

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA**

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**BASIC FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2018**

## TABLE OF CONTENTS

	<u>Page</u>
<b>Independent Auditors' Report</b> .....	1
Management's Discussion and Analysis (Required Supplementary Information – Unaudited) .....	3
<b>Basic Financial Statements:</b>	
Statement of Net Position – Governmental Activities.....	11
Statement of Activities – Governmental Activities.....	12
Balance Sheet – Governmental Funds .....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Change in Net Position of Governmental Activities .....	16
Statement of Revenues, Expenditures, and Changes in Fund Balance - Special Revenue Fund – Budget and Actual.....	17
Notes to Basic Financial Statements .....	18
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	24



## **INDEPENDENT AUDITORS' REPORT**

The Honorable City Council  
of the City of Modesto, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Modesto Community Facilities District Number 2003-1 (Fairview Village) (the District), a component unit of the City of Modesto, California, as of and for the year ended June 30, 2018, the related notes to the financial statements and the budgetary comparison for the Special Revenue Fund, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the District, as of June 30, 2018, the respective changes in financial position thereof and the respective budgetary comparison for the Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

HUDSON HENDERSON & COMPANY, INC.

*Hudson Henderson & Company, Inc.*

Fresno, California  
December 14, 2018

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018**

The City of Modesto Community Facilities District No. 2003-1 (Fairview Village) (the District) has issued its financial statements in the format prescribed by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, which requires the District to provide this overview of its financial activities for the fiscal year.

Please read this overview in conjunction with your reading of the accompanying basic financial statements.

**THE PURPOSE OF THE DISTRICT**

The District is a blended component unit of the City of Modesto, California (the City). It is controlled by the City, and the City Council is the District's governing body. City employees perform most of the duties and functions required of the District, but certain tasks are provided by third parties under contract.

The District's purpose under California law is to provide a funding mechanism for public facilities and services authorized by the District. The District is the vehicle that will be used to ensure that all landowners in the Specific Plan area contribute to the cost of the public facilities and services. Additional information on the District can be found below, and in Note 1 to the accompanying financial statements.

**BACKGROUND AND MANAGEMENT'S DISCUSSION**

In 1989, the City adopted the Urban Growth Management Strategy, which requires that any future development within the "Urban Reserve" be planned and annexed as "villages" under the auspices of Specific Plans. This action was seen as necessary to prevent new development from occurring in undeveloped areas prior to there being adequate consideration for public facilities such as roadways, parks, schools, and utility improvements.

Fairview Village is a proposed planned community with an expected population of 5,000 people living in approximately 2,250 homes. The project is to be developed on a 364-acre site located just outside the southwest edge of the City in Stanislaus County. The Fairview Village Plan Area is essentially square with each edge approximately three-quarters of a mile in length. It is contiguous to the Bret Harte neighborhood on the east, and is bounded by the expanded Hatch Road to the north, Carpenter Road to the west, and Whitmore Avenue to the south. The District is designed around a large central neighborhood park and new elementary school that forms the center of the new community. Fairview Village will also include a secondary elementary school and a commercial center with shops, offices, and apartments.

In December 2003, the City Council formed the District and authorized the District to issue up to \$25 million in bonded indebtedness to acquire or construct certain water, storm drain, and sewer system improvements and a bike trail and all appurtenances and appurtenant work in connection therewith. The only qualified voter eligible to vote during the formation of the District was Del Valle Corporation (the Developer), the owner of approximately 81.66 acres. A final map was recorded subdividing the Developer's 81.66 acres into 382 single-family residential lots.

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018**

In September 2005, the District issued Special Tax Bonds, Series 2005 in the principal amount of \$5.0 million. The majority of the net construction proceeds were used to reimburse the Developer for the District-funded infrastructure it will install pursuant to the Acquisition & Shortfall Agreements entered into with the District. In October 2005, supplemental information concerning the bond issue was distributed to the repositories. This supplemental information advised the bond holders and market of the amendments to the Acquisition & Shortfall Agreement that allow the issuance of certain occupancy permits prior to the completion of the infrastructure projects specified in the Acquisition & Shortfall Agreement.

