

PERRIS
PUBLIC FINANCING AUTHORITY
FINANCIAL STATEMENTS

Year Ended June 30, 2017

Perris Public Financing Authority
Financial Statements
Year Ended June 30, 2017

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	i - ii
Basic Component Unit Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet - Governmental Fund	3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities	5
Notes to the Financial Statements	6 - 19

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Perris Public Financing Authority
Perris, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Perris Public Financing Authority (the "Authority"), a component unit of the City of Perris, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 Authority'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 Authority'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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Authority, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2017 on our consideration of the City'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.

Teaman Ramirez & Smith, Inc.

Riverside, California
December 29, 2017

Perris Public Financing Authority
Statement of Net Position
June 30, 2017

	Governmental Activities
ASSETS	
Cash and Investments with Fiscal Agent	\$ 12,059,533
Interest Receivable	65,084
Interest Receivable from Other Agencies	759,193
Due from Other Governments	7,500
Loans Receivable from Other Agencies	65,580,000
Total Assets	78,471,310
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Charges on Refunding	874,380
Total Deferred Outflows of Resources	874,380
LIABILITIES	
Accounts Payable	900
Due to Other Governments	7,500
Deposits	8,059,411
Interest Payable	824,277
Unearned Revenues	1,105,868
Noncurrent Liabilities:	
Due Within One Year	2,840,000
Due in More Than One Year	67,775,568
Total Liabilities	80,613,524
NET POSITION (DEFICIT)	
Unrestricted	(1,267,834)
Total Net Position	\$ (1,267,834)

The accompanying notes are an integral part of this statement.

Perris Public Financing Authority
Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government	\$ 14,644	\$	\$ 7,523	\$	\$ (7,121)
Interest on Long-term Debt	3,273,190		3,273,190		0
Total Governmental Activities	\$ 3,287,834	\$ 0	\$ 3,280,713	\$ 0	(7,121)
General Revenues:					
Investment Earnings					200,080
Other					51,511
Total General Revenues					251,591
Change in Net Position					244,470
Total Net Position (Deficit) - Beginning of Year					(1,512,304)
Total Net Position (Deficit) - Ending					\$ (1,267,834)

The accompanying notes are an integral part of this statement.

Perris Public Financing Authority
Balance Sheet
Governmental Fund
June 30, 2017

	<u>Debt Service</u>	<u>Total Governmental Fund</u>
ASSETS		
Cash and Investments with Fiscal Agent	\$ 12,059,533	\$ 12,059,533
Due from Other Governments	7,500	7,500
Loans Receivable from Other Agencies	<u>65,580,000</u>	<u>65,580,000</u>
Total Assets	<u>\$ 77,647,033</u>	<u>\$ 77,647,033</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	\$ 900	\$ 900
Due to Other Governments	7,500	7,500
Deposits	8,059,411	8,059,411
Unearned Revenues	<u>1,105,868</u>	<u>1,105,868</u>
Total Liabilities	<u>9,173,679</u>	<u>9,173,679</u>
Fund Balances:		
Restricted:		
Debt Service	<u>68,473,354</u>	<u>68,473,354</u>
Total Fund Balances	<u>68,473,354</u>	68,473,354
Total Liabilities and Fund Balances	<u>\$ 77,647,033</u>	

Amounts reported for governmental activities in the Statement of Net Position are different because:

Some assets are not due and receivable in the current period and therefore are not reported in the governmental funds. 824,277

Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. (70,565,465)

Net Position of Governmental Activities \$ (1,267,834)

The accompanying notes are an integral part of this statement.

Perris Public Financing Authority
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
Year Ended June 30, 2017

	<u>Debt Service</u>	<u>Total Governmental Fund</u>
REVENUES		
Investment Earnings	\$ 3,502,486	\$ 3,502,486
Other	51,511	51,511
Total Revenues	<u>3,553,997</u>	<u>3,553,997</u>
EXPENDITURES		
Current:		
General Government	14,644	14,644
Debt Service:		
Principal Retirement	3,095,000	3,095,000
Interest and Fiscal Charges	3,308,186	3,308,186
Total Expenditures	<u>6,417,830</u>	<u>6,417,830</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(2,863,833)</u>	<u>(2,863,833)</u>
OTHER FINANCING SOURCES (USES)		
Contributions from Other Governments	<u>7,523</u>	<u>7,523</u>
Total Other Financing Sources (Uses)	<u>7,523</u>	<u>7,523</u>
Net Change in Fund Balances	(2,856,310)	(2,856,310)
Fund Balances, Beginning	<u>71,329,664</u>	<u>71,329,664</u>
Fund Balances, Ending	<u><u>\$ 68,473,354</u></u>	<u><u>\$ 68,473,354</u></u>

The accompanying notes are an integral part of this statement.

