

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA**

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

**FOR THE YEAR ENDED
JUNE 30, 2020**

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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 2004-1 (Village One #2) (the District), a component unit of the City of Modesto, California, as of and for the year ended June 30, 2020, the budgetary comparison for the special revenue fund and the related notes to the financial statements, 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 and each major fund of the District as of June 30, 2020, 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 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 October 22, 2020, 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
October 22, 2020

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2020**

The City of Modesto Community Facilities District No. 2004-1 (Village One #2) (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

The Village One #2 Specific Plan encompasses approximately 1,840 gross acres of land within the City, on which a pedestrian-oriented, mixed-use, planned community is anticipated to be developed. In 1996 the City Council formed City of Modesto Community Facilities District (CFD) No. 1996-1 to provide funding for the acquisition or construction of certain road, storm drainage, and park improvements. In 2004 it was determined that the tax rates set forth in CFD No. 1996-1 would be insufficient to fund the required infrastructure; therefore, in early 2004, the City Council formed the District to assist in the financing of the remaining required infrastructure. The District includes a one-time facilities special tax, an annual facilities special tax, and an annual maintenance special tax. The District, in conjunction with CFD No. 1996-1, will provide the funding needed to complete the District funded core infrastructure needed for the Village One #2 area.

Below is a summary of the District funded infrastructure that was under design, construction or constructed/acquired for the Village One #2 area in fiscal year 2019-2020 using tax monies and bond proceeds from the District:

Under Design and Construction

- Sylvan Avenue between Oakdale and Wood Sorrell
- Oakdale Road between Floyd Avenue and Sylvan Avenue
- Roselle Avenue between Sylvan Avenue and Floyd Avenue
- Signal at Roselle Avenue and Bellharbour Drive

FISCAL YEAR 2020 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

Government-Wide:

- The District's total net position in fiscal year 2020 was \$15.6 million.
- At June 30, 2020, total assets were \$42.9 million while total liabilities were \$27.4 million.
- Total District revenues were \$3.7 million and expenses were \$4.8 million.

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)
FOR THE YEAR ENDED JUNE 30, 2020**

Funds Basis:

- Capital Projects Fund revenues decreased from \$2.3 million in the prior year to \$1.6 million for fiscal year 2020 and expenditures increased from \$21k in the prior year to \$2.6 million for fiscal year 2020. The decrease in revenues is attributed to a decrease in facilities special tax revenues and no prepayment of bonds, and the increase in expenditures is attributed to an increase in activity in development of capital projects.
- Capital Projects Fund ending fund balance for fiscal year 2020 decreased from \$14.7 million to \$13.4 million. This decrease is primarily attributed to an increase in activity in development of capital projects.
- Special Revenue Fund revenues decreased from \$807k in the prior year to \$735k for fiscal year 2020 and expenditures increased from \$726k in the prior year to \$729k for fiscal year 2020. The decrease in revenue is due to a decrease in transfers from the City and no prepayment of bonds, and the increase in expenditures is due primarily to an increase in utilities.
- Special Revenue Fund ending fund balance increased from (\$38k) in prior year to (\$32k) in current year.
- Debt Service Fund revenues decreased from \$2.2 million in the prior year to \$2.0 million in fiscal year 2020 and expenditures decreased from \$2.8 million in the prior year to \$1.8 million for fiscal year 2020. The decrease in expenditures is attributed to the decrease in debt service payments compared to the prior year.
- Debt Service Fund ending fund balance increased for fiscal year 2020 from \$2.5 million to \$2.7 million.

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 comprise 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.

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.

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)
FOR THE YEAR ENDED JUNE 30, 2020**

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, 2020, total assets and deferred outflows of resources of \$43.9 million were offset by liabilities and deferred inflows of \$28.2 million. The District's net position from governmental activities decreased to \$15.6 million in 2020 from \$16.6 million in 2019. This decrease was due to an increase in capital outlay expenditures and decrease in facilities special tax revenue. The District's net position has restrictions as follows: \$13.4 million for acquisition or construction of infrastructure, \$2.2 million for debt service, and (\$31k) for District maintenance.

