



Financial Statements

June 30, 2019

**San Jacinto Unified School District  
School Facilities Corporation  
(A California Nonprofit Corporation)**

**SAN JACINTO UNIFIED SCHOOL DISTRICT  
SCHOOL FACILITIES CORPORATION  
(A California Nonprofit Corporation)**

**JUNE 30, 2019**

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
San Jacinto Unified School District  
School Facilities Corporation  
San Jacinto, California

### Report on the Financial Statements

We have audited the accompanying financial statements of San Jacinto Unified School District School Facilities Corporation (the Corporation) (a California nonprofit corporation; a component unit of San Jacinto Unified School District), which comprise the statement of financial position as of June 30, 2019, and the related statement of revenue and expenses for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's *Minimum Audit Requirements for California Special Districts*. 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 Corporation'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 Corporation'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 Corporation as of June 30, 2019, and the changes in its net assets for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements of the Corporation are intended to present the financial position and results of operations attributable to the transaction of the Corporation. They do not purport to, and do not, present fairly the financial position of the San Jacinto Unified School District as of June 30, 2019, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Erik Sallie LLP".

Rancho Cucamonga, California  
December 17, 2019

**SAN JACINTO UNIFIED SCHOOL DISTRICT  
SCHOOL FACILITIES CORPORATION  
(A California Nonprofit Corporation)**

**STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2019**

**ASSETS**

Investments	\$ 2,887,245
Lease receivable	1,135,000
Long-term lease receivable	
Noncurrent portion of long-term lease receivable	40,370,000
Total Assets	<u>\$ 44,392,245</u>

**LIABILITIES AND NET ASSETS**

**Liabilities**

Long-term obligations	
Current portion of long term obligation of	
Certificates of Participation	\$ 1,135,000
Noncurrent portion of long-term obligations of	
Certificates of Participation	40,370,000
Total Liabilities	<u>41,505,000</u>

**Net Assets**

Restricted	2,887,245
Total Liabilities and Net Assets	<u>\$ 44,392,245</u>

The accompanying notes are an integral part of these financial statements.

**SAN JACINTO UNIFIED SCHOOL DISTRICT  
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**STATEMENT OF REVENUE AND EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2019**

**REVENUE**

Interest	\$ 2,605,505
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**EXPENSES**

Capital outlay	512,871
Debt service - principal	1,090,000
Debt service - interest and other	2,103,514
Total Expenses	<u>3,706,385</u>

<b>Deficiency of Revenues Over Expenses</b>	<u>(1,100,880)</u>
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**Other Financing Sources (Uses)**

Other sources - District contribution	641,324
Other uses - District reimbursement	<u>(4,005,225)</u>
Net Financing Sources (Uses)	<u>(3,363,901)</u>

<b>CHANGE IN NET ASSETS</b>	(4,464,781)
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<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>7,352,026</u>
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<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 2,887,245</u></u>
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The accompanying notes are an integral part of these financial statements.

**SAN JACINTO UNIFIED SCHOOL DISTRICT  
SCHOOL FACILITIES CORPORATION  
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

**Organization**

The audited financial statements include only the San Jacinto Unified School District School Facilities Corporation (the Corporation) which was incorporated in the State of California on August 20, 1990. The Corporation is a nonprofit corporation under the laws of the State of California. The primary purpose of the Corporation is to assist the San Jacinto Unified School District (the District) in obtaining financing for the acquisition and construction of land, buildings, and equipment. The Corporation's relationship with the District is such that the Corporation is treated as a component unit of the District. These financial statements are not intended to present fairly the financial position and the changes in the financial position of the District in compliance with accounting principles generally accepted in the United States of America.

**Special Financing Relationships - Lease Receivable**

The San Jacinto Unified School District entered into agreements to lease the facilities and improvements from the Corporation.

The lease agreements provide for semiannual rental payments in an amount sufficient to meet payments of interest and principal on the Corporation's certificates of participation as they become due. The agreement also provides for additional payments to meet administrative costs of the Corporation and replenish any deficiency in the reserve fund.

The terms of the facility leases expire on the final maturity date of the certificates, at which time the Corporation will surrender to San Jacinto Unified School District the title to the respective facilities and improvements.

**Financial Statement Presentation**

The accounting policies of the Corporation conform to accounting policies generally accepted in the United States of America as applicable to nonprofit organizations.

The Corporation is subject to the accounting methods as prescribed by the Financial Accounting Standards Board (FASB). The significant changes in the financial statements include a change from self-balancing funds to a statement of financial position and a statement of revenue and expenses.

The Corporation presents its financial statements in accordance with FASB Accounting Standards Codification (ASC) Topic 958. Under the provisions of this topic, the Corporation is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

**Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

The Corporation's financial statements are presented on the modified basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered), except for unmatured interest on the certificates of participation, which are recognized when due. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

**Income Taxes**

The Corporation is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code and corresponding sections of the California Revenue and Taxation Code. It is also exempt from State franchise and income taxes under Section 23701 (d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements.

The Corporation has adopted FASB ASC Topic 740 that clarifies the accounting for uncertainty in tax positions taken, or expected to be taken, on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements.

**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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - INVESTMENTS**

The Corporation's carrying value of investments in marketable securities is the aggregate cost which approximates fair value. Investments at June 30, 2019, consist of the following:

Investment Type	Maturity Date	Carrying Value	Fair Value
Money Market Funds - US Bank Money Market Account	N/A	\$ 2,886,437	\$ 2,886,437
Money Market Funds - First American Government	N/A	808	808
Total		<u>\$ 2,887,245</u>	<u>\$ 2,887,245</u>



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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 3 - MARKET VALUE OF FINANCIAL ASSETS**

The Corporation determines the fair market values of certain financial instruments based on the fair value hierarchy established in Statement of Financial Accounting Standards, *Fair Value Measurements*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level I - Quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. Level I assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level II - Observable inputs other than Level I prices such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgage, and loans held-for-sale.