Perris Public Financing Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Fund to the Statement of Activities
Year Ended June 30, 2017

Net change in fund balances-total governmental fund \$ (2,856,310)

Amounts reported for governmental activities in the Statement of Activities are different because:

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, government funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Long-term Debt Principal Payments	3,095,000
Accrued Interest	29,216
Amortization of Bond Premium	85,523
Amortization of Bond Discounts	(13,464)
Amortization of Deferred Charges on Refunding	(66,279)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. Interest on long-term receivables from other agencies is not collected or earned in the current period and accordingly is not reported as general revenues.

(29,216)

Change in Net Position of Governmental Activities

\$ 244,470

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Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2017

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
1	Reporting Entity and Summary of Significant Accounting Policies	7 - 11
2	Cash and Investments	11 - 14
3	Fair Value Measurements	15
4	Loans Receivable	15 - 16
5	Long-term Liabilities	16 - 181
6	Risk Management	19

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2017

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The Perris Public Financing Authority (the “Authority”) is a joint exercise of powers between the City of Perris (the “City”) and the Perris Redevelopment Agency (the “Agency”), created by a joint powers agreement dated August 28, 1989. The purpose of the Authority is to provide financing for public capital improvements within the City. On February 1, 2012, the Perris Redevelopment Agency was dissolved by legislation from the California State Legislature and a decision by the California Supreme Court. The City of Perris is the Successor Agency of the Perris Redevelopment Agency which oversees the remaining activities of the former Perris Redevelopment Agency.

The Authority’s offices and records are located at City Hall, 101 North “D” Street, Perris, California, telephone (951) 943-6100.

The Authority is a component unit of the City of Perris and, accordingly, the financial statements of the Authority are included in the financial statements of the City of Perris. The Authority is an integral part of the reporting entity of the City of Perris. The funds of the Authority have been blended within the financial statements of the City because the City Council of the City of Perris is the governing board of the Authority and exercises control over the operations of the Authority. Only the funds of the Authority are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Perris.

B) Basis of Presentation

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies reflected in the financial statements are summarized as follows:

Government-wide Statements: The Government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government (the Authority). For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All Authority activities are governmental; no business-type activities are reported in the statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are expenses that are clearly identifiable with a specific program, project, function or segment. Program revenues of the Authority include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items that are properly not included among program revenues are reported instead as general revenues.

Fund Financial Statements: Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds. Currently, the Authority only has one governmental fund.

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2017

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Taxes, intergovernmental revenues, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and are therefore recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Authority.

The Authority reports the following major governmental fund:

The *Debt Service Fund* is used to account for the accumulation of resources for, and the repayment of, long-term debt principal, interest and related costs.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Direct expenses have not been eliminated from the functional categories; indirect expenses and internal payments have been eliminated.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then use unrestricted resources as they are needed.

D) Explanation of Differences Between Governmental Fund Balance Sheet and the Statement of Net Position

"Total fund balances" of the Authority's governmental funds, \$68,473,354, differs from "total net position" of governmental activities, \$(1,267,834), reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the current financial resources focus of the Governmental Funds Balance Sheet.

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2017

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D) Explanation of Differences Between Governmental Fund Balance Sheet and the Statement of Net Position - Continued

All assets (both current and long-term) are reported in the Statement of Net Position. Interest applicable to loans receivable is not collected or earned in the current period and accordingly is not reported as fund assets.

Interest Receivable from CFD Investments	\$	65,084
Interest Receivable from Other Agencies		759,193
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities.	\$	824,277

All liabilities (both current and long-term) are reported in the Statement of Net Position. Long-term liabilities and the interest payable on these liabilities applicable to the Authority's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities as well as any related deferred outflows and inflows of resources.

Interest Payable	\$	(824,277)
Long-term Liabilities		(69,485,000)
Unamortized Bond Premiums		(1,389,750)
Unamortized Bond Discounts		259,182
Deferred Charges on Refunding		874,380
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities.	\$	(70,565,465)

E) Investments

As a governmental entity other than an external investment pool in accordance with GASB 31, the Authority's investments are stated at fair value except for interest-earning investment contracts (see Note 2).