The following is a condensed Statement of Net Position as of June 30, 2020 and 2019:

Statement of Net Position - Governmental Activities

	2020	2019 Restated	Change
Cash and investments	\$ 14,137,101	\$ 15,219,718	\$ (1,082,617)
Cash and investments with fiscal agent	2,809,261	2,791,526	17,735
Due from other governments	15,668	-	15,668
Taxes receivable	21,852	23,089	(1,237)
Assessments receivable	25,824,693	26,454,693	(630,000)
Interest receivable	63,135	83,584	(20,449)
Prepaid assets	<u>333</u>	<u>170</u>	<u>163</u>
 Total assets	 <u>42,872,043</u>	 <u>44,572,780</u>	 <u>(1,700,737)</u>
 Deferred loss on refunding	 <u>991,711</u>	 <u>1,053,054</u>	 <u>(61,343)</u>
 Current and other liabilities	 476,850	 464,996	 11,854
Long-term debt	<u>26,897,655</u>	<u>27,594,314</u>	<u>(696,659)</u>
 Total liabilities	 <u>27,374,505</u>	 <u>28,059,310</u>	 <u>(684,805)</u>
 Deferred assessments	 <u>866,264</u>	 <u>919,848</u>	 <u>(53,584)</u>
 Net position:			
Restricted for:			
Capital projects	13,419,959	14,666,058	(1,246,099)
Debt service	2,234,870	2,018,296	216,574
Unrestricted	<u>(31,844)</u>	<u>(37,678)</u>	<u>5,834</u>
 Total net position	 <u>\$ 15,622,985</u>	 <u>\$ 16,646,676</u>	 <u>\$ (1,023,691)</u>

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)
FOR THE YEAR ENDED JUNE 30, 2020**

FISCAL YEAR 2020 GOVERNMENTAL ACTIVITIES

The District's fiscal year 2020 revenue came primarily from annual facilities and maintenance special taxes, which amounted to \$3,099,163, capital grants and contributions in the amount of \$16,567, along with additional investments earnings of \$622,400. District expenses of \$4,778,125 were primarily for capital outlay, and interest on long term debt. The following is a condensed Statement of Activities for the years ended June 30, 2020 and 2019:

Statement of Activities - Governmental Activities

	2020	2019 Restated	Change
Revenues:			
Program revenues:			
Capital grants and contributions	\$ 16,567	\$ 8,432	\$ 8,135
General revenues:			
Facilities special tax	2,248,515	2,138,015	110,500
Maintenance special tax	850,648	535,424	315,224
Investment earnings	622,400	631,120	(8,720)
Other	16,304	18,183	(1,879)
Transfers, net	-	377,468	(377,468)
	<u>3,754,434</u>	<u>3,708,642</u>	<u>45,792</u>
Total revenues			
Expenses:			
Community development	3,597,616	756,585	2,841,031
Interest on long-term debt	1,180,509	1,243,767	(63,258)
	<u>4,778,125</u>	<u>2,000,352</u>	<u>2,777,773</u>
Total expenses			
Change in net position	(1,023,691)	1,708,290	<u>\$ (2,731,981)</u>
Net position, beginning of year	16,646,676	15,989,488	
Prior period adjustment	-	(1,051,102)	
Net position, end of year	<u>\$ 15,622,985</u>	<u>\$ 16,646,676</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.

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)
FOR THE YEAR ENDED JUNE 30, 2020**

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.

The following is a condensed Statement of Revenues, Expenditures, and Changes in Fund Balance for the Capital Projects Fund, the Special Revenue Fund, and the Debt Service Fund for the years ended June 30, 2020 and 2019, and the respective changes:

**Statement of Revenues, Expenditures, and
Changes in Fund Balances - Capital Projects Fund**

	2020	2019 Restated	Change
Revenues	\$ 1,607,157	\$ 2,253,194	\$ (646,037)
Expenditures	2,636,492	21,119	2,615,373
Other financing sources (uses)	(216,764)	-	(216,764)
Changes in fund balances	(1,246,099)	2,232,075	<u>\$ (3,478,174)</u>
Fund balances, beginning of year	14,666,058	12,511,654	
Prior period adjustment	-	(77,671)	
Fund balances, end of year	<u>\$ 13,419,959</u>	<u>\$ 14,666,058</u>	

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

	2020	2019 Restated	Change
Revenues	\$ 734,930	\$ 806,682	\$ (71,752)
Expenditures	729,096	726,436	2,660
Changes in fund balances	5,834	80,246	<u>\$ (74,412)</u>
Fund balances, beginning of year	(37,678)	(117,924)	
Fund balances, end of year	<u>\$ (31,844)</u>	<u>\$ (37,678)</u>	

