COMPONENT UNIT FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

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For the Year Ended June 30, 2012

OCEANSIDE COMMUNITY DEVELOPMENT COMMISSION COMPONENT UNIT FINANCIAL STATEMENTS

June 30, 2012

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• David E. Hale, CPA, CFP • Bryan S. Gruber, CPA

Donald G. Slater, CPA

Deborah A. Harper, CPA

• Richard K. Kikuchi, CPA • Gary A. Cates, CPA

David S. Myers, CPA

· Michael D. Mangold, CPA

 Susan F. Matz. CPA Shelly K. Jackley, CPA

INDEPENDENT AUDITORS' REPORT

To the Chairman and Commissioners of the Oceanside Community Development Commission City of Oceanside, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Oceanside Community Development Commission, a component unit of City of Oceanside, California, as of and for the year ended June 30, 2012, which collectively comprise the Oceanside Community Development Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Oceanside Community Development Commission'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 the 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 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 Oceanside Community Development Commission as of June 30, 2012, 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.

We would like to draw the reader's attention to Note 10 – "California Redevelopment Agency Dissolution". The note provides information on the dissolution of the Redevelopment Agency and the new formed Successor Agency.

In accordance with Government Auditing Standards, we have also issued our report dated February 10, 2014, on our consideration of the Oceanside Development Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the Chairman and Commissioners of the Oceanside Community Development Commission City of Oceanside, California

Lance, Soll & Lunghard, LLP

Accounting principles generally accepted in the United States of America require that the budgetary comparison information 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.

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

Brea, California February 10, 2014

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS JUNE 30, 2012

	 vernmental Activities
Assets:	
Current assets:	
Cash and investments	\$ 2,662,807
Receivables:	
Accounts	70,295
Notes	5,166,266
Due from other governments	7,341
Prepaid Costs	 36,786
Total Assets	 7,943,495
Liabilities:	
Current liabilities:	
Accounts payable and accrued expenses	82,572
Due to other governments	124,475
Deposits	 104,812
Total Liabilities	 311,859
Net Assets:	
Restricted for Low and moderate income housing	 7,631,636
Total Net Assets	\$ 7,631,636

STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Program Revenues					Net (Expense) Revenues and Changes in
	Expenses		arges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Net Assets Governmental Activities
Functions/Programs Governmental Activities: Community development	\$ 20,677,810	\$	839,985	\$ 32,992,549	\$ -	\$ 13,154,724
Interest on long-term debt Total Governmental Activities	1,222,042 \$ 21,899,852	\$	839,985	\$ 32,992,549	\$ -	(1,222,042) 11,932,682
General Revenues: Taxes (net of pass-through payments) Use of money and property						5,514,838 328,565
Extraordinary gain/(loss) due to the coof the Redevelopment Agency (No						(10,317,717)
Total General Revenues and Extra Change in Net Assets	aordinary Items					(4,474,314) 7,458,368
Net Assets at Beginning of Year						173,268
Net Assets at End of Year						\$ 7,631,636

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2012

	Δ	Housing assistance Program Special Revenue	Rec	levelopment Area Capital Project	Me H	ow and oderate ousing Capital Project	I	velopment Area Debt ervice	Go	Total vernmental Funds
Assets:	•	0.000.00=	•		•				•	0.000.007
Cash and investments	\$	2,662,807	\$	-	\$	-	\$	-	\$	2,662,807
Receivables: Accounts		70 205								70 205
Notes		70,295 5,166,266		-		-		-		70,295 5,166,266
Prepaid costs		36,786		_		_		_		36,786
Due from other governments		7,341								7,341
Total Assets	\$	7,943,495	\$	_	\$		\$		\$	7,943,495
Liabilities and Fund Balances:										
Liabilities:										
Accounts payable and accrued liabilities	\$	82,572	\$	-	\$	-	\$	-	\$	82,572
Deposits		104,812		-		-		-		104,812
Due to other governments		124,475		-		-		-		124,475
Deferred revenue	_	5,166,266								5,166,266
Total Liabilities		5,478,125								5,478,125
Fund Balances:										
Nonspendable:										
Prepaid costs		36,786		-		-		-		36,786
Restricted for:										
Low and moderate income housing		2,428,584								2,428,584
Total Fund Balances		2,465,370								2,465,370
Total Liabilities and										
Fund Balances	\$	7,943,495	\$	-	\$	-	\$	-	\$	7,943,495

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS JUNE 30, 2012

Fund balances of governmental funds	\$ 2,465,370
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Deferred revenue is present in governmental fund financial statements to indicate that receivables are not available currently; however, in the	F 166 266
Statement of Net Assets these deferrals are eliminated. Net assets of governmental activities	\$ 5,166,266 7,631,636

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Housing Assistance Program Special Revenue	Redevelