30, 2018. Cash and cash equivalents are funds held as liquidity reserves for debt service. Any cash and cash equivalents and investments in excess of the required liquidity reserve balance of $5,504,697 are used to fund debt service payments.

SACRAMENTO COUNTY PUBLIC FINANCING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis, (Continued)

The following table summarizes changes in net position for the fiscal years ended June 30, 2018 and 2017:

Authority's Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2018	% Change	2017
Operating revenues			
Interest income from participating government	$ 3,819,416	-3.0%	$ 3,938,543
Total Revenues	3,819,416	-3.0%	3,938,543
Non-operating revenues (expenses)			
Interest and investment income	78,180	219.0%	24,508
Interest and amortization of bond discount	(3,897,596)	-1.7%	(3,963,051)
Net operating revenues (expenses)	(3,819,416)	-3.0%	(3,938,543)
Change in net position	-		-
Net position, beginning of year	-		-
Net position, end of year	$ -		$ -

Debt Administration

Effective February 1, 2012, the County of Sacramento assumed the role of Redevelopment Agency Successor Agency (RASA) and took responsibility for the debt obligations of the former Redevelopment Agency. Under the provisions of AB X1 26 and AB 1484, the RASA is now responsible for remitting payments on enforceable obligations of the former Redevelopment Agency, and to ensure that all enforceable obligations are reported on the recognized obligation payment schedule (ROPS) every six months and submitted to the State Department of Finance for review and approval. Once approved, and provided sufficient revenues are available, the County Auditor-Controller's Office distributes property taxes to the RASA from the County's Redevelopment Property Tax Trust Fund (RPTTF) to the RASA's Redevelopment Obligation Retirement Fund (RORF) for payment of enforceable obligations.

The City of Sacramento, as a member of the Sacramento Housing and Redevelopment Agency, paid off the outstanding balance of its portion of the 2003A bonds and 2003C bonds during fiscal year 2016. The principal payoff amount totaled $11,905,000.

The scheduled debt service payment in the fiscal year 2018 of $1,685,000 was reduced by the increase in the accrual of accreted interest for capital appreciation bonds which totaled $287,045 at June 30, 2018. The ending balance of the Authority’s long-term liabilities at June 30, 2018 is $72,310,244. Additional information on the Authority's long-term liabilities can be found in Note 4.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Peter Aw-yang
Senior Accounting Manager
700 H Street Room 1710
Sacramento, CA 95814

SACRAMENTO COUNTY PUBLIC FINANCING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS		
Cash and cash equivalents	$	9,068,171
Accrued interest receivable		296,316
Loans receivable from participating government		63,242,073
Total assets		72,606,560
LIABILITIES		
Accrued interest payable		296,316
Long-term liabilities:		
Due within one year		1,770,000
Due after one year (net of bond discount)		70,540,244
Total liabilities		72,606,560
NET POSITION		
Unrestricted		-
Total Net Position	$	-

See accompanying notes to the basic financial statements.

SACRAMENTO COUNTY PUBLIC FINANCING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

OPERATING REVENUES	
Interest income from participating government	$ 3,819,416
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	78,180
Interest and amortization of bond discount	(3,897,596)
Total nonoperating revenues (expenses)	(3,819,416)
Change in net position	-
Net position, beginning of year	-
Net position, end of year	$ -

See accompanying notes to the basic financial statements.

SACRAMENTO COUNTY PUBLIC FINANCING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Principal received from participating government	$	1,685,000
Interest received from participating government		3,570,193
Net cash provided by operating activities		5,255,193
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term liabilities		(1,685,000)
Interest payments on long-term liabilities		(3,597,042)
Net cash used by capital and related financing activities		(5,282,042)
CASH FLOWS FROM INVESTING FINANCING ACTIVITIES		
Interest received on investments		78,180
Net cash provided by investing financing activities		78,180
NET INCREASE IN CASH EQUIVALENTS		51,331
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		9,016,840
CASH AND CASH EQUIVALENTS, END OF YEAR	$	9,068,171
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	3,819,416
Change in assets and liabilities:		
Decrease in accrued interest receivable		6,877
Decrease in loans receivable from participating government		1,482,900
Net cash provided by operating activities	$	5,255,193
Noncash investing, capital and financing activities:		
Amortization of bond discounts	$	20,385
Accreted interest on capital appreciation bonds		287,045

See accompanying notes to the basic financial statements.