Matters related to the Developer's subdivision located in the District were first memorialized in an Acquisition & Shortfall Agreement between the City and Norman Galas, etc. in December 1997. On January 9, 2003, the Acquisition & Shortfall Agreement was amended and named Del Valle Capital Corporation, Inc., as a party to the Acquisition & Shortfall Agreement. Since that time, two subsequent amendments have occurred and additional agreements have been executed between the City and the District. The chronology of the agreements related to the Developer's subdivision follows:

- The Acquisition & Shortfall Agreement between the City and Norman Galas, June Galas, Stanley Galas, and Bonnie K. Galas dated as of September 16, 1997, as amended by the First Amendment to the Acquisition & Shortfall Agreement between the City and Norman Galas, June Galas, Stanley Galas, Bonnie K. Galas, and Del Valle Capital Corporation, Inc., dated as of January 9, 2003, and as further amended by the Second Amendment to the Acquisition & Shortfall Agreement between the City and Norman Galas, June Galas, Stanley Galas, Bonnie K. Galas, and Del Valle Capital Corporation, Inc., dated as of June 10, 2003, and as finally amended by the Third Amendment to the Acquisition & Shortfall Agreement between the City and Norman Galas, June Galas, Stanley Galas, Bonnie K. Galas, Del Valle Capital Corporation, Inc., dated as of June 22, 2004.
- Advanced Funding Agreement for the District dated as of October 28, 2003, Subdivision Agreement, dated as of December 23, 2003, pertaining to Galas Brothers Subdivision Unit No. 1.
- Subdivision Agreement, dated as of December 23, 2003, pertaining to Galas Brothers Subdivision Unit No. 2.
- Agreement to Complete Necessary Infrastructure Prior to Final Inspection or Occupancy, dated as of December 23, 2003, as amended by the Amendment to Agreement dated as of January 25, 2005, and as further amended by the Second Amendment to Agreement dated as of November 9, 2005, and as further amended by the Third Amendment to Agreement dated as of December 14, 2005, and as finally amended by the Fourth Amendment to Agreement, dated as of June 27, 2006.
- Two Acquisition & Shortfall Agreements between the District and Del Valle Homes, each dated as of June 22, 2004.
- Agreement by and between the City, Del Valle Capital Corporation, Inc., D.R. Horton, Inc., and Pulte Home Corporation Regarding the Funding and Construction of Certain Interim Water Improvements in Return for City's Issuance of Certain Permits, dated as of September 30, 2005.

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018**

- Letter of Agreement between City and Del Valle Homes dated as of February 2, 2007.
- Agreement for the Acceptance of Completed Public Improvements and Partial Release of Security, dated as of June 12, 2007.

On November 25, 2008, the City Council approved a *Settlement Agreement and Mutual Release* with the Developer. The City agreed to accept the infrastructure improvements remaining to be accepted such as the well, storage, booster pumps, wellhead treatment system, and some in-tract subdivision improvements. In return, the Developer received a gross payment of \$1.3 million minus \$452,365 that was withheld pursuant to the terms of the Settlement Agreement, of which approximately \$99,000 will be utilized by City crews to complete repairs to the accepted infrastructure. The Developer received a net payment of \$847,635.

### **FISCAL YEAR 2018 FINANCIAL HIGHLIGHTS**

Financial highlights of the year include the following:

#### *Government-Wide:*

- The District's net position decreased to \$789,459 for fiscal year 2018.
- Total District revenues were \$448,037.
- Total District expenses were \$452,151.

#### *Funds Basis:*

- Special Revenue Fund revenues of \$196,109 were \$25,438 higher than the prior year primarily due to increased maintenance special tax collections and expenditures of \$161,614 were \$3,407 more than the prior year due to an increase in repair and maintenance expenditure. The Special Revenue Fund balance increased by \$34,495 to an ending fund balance of \$305,649.
- Debt Service Fund revenues of \$251,928 were \$244,164 higher than the prior year primarily due to increased maintenance special tax collections and expenditures of \$283,912 were \$11,954 more than the prior year due to a scheduled increase in the bond principal payment. The Debt Service Fund balance decreased by \$31,984 to an ending fund balance of \$402,030.

