SACRAMENTO COUNTY
PUBLIC FINANCING AUTHORITY

(A Component Unit of the
County of Sacramento, California)

Independent Auditor's Reports,
Basic Financial Statements,
and Required Supplementary Information

For the Year Ended June 30, 2020

mgo | Certified Public Accountants

SACRAMENTO COUNTY PUBLIC FINANCING AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2020

Table of Contents

Certified Public Accountants

Independent Auditor's 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, 2020, 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.

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, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
500 Capitol Mall, Suite 2200
Sacramento, CA 95814

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 24, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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.

Macias Gini & O'Connell LLP

Sacramento, California
August 24, 2020

SACRAMENTO COUNTY PUBLIC FINANCING AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Sacramento County Public Financing Authority (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, 2020.

Financial Highlights

- The Authority's total assets are $69,629,197. The primary assets of the Authority are a receivable from loans made to the Sacramento Housing and Redevelopment Agency (Agency) in the amount of $63,833,978 and cash and investments of $5,514,577.
- The Authority's liabilities consisted mainly of revenue bonds payable totaling $69,348,555, 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 basic 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 change 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 Basic 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 basic 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 $1,505,597 during the year. The reason for the decrease this year is primarily due to payment received from the Agency in the amount of $1,855,000 for debt service. The receivable was slightly offset by an increase of $319,626 as a result of accretion of the capital appreciation bonds. 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 the Authority $5,155,473 in principal and interest during the year. The Authority used those funds, in addition to the $107,995 interest and investment income and $9,392 excess of cash and cash equivalent to make the scheduled $5,272,860 debt service payments on the tax revenue bonds during the year.

The following table summarizes the changes between assets, liabilities and net position as of June 30, 2020 and 2019:

Authority's Condensed Statements of Net Position

	2020	% Change	2019
Assets:			
Cash and cash equivalents	$ 5,514,577	-0.2%	$ 5,523,969
Accrued interest receivable	280,642	-2.9%	289,001
Loans receivable from participating government	63,833,978	-2.3%	65,339,575
Total Assets	69,629,197	-2.1%	71,152,545
Liabilities:			
Accrued interest payable	280,642	-2.9%	289,001
Long-term liabilities	69,348,555	-2.5%	70,863,544
Total Liabilities	69,629,197	-2.1%	71,152,545
Net Position:			
Unrestricted	$ -	n/a	$ -

Net position did not change during the year ended June 30, 2020. Cash and cash equivalents are restricted funds held as liquidity reserves for debt service. Any cash and cash equivalents in excess of the required liquidity reserve balance of $5,497,725 are used to fund debt service payments.

Financial Analysis (Continued)

The following table summarizes changes in net position for the fiscal years ended June 30, 2020 and 2019:

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

	2020	% Change	2019
Operating Revenues:			
Interest income from participating government	$ 3,641,517	-1.0%	$ 3,677,714
Nonoperating Revenues (Expenses):			
Interest and investment income	107,995	-28.1%	150,165
Interest and amortization of bond discount	(3,749,512)	-2.0%	(3,827,879)
Total Nonoperating Revenues (Expenses)	(3,641,517)	-1.0%	(3,677,714)
Changes 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 the Redevelopment Agency Successor Agency (RASA) and took responsibility for the debt obligations of the former Redevelopment Agency of the County of Sacramento (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 the enforceable obligations.

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

Long-term liabilities decreased as a result of the scheduled debt service payment of $1,855,000, offset by the accrual of accreted interest on the capital appreciation bonds of $319,626 and amortization of the bond discount of $20,385 during the year. 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 1703
Sacramento, CA 95814

SACRAMENTO COUNTY PUBLIC FINANCING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2020

ASSETS		
Cash and cash equivalents	$	16,852
Accrued interest receivable		280,642
Restricted cash and cash equivalents		5,497,725
Loans receivable from participating government		63,833,978
Total assets		69,629,197
LIABILITIES		
Accrued interest payable		280,642
Long-term liabilities:		
Due within one year		2,079,845
Due after one year (net of bond discount)		67,268,710
Total liabilities		69,629,197
NET POSITION		
Unrestricted	$	-

See accompanying notes to the basic financial statements.