In applying GASB 31, the Authority utilized the following methods and assumptions:

- 1) Fair value is based on quoted market prices as of the valuation date;
- 2) The portfolio did not hold investments in any of the following:
 - a) Items required to be reported at amortized cost,
 - b) Items in external pools that are not SEC-registered (except for government sponsored pools),
 - c) Items subject to involuntary participation in an external pool,
 - d) Items associated with a fund other than the fund to which the income is assigned;
- 3) The gain/loss resulting from valuation will be reported within the revenue account "Investment Earnings" on the Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds.

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2017

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Authority has one item that qualifies for reporting in this category which arises only under a full accrual basis of accounting. Accordingly, this item (deferred charges on refunding), is reported only in the government-wide statement of net position. The deferred charges on refunding resulted from the differences in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Currently, the Authority does not report any deferred inflows.

G) Deposits

The Authority retained certain funds as part of its loans receivable and purchases of Community Facilities District Bond investments. See Note 4.

H) Net Position

GASB No. 63 requires that the difference between assets, liabilities and deferred outflows/inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position classified as net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding principal of related debt. Restricted net position is the net position that has external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

I) Fund Equity

Fund balance in governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The Authority considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact.

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2017

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I) Fund Equity - Continued

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the Authority's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body, or by an official to whom the authority has been given.

Unassigned Fund Balance - These are negative balances in the Debt Service Fund.

J) Contributions from and to Other Governments

The \$7,523 of contributions was from the Successor Agency to the Perris Redevelopment Agency and City of Perris for administrative costs.

K) Budgets and Budgetary Accounting

Formal budgets are not required for the Debt Service Fund; therefore, no statement of revenues, expenditures and changes in fund balance - budget and actual is presented.

L) Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions made by Management. Actual results could differ from those amounts.

2) CASH AND INVESTMENTS

Cash and Investments are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments with Fiscal Agent	\$ <u>12,059,533</u>
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Cash and investments consist of the following:

Investments	\$ <u>12,059,533</u>
Total Cash and Investments	\$ <u>12,059,533</u>

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2017

2) CASH AND INVESTMENTS - Continued

Investments Authorized by the California Government Code and the Authority's Investment Policy

The following table identifies the investment types that are authorized for the Authority by the City of Perris's investment policy. The City manages the Authority's investments in the City's investment pool. The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity ⁽¹⁾	Maximum Percentage Of Portfolio ⁽²⁾	Maximum Investment In One Issuer
Local Agency Bonds	5 years	10%	None
U.S. Treasury Obligations	5 years	80%	None
U.S. Agency Securities	5 years	80%	None
Banker's Acceptances	180 days	40% of market value	5%
Commercial Paper	270 days	25% of market value	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Repurchase Agreements	92 days	20%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	80%	None
Bank / Time Deposits	5 years	30%	None

⁽¹⁾No more than 50% of the portfolio shall have maturity dates in excess of 2 years at any given time.

⁽²⁾Excluding amounts held by bond trustee that are not subject to California Government Code Restrictions.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2017

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Interest Rate Risk - Continued

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

Investment Type	Remaining Maturity (in Months)			
	12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Held by Bond Trustee:				
Money Market Fund	\$ 7,897,539	\$ 7,897,539	\$	\$
Federal Securities	518,788		518,788	
Local Obligation Bonds	<u>3,643,206</u>	<u>793,471</u>	<u>748,471</u>	<u>1,295,412</u>
Total	<u>\$ 12,059,533</u>	<u>\$ 8,691,010</u>	<u>\$ 1,267,259</u>	<u>\$ 1,295,412</u>
			<u>\$ 1,295,412</u>	<u>\$ 805,852</u>

Disclosures Relating to 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. Presented below is the minimum rating required by (where applicable) the California Government Code or the Authority's investment policy and the actual rating as of year end for each investment type.