### **THE BASIC FINANCIAL STATEMENTS**

The basic financial statements comprise the government-wide financial statements and the fund financial statements; these two sets of financial statements provide two different views of the District's financial activities and financial position.

#### *Government-Wide Financial Statements*

The government-wide financial statements provide a long-term view of the District's activities as a whole and are comprised of the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the District as a whole, including all its capital assets and long-term liabilities. The Statement of Activities provides information about the District's revenues and all its expenses. The Statement of Activities explains in detail the change in net position for the year.

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018**

The Statement of Net Position and the Statement of Activities present information about the following:

**Governmental activities** - All of the District's basic services are considered to be governmental activities, including formation, financing, construction, and maintenance activities. These services are supported by formation deposits, special facilities taxes, and annual maintenance assessments. Government-wide financial statements are prepared on the accrual basis of accounting, which means they measure the flow of all economic resources of the District as a whole, similar to that used by the private sector.

**FINANCIAL ACTIVITIES OF THE DISTRICT AS A WHOLE**

This analysis focuses on the net position and changes in net position of the District's governmental activities in the government-wide financial Statement of Net Position and Statement of Activities that follow.

As of June 30, 2018, total assets of \$4,777,169 were offset by liabilities of \$4,124,908. The District's net position from governmental activities decreased to \$789,459 in 2018 from \$793,573 in 2017. All of the District's net position is restricted as follows: \$305,649 for acquisition or construction of infrastructure and \$483,810 for debt service.

The following is a condensed Statement of Net Position as of June 30, 2018 and 2017, and the respective changes:

**Statement of Net Position - Governmental Activities**

	<b>2018</b>	<b>2017</b>	<b>Change</b>
Cash and investments	\$ 512,100	\$ 505,937	\$ 6,163
Cash and investments with fiscal agent	195,979	195,331	648
Taxes receivable	5,811	961	4,850
Assessments receivable	4,059,254	4,159,254	(100,000)
Prepaid expenses	521	522	(1)
Interest receivable	3,504	2,537	967
	<u>4,777,169</u>	<u>4,864,542</u>	<u>(87,373)</u>
Total assets			
Deferred loss on refunding	137,198	145,190	(7,992)
Current and other liabilities	69,908	61,159	8,749
Long-term debt	4,055,000	4,155,000	(100,000)
	<u>4,124,908</u>	<u>4,216,159</u>	<u>(91,251)</u>
Total liabilities			
Net position:			
Restricted for:			
District maintenance	305,649	271,154	34,495
Debt service	483,810	522,419	(38,609)
	<u>789,459</u>	<u>793,573</u>	<u>(4,114)</u>
Total net position			



**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018**

**FISCAL YEAR 2018 GOVERNMENTAL ACTIVITIES**

The District's fiscal year 2018 revenue came primarily from facilities and maintenance special tax of \$442,124. District expenses of \$452,151 were for services and professional, utilities, and interest expenses.

The following is a condensed Statement of Activities for the years ended June 30, 2018 and 2017, and the respective changes:

**Statement of Activities - Governmental Activities**

	<b>2018</b>	<b>2017</b>	<b>Change</b>
Revenues:			
General revenues:			
Facilities and maintenance special tax	\$ 442,124	\$ 85,003	\$ 357,121
Investment earnings	<u>5,913</u>	<u>3,432</u>	<u>2,481</u>
Total revenues	<u>448,037</u>	<u>88,435</u>	<u>359,602</u>
Expenses:			
Community development	275,232	165,851	109,381
Interest on long-term debt	<u>176,919</u>	<u>181,076</u>	<u>(4,157)</u>
Total expenses	<u>452,151</u>	<u>346,927</u>	<u>105,224</u>
Change in net position	(4,114)	(258,492)	<u>\$ 254,378</u>
Net position, beginning of year	<u>793,573</u>	<u>1,052,065</u>	
Net position, end of year	<u>\$ 789,459</u>	<u>\$ 793,573</u>	

*Fund Financial Statements*

The fund financial statements report the District's operations in more detail than the government-wide financial statements and focus primarily on the short-term activities of the District's two funds. The fund financial statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt, and other long-term amounts.

