



OCEANSIDE BUILDING AUTHORITY

**COMPONENT UNIT
FINANCIAL STATEMENTS**

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Oceanside Building Authority
Oceanside, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Oceanside Building Authority (the Authority), a blended component unit of the City of Oceanside, California (the City), as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Lance, Soll & Lunghard, LLP

January 27, 2012

OCEANSIDE BUILDING AUTHORITY

STATEMENT OF NET ASSETS
JUNE 30, 2011

| | Governmental Activities |
|--|------------------------------------|
| Assets: | |
| Current assets: | |
| Cash and investments | \$ 16,493 |
| Interest receivable | 30,620 |
| Lease receivable - due within one year | 430,000 |
| Total current assets | <u>477,113</u> |
| Noncurrent assets: | |
| Lease receivable - due in more than one year | <u>7,123,507</u> |
| Total noncurrent assets | <u>7,123,507</u> |
| Total Assets | <u>7,600,620</u> |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable | 787 |
| Interest payable | 30,620 |
| Long-term debt - due within one year | 430,000 |
| Total current liabilities | <u>461,407</u> |
| Noncurrent liabilities: | |
| Long-term debt - due in more than one year | <u>7,140,000</u> |
| Total noncurrent liabilities | <u>7,140,000</u> |
| Total Liabilities | <u>7,601,407</u> |
| Net Assets: | |
| Unrestricted | <u>(787)</u> |
| Total Net Assets | <u>\$ (787)</u> |

OCEANSIDE BUILDING AUTHORITY

STATEMENT OF ACTIVITIES
JUNE 30, 2011

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|--------------------------------------|-------------------|-------------------------|--|--|---|
| | | Charges for Services | Operating Contributions and Grants | Capital Contributions and Grants | Governmental Activities |
| | Expenses | | | | |
| Functions/Programs | | | | | |
| Governmental Activities: | | | | | |
| Interest on long-term debt | \$ 399,079 | \$ - | \$ - | \$ - | \$ (399,079) |
| Total Governmental Activities | \$ 399,079 | \$ - | \$ - | \$ - | (399,079) |
| General Revenues: | | | | | |
| Interest earnings | | | | | 4,451 |
| Lease revenues | | | | | 405,147 |
| Total General Revenues | | | | | 409,598 |
| Change in Net Assets | | | | | 10,519 |
| Net Assets at Beginning of Year | | | | | - |
| Restatement of Net Assets | | | | | (11,306) |
| Net Assets at End of Year | | | | | \$ (787) |

OCEANSIDE BUILDING AUTHORITY

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

| | Debt Service Funds | | |
|--|---------------------------|--|---|
| | Morro Hills | Police and Library Facility | Total Governmental Funds |
| Assets: | | | |
| Cash and investments | \$ - | \$ 16,493 | \$ 16,493 |
| Total Assets | \$ - | \$ 16,493 | \$ 16,493 |
| Liabilities and Fund Balances: | | | |
| Accounts payable | \$ - | \$ 787 | \$ 787 |
| Total Liabilities | - | 787 | 787 |
| Fund Balances: | | | |
| Restricted for: | | | |
| Debt service | - | 15,706 | 15,706 |
| Total Fund Balances | - | 15,706 | 15,706 |
| Total Liabilities and Fund Balances | \$ - | \$ 16,493 | \$ 16,493 |

OCEANSIDE BUILDING AUTHORITY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

| | |
|--|------------------------|
| Fund balances of governmental funds | \$ 15,706 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| The lease receivable is not considered to be available to finance current expenditures and, therefore, are not reported in the governmental funds. | 7,553,507 |
| Interest receivable that is not considered to be available to finance current expenditures is not reported in the governmental funds. | 30,620 |
| Accrued interest on long-term debt is not due and payable in the current period and, therefore, is not reported in the governmental funds. | (30,620) |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds: | |
| Certificates of participation | <u>(7,570,000)</u> |
| Net assets of governmental activities | <u>\$ (787)</u> |

