

**SHASTA JOINT POWERS
FINANCING AUTHORITY**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

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**SHASTA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the County of Shasta, California)**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Shasta Joint Powers Financing Authority
Redding, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Shasta Joint Powers Financing Authority (the "Authority"), a component unit of the County of Shasta, as of and for the year ended June 30, 2014, and the related notes to the 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 opinions 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 opinions.

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority at June 30, 2014, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Shasta Joint Powers Financing Authority

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2015 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.

A handwritten signature in cursive script that reads "Gallina LLP".

Roseville, California
January 7, 2015

SHASTA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the County of Shasta, California)

Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2014

	Debt Service Fund	Adjustments (Note 2)	Statement of Net Position
<u>ASSETS</u>			
Restricted investments (Note 4)	\$ 654,631	\$ -	\$ 654,631
Interest receivable	-	268,356	268,356
Investment in lease to County of Shasta (Note 5)	-	36,415,369	36,415,369
Prepaid insurance costs	-	218,467	218,467
Totals Assets	\$ 654,631	\$ 36,902,192	\$ 37,556,823
 <u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Interest payable	\$ -	\$ 268,356	\$ 268,356
Long-term liabilities	-	-	-
Due within one year (Note 6)	-	2,480,379	2,480,379
Due after one year (Note 6)	-	35,129,647	35,129,647
Total Liabilities	-	37,878,382	37,878,382
 Fund Balance/Net Position:			
Fund Balance			
Restricted for debt service	654,631	(654,631)	-
Total Liabilities and Fund Balance	\$ 654,631		
 Net Position:			
Unrestricted		\$ (321,559)	\$ (321,559)

The accompanying notes are an integral part of these financial statements

SHASTA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the County of Shasta, California)

Statement of Activities and Governmental Fund Revenues,
Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2014

	Debt Service Fund	Adjustments (Note 3)	Statement of Activities
REVENUES			
Interest from investments	\$ 338	\$ -	\$ 338
Lease interest income	1,212,584	(22,288)	1,190,296
Lease principal payments	2,345,253	(2,345,253)	-
Total Revenues	3,558,175	(2,367,541)	1,190,634
EXPENDITURES/EXPENSES			
General government	-	22,267	22,267
Debt Service			
Principal payments	2,345,000	(2,345,000)	-
Interest charges	1,212,898	(52,143)	1,160,755
Fiscal agent charges	25	-	25
Total Expenditures/Expenses	3,557,923	(2,374,876)	1,183,047
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES	252	7,335	7,587
CHANGES IN FUND BALANCE/NET POSITION	252	7,335	7,587
FUND BALANCE/NET POSITION			
Beginning balance	654,379	(983,525)	(329,146)
Ending balance	\$ 654,631	\$ (976,190)	\$ (321,559)

The accompanying notes are an integral part of these financial statements

SHASTA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the County of Shasta, California)

Notes to Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The Shasta Joint Powers Financing Authority (Authority) was created on May 29, 1990, as a result of a Joint Exercise Powers Agreement between the County of Shasta (County) and the Successor Agency to the Shasta County Redevelopment Agency (Agency), formerly Shasta County Redevelopment Agency. The Authority is empowered to exercise any powers common to the County and the Agency.

The Authority's purpose is to finance public capital improvements. The Authority undertakes the sale and issuance of bonds. Bond proceeds are then used to design, construct, and acquire public capital improvements and lease, lease-back, sell, or re-sell such improvements to the County.

The Agreement is effective until July 1, 2030, unless extended or terminated by supplemental written agreement between the County and the Agency. The Agreement cannot terminate while any bonds remain outstanding. Upon dissolution of the Authority, any surplus assets shall be returned to the County and the Agency.

The Authority is a component unit of the County, and accordingly, is included in the basic financial statements of the County because the County's Board of Supervisors exercises oversight responsibility over the operation of the Authority and the Authority provides specific financial benefits to the County. Only the accounts of the Authority are included herein; therefore, these financial statements do not purport to represent the financial position or results of operations of the County. The financial data of the Authority is included in the County's annual financial report. Administrative costs of the Authority are paid by the County and are not included in the accompanying financial statements.

B. Basis of Presentation

Government-Wide and Fund Financial Statements – The combined government-wide financial statements and fund financial statements (i.e. the statement of net position and governmental funds balance sheet and the statement of activities and governmental fund revenues, expenditures and changes in fund balance) report information of the Authority on the accrual basis of accounting and the economic resources measurement focus, respectively.