Level III - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level III assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Corporation did not have any assets or liabilities recorded at fair value on a non-recurring basis.

**Investments Recorded at Fair Value on a Recurring Basis**

The following table provides a summary of the financial instruments the Corporation measures at fair value on a recurring basis as of June 30, 2019.

Investment Type	Level I
Money Market Funds - US Bank Money Market Account	\$ 2,886,437
Money Market Funds - First American Treasury Obligations	808
	<u>\$ 2,887,245</u>

**NOTE 4 - RECEIVABLES**

The lease receivable at June 30, 2019, consists of the following:

Receivable from San Jacinto Unified School District for Certificates of Participation Payment	<u>\$ 1,135,000</u>
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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Long-Term Accounts Receivable**

The collection of the long-term lease receivables from the San Jacinto Unified School District is as follows:

Due within 1 to 5 years	\$ 6,435,000
Due within 6 to 10 years	8,160,000
Due within 11 to 15 years	10,425,000
Due within 16 to 20 years	12,630,000
Due within 21 to 23 years	2,720,000
Total	<u><u>\$ 40,370,000</u></u>

**NOTE 5 - LONG-TERM OBLIGATIONS**

**Summary**

A schedule of changes in long-term obligations for the year ended June 30, 2019, is shown below:

	Balance July 1, 2018	Additions/ Adjustments	Deductions	Balance June 30, 2019
2010 Refunding Certificate of Participation	\$ 37,685,000	\$ -	\$ 930,000	\$ 36,755,000
2017 Financing Certificate of Participation	4,910,000	-	160,000	4,750,000
	<u><u>\$ 42,595,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,090,000</u></u>	<u><u>\$ 41,505,000</u></u>

**NOTE 6 - CERTIFICATES OF PARTICIPATION**

**2010 Refunding Certificates of Participation**

In January 2010, the Corporation issued the 2010 Refunding Certificates of Participation in the amount of \$43,380,000. The Certificates were issued at an aggregate price of \$41,415,458 (representing the principal amount of \$43,380,000, less discount on issuance of \$764,038 and less issuance costs of \$(1,200,504)). The Certificates have a final maturity date of September 1, 2040, with interest rates ranging from 2.00 to 5.45 percent. Proceeds from the Certificates, together with other available funds, were used to refund all of the Corporation's outstanding Certificates of Participation (1997 Facility Bridge Funding Program, 1998 School Facility Bridge Funding Program, and 2006 School Facility Bridge Funding Program). As of June 30, 2019, the principal balance outstanding was \$36,755,000.

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The certificates mature through 2041 as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$ 965,000	\$ 1,879,722	\$ 2,844,722
2021	1,000,000	1,839,194	2,839,194
2022	1,045,000	1,792,444	2,837,444
2023	1,100,000	1,741,569	2,841,569
2024	1,150,000	1,690,369	2,840,369
2025-2029	6,630,000	7,523,944	14,153,944
2030-2034	8,515,000	5,577,341	14,092,341
2035-2039	11,055,000	2,970,628	14,025,628
2040-2041	5,295,000	288,502	5,583,502
Total	<u>\$ 36,755,000</u>	<u>\$ 25,303,713</u>	<u>\$ 62,058,713</u>

**2017 Financing Certificates of Participation**

In August 2017, the Corporation issued the 2017 Financing Certificates of Participation in the amount of \$4,910,000. The Certificates were issued at an aggregate price of \$5,086,091 (representing the principal amount of \$4,910,000, plus premium on issuance of \$371,335 and less issuance cost of \$195,244). The Certificates have a final maturity date of September 1, 2037, with interest rates ranging from 2.00 to 3.25 percent. Proceeds from the Certificate, together with other available funds, will be used to finance the acquisition, construction and installation of aquatic facilities at San Jacinto High School. As of June 30, 2019, the principal balance outstanding was \$4,750,000.

The certificates mature through 2038 as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$ 170,000	\$ 181,138	\$ 351,138
2021	175,000	175,088	350,088
2022	180,000	167,988	347,988
2023	185,000	159,763	344,763
2024	195,000	150,263	345,263
2025-2029	1,135,000	590,813	1,725,813
2030-2034	1,415,000	315,763	1,730,763
2035-2038	1,295,000	83,728	1,378,728
Total	<u>\$ 4,750,000</u>	<u>\$ 1,824,544</u>	<u>\$ 6,574,544</u>

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The Corporation has no obligation for the debt beyond the resources provided by the related leases. As security for the payment of the certificates, the District and the Corporation have granted a security interest in the lease payments from the District to the Corporation. The District has pledged to take such action as may be necessary to include the lease payments in its annual budget and to make annual appropriations. An insurance policy has also been obtained which unconditionally guarantees payment in the event of default.

***NOTE 7 - SUBSEQUENT EVENTS***

On July 25, 2019, the San Jacinto Unified School District issued Certificates of Participation, (2020 Refunding), in the amount of \$29,270,000. The proceeds of the Certificates, together with other available funds, will be used to refund all of the San Jacinto Unified School District's outstanding San Jacinto Unified School District Certification of Participation (2010 Refunding), purchase a debt service reserve policy to satisfy the reserve requirement for the Certificates, and pay the costs incurred in connection with the execution and delivery of the Certificates.