OCEANSIDE BUILDING AUTHORITY

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

| | Debt Service Funds | | Total Governmental Funds |
|--|--------------------|-----------------------------------|--------------------------------|
| | Morro Hills | Police and Library Facility | |
| Revenues: | | | |
| Interest and rentals | \$ 4,451 | \$ - | \$ 4,451 |
| Lease revenues | - | 798,275 | 798,275 |
| Total Revenues | 4,451 | 798,275 | 802,726 |
| Expenditures: | | | |
| Debt service: | | | |
| Principal retirement | - | 400,000 | 400,000 |
| Interest and fiscal charges | - | 399,079 | 399,079 |
| Total Expenditures | - | 799,079 | 799,079 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 4,451 | (804) | 3,647 |
| Other Financing Sources (Uses): | | | |
| Transfers in to the City of Oceanside | 11,768 | - | 11,768 |
| Transfers out to the City of Oceanside | (741,302) | - | (741,302) |
| Total Other Financing Sources (Uses) | (729,534) | - | (729,534) |
| Net Change in Fund Balances | \$ (725,083) | \$ (804) | \$ (725,887) |
| Fund Balance: | | | |
| Beginning of year, as originally reported | \$ 736,389 | \$ 16,510 | \$ 752,899 |
| Restatements | (11,306) | - | (11,306) |
| Beginning of year, as restated | 725,083 | 16,510 | 741,593 |
| Net change in fund balances | (725,083) | (804) | (725,887) |
| End of Year | \$ - | \$ 15,706 | \$ 15,706 |

OCEANSIDE BUILDING AUTHORITY

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds \$ (725,887)

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

The principal portion of lease revenues provides current financial resources to the governmental funds. However, these transactions have no effect on net assets. (399,983)

Interest earnings in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 2,887

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, this transaction has no effect on net assets. 400,000

Certain special assessments, interest and rental revenues provide current financial resources to governmental funds. However, these transactions have no effect on net assets. 736,389

Interest expenses reported in the statement of activities does not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (2,887)

Change in net assets of governmental activities \$ 10,519

OCEANSIDE BUILDING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies

The basic financial statements of the Oceanside Building Authority (the Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

a. Financial Reporting Entity:

The Oceanside Building Authority (the Authority) was established on December 1, 1966, pursuant to the State of California Government Code Section 6506. The Authority was initially established to acquire, construct, maintain, operate and lease public safety buildings.

The Authority is a blended component unit of the City of Oceanside (the City). Accordingly, the financial operations of the Authority have also been included in the City's basic financial statements.

b. Basis of Presentation:

Government-Wide Financial Statements:

The Authority's government-wide financial statements include a statement of net assets and a statement of activities. These statements report on all of the activities of the Authority.

The statement of activities demonstrates the degree to which the direct expenditures of a given function or segment are offset by program revenues. Direct expenditures are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. For the year ended June 30, 2011, the Authority did not have any program revenues. Interest on lease payments received and other items not included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The accounting system of the Authority is organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The Authority reports the following major governmental funds:

The Morro Hills Debt Service Fund is used to account for principal and interest payments of the 1994 Assessment District refinancing local agency revenue bonds. These revenue bonds were paid off in the fiscal year ended June 30, 2007.

The Police and Library Facility Debt Service Fund is used to account for principal and interest payments of the 1998 Certificates of Participation.

Note 1: Summary of Significant Accounting Policies (Continued)

c. Measurement Focus:

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The government-wide statement of net assets and the statement of activities are reported using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported.

The governmental fund financial statements are reported using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

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

d. Basis of Accounting:

The government-wide statement of net assets and statement of activities are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenditures, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The governmental fund financial statements are reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

e. Cash, Cash Equivalents and Investments:

The Authority pools its available cash with the City for investment purposes. The Authority considers this pooled cash to be cash equivalents since the Authority can withdraw funds from the City's pool at any time.

Investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

OCEANSIDE BUILDING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

f. Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates and assumptions.

Note 2: Cash and Investments

Cash and investments at June 30, 2011 are classified in the accompanying financial statements as follows:

| | |
|----------------------|------------------|
| Unrestricted assets: | |
| Cash and investments | <u>\$ 16,493</u> |

The Authority's cash and investments are pooled with the City of Oceanside's cash and investment in order to generate optimum interest income. Each fund's share of the pooled cash account is separately accounted for, and investment income is allocated to all participating funds based on the relationship of their average daily cash balances to the total of the pooled cash and investments. Information regarding the authorized types of deposits and investments, the type of risks (i.e. credit, interest rate, custodial, etc.) and other disclosures associated with the City's pooled cash and investments is included in the City's comprehensive annual financial report, which are available at City Hall.