The fund financial statements provide detailed information about each of the District's most significant funds, called major funds. Major funds present the major activities of the District for the year, and may change from year to year as a result of changes in the pattern of District's activities. All of the District's funds are presented here as major funds; their purpose is explained in Note 1 to the financial statements. All the District's funds are governmental funds; financial statements for these funds are prepared on the modified accrual basis of accounting, which means they measure only current financial resources and uses.

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018**

The following is a condensed Statement of Revenues, Expenditures, and Changes in Fund Balance for both the Special Revenue Fund and the Debt Service Fund for the years ended June 30, 2018 and 2017, and the respective changes:

**Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Special Revenue Fund**

	<b>2018</b>	<b>2017</b>	<b>Change</b>
Revenues	\$ 196,109	\$ 170,671	\$ 25,438
Expenditures	<u>161,614</u>	<u>158,207</u>	<u>3,407</u>
Changes in fund balances	34,495	12,464	<u>\$ 22,031</u>
Fund balances, beginning of year	<u>271,154</u>	<u>258,690</u>	
Fund balances, end of year	<u>\$ 305,649</u>	<u>\$ 271,154</u>	

**Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Debt Service Fund**

	<b>2018</b>	<b>2017</b>	<b>Change</b>
Revenues	\$ 251,928	\$ 7,764	\$ 244,164
Expenditures	<u>283,912</u>	<u>271,958</u>	<u>11,954</u>
Changes in fund balances	(31,984)	(264,194)	<u>\$ 232,210</u>
Fund balances, beginning of year	<u>434,014</u>	<u>698,208</u>	
Fund balances, end of year	<u>\$ 402,030</u>	<u>\$ 434,014</u>	

**THE DISTRICT'S FUND FINANCIAL STATEMENTS**

At June 30, 2018, the District's governmental funds reported combined fund balances of \$707,679, which was a \$2,511 increase from fiscal year 2017. The Special Revenue Fund realized a \$34,495 increase, due to maintenance special tax, while the Debt Service Fund realized a \$31,984 decrease due to debt service payments exceeding facilities and maintenance special tax revenues.

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2018**

**CAPITAL ASSETS**

Under GASB Statement No. 34, the District is required to record all its capital assets, including infrastructure, at their historical cost, and to depreciate these assets over their estimated useful lives. However, title to all infrastructure assets acquired or constructed by the District is turned over to the City upon completion and acceptance. Accordingly, capital outlay expenditures are reported in both the District's fund and government-wide financial statements. Therefore, the District reports no long-term capital assets.

**DEBT ADMINISTRATION**

The District issued Special Tax Bonds, Series 2005 in the principal amount of \$5.0 million in September 2005. Except for approximately \$20,000 that was used to reimburse the City's water fund for work performed by its crews, the proceeds were used to reimburse the Developer for infrastructure it installed pursuant to the Acquisition & Shortfall Agreements entered into between Developer and the District.

The District issued Refunding Special Tax Bonds, Series 2014 in the principal amount of \$4.4 million in December 2014 to refund the outstanding Special Tax Bonds, Series 2005.

The balance of the long-term debt at June 30, 2018, is \$4.06 million. Additional details can be found in Note 3 to the financial statements.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

These basic financial statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the District's finances. Questions about this report should be directed to the City of Modesto, Administrator, Infrastructure Financing Programs, P.O. Box 642, Modesto, California 95353.