SACRAMENTO COUNTY PUBLIC FINANCING AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Sacramento County Public Financing Authority (the Authority) was created by a Joint Exercise of Powers Agreement (the Agreement) effective as of November 25, 2003 between the County of Sacramento (the County) and the Sacramento Housing and Redevelopment Agency (the Agency). The County Board of Supervisors (the Board) sits as the Board of Directors of the Authority. The Authority was created for the purpose of obtaining financing for various designated redevelopment and housing projects in the greater Sacramento area. The Authority meets the criteria set forth in accounting principles generally accepted in the United States of America as a blended component unit of the County because the governing body is the same as the County, and otherwise meets the criteria set forth by generally accepted accounting principles because of the financial benefit/burden relationship of their activities.

Assembly Bill X1 26 enacted on June 29, 2011, was upheld and declared constitutional by the California Supreme Court on December 29, 2011. As of February 1, 2012, redevelopment agencies in California, including the Agency, were dissolved and successor agencies were appointed to wind down the affairs of the redevelopment agencies in accordance with the provisions of Assembly Bill X1 26. The County has elected to be appointed as Successor Agency for purpose of winding down the affairs of the Agency. The Housing Authority of the County of Sacramento has been appointed as the Housing Successor Agency.

Section 34178(b)(3) of the California *Health and Safety Code* indicates that where the Redevelopment Agency was a member of a Joint Exercise of Powers Agreement, the RASA replaces the Redevelopment Agency by operation of law. Therefore, the RASA has assumed the roles and responsibilities of the Redevelopment Agency under the terms of the original agreement.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses when the liability is incurred, regardless of the timing of related cash flows.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with Authority's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenue of the Authority is interest income from the Agency.

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all short-term highly liquid investments with an original maturity of three months or less, including restricted investments, to be cash and cash equivalents.

Fair Value Measurement

The Authority categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets: Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 2 – LOAN TO PARTICIPATING GOVERNMENT

During the fiscal year ended June 30, 2004, the Authority loaned $48,653,494 of the bond proceeds received to the Agency pursuant to the 2003 Loan Agreements. In addition, on March 5, 2008, the Authority loaned an additional $43,855,389 in bond proceeds to the Agency pursuant to the 2008 Loan Agreements. In return, the Agency agreed to repay these funds and interest, as well as repay the Authority for any costs incurred such as bond issuance and discount costs. Such repayments, net of any interest earned by the Authority, are required to be sufficient to cover the Authority's debt service requirements on the bonds. As such, the set repayment schedule is consistent with the long-term liabilities repayment schedule. The accreted balance of the loans as of June 30, 2018, is $63,242,073.

Changes in loan to participating government for the period ended June 30, 2018, were as follows:

	Balance July 1, 2017	Increase	Decrease	Balance June 30, 2018
Loans receivable from participating government	$ 61,997,231	$ -	$ (1,715,946)	$ 60,281,285
Accreted interest	2,673,743	287,045		2,960,788
Total	$ 64,670,974	$ 287,045	$ (1,715,946)	$ 63,242,073

NOTE 3 – CASH AND CASH EQUIVELENTS

Cash and cash equivalents and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	$ 9,068,171

Cash and cash equivalents as of June 30, 2018, consist of the following:

Money market mutual fund	$ 9,068,171

The Authority reports its investments at fair value. At June 30, 2018, $5,504,697 of the cash and cash equivalents were held as reserves for debt service. All policies for investing cash and cash equivalents are governed by the bond indentures. The Authority believes it is not at measurable risk as to the four risk areas as follows:

Custodial Credit Risk

This is the risk that in the event a financial institution or counterparty fails, the Authority would not be able to recover the value of its deposits and investments. As of June 30, 2018, one hundred percent of the Authority's investments are held in the Authority's name and the investments are not exposed to custodial credit risk.

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. The policy, per the bond indenture, is that investments shall mature or are so redeemable in an amount sufficient to make payments as required by the indenture. Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity.