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

	2020	2019 Restated	Change
Revenues	\$ 2,042,347	\$ 2,188,766	\$ (146,419)
Expenditures	1,840,540	2,820,422	(979,882)
Changes in fund balances	201,807	(631,656)	<u>\$ 833,463</u>
Fund balances, beginning of year	2,511,839	3,143,495	
Fund balances, end of year	<u>\$ 2,713,646</u>	<u>\$ 2,511,839</u>	

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (continued)
FOR THE YEAR ENDED JUNE 30, 2020**

THE DISTRICT'S FUND FINANCIAL STATEMENTS

The District's fiscal year 2020 revenue primarily came from facilities special taxes in the amount of \$2.9 million and maintenance special taxes in the amount of \$0.9 million.

District expenditures of \$5.2 million in fiscal year 2020 consisted of \$2.6 million in Capital Projects Fund expenditures, \$729k in Special Revenue Fund expenditures for maintenance of District facilities and ongoing administrative expenditures, and \$1.8 million in Debt Service Fund expenditures.

At June 30, 2020, the District's governmental funds reported combined fund balances of \$16.1 million, a decrease of \$1.0 million compared with last year. This decrease was primarily due to a combination of decreased facilities special tax and maintenance special tax revenues and increased capital outlay expenditures for the increase in activity in development of capital projects.

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 2006 in the principal amount of \$31.1 million in March 2006. The proceeds have been and will continue to be used to reimburse developers for infrastructure they install pursuant to the Acquisition & Shortfall Agreements entered into between developers and the District as well as to fund authorized facilities installed by the District.

The District issued Refunding Special Tax Bonds, Series 2014 in the principal amount of \$29.3 million with a premium of \$1.5 million in July 2014 to refund the outstanding Special Tax Bonds, Series 2006.

The balance of the long-term debt at June 30, 2020, is \$26.9 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 2004-1 VILLAGE ONE #2
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 change in net position and reconciled with the Statement of Net Position.

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
JUNE 30, 2020**

ASSETS	
Cash and investments	\$ 14,137,101
Cash and investments with fiscal agent	2,809,261
Due from other governments	15,668
Taxes receivable	21,852
Assessments receivable	25,824,693
Interest receivable	63,135
Prepaid assets	<u>333</u>
Total Assets	<u>42,872,043</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Loss on refunding	<u>991,711</u>
 LIABILITIES	
Accounts payable	75,092
Interest payable	401,758
Long-term debt:	
Due in one year	766,659
Due in more than one year	<u>26,130,996</u>
Total Liabilities	<u>27,374,505</u>
 DEFERRED INFLOWS OF RESOURCES	
Unavailable assessments	<u>866,264</u>
 NET POSITION	
Restricted for:	
Capital projects	13,419,959
Debt service	2,234,870
Unrestricted	<u>(31,844)</u>
Total Net Position	<u><u>\$ 15,622,985</u></u>

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

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Capital Grants & Contributions</u>	<u>Governmental Activities</u>
Community development	\$ 3,597,616	\$ 16,567	\$ (3,581,049)
Interest on long-term debt	<u>1,180,509</u>	<u>-</u>	<u>(1,180,509)</u>
	<u>\$ 4,778,125</u>	<u>\$ 16,567</u>	<u>(4,761,558)</u>
General Revenues:			
			2,248,515
			850,648
			622,400
			<u>16,304</u>
Total General Revenues			<u>3,737,867</u>
Change in Net Position			(1,023,691)
Net Position, Beginning of Year			17,566,524
Prior Period Adjustment			<u>(919,848)</u>
Net Position, End of Year			<u>\$ 15,622,985</u>

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

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
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 **Capital Projects** Fund accounts for all financial resources and uses related to acquisition, construction, and formation/annexation activities.