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA**

**STATEMENT OF NET POSITION  
AND STATEMENT OF ACTIVITIES**

The Statement of Net Position and the Statement of Activities summarize the entire District's financial activities and financial position. They are prepared on the same basis of accounting as that used by most businesses, which means they include all the District's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis of accounting – the effect of all the District's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between District funds have been eliminated.

The Statement of Net Position reports the difference between the District's total assets and the District's total liabilities, including all the District's capital assets and all its long-term debt. The Statement of Net Position focuses the reader on the composition of the District's net position, by subtracting total liabilities from total assets. The Statement of Net Position summarizes the financial position of the District in a single column.

The Statement of Activities reports increases and decreases in the District's net position. It is also prepared on the full accrual basis of accounting, which means it includes all the District's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis of accounting used in the fund financial statements, which reflect only current assets, current liabilities, available revenues, and measurable expenditures.

The format of the Statement of Activities presents the District's expenses, which are listed by program, first. Program revenues – that is, revenues which are generated directly by these programs – are then deducted from program expenses to arrive at the net program revenue (expense). General revenues – that is, revenues which are not generated directly by these programs – are then added to arrive at the change in net position and reconciled with the Statement of Net Position.

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

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES  
JUNE 30, 2018**

**ASSETS**

Cash and investments	\$	512,100
Cash and investments with fiscal agent		195,979
Taxes receivable		5,811
Assessments receivable		4,059,254
Prepaid expenses		521
Interest receivable		3,504
		3,504
Total Assets		4,777,169

**DEFERRED OUTFLOWS OF RESOURCES**

Loss on refunding		137,198
		137,198

**LIABILITIES**

Accounts payable		14,490
Interest payable		55,418
Long-term debt:		
Due within one year		115,000
Due in more than one year		3,940,000
		3,940,000
Total Liabilities		4,124,908

**NET POSITION**

Restricted for:		
District maintenance		305,649
Debt service		483,810
		483,810
Total Net Position	\$	789,459

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

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues Operating Grants & Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
Community development	\$ 275,232	\$ -	\$ (275,232)
Interest on long-term debt	176,919	-	(176,919)
	<u>\$ 452,151</u>	<u>\$ -</u>	<u>(452,151)</u>
General Revenues:			
			442,124
			5,913
			<u>448,037</u>
			(4,114)
			<u>793,573</u>
			<u>\$ 789,459</u>

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

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA**

**FUND FINANCIAL STATEMENTS**

Major funds are defined generally as having significant activities or balances in the current year.

The District determined all its funds to be major funds. They are:

The **Special Revenue** Fund accounts for all financial resources and uses related to maintenance of parkways and open space within the District.

The **Debt Service** Fund accounts for the payment of principal and interest on the 2014 Refunding Special Tax Bonds.

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	Special Revenue Fund	Debt Service Fund	Total
<b>ASSETS</b>			
Cash and investments	\$ 315,345	\$ 196,755	\$ 512,100
Cash and investments with fiscal agent	-	195,979	195,979
Taxes receivable	2,565	3,246	5,811
Assessments receivable	-	4,059,254	4,059,254
Prepaid expenses	-	521	521
Interest receivable	752	2,752	3,504
	<u>\$ 318,662</u>	<u>\$ 4,458,507</u>	<u>\$ 4,777,169</u>
Total Assets			
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>			
Liabilities			
Accounts payable	\$ 13,013	\$ 1,477	\$ 14,490
Deferred Inflows of Resources			
Unavailable revenues	-	4,055,000	4,055,000
Fund Balances			
Restricted:			
District maintenance	305,649	-	305,649
Debt service	-	402,030	402,030
	<u>305,649</u>	<u>402,030</u>	<u>707,679</u>
Total Fund Balances			
	<u>\$ 318,662</u>	<u>\$ 4,458,507</u>	<u>\$ 4,777,169</u>
Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position:			
Total Fund Balances - Governmental Funds			\$ 707,679
Other long-term assets are not available to pay for the current-period expenditures and therefore are deferred in the funds.			4,055,000
Long-term debt			(4,055,000)
Deferred loss on refunding			137,198
Interest payable			(55,418)
			<u>(4,055,000)</u>
Total Net Position - Governmental Activities			<u>\$ 789,459</u>