The operations of the fund statements are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. Authority resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Authority uses the following fund:

- Governmental fund types account for the activities of the Authority. The measurement focus is based upon spending or financial flow and the determination of changes in fund balance (net current assets). The following are the Authority's governmental fund types:
 - *Debt service fund* accounts for the accumulation of financial resources for, and the payment of, general long-term debt principal, interest and related costs.

The statement of position and statement of activities columns reflect consolidated results of operations using the accrual basis of accounting and eliminating all interfund activity.

SHASTA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the County of Shasta, California)

Notes to Financial Statements
June 30, 2014

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

B. Basis of Presentation (continued)

Basis of Accounting refers to when revenues and expenditures are recognized in the accounts and reported in the basic financial statements. Governmental fund types are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available as net current assets. Revenues not considered available are recorded as deferred revenues. Revenues considered susceptible to accrual include interest and lease payments. Expenditures are generally recognized when the related fund liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due.

The statement of net position and statement of activities columns represent operations on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Capital Assets are not capitalized in the accompanying financial statements as they are under capital lease to the County.

Investment in Lease to County of Shasta is recorded as direct financing leases to the County. The County may, pursuant to the lease agreement, abate the lease payments by the amount of investment interest income earned by the trustee on the reserve and lease payment accounts.

Bond Issuance Costs are expensed immediately, as incurred, except for bond issuance costs which are amortized on a straight-line basis over the life of the related debt obligations.

Bond Premium and Discount are amortized on a straight-line basis over the life of the related debt obligations which is not materially different from the effective interest method.

Restricted Fund Balance includes amounts that can be spent only for specific purposes stipulated by external parties (such as creditors, grant providers, or contributors) or by law.

Use of Estimates in preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America are required by management as well as assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: **EXPLANATION OF ADJUSTMENTS BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE STATEMENT OF NET POSITION**

The long-term investment in the capital lease to the County of Shasta and corresponding long-term debt obligations are not due and payable in the current period for governmental funds. However, the statement of net position includes the capital lease investment and long-term debt obligation of \$36,415,369 and \$37,610,026 respectively.

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when legally due. However, the statement of net position reflects interest payable as the obligation is incurred in the amount of \$268,356. Concurrently, interest receivable from the County in the amount of \$268,356 is not an available resource for the governmental funds. However, the statement of net position reflects this receivable as the interest has been earned.

**SHASTA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the County of Shasta, California)**

Notes to Financial Statements
June 30, 2014

NOTE 2: EXPLANATION OF ADJUSTMENTS BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE STATEMENT OF NET POSITION (CONTINUED)

Prepaid insurance costs of \$218,467 are assets that are not available financial resources for the governmental funds. However, this cost is capitalized in the statement of net position and amortized over the life of the of the related debt obligations.

The differences arising from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental funds balance sheets are summarized as follows:

Fund balance as of June 30, 2014		\$ 654,631
Investment in County lease receivable	\$ 36,415,369	
Accrued interest receivable	268,356	
Prepaid insurance costs	218,467	
Revenue bonds payable	(37,610,026)	
Accrued interest payable	<u>(268,356)</u>	
Total Adjustments		<u>(976,190)</u>
Net position as of June 30, 2014		<u>\$ (321,559)</u>

NOTE 3: EXPLANATION OF ADJUSTMENTS BETWEEN THE GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES

Lease repayments in the governmental funds are reported as revenues as they increase fund balance and reflect an inflow of current resources. However, principal lease repayments of \$2,345,253 are a reduction of the investment in the capital lease with the County and do not result in income in the statement of activities. In addition, the net change in the interest receivable from the County of \$22,288 represents a reduction of earned interest income in the statement of activities.

Repayment of bond principal is reported as an expenditure in governmental funds and, thus, has the effect of reducing fund balance because current resources have been used. However, the principal payments of \$2,345,000 reduce the liabilities in the statement of net position and do not result in an expense in the statement of activities.

Interest expense in the statement of activities is reported when incurred in contrast to governmental funds where it is recorded when legally due. As a result, interest expense in the statement of activities is \$22,288 less than the amount reported in the governmental funds revenues, expenditures and changes in fund balance.