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 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2020**

	Capital Projects Fund	Special Revenue Fund	Debt Service Fund	Total
ASSETS				
Cash and investments	\$ 13,347,463	\$ 46,669	\$ 742,969	\$ 14,137,101
Cash and investments with fiscal agent	-	-	2,809,261	2,809,261
Due from other governments	15,668	-	-	15,668
Taxes receivable	-	5,504	16,348	21,852
Assessments receivable	-	-	25,824,693	25,824,693
Interest receivable	56,828	-	6,307	63,135
Prepaid assets	-	-	333	333
Total Assets	<u>\$ 13,419,959</u>	<u>\$ 52,173</u>	<u>\$ 29,399,911</u>	<u>\$ 42,872,043</u>
LIABILITIES				
Accounts payable	\$ -	\$ 75,092	\$ -	\$ 75,092
Interest payable	-	8,925	-	8,925
Total Liabilities	<u>-</u>	<u>84,017</u>	<u>-</u>	<u>84,017</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable assessments	-	-	866,264	866,264
Unavailable revenues	-	-	25,820,001	25,820,001
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>26,686,265</u>	<u>26,686,265</u>
FUND BALANCES				
Nonspendable	-	-	333	333
Restricted:				
Capital projects	13,419,959	-	-	13,419,959
Debt service	-	-	2,713,313	2,713,313
Unassigned	-	(31,844)	-	(31,844)
Total Fund Balances	<u>13,419,959</u>	<u>(31,844)</u>	<u>2,713,646</u>	<u>16,101,761</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 13,419,959</u>	<u>\$ 52,173</u>	<u>\$ 29,399,911</u>	<u>\$ 42,872,043</u>

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

COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
JUNE 30, 2020

Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Position:

Total Fund Balances - Governmental Funds	\$	16,101,761
Other long-term assets are not available to pay for the current-period expenditures and therefore are deferred in the funds.		25,820,001
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Long-term debt		(26,897,655)
Deferred loss on refunding		991,711
Interest payable		(392,833)
		(26,298,777)
Total Net Position - Governmental Activities	\$	15,622,985

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

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	Capital Projects Fund	Special Revenue Fund	Debt Service Fund	Total
REVENUES				
Facilities special tax	\$ 922,719	\$ -	\$ 1,955,796	\$ 2,878,515
Maintenance special tax	-	850,648	-	850,648
Intergovernmental	16,567	-	-	16,567
Interest income	316,417	(62,322)	56,847	310,942
Change in fair value of investments	351,454	(69,700)	29,704	311,458
Other revenue	-	16,304	-	16,304
	<u>1,607,157</u>	<u>734,930</u>	<u>2,042,347</u>	<u>4,384,434</u>
EXPENDITURES				
Services - professional and other	-	512,720	15,264	527,984
Utilities	-	216,266	-	216,266
Capital outlay	2,636,492	110	-	2,636,602
Debt service:				
Principal	-	-	630,000	630,000
Interest and fiscal charges	-	-	1,195,276	1,195,276
	<u>2,636,492</u>	<u>729,096</u>	<u>1,840,540</u>	<u>5,206,128</u>
OTHER FINANCING SOURCES (USES)				
Transfers out to City funds	(216,764)	-	-	(216,764)
	<u>(216,764)</u>	<u>-</u>	<u>-</u>	<u>(216,764)</u>
Changes in Fund Balances	(1,246,099)	5,834	201,807	(1,038,458)
Fund Balances, Beginning of Year	14,666,058	(37,678)	3,431,687	18,060,067
Prior Period Adjustment	-	-	(919,848)	(919,848)
Fund Balances, End of Year	<u>\$ 13,419,959</u>	<u>\$ (31,844)</u>	<u>\$ 2,713,646</u>	<u>\$ 16,101,761</u>

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

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
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, 2020**

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

Change in Fund Balances - Governmental Funds	\$ (1,038,458)
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 when received.	(630,000)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of 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.	630,000
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 the governmental funds:	
Amortization of bond premium	66,659
Amortization of deferred loss on refunding	(61,343)
Interest payable	<u>9,451</u>
Change in Net Position - Governmental Activities	<u>\$ (1,023,691)</u>

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

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
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, 2020**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Maintenance special tax	\$ 700,000	\$ 850,000	\$ 850,648	\$ 648
Interest income	-	-	(62,322)	(62,322)
Change in fair value of investments	-	-	(69,700)	(69,700)
Other revenue	-	-	16,304	16,304
Total Revenues	<u>700,000</u>	<u>850,000</u>	<u>734,930</u>	<u>(115,070)</u>
EXPENDITURES				
Services - professional and other	485,433	494,933	512,720	(17,787)
Utilities	216,500	235,990	216,266	19,724
Capital outlay	-	-	110	(110)
Total Expenditures	<u>701,933</u>	<u>730,923</u>	<u>729,096</u>	<u>1,827</u>
OTHER FINANCING SOURCES				
Transfers in from City funds	-	93,706	-	(93,706)
Changes in Fund Balance	<u>\$ (1,933)</u>	<u>\$ 212,783</u>	5,834	<u>\$ (206,949)</u>
Fund Balance, Beginning of Year			<u>(37,678)</u>	
Fund Balance, End of Year			<u>\$ (31,844)</u>	