SACRAMENTO COUNTY PUBLIC FINANCING AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020

OPERATING REVENUES	
Interest income from participating government	$ 3,641,517
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	107,995
Interest and amortization of bond discount	(3,749,512)
Total nonoperating revenues (expenses)	(3,641,517)
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, 2020

CASH FLOWS FROM OPERATING ACTIVITIES		
Principal received from participating government	$	1,855,000
Interest received from participating government		3,300,473
Net cash provided by operating activities		5,155,473
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term liabilities		(1,855,000)
Interest payments on long-term liabilities		(3,417,860)
Net cash used in capital and related financing activities		(5,272,860)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments		107,995
NET DECREASE IN CASH AND CASH EQUIVALENTS		(9,392)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		5,523,969
CASH AND CASH EQUIVALENTS, END OF YEAR	$	5,514,577
Reconciliation to the Statement of Net Position:		
Cash and cash equivalents	$	16,852
Restricted cash and cash equivalents		5,497,725
Total cash and cash equivalents	$	5,514,577
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	3,641,517
Change in assets and liabilities:		
Decrease in accrued interest receivable		8,359
Decrease in loans receivable from participating government		1,505,597
Net cash provided by operating activities	$	5,155,473
Noncash investing, capital and financing activities:		
Amortization of bond discounts	$	20,385
Accreted interest on capital appreciation bonds		319,626

See accompanying notes to the basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Sacramento County Public Financing Authority (Authority) was created by a Joint Exercise of Powers Agreement (Agreement) effective as of November 25, 2003, between the County of Sacramento (County) and the Sacramento Housing and Redevelopment Agency (Agency). The County Board of Supervisors (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 (GAAP) 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 GAAP 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 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 Redevelopment Agency of the County of Sacramento (Redevelopment 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 Redevelopment Agency Successor Agency (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 the 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 certain reported financial statement amounts and disclosures. 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 to be cash and cash equivalents.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2020, are classified in the accompanying financial statements as follows:

Statement of net position:		
Cash and cash equivalents	$	16,852
Restricted cash and cash equivalents		5,497,725
Total cash and cash equivalents	$	5,514,577

Cash and cash equivalents as of June 30, 2020, consist of the following:

Money market mutual fund	$	5,514,577

At June 30, 2020, the restricted cash and cash equivalents of $5,497,725 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 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, 2020, 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 its fair value is 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. The Authority’s investment in the money market mutual fund has a weighted average to maturity of 43 days.

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. The Authority’s policy is dictated by the bond indenture. The Authority’s investment in the money market mutual fund has credit ratings of Aaa-mf and AAAm by Moody’s and S&P, respectively.

The valuation of the 2a-7 money market mutual fund held by the Authority is at one-dollar net asset value (NAV) per share. The total value of these at June 30, 2020 was $5,514,577, with zero 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 3 – LOAN TO PARTICIPATING GOVERNMENT

During the fiscal year ended June 30, 2004, the Authority loaned $54,920,588 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 $48,545,000 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 balance of the loans as of June 30, 2020, is $63,833,978.

Changes in loan to participating government for the period ended June 30, 2020, were as follows:

	Balance July 1, 2019	Increase	Decrease	Balance June 30, 2020
Loans receivable from participating government:				
Principal portion	$ 62,075,872	$ -	$(1,825,223)	$ 60,250,649
Accreted interest	3,263,703	319,626	-	3,583,329
Total	$ 65,339,575	$ 319,626	$(1,825,223)	$ 63,833,978

NOTE 4 – LONG-TERM LIABILITIES

Long-term liabilities consist of the following at June 30, 2020:

Series 2003 Revenue Bonds

The Authority issued three series of Revenue Bonds on December 23, 2003, totaling $54,920,588. The net proceeds were then 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. The City of Sacramento paid off the Series C Bonds and a portion of its share of the Series A Bonds during fiscal year 2016, leaving the County’s share and a portion of the City’s share of the Series A Bonds and the Series B Bonds.

Tax increment revenues were projected to produce 125 percent of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is $41,117,728 payable through December 2033. For the current year, principal and interest paid and total incremental tax revenues and City of Sacramento contributions were $2,286,203 and $2,225,665, 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.

NOTE 4 – LONG-TERM LIABILITIES (Continued)

- **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 2008 through December 2033. Stated interest rates range from 3.82% to 6.26%.

Principal payments on the two remaining Series are due December 1st each year through final maturity in 2033. Interest payments are due on December 1st and June 1st. Beginning December 1, 2013, the Series B Bonds are optionally callable in whole or in part prior to maturity. There have been no optional bond calls through June 30, 2020. The 2003 Series A Capital Appreciation Bonds are non-callable.