SHASTA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the County of Shasta, California)

Notes to Financial Statements
June 30, 2014

NOTE 3: EXPLANATION OF ADJUSTMENTS BETWEEN THE GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES (CONTINUED)

The effects of the differences for amounts reported in the statement of activities are summarized as follows:

Net change in fund balance – governmental funds		\$	252
Lease principal payments	\$ (2,345,253)		
Change in interest receivable	(22,288)		
Change in interest payable	22,288		
Repayment of bond principal	2,345,000		
Amortization of prepaid insurance costs	(22,267)		
Amortization of bond premium and discount	<u>29,855</u>		
Total Adjustments			<u>7,335</u>
Change in net position of governmental activities		\$	<u><u>7,587</u></u>

NOTE 4: RESTRICTED INVESTMENTS

Under the terms of the indenture agreements, the trustee receives and disburses all Certificates of Participation (COP) proceeds and income of the Authority. The trustee also acts as paying agent and COP registrar for the Authority. The Authority’s investments are recorded at fair market value.

The indenture agreements also provide for the establishment of special accounts, all to be held and administered by the trustee in accordance with the provisions described in the indenture agreements, lease payments received from the County are recorded in restricted asset accounts.

State statute requires that all deposits be insured or collateralized. Depositories holding public funds on deposit are required to maintain collateral in the form of a pool of securities with the agent of the depository having a market value of at least 10 to 50 percent in excess of the total amount of all public funds on deposit. The Authority’s deposits are entirely insured or collateralized.

At June 30, 2014, the Authority had the following investments:

Cash and Investments	
Money Market Funds	<u>\$ 654,631</u>
Total Cash and Investments	<u><u>\$ 654,631</u></u>

The Authority maintains all of its cash and investments outside Shasta County’s investment pool. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County’s financial statements. The County of Shasta’s financial statements may be obtained by contacting the County of Shasta’s Administrative Office at 1450 Court Street, Suite 308A, Redding, CA 96001. The Shasta County Treasury Oversight Committee oversees the Treasurer’s investments and policies.

**SHASTA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the County of Shasta, California)**

Notes to Financial Statements
June 30, 2014

NOTE 4: RESTRICTED INVESTMENTS (CONTINUED)

Government Accounting Standards Board Statement No. 40 requires additional disclosures about a government's deposits and investments risks that include credit risk, custodial risk, concentration risk and interest rate risk. The Authority has no deposit or investment policy that addresses a specific type of risk.

Required disclosures for the Authority's deposit and investment risks at June 30, 2014, were as follows:

Credit risk	Not rated
Custodial risk	N/A
Concentration of credit risk	N/A
Interest rate risk	Not available

Authorized Investments

The Authority is authorized to make direct investments in local agency bonds, notes or investments within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies/certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

NOTE 5: INVESTMENT IN LEASE TO COUNTY OF SHASTA

The following is a summary of the Authority's combined investment in leases to the County:

Fiscal Year	Total
2015	\$ 3,573,397
2016	2,907,365
2017	2,903,388
2018	2,907,813
2019	2,910,556
2020-2024	14,013,136
2025-2029	11,883,163
2030-2032	7,126,275
Total Lease Payments	48,225,093
Less: Unearned Income	(11,155,093)
Less: Fiscal Agent Cash	(654,631)
Net Investment in Lease Receivable	\$ 36,415,369

SHASTA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the County of Shasta, California)

Notes to Financial Statements
June 30, 2014

NOTE 5: INVESTMENT IN LEASE TO COUNTY OF SHASTA (CONTINUED)

County Courthouse Improvement Project

In December 2011, the Authority defeased and redeemed the outstanding 1998 Series A Lease Revenue Refunding Bonds (the 1998 Refunding Bonds) with original principal amount of \$9,165,000, and original issue date of March 11, 1998. The 1998 Series A Bonds were secured by rental payments made by the County pursuant to the 1998 Facility Lease and had an average interest rate of 4.1%. The County desired to prepay its obligations under the Facility Lease in order to reduce the annual rental amount paid by the County pursuant to the aforementioned lease. On November 4st, concurrently with the termination of the 1998 Facility Lease, the County and the Authority entered into a site lease (the Refunding Lease) to refund the 1998 Refunded Bonds. The 1998 Refunding Bonds were redeemed at 100% of par plus accrued interest on December 5th, 2011 and the outstanding debt service requirements were satisfied by \$6,029,439 in cash. Additionally, the 2011 Courthouse Lease Refunding Bonds (the 2011 Refunding Bonds) were issued an original par amount of \$5,325,000 with an average interest rate of 2.65%. The 2011 Refunding Bonds first payment was made on June 1, 2012 and have a final maturity date of June 1, 2023.

Future minimum lease payments to be received as of June 30, 2014 are as follows:

Fiscal Year	Total
2015	\$ 534,644
2016	533,315
2017	531,788
2018	534,863
2019	532,606
2020-2023	2,131,436
Total Lease Payments	4,798,652
Less: Unearned Income	(553,652)
Net Investment in Lease Receivable	\$ 4,245,000

Justice Center

The Authority leases the Justice Center and the related improvements to the County. At the termination of the lease, March 1, 2015, ownership of the Justice Center and improvements will pass to the County.