Note 3: Lease Receivable

The City has entered into a master lease agreement with the Authority. The annual payments required under the lease approximate the debt service requirements of the capital improvement project certificates of participation issued by the Authority. The lease shall terminate upon payment of all principal and interest due on the certificates. Ownership of all leased assets will be transferred to the City at expiration of the leases. At June 30, 2011, lease receivable from the City in the amount \$7,553,507 have been reflected in the statement of net assets. The minimum lease payments to be received correspond approximately to the debt service payments with the final payments to be made from the reserve funds of the Authority.

On July 1, 2011, the certificates were refunded by the Oceanside Public Financing Authority with the 2011 Certificates of Participation (1998 Police and Library Facilities refunding) terminating the lease with the Oceanside Building Authority. As of July 1, 2011, the Public Financing Authority is now leasing the police and library facilities under a new site lease.

Note 4: Long-Term Liabilities

Certificates of Participation:

At June 30, 2011, Certificates of Participation (COP) payable consisted of the following:

| | Balance at July 1, 2010 | Additions | Deletions | Balance at June 30, 2011 | Due within One year | Due in More than One Year |
|----------|----------------------------|-------------|---------------------|-----------------------------|------------------------|------------------------------|
| 1998 COP | <u>\$ 7,970,000</u> | <u>\$ -</u> | <u>\$ (400,000)</u> | <u>\$ 7,570,000</u> | <u>\$ 430,000</u> | <u>\$ 7,140,000</u> |

OCEANSIDE BUILDING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

Note 4: Long-Term Liabilities (Continued)

1998 Certificates of Participation - Original Issue \$10,750,000

The 1998 Certificates of Participation were issued by the Authority for the purpose of reimbursing the City for costs of acquisition of certain real property and improvements to be used as police and library facilities. The certificates are due in annual installments of \$375,000 to \$875,000 through 2022. Interest rates range from 4.5% to 5.2% and are payable semiannually on June 1 and December 1. Certificates maturing on or after December 1, 2008, are subject to redemption in whole or in part on December 1, 2007, and each interest date thereafter. At June 30, 2011, the outstanding balance of these certificates was \$7,570,000.

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|---------------------|---------------------|----------------------|
| 2012 | \$ 430,000 | \$ 376,055 | \$ 806,055 |
| 2013 | 460,000 | 354,465 | 814,465 |
| 2014 | 490,000 | 330,945 | 820,945 |
| 2015 | 525,000 | 305,570 | 830,570 |
| 2016-2020 | 3,200,000 | 1,074,263 | 4,274,263 |
| 2021-2023 | 2,465,000 | 197,730 | 2,662,730 |
| Totals | <u>\$ 7,570,000</u> | <u>\$ 2,639,028</u> | <u>\$ 10,209,028</u> |

Note 5: Insurance Coverage

The certificates of participation indenture specify the coverage and types of insurance, which should be maintained by the Authority. Insurance coverage is maintained for the Authority by the City through its participation in the San Diego Pooled Insurance Program Joint Powers Authority and is sufficient to satisfy all requirements of the indenture.

Note 6: Fund Equity and Net Asset Restatement

Beginning fund equity and beginning net assets have been restated by \$11,306 to close out the Morro Hills Debt service Fund to the City of Oceanside.

Note 7: Subsequent Events

On May 25, 2011, the City Council and the Oceanside Public Financing Authority approved and adopted resolutions authorizing the execution and delivery of documents relating to the sale and delivery of, not to exceed \$8,000,000, the 2011 Certificates of Participation (1998 Police and Library Facilities refunding) and approved a lease/purchase agreement relating to the sale and delivery of the 2011 Certificates of Participation. The 2011 Certificates of Participation were issued on July 1, 2011 in the amount of \$7,725,000. As part of the transaction, the Public Financing Authority is now leasing the police and library facility under a Site Lease dated July 1, 2011.

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

The Board of Directors
Oceanside Building Authority
Oceanside, California

We have audited the basic financial statements of the Oceanside Building Authority (the Authority), (a blended component unit of the City of Oceanside, California) as of and for the year ended June 30, 2011, and have issued our report thereon dated January 27, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.



The Board of Directors
Oceanside Building Authority
Oceanside, California

This report is intended for the information and use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Luyhard, LLP

January 27, 2012