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

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
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 2004-1 (Village One #2) (the District) was formed in April 2004 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 is the vehicle used to ensure that all landowners in the Specific Plan area contribute to the cost of public improvements. The District encompasses approximately 1,840 gross acres of land on which a pedestrian-oriented, mixed-use, planned community is anticipated to be developed. The District is located in the North Eastern portion of the City of Modesto, California (the City), bordered by Sylvan Avenue to the North, Claus Road to the East, Briggsmore to the South, and Oakdale Road to the West. The District is expected to yield 6,186 residential dwelling units at buildout; in addition to 15 acres of commercial property and 220 acres of industrial property.

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 to 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. However, principal and interest expenditures are recorded as fund liabilities when due or when amounts have been accumulated in the Debt Service Fund for payments early in the following year.

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 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The District reports the following major governmental funds:

The **Capital Projects** Fund accounts for all financial resources and uses related to acquisition, construction, and formation/annexation activities.

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.

Facilities and Maintenance Special Taxes: The facilities and 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 special taxes 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.

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.

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 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The District establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through the adoption or the 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 the adoption or the 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, 2020, the District implemented the following Governmental Accounting Standards Board (GASB) standards with no financial impact:

GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The requirements of this statement are effective as of May 2020.

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

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. Subsequent to issuance, GASB Statement No. 95 postponed the requirements of this statement to reporting periods beginning after December 15, 2019.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. Subsequent to issuance, GASB Statement No. 95 postponed the requirements of this statement to reporting periods beginning after June 15, 2021.

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. Subsequent to issuance, GASB Statement No. 95 postponed the requirements of this statement to reporting periods beginning after December 15, 2020.

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
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. 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 to issuance, GASB Statement No. 95 postponed the requirements of this statement to reporting periods beginning after December 15, 2019.

GASB Statement No. 91 – *Conduit Debt Obligations*. The requirements of this statement are effective for reporting periods beginning after December 15, 2020. Subsequent to issuance, GASB Statement No. 95 postponed the requirements of this statement to reporting periods beginning after December 15, 2021.

GASB Statement No. 92 – *Omnibus 2020*. The requirements of this statement are effective for reporting periods beginning after June 15, 2020. Subsequent to issuance, GASB Statement No. 95 postponed the requirements of this statement to June 15, 2021.

GASB Statement No. 93 – *Replacement of Interbank Offered Rates*. The requirements of this statement are effective for reporting periods beginning after June 15, 2021. Subsequent to issuance, GASB Statement No. 95 postponed the certain requirements of this statement to reporting periods beginning after June 15, 2022.

GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

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 October 22, 2020, 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. The District does not have any deposits with financial institutions as of June 30, 2020.

The District is a voluntary participant in the California Asset Management Program (CAMP), a California Joint Powers Authority that falls under California Government Code Section 53601(p), which is directed by a Board of Trustees that is made up of experienced local government finance directors and treasurers. The District reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share.

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

NOTE 2 – CASH AND INVESTMENTS (continued)

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

Statement of Net Position- Governmental Activities:

Cash and investments	\$	14,137,101
Cash and investments with fiscal agent		2,809,261
 Total cash and investments	 \$	 <u>16,946,362</u>
 Deposits with City of Modesto		
Cash and investment pool	\$	14,137,101
Deposits with fiscal agents		
California Asset Management Program (CAMP)		2,809,261
 Total cash and investments	 \$	 <u>16,946,362</u>

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, 2020, no investments represented a concentration of five percent or more of investments in any one issuer held by the District in the securities of issuers other than U.S. Treasury securities, mutual funds, and external investment pools.

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, 2020, 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 July 30, 2014, the District issued Refunding Special Tax Bonds (refunding bonds) with a par amount of \$29,320,000 to refund the District's \$29,925,000 outstanding Special Tax Bonds (refunded bonds) issued on March 8, 2006, 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, 2036. The refunding bonds were issued with interest rates varying from 2% to 5% 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 principal of these bonds is not subject to acceleration.