Investment Type		Minimum Legal Rating	Not Rated	AAA		P-1	
Held by Bond Trustee:							
Money Market Fund	\$ 7,897,539	N/A	\$	\$ 7,897,539	\$		
Federal Securities	518,788	N/A		518,788			
Local Obligation Bonds	<u>3,643,206</u>	N/A	<u>3,643,206</u>				
Total	<u>\$ 12,059,533</u>		<u>\$ 3,643,206</u>	<u>\$ 8,416,327</u>	<u>\$</u>	<u>0</u>	

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Authority's investments are as follows:

Issuer	Investment Type	Reported Amount
CFDs 88-1, 88-3 & 90-1 Special Tax Bonds, 2007 Series A & B	Local Obligation Bonds	\$ 3,643,206
First American Prime Obligation FD	Money Market Fund	\$ 7,897,539

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2017

2) CASH AND INVESTMENTS - Continued

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2017, none of the Authority's deposits that are in excess of federal depository insurance limits were held in uncollateralized accounts, and none of the Authority's investments were held by the broker-dealer (counterparty) that was used by the Authority to buy the securities.

Investments in Community Facilities District Bonds

The Perris Public Financing Authority has purchased various Community Facilities District (CFD) Bonds from the proceeds of revenue bonds issued by the Authority to facilitate the respective bond issues of the Districts (see Note 5).

The CFD Bonds are secured solely by assessments on property owners within the Districts. The repayment schedules of the bonds, and interest thereon, to the Authority are concurrent and sufficient to satisfy the debt service requirements of the respective Authority revenue bonds. The investments are summarized below:

Investment	Fair Value
CFDs 88-1, 88-3 & 90-1 Special Tax Bonds, 2007 Series A & B	\$ 3,643,206

Cash with Fiscal Agent

Cash and investments held and invested by fiscal agents on behalf of the Authority are pledged for payment or security of certain long-term debt issuances. Fiscal agents are mandated by bond indentures as to the types of investments in which debt proceeds can be invested.

Included in cash and investments with fiscal agent are the debt securities issued by some of the City's Community Facilities Districts. These are special assessment obligations and, therefore, are not obligations of the Authority or the City.

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2017

3) FAIR VALUE MEASUREMENTS

Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurements and Application, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value with Level 1 given the highest priority and Level 3 the lowest priority. The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within *Level 1* that are observable for the asset or liability, either directly or indirectly. *Level 2* inputs include the following:

- a. Quoted prices for similar assets or liabilities in active markets.
- b. Quoted prices for identical or similar assets or liabilities in markets that are not active.
- c. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

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

Fair value of assets measured on a recurring basis at June 30, 2017, are as follows:

	<u>Fair Value</u>	<u>Uncategorized</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Held by Bond Trustee:			
Money Market Fund	\$ 7,897,539	\$ 7,897,539	\$
Federal Securities	518,788		518,788
Local Obligation Bonds	<u>3,643,206</u>		<u>3,643,206</u>
Total Investments	<u>\$ 12,059,533</u>	<u>\$ 7,897,539</u>	<u>\$ 4,161,206</u>

The money market mutual funds are exempt under GASB No. 72 fair value measurements. Local Obligation Bonds under Level 2 are valued based on their current maturity schedules.

4) LOANS RECEIVABLE

The Authority has entered into loan agreements with the Perris Redevelopment Agency (Agency) whereby the Authority loaned the proceeds of the 2009 Series A, B and C Revenue Bonds, the 2010 Series A Revenue Bond, and the 2015 Series A and B Revenue Refunding Bonds, issued by the Authority to retire debt and provide funds for certain public improvements in Agency project areas. As of February 1, 2012, the Perris Redevelopment Agency was dissolved (see Note

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2017

4) LOANS RECEIVABLE - Continued

1A) and the Successor Agency of the Perris Redevelopment Agency oversees the remaining activities of the former Perris Redevelopment Agency.

The following table represents the balance of net proceeds loaned to the Agency at the end of the year:

	Amount Issued	Loans Receivable End of Year
2009 Series A Issue	4,055,000	\$ 3,555,000
2009 Series B Issue	7,605,000	7,040,000
2009 Series C Issue	5,490,000	5,010,000
2010 Series A Issue	7,180,000	6,985,000
2015 Series A Issue	21,590,000	20,635,000
2015 Series B Issue	23,120,000	22,355,000
Total	\$ 69,040,000	\$ 65,580,000

The balance at June 30, 2017, of the accounts with retained funds is \$6,330,956 and is reflected as deposits in these financial statements. The remaining deposits of \$1,728,455 are related to Community Facilities District's investments.