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



**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	Special Revenue Fund	Debt Service Fund	Total
<b>REVENUES</b>			
Facilities and maintenance special tax	\$ 195,168	\$ 246,956	\$ 442,124
Interest income	2,661	11,438	14,099
Change in fair value of investments	(1,720)	(6,466)	(8,186)
Total Revenues	<u>196,109</u>	<u>251,928</u>	<u>448,037</u>
<b>EXPENDITURES</b>			
Services - professional and other	131,606	13,618	145,224
Utilities	30,008	-	30,008
Debt service:			
Principal payments	-	100,000	100,000
Interest and fiscal charges	-	170,294	170,294
Total Expenditures	<u>161,614</u>	<u>283,912</u>	<u>445,526</u>
Changes in Fund Balances	34,495	(31,984)	2,511
Fund Balances, beginning of year	<u>271,154</u>	<u>434,014</u>	<u>705,168</u>
Fund Balances, end of year	<u>\$ 305,649</u>	<u>\$ 402,030</u>	<u>\$ 707,679</u>

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

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF  
ACTIVITIES CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balance of the Governmental Fund to the Statement of Activities:

Net change in Fund Balance - Governmental Fund	\$ 2,511
Revenues previously recognized in the Statement of Activities that did not provide current financial resources and therefore were not reported as revenues in the funds are reported as revenues in the funds this year when received.	(100,000)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal long-term debt and the payment to refunding escrow consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net position:	
Repayment of the principal of long-term debt	100,000
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Amortization of deferred loss on refunding	(7,992)
Interest payable	1,367
	1,367
Change in Net Position - Governmental Activities	\$ (4,114)

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

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – SPECIAL REVENUE FUND – BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts	<u>Final Budget</u>
<b>REVENUES</b>				
Maintenance special tax	\$ 180,000	\$ 180,000	\$ 195,168	\$ 15,168
Interest income	-	-	2,661	2,661
Change in fair value of investments	-	-	(1,720)	(1,720)
	<u>180,000</u>	<u>180,000</u>	<u>196,109</u>	<u>16,109</u>
Total Revenues				
<b>EXPENDITURES</b>				
Services - professional and other	126,842	126,842	131,606	(4,764)
Utilities	<u>38,000</u>	<u>38,000</u>	<u>30,008</u>	<u>7,992</u>
Total Expenditures	<u>164,842</u>	<u>164,842</u>	<u>161,614</u>	<u>3,228</u>
Changes in Fund Balance	<u>\$ 15,158</u>	<u>\$ 15,158</u>	34,495	<u>\$ 19,337</u>
Fund Balances, beginning of year			<u>271,154</u>	
Fund Balances, end of year			<u>\$ 305,649</u>	

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

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
NOTES TO BASIC FINANCIAL STATEMENTS**

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

Description and Reporting Entity: The Community Facilities District Number 2003-1 (Fairview Village) (the District) was formed in December 2003 by a vote of the property owners within the proposed district. The District, a separate legal entity, was formed to provide a funding and reimbursement mechanism for public facilities and services required by the District Specific Plan. The District encompasses approximately 359 gross acres of land located in the southwest area of the City of Modesto, California (the City), the south side of Hatch Road and east of Carpenter Road. The District is expected to yield 383 single-family residential lots, a water well, storm drainage basin, water tank, sewer outfall line, and a portion of the central neighborhood park site and related infrastructure on 81.66 acres located in the northeast portion of the District. The remaining properties with the 359 acres are expected to annex to the District in the future, as the area develops.

The District is an integral part of the City of Modesto, California (the City) and the accompanying financial statements are included as a blended component unit of the basic financial statements prepared by the City. A component unit is a separate governmental unit, agency, or nonprofit corporation which, when combined with all other component units, constitutes the reporting entity as defined in the City's basic financial statements.