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

NOTE 3 – LONG-TERM DEBT (continued)

Any one or more of the following events shall constitute an “event of default” for these bonds:

(a) Default in the due and punctual payment of the principal of or redemption premium, if any, on any bond when and as the same shall become due and payable, whether at maturity as there in expressed, by declaration or otherwise.

(b) Default in the due and punctual payment of the interest on any bond when and as the same shall become due and payable.

(c) Except as described in (a) or (b), default shall be made by the District in the observance of any of the agreements, conditions, or covenants for a period of thirty (30) days after the District shall have been given notice in writing of such default by the Trustee or the owners of twenty-five percent (25%) in aggregate principal amount of the outstanding bonds.

The long-term debt activity for the year ended June 30, 2020 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	\$ 26,450,000	\$ -	\$ (630,000)	\$ 25,820,000	\$ 700,000
Premium on Refunding Bonds	1,144,314	-	(66,659)	1,077,655	66,659
Total	<u>\$ 27,594,314</u>	<u>\$ -</u>	<u>\$ (696,659)</u>	<u>\$ 26,897,655</u>	<u>\$ 766,659</u>

Annual debt service requirements for the bonds are shown below:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 700,000	\$ 1,161,000
2022	775,000	1,124,125
2023	860,000	1,083,250
2024	945,000	1,038,125
2025	1,035,000	988,625
2026-2030	6,720,000	4,029,000
2031-2035	3,535,000	2,430,125
2036-2037	11,250,000	675,000
	<u>\$ 25,820,000</u>	<u>\$ 12,529,250</u>

Interest expense for the year ended June 30, 2020 was \$1,180,509.

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

NOTE 4 – RESTRICTED FUND BALANCES

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, 2020, restrictions included:

- **Restricted for Capital Projects**, the portion of fund balance legally restricted for the acquisition, construction, and formation/annexation activities.
- **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.

At June 30, 2020, the District had 5 parcels that were delinquent for a total of \$3,736, two of which were delinquent for more than three consecutive payments.

The District received 99.8% of the Debt Service Fund facilities special taxes levied during the year ended June 30, 2020. The delinquencies total of \$3,736 at June 30, 2020 is included in assessments receivable on the Statement of Net Position and Balance Sheet.

NOTE 6 – DEFICIENCY OF EXPENDITURES OVER APPROPRIATIONS

Deficiency of expenditures over appropriations for the year ended June 30, 2020 was as follows:

Expenditures	Amount
Special Revenue Fund:	
Services - professional and other	(17,787)
Capital outlay	(110)

**COMMUNITY FACILITIES DISTRICT
NUMBER 2004-1 VILLAGE ONE #2
CITY OF MODESTO, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS (continued)**

NOTE 7 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment for the Debt Service Fund and governmental activities for the year ending June 30, 2020 is summarized as follows:

Governmental Activities:

Net position previously reported	\$	17,566,524
To adjust prior fiscal year facilities special tax revenue		<u>(919,848)</u>
Net position, restated	\$	<u>16,646,676</u>

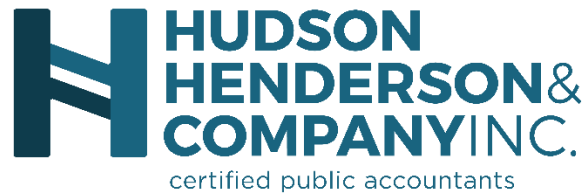
Debt Service Fund:

Fund balance previously reported	\$	3,431,687
To adjust prior fiscal year facilities special tax revenue		<u>(919,848)</u>
Fund balance, restated	\$	<u>2,511,839</u>

NOTE 8 – CONTINGENCY

Coronavirus Pandemic

Management has determined the events regarding the Novel Coronavirus require disclosure in accordance with accounting standards. On March 4, 2020, Governor Newsom issued an emergency proclamation declaring a state of emergency in California due to the Novel Coronavirus (COVID-19). The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak and the economic and other actions that may be taken by government authorities to contain the outbreak or treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the District remain unknown.



**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 2004-1 (Village One #2) (the District), as of and for the year ended June 30, 2020, budgetary comparison for the special revenue fund and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 22, 2020.

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 opinion 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.

Hudson Henderson & Company, Inc.

Fresno, California
October 22, 2020