5) LONG-TERM LIABILITIES

The following is a summary of the changes in long-term liabilities:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
2007 Revenue Refunding Bonds, Series A	\$ 5,030,000	\$	\$ 1,125,000 ⁽¹⁾	\$ 3,905,000	\$ 830,000
2009 Revenue Bonds, Series A	3,620,000		65,000	3,555,000	70,000
2009 Revenue Bonds, Series B	7,120,000		80,000	7,040,000	85,000
2009 Revenue Bonds, Series C	5,090,000		80,000	5,010,000	80,000
2010 Revenue Bonds, Series A	7,010,000		25,000	6,985,000	25,000
2015 Revenues Bonds, Series A	21,590,000		955,000	20,635,000	970,000
2015 Revenues Bonds, Series B	23,120,000		765,000	22,355,000	780,000
Subtotal	72,580,000		3,095,000	69,485,000	2,840,000
Add (less) Deferred Amounts:					
Bond Premiums	1,475,273		85,523	1,389,750	
Bond Discounts	(272,646)		(13,464)	(259,182)	
Total	\$ 73,782,627	\$ 0	\$ 3,167,059	\$ 70,615,568	\$ 2,840,000

⁽¹⁾ This amount includes bond calls of \$350,000.

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2017

5) LONG-TERM LIABILITIES

Revenue Bonds

On August 7, 2007, the Public Financing Authority issued \$11,895,000 2007 Revenue Refunding Bonds, Series A, to refund a portion of the 1996 Revenue Bonds, Series F. Interest on the bonds is payable September 1 and March 1 of each year. Interest on the bonds accrues at rates varying from 4.000% to 5.000% per annum. Principal on the serial bonds is payable in annual installments ranging from \$395,000 to \$1,115,000 commencing September 1, 2008 through September 1, 2024. At June 30, 2017, the Authority has a cash reserve balance for debt service of \$342,155 which is sufficient to cover the Bond Indenture Reserve Requirement.

\$ 3,905,000

On February 3, 2009, the Public Financing Authority issued \$4,055,000 2009 Revenue (Tax Allocation) Bonds, Series A, to provide loans to the Redevelopment Agency (see Note 3). The proceeds of these loans will be used to finance the 1987 Project Loan and to pay related expenses of the Authority. Interest on the bond is payable October 1 and April 1 of each year. Interest on the bond accrues at rates varying from 3.250% to 6.100% per annum. Principal on the serial bonds is payable in annual installments ranging from \$60,000 to \$875,000 commencing October 1, 2009 through October 1, 2037. At June 30, 2017, the Authority has a cash reserve balance for debt service of \$406,115 which is sufficient to cover the Bond Indenture Reserve Requirement.

3,555,000

On February 25, 2009, the Public Financing Authority issued \$7,605,000 2009 Revenue (Tax Allocation) Bonds, Series B, to provide loans to the Redevelopment Agency (see Note 3). The proceeds of these loans will be used to finance the 1994 Project Loan and to pay related expenses of the Authority. Interest on the bond is payable October 1 and April 1 of each year. Interest on the bond accrues at rates varying from 3.250% to 6.150% per annum. Principal on the serial bonds is payable in annual installments ranging from \$65,000 to \$1,310,000 commencing October 1, 2009 through October 1, 2039. At June 30, 2017, the Authority has a cash reserve balance for debt service of \$763,882 which is sufficient to cover the Bond Indenture Reserve Requirement.

7,040,000

On June 19, 2009, the Public Financing Authority issued \$5,490,000 2009 Revenue (Tax Allocation) Bonds, Series C, to provide loans to the Redevelopment Agency (see Note 3). The proceeds of these loans will be used to finance the Central North Project Loan and to pay related expenses of the Authority. Interest on the bond is payable October 1 and April 1 of each year. Interest on the bond accrues at rates varying from 3.000% to 6.375% per annum. Principal on the serial bonds is payable in annual installments ranging from \$60,000 to \$1,380,000 commencing October 1, 2010 through October 1, 2035. At June 30, 2017, the Authority has a cash reserve balance for debt service of \$551,419 which is sufficient to cover the Bond Indenture Reserve Requirement.