Government-Wide and Fund Financial Statements: The government-wide financial statements (i.e., the Statement of Net Position and Statement of Activities) report information on all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with the community development function. Program revenues include grants and contributions that are restricted to meeting the operational requirements of the community development function. Investment earnings, and other items which are not properly included among program revenues, are reported instead as general revenues. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Basis of Presentation, Basis of Accounting, and Measurement Focus: 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. Taxes are recognized as revenues in the year for which they are levied.

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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. Substantially all taxes and interest, including the net increase (decrease) in the fair value of investments, are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Miscellaneous revenues are considered to be measurable and available only when cash is received by the District.

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Basis of Presentation, Basis of Accounting, and Measurement Focus (continued):

The District reports the following major governmental funds:

The **Special Revenue** Fund accounts for all financial resources and uses related to maintenance of infrastructure within the District.

The **Debt Service** Fund accounts for the payment of principal and interest on the 2014 Refunding Special Tax Bonds.

Management's 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. These estimates and assumptions affect the reported amounts of 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 these estimates.

Maintenance Special Taxes: The maintenance special taxes are collected by the County of Stanislaus on the property tax bill. The special taxes are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The County of Stanislaus bills and collects the special taxes and remits them to the District. The Rate and Method of Apportionment of Special Tax (RMA), set forth in the District's Public Report, describes how the tax will be allocated among properties in the District. The Public Report was established during the formation of the District. A cost of living adjustment is applied to the special taxes annually.

Fund Balance: In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable* – Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact.
- *Restricted* – Amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional or enabling legislation.
- *Committed* - Amounts constrained to specific purposes by the District itself, using the District's highest level of decision-making authority (the City Council). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned* - Amounts the District *intends* to use for a specific purpose. Intent can be expressed by the District at either the highest level of decision-making or by an official or body to which the District delegates the authority.
- *Unassigned* - The residual classification for the District that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fund Balance (continued): The District establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through adoption or amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the District through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, followed by the committed, assigned, and unassigned resources as they are needed.

Net Position: Net position represents the residual interest in the City's assets after liabilities are deducted. In accordance with GASB Statement No. 63, the fund equity section on the Statement of Net Position was combined to report total net position and present it in three broad components:

- Net investment in capital assets – Amount consists of capital assets, including infrastructure, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted – Amount consists of net position restricted by external creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabled legislature.
- Unrestricted – Amount consists of all net position that does not meet the definition "net investment in capital assets" or "restricted" net position.

When both restricted and unrestricted net position are available, restricted resources are depleted first before unrestricted resources are used.

Governmental Accounting Standards Update: During the year ended June 30, 2018, the District implemented the following Governmental Accounting Standards Board (GASB) standards with no financial impact:

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2017.

GASB Statement No. 85 – *Omnibus 2017*. The provisions of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*. The requirements of this statement are effective for reporting periods beginning after June 15, 2017.

Released GASB Statements to be implemented in future financial statements are as follows:

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Governmental Accounting Standards Update (continued):

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90 – *Majority Equity Interests- an amendment of GASB Statements No. 14 and No 61*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

Subsequent Events: In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through December 14, 2018, which is the date the financial statements were available to be issued.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments of the District, with the exception of cash and investments with fiscal agents, are pooled with other City of Modesto funds. Interest earned on pooled cash and investments is credited to each participant in the pool based on each participant’s average monthly cash balance. Credit quality ratings are not available for the District’s investments as all cash is invested as part of the common cash and investment pool of the City of Modesto.

Cash in the City Pool is considered unclassified as to credit risk because it is not evidenced by securities that exist in physical or book entry form.

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

Statement of Net Position- Governmental Activities:

Cash and investments	\$ 512,100
Cash and investments with fiscal agent	195,979
Total cash and investments	\$ 708,079
Deposits with City of Modesto	
Cash and Investment Pool	\$ 512,100
Money Market Fund	195,979
Total cash and cash investments	\$ 708,079

**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**NOTE 2 – CASH AND INVESTMENTS (continued)**

**Concentration of Credit Risk**

The District is required to disclose investments that represent a concentration of five percent or more of investments in any one issuer held by individual funds in the securities of issuers other than U.S. Treasury securities, mutual funds, and external investment pools. At June 30, 2017, the Debt Service Fund did not hold any other investments.