The lease payments are structured so as to be sufficient in timing and amount to meet the debt service requirements of the 2003 Series B Refund Lease Revenue bonds. Interest earned on the lease payment account and any other monies held by the trustee are applied to the lease payment made by the County. Lease payments are due semi-annually on September 1 and March 1 through the year 2015. The interest rate on the lease varies from 2.00 to 4.125 percent.

**SHASTA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the County of Shasta, California)**

Notes to Financial Statements
June 30, 2014

NOTE 5: INVESTMENT IN LEASE TO COUNTY OF SHASTA (CONTINUED)

Justice Center (continued)

Future minimum lease payments to be received as of June 30, 2014 are as follows:

Fiscal Year	Total
2015	\$ 658,303
Total Lease Payments	658,303
Less: Unearned Income	(13,303)
Less: Fiscal Agent Cash	(570,520)
Net Investment in Lease Receivable	\$ 74,480

Administration Center

On February 1, 2003, the Authority entered into a lease with the County for the Administration Center. The lease calls for payments identical to the payments required on the 2003 Lease Revenue Bonds – Administration Center. Lease payments are due semi-annually on October 1 and April 1 of each year through the year 2033. The interest rate on the lease varies from 4.00 to 5.25 percent.

During 2013, the Shasta Joint Powers Financing Authority (the "Authority") defeased and redeemed the outstanding County Administration Building Project's 2003 Series A Lease Revenue Bonds (the 2003 Admin Center Lease Revenue Bonds) with original principal amount of \$42,575,000, and original issue date of February 27th, 2003. The Bonds were secured by rental payments made by the County pursuant to the 2003 Facility Lease and had an average interest rate of 4.86%. The County desired to prepay its obligations under the Facility Lease in order to reduce the annual rental amount paid by the County pursuant to the aforementioned lease. On December 1st, 2012, concurrently with the termination of the 2003 Facility Lease, the County and the Authority entered into a site lease (the Refunding Lease) to refund the 2003 Lease Revenue Bonds. The 2003 Refunding Bonds were redeemed at 100% of par plus accrued interest on April 1st, 2014 and the outstanding debt service requirements were satisfied by \$37,557,609 in cash. Additionally, the 2013 Admin Center Lease Revenue Refunding Bonds (the 2013 Refunding Bonds) were issued an original par amount of \$33,505,000 with an average interest rate of 3.1%. The 2014 Refunding Bonds first principal payment was made on April 1st, 2014 and have a final maturity date of April 1, 2032.

SHASTA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the County of Shasta, California)

Notes to Financial Statements
June 30, 2014

NOTE 5: **INVESTMENT IN LEASE TO COUNTY OF SHASTA** (CONTINUED)

Administration Center (continued)

Future minimum lease payments to be received as of June 30, 2014 are as follows:

Fiscal Year	Total
2015	\$ 2,380,450
2016	2,374,050
2017	2,371,600
2018	2,372,950
2019	2,377,950
2020-2024	11,881,700
2025-2029	11,883,163
2030-2032	7,126,275
Total Lease Payments	42,768,138
Less: Unearned Income	(10,588,138)
Less: Fiscal Agent Cash	(84,111)
Net Investment in Lease Receivable	\$ 32,095,889

NOTE 6: **LONG-TERM DEBT**

The Authority's long-term debt obligations consist of the following as of June 30, 2014:

Long-Term Debt Summary

	Balance July 1, 2013	Additions	Payments	Balance June 30, 2014	Due Within One Year
Governmental Activities					
1998 Lease Revenue Bonds - Courtthouse Improvements	\$ 4,655,000	\$ -	\$ 410,000	\$ 4,245,000	\$ 425,000
2003 (Series B) Refunding Lease Revenue Bonds - Justice Center	1,255,000	-	610,000	645,000	645,000
2013 Refunding Lease Revenue Bonds	33,505,000	-	1,325,000	32,180,000	1,380,000
Unamortized Bond Premium/ Discount	569,881	-	29,855	540,026	30,379
Total	\$ 39,984,881	\$ -	\$ 2,374,855	\$ 37,610,026	\$ 2,480,379

SHASTA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the County of Shasta, California)

Notes to Financial Statements
June 30, 2014

NOTE 6: LONG-TERM DEBT (CONTINUED)

Long-Term Debt Summary (continued)

On November 1, 2011 the Authority entered into a financing agreement with Bank of America for \$5,325,000 to prepay the 1998 Series A Lease Revenue Bonds – Courthouse Improvements. Payments on the bonds are due semi-annually on December 1 and June 1 of each year through 2023. The interest rate on the amount financed is 2.65 percent. The Authority also entered into a new lease with the County for the Courthouse. The lease requires payments identical to the payments required by the financing agreement with Bank of America.