Investment Type	Credit Rating (Moody’s/S&P)	Maturity Under 30 days	Net Asset Value as of June 30, 2018
Investments held by trustee:			
Money market mutual funds	AAA-mf/AAAm	$ 9,068,171	$ 9,068,171

Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2018, the Authority held no individual investments. All funds are invested in money market mutual funds.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Authority’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

NOTE 3 – CASH AND CASH EQUIVELENTS, (Continued)

The valuation of 2a7 Money Market Mutual funds held by the Authority are at one-dollar net asset value (NAV) per share. The total fair value of these at June 30, 2018 was $9,068,171, with $0 unfunded commitments. The redemption frequency is daily and redemption notice period of intra-daily. This type of investment primarily invests in short term U.S. Treasury and government securities (including repurchase agreements collateralized by U.S. Treasury and government agency securities).

NOTE 4 – LONG-TERM LIABILITIES

Long-term liabilities consist of the following at June 30, 2018:

<u>Series 2003 Revenue Bonds</u>

The Authority issued three series of Revenue Bonds on December 23, 2003, totaling $54,920,588. The net proceeds were then in turn loaned to the Agency in order to finance four redevelopment projects in designated redevelopment project areas in the City of Sacramento and the County. The source of repayment of the bonds is tax increment and/or housing set-aside tax increment revenues, depending upon the project.

Tax increment revenues were projected to produce 128 percent of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is $45,694,055 payable through December 2033. For the current year, principal and interest paid and total incremental tax revenues and City of Sacramento contributions were $2,290,928 and $2,277,249 respectively.

- **Series A -- $33,695,588** Mather/McClellan and Del Paso Heights project areas improvements. The series includes $13,940,000 in serial bonds, maturing from December 2004 through December 2022, with interest rates ranging from 2.0% to 5.0%. In addition, $8,165,000 in term bonds was issued with a stated rate of 5.125% maturing in December 2028. Another term bond of $9,065,000 was issued with a stated interest rate of 4.75%, which matures in December 2033. Finally, $2,525,588 in capital appreciation bonds were issued with a stated interest rate ranging from 5.18% to 5.58% that mature from December 2020 through December 2030.

- **Series B -- $8,345,000** Mather/McClellan Housing Project. The issue consists of four term bonds ranging in value from $670,000 to $4,450,000. The bonds mature from December 2011 through December 2033. Stated interest rates range from 3.82% to 6.26%.

Principal payments on all three Series are due December 1st each year through final maturity in 2033. Interest payments are due on June 1st and December 1st. All of the Bonds Series are optionally callable at par on December 1, 2013, except for the 2003 Series A Capital Appreciation bonds, which are non-callable.

NOTE 4 – LONG-TERM LIABILITIES, (Continued)

<u>Series 2008 Revenue Bonds</u>

The Authority issued two series of Tax Allocation Revenue bonds on March 5, 2008, totaling $48,545,000. The net proceeds were then in turn loaned to the Agency in order to finance redevelopment activities, including low and moderate income housing in the designated redevelopment project area in the County of Sacramento. The source of repayment of the bonds is tax increment and/or housing set-aside tax increment revenues, depending upon the project. The 2008 loans are issued on parity to the outstanding 2003A and 2003B loans. The loans are sized to satisfy the coverage and cash flow requirements of the project area wrapping around parity debt.

Tax increment revenues were projected to produce 128 percent of the debt service requirements over the life of the bonds. Payment of debt service on the Bonds is insured by Assured Guaranty. Total principal and interest remaining on the bonds is $73,365,213 payable through December 2038. For the current year, principal and interest paid and total incremental tax revenues were $2,991,115 and $2,977,945 respectively.

- **Series A -- $24,765,000** Mather/McClellan (Tax Exempt) Redevelopment Area improvements. The bonds were structured with one serial maturity in 2028 and three term bonds. The $950,000 2028 serial was priced with a 4.50% coupon to yield 4.66%. The $4,930,000 2032 term bond was priced with a 4.625% coupon to yield 4.80%. The $18,885,000 2038 term bond was split into two: $5,000,000 was priced with a 5% coupon to yield 4.76%; the balance $13,885,000 was priced with a 4.625% coupon to yield 4.85%.