<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 loaned to the Agency 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 125 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 $67,386,788 payable through December 2038. For the current year, principal and interest paid and total incremental tax revenues were $2,986,657 and $2,929,808, 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 of $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 December 1st and June 1st. The tax-exempt Series A Bonds are callable at par beginning on December 1, 2019. 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, 2020, are as follows:

Years Ended June 30,	Principal	Interest	Total
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	2,657,522	3,624,296	6,281,818
2025	2,688,741	3,341,333	6,030,074
2026-2030	15,531,941	14,591,441	30,123,382
2031-2035	19,159,821	8,068,760	27,228,581
2036-2039	19,165,000	2,042,428	21,207,428
Totals	$ 66,115,588	$ 42,388,928	$ 108,504,516

Changes in long-term liabilities for the period ended June 30, 2020, were as follows:

	Balance July 1, 2019	Increase	Decrease	Balance June 30, 2020	Due Within One Year
Revenue bonds	$ 67,970,588	$ -	$ (1,855,000)	$ 66,115,588	$ 2,079,845
Accreted interest	3,263,704	319,626	-	3,583,330	-
Less: bond discounts	(370,748)	-	20,385	(350,363)	-
Total	$ 70,863,544	$ 319,626	$ (1,834,615)	$ 69,348,555	$ 2,079,845

In an event of default all outstanding bonds contain a provision that repayment of outstanding amounts become immediately due and payable if the Authority is unable to make payment.

Accreted Interest

The accreted interest balance at June 30, 2020, represents accreted interest on the 2003 Series A Capital Appreciation bonds originally issued for $2,525,588. Total unaccreted interest totaled $2,126,082 at June 30, 2020.

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, 2020, the Authority has no arbitrage liability.

NOTE 5 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, for which the Authority purchases commercial insurance.

During the year ended June 30, 2020, the Authority did not reduce insurance coverage from coverage levels in place as of June 30, 2019. There have been no insurance settlements or claims during 2018, 2019, and 2020.

NOTE 6 – 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. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement is effective for reporting periods beginning after December 15, 2019, or 2020-2021 fiscal year as postponed by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The Authority has determined that there is no effect of this Statement on its financial statements.

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. This Statement is effective for reporting periods beginning after June 15, 2021, or 2021-2022 fiscal year as postponed by GASB Statement No. 95. The Authority has determined that there is no effect of this Statement on its financial statements.

GASB Statement 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement is effective for reporting periods beginning after December 15, 2019, or the 2020-2021 fiscal year as postponed by GASB Statement No. 95. The Authority has determined that there is no effect of this Statement on its financial statements.

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement is effective for reporting periods beginning after December 15, 2021, or 2022-2023 fiscal year as postponed by GASB Statement No. 95. The Authority has determined that there is no effect of this Statement on its financial statements.

NOTE 6 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 92 – In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: (1) The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports; (2) reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; (3) the applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; (4) the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; (5) measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; (6) reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; (7) reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and (8) terminology used to refer to derivative instruments. This Statement is effective for reporting periods beginning after June 15, 2021, or 2021-2022 fiscal year as postponed by GASB Statement No. 95. The Authority has determined that there is no effect of this Statement on its financial statements.

GASB Statement No. 93 – In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objectives of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR (Interbank Offered Rate). The removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021, or 2022-2023 fiscal year. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021, or 2021-2022 fiscal year as postponed by GASB Statement No. 95. The Authority has determined that there is no effect of this Statement on its financial statements.

GASB Statement No. 94 – In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset, for a period of time in an exchange or exchange-like transaction. This Statement is effective for reporting periods beginning after June 15, 2022, or 2022-2023 fiscal year. The Authority has determined that there is no effect of this Statement on its financial statements.

NOTE 6 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 96 – In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This Statement is effective for reporting periods beginning after June 15, 2022, or 2022-2023 fiscal year. The Authority has determined that there is no effect of this Statement on its financial statements.

GASB Statement No. 97 – In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This Statement is effective for reporting periods beginning after June 15, 2021, or 2021-2022 fiscal year. The Authority has determined that there is no effect of this Statement on its financial statements.

NOTE 7 – COVID-19

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally. Due to the nature of the Authority's operations, there was no impact of COVID-19 on the Authority's financial statements, nor is it anticipated to impact the Authority in the future.

OTHER REPORT

MGO Certified Public Accountants

Independent Auditor's 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, as of and for the year ended June 30, 2020, 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 24, 2020.

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.

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 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.

Macias Gini & O'Connell LLP

Sacramento, California
August 24, 2020