**Fair Value Hierarchy**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities. The District's investment in the City's Pool and money market fund are exempt from fair value measurement disclosures.

Detailed information concerning the City of Modesto's pooled cash and investments, including information regarding the fair value of investments, may be found in the City of Modesto's Comprehensive Annual Financial Report. As of June 30, 2018, the fair value of the District's position in the pool is the same as the value of its pool shares.

**NOTE 3 – LONG TERM DEBT**

On December 16, 2014, the District issued Refunding Special Tax Bonds (refunding bonds) with a par amount of \$4,420,000 to refund the District's \$4,660,000 outstanding Special Tax Bonds (refunded bonds) issued on September 1, 2005, which were issued primarily to finance various public improvements needed to develop property located within the District. Interest on the refunding bonds is payable semiannually on each March 1 and September 1 through September 1, 2035. The refunding bonds were issued with an interest rate of 4.1% and are payable solely from revenues derived from the assessment of annual special taxes to be levied on the taxable property within the District and from certain other funds pledged under the Trust Indenture.

The long-term debt activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Refunding Special Tax Bonds	\$ 4,155,000	\$ -	\$ (100,000)	\$ 4,055,000	\$ 115,000



**COMMUNITY FACILITIES DISTRICT  
NUMBER 2003-1 FAIRVIEW VILLAGE  
CITY OF MODESTO, CALIFORNIA  
NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

**NOTE 3 – LONG TERM DEBT (continued)**

Annual debt service requirements for the refunding bonds are shown below:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 115,000	\$ 163,897
2020	120,000	159,080
2021	130,000	153,955
2022	140,000	148,420
2023	155,000	142,373
2024-2028	970,000	602,495
2029-2033	1,370,000	363,875
2034-2036	1,055,000	66,728
	<u>\$ 4,055,000</u>	<u>\$ 1,800,823</u>

**NOTE 4 - RESTRICTED FUND BALANCES**

Restrictions of Fund Balances: Fund balances are all presented in the restricted category (see Note 1 for a description of fund balance categories). As of June 30, 2018, restrictions included:

Restricted for District Maintenance - the portion of fund balance legally restricted for maintenance of parkways and open space within the District.

Restricted for Debt Service - the portion of fund balance legally restricted to the payment of principal and interest on long-term liabilities.

**NOTE 5 – DELINQUENCIES AND FORECLOSURES**

The District has made a covenant under the Trust Indenture of the Special Tax Bonds discussed in Note 3 that it will initiate foreclosure proceedings against delinquent parcels as follows:

- a. Any parcel that is delinquent for three consecutive payments. Foreclosure against these parcels is to be initiated within 120 days after the third delinquency.
- b. All parcels delinquent at June 30 when the District received Special Taxes totaling less than 95% of the total Special Tax levied for that fiscal year. Foreclosure against these parcels is to be initiated by September 1 following the end of the fiscal year.

The District has also covenanted that it will pursue the foreclosure proceedings until the delinquent Special Taxes have been paid.

At June 30, 2018, the District had 6 parcels that were delinquent for a total of \$6,445, of which one parcel was delinquent more than three consecutive payments. The delinquencies total of \$6,445 at June 30, 2018 is included in assessments receivable on the Statement of Net Position and Balance Sheet.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable City Council  
of the City of Modesto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the City of Modesto Community Facilities District Number 2003-1 (Fairview Village) (the District), as of and for the year ended June 30, 2018, related notes to the financial statements and the budgetary comparison for the Special Revenue Fund, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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.

HUDSON HENDERSON & COMPANY, INC.

A handwritten signature in blue ink that reads "Hudson Henderson & Company, Inc." in a cursive script.

Fresno, California  
December 14, 2018