- **Series B -- $23,780,000** Mather/McClellan (Taxable) Redevelopment Area and Housing Project. The bonds were structured with serial maturities in 2008 through 2014 and three term bonds – all sold as par bonds with coupon equal to yield. Yields on the $4,500,000 serials ranged from 3.33% in 2008 to 4.52% in 2014. The $2,815,000 2018 term bonds were priced to yield 5.317%; the $9,795,000 2028 term bonds were priced to yield 6.227%; and the $6,670,000 term bonds were priced to yield 6.577%.

Principal payments on both series are due December 1st each year through final maturity in 2038. Interest payments are due on June 1st and December 1st. The tax-exempt Series A Bonds are callable at par beginning on December 1, 2018. The taxable Series B Bonds are subject to optional redemption on any date, with a "make-whole premium" determined at the time of optional redemption on the basis of the value of debt service otherwise due on the redeemed bonds discounted at the comparable Treasury yield plus 12.5 basis points.

NOTE 4 – LONG-TERM LIABILITIES, (Continued)

Future debt service requirements at June 30, 2018, are as follows:

Years Ended June 30, 2018	Principal	Interest	Total
2019	$ 1,770,000	$ 3,511,894	$ 5,281,894
2020	1,855,000	3,417,858	5,272,858
2021	2,079,845	3,479,249	5,559,094
2022	2,368,380	3,670,527	6,038,907
2023	2,464,338	3,570,894	6,035,232
2024-2028	14,216,917	16,169,986	30,386,903
2029-2033	17,586,109	11,050,182	28,636,291
2034-2038	22,240,000	4,314,691	26,554,691
2039	5,160,000	133,400	5,293,400
Totals	$ 69,740,589	$ 49,318,681	$ 119,059,270

Changes in long-term liabilities for the period ended June 30, 2018, were as follows:

	Balance July 1, 2017	Increase	Decrease	Balance June 30, 2018	Due Within One Year
Revenue bonds	$ 71,425,589		$ (1,685,000)	$ 69,740,589	$ 1,770,000
Accreted interest	2,673,743	$ 287,045		2,960,788	
Less: bond discounts	(411,518)		20,385	(391,133)	
Total	$ 73,687,814	$ 287,045	$ (1,664,615)	$ 72,310,244	$ 1,770,000

Accreted Interest

The accreted interest balance at June 30, 2018, represents accreted interest on the 2003 Series A Capital Appreciation bonds originally issued for $2,525,588. Total unaccreted interest totaled $2,748,623 at June 30, 2018.

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment every five years. As of June 30, 2018, the Authority has no arbitrage liability.

NOTE 5 – FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the Authority's financial reporting process. Future new standards which may impact the Authority include the following:

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* The objective of the Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists.

NOTE 5 – FUTURE ACCOUNTING PRONOUNCEMENTS, (Continued)

Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Statement is effective for the reporting periods beginning after June 15, 2018, or the 2018-2019 fiscal year. The Authority has not determined the effect of the statement.

GASB Statement No. 87– In June 2017, GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-2021 fiscal year. The Authority has not determined the effect of the statement.

GASB Statement No. 88 – In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement is effective for reporting periods beginning after June 15, 2018, or 2018-2019. The Authority has not determined the effect of the statement.

GASB Statement No. 89 – In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period.* The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This Statement is effective for reporting periods beginning after December 15, 2019, or 2020-2021 fiscal year. The Authority has not determined the effect of the statement

OTHER REPORT

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' 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*

Board of Directors
Sacramento County Public Financing Authority
Sacramento, 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 Sacramento County Public Financing Authority (Authority), a component unit of the County of Sacramento, California, as of and for the year ended June 30, 2018, 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 27, 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 opinion 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.

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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*.

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 Authority'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.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
August 27, 2018

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

To the Board of Directors
Sacramento County Public Financing Authority
Sacramento, California

We have audited the financial statements of the Sacramento County Public Financing Authority (Authority), a component unit of the County of Sacramento, California, for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 25, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2018. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 27, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the Sacramento County Public Financing Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
August 27, 2018