5,010,000

On April 19, 2010, the Public Financing Authority issued \$7,180,000 2010 Revenue (Tax Allocation) Bonds, Series A, to provide loans to the Redevelopment Agency (see Note 3). The proceeds of these loans will be used to finance the Housing Loan and to pay related expenses of the Authority. Interest on the bond is payable October 1 and April 1 of each year. Interest on the bond accrues at rates varying from 3.000% to 5.500% per annum. Principal on the serial bonds is payable in annual installments ranging from \$25,000 to \$1,200,000 commencing October 1, 2010 through October 1, 2040. At June 30, 2017, the Authority has a cash reserve balance for debt service of 721,195 which is sufficient to cover the Bond Indenture Reserve Requirement.

6,985,000

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2017

5) LONG-TERM LIABILITIES - Continued

Revenue Bonds - Continued

On July 9, 2015, the Public Financing Authority issued \$21,590,000 2015 Revenue (Tax Allocation) Refunding Bonds, Series A, to refund the 2001 Series A and B, 2002, Series A and B and the 2006 (related to the housing loan) Tax Allocation Revenue Bonds and related Successor Agency Loans (see Note 4). Interest on the bond is payable October 1 and April 1 of each year. Interest on the bond accrues at rates varying from 2% to 5% per annum. Principal on the serial bonds is payable in annual installments ranging from \$795,000 to \$1,645,000 commencing October 1, 2016 through October 1, 2033. At June 30, 2017, the Authority has a cash reserve balance for debt service of \$1,806,604 which is sufficient to cover the Bond Indenture Reserve Requirement.

\$ 20,635,000

On July 9, 2015, the Public Financing Authority issued \$23,120,000 2015 Revenue (Tax Allocation Subordinate) Refunding Bonds, Series B, to refund the 2002 Series C and the 2006 (excluding the housing loan portion) Tax Allocation Revenue Bonds and related Successor Agency loans (see Note 4). Interest on the bond is payable October 1 and April 1 of each year. Interest on the bond accrues at rates varying from 2% to 4% per annum. Principal on the serial bonds is payable in annual installments ranging from \$765,000 to \$2,190,000 commencing October 1, 2016 through October 1, 2036. At June 30, 2017, the Authority has a cash reserve balance for debt service of \$2,010,538 which is sufficient to cover the Bond Indenture Reserve Requirement.

22,355,000

Total Revenue Bonds

\$ 69,485,000

The future debt requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 2,840,000	\$ 3,186,876	\$ 6,026,876
2019	2,855,000	3,096,585	5,951,585
2020	2,945,000	3,004,098	5,949,098
2021	2,580,000	2,902,444	5,482,444
2022	2,665,000	2,790,701	5,455,701
2023-2027	14,405,000	12,063,935	26,468,935
2028-2032	15,870,000	8,864,678	24,734,678
2033-2037	17,905,000	4,864,921	22,769,921
2038-2040	7,420,000	758,041	8,178,041
Total	<u>\$ 69,485,000</u>	<u>\$ 41,532,279</u>	<u>\$ 111,017,279</u>

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2017

6) RISK MANAGEMENT

To account for risks of loss and liability claims, the Authority participates in the City's self-insurance program. The City of Perris maintains a self-insurance program for workers' compensation. For workers' compensation claims, the City is at risk for up to \$250,000 per occurrence, amounts in excess of \$250,000 are covered through PERMA. The limits of the coverage are \$250,000 per accident for workers' compensation and \$5,000,000 each accident for employers' liability.

PERMA was created under a joint exercise of powers agreement for the purpose of providing insurance coverage for its members. The governing Board of Directors consists of one member from each participating agency.

PERMA also provides a non-risk sharing "deductible", or banking, pool for claims within the SIR level. Annual contributions are deposited with the PERMA from which claims are paid.

Under the liability programs risk-sharing pool, each member's share of total claims liabilities, including IBNR's, is determined by the application of risk factors to specific characteristics of each member which provides the relative share of each member in total losses of PERMA. These losses are paid from premiums charged to the members which are established at levels to fund all claims costs.

The workers' compensation insurance program is a non-risk sharing program. Therefore, each member is directly charged for any losses incurred. Each member's equity represents accumulated contributions held by PERMA on the member's behalf. Any deficits created for losses in excess of assets available for a given member is funded over a ten year period through an adjustment to required premiums.

During the past three fiscal years none of the above programs of protection have had settlements or judgements that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

The aforementioned information is not included in the accompanying financial statements. Separate financial statements of PERMA may be obtained at 36-951 Cook Street, Suite 101, Palm Desert, California 92211.