The debt service schedules for these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 425,000	\$ 109,644	\$ 534,644
2016	435,000	98,315	533,315
2017	445,000	86,788	531,788
2018	460,000	74,863	534,863
2019	470,000	62,606	532,606
2020-2023	<u>2,010,000</u>	<u>121,436</u>	<u>2,131,436</u>
Total	<u>\$ 4,245,000</u>	<u>\$ 553,652</u>	<u>\$ 4,798,652</u>

2003 (Series B) Refunding Lease Revenue Bonds – Justice Center

On September 1, 2003, the County of Shasta Joint Powers Financing Authority issued \$5,705,000 in bonds to advance refunding of the outstanding 1993 Refunding Lease Revenue Bonds, Series A. The proceeds of the bonds were used to refund the bonds described above and acquire a lease. Payments on the bonds are due semi-annually on September 1 and March 1 through the year 2015. The interest rate on the bonds varies from 2.00 to 4.125 percent.

The debt service schedule for these bonds is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 645,000	\$ 13,303	\$ 658,303
Total	<u>\$ 645,000</u>	<u>\$ 13,303</u>	<u>\$ 658,303</u>

2013 Refunding Lease Revenue Bonds

On February 12, 2003, the Shasta Joint Powers Financing Authority issued \$42,575,000 for the construction of an administration building, parking structure, other land acquisitions, establish a reserve fund and pay capitalized interest. The bonds mature in annual installments due each April 1 in amounts ranging from \$750,000 to \$1,675,000. The stated interest on the bonds ranges from 4.00 to 5.25 percent per annum with interest payments made each April 1 and October 1. Commencing in 2024 through the remaining life of the bonds, the bonds are subject to mandatory sinking fund redemption.

SHASTA JOINT POWERS FINANCING AUTHORITY
(A Component Unit of the County of Shasta, California)

Notes to Financial Statements
June 30, 2014

NOTE 6: LONG-TERM DEBT (CONTINUED)

2013 Refunding Lease Revenue Bonds (continued)

During 2013, the Shasta Joint Powers Financing Authority (the "Authority") defeased and redeemed the outstanding County Administration Building Project's 2003 Series A Lease Revenue Bonds (the 2003 Admin Center Lease Revenue Bonds) with original principal amount of \$42,575,000, and original issue date of February 27th, 2003. The Bonds were secured by rental payments made by the County pursuant to the 2003 Facility Lease and had an average interest rate of 4.86%. The County desired to prepay its obligations under the Facility Lease in order to reduce the annual rental amount paid by the County pursuant to the aforementioned lease. On December 1st, 2012, concurrently with the termination of the 2003 Facility Lease, the County and the Authority entered into a site lease (the Refunding Lease) to refund the 2003 Lease Revenue Bonds. The 2003 Refunding Bonds were redeemed at 100% of par plus accrued interest on April 1st, 2013 and the outstanding debt service requirements were satisfied by \$37,557,609 in cash. Additionally, the 2013 Admin Center Lease Revenue Refunding Bonds (the 2013 Refunding Bonds) were issued an original par amount of \$33,505,000 with an average interest rate of 3.1%. The 2013 Refunding Bonds first principal payment was made on April 1st, 2014 and have a final maturity date of April 1, 2032.

The payment schedules for these bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,380,000	\$ 1,000,450	\$ 2,380,450
2016	1,415,000	959,050	2,374,050
2017	1,455,000	916,600	2,371,600
2018	1,500,000	872,950	2,372,950
2019	1,550,000	827,950	2,377,950
2020-2024	8,450,000	3,431,700	11,881,700
2025-2029	9,775,000	2,108,163	11,883,163
2030-2032	6,655,000	471,275	7,126,275
Total	<u>\$ 32,180,000</u>	<u>\$ 10,588,138</u>	<u>\$ 42,768,138</u>

**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
Shasta Joint Powers Financing Authority
Redding, 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 Shasta Joint Powers Financing Authority (the "Authority") as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated January 7, 2015.

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*.

Board of Directors
Shasta Joint Powers Financing Authority

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.

A handwritten signature in cursive script that reads "Gallina LLP".

Roseville, California
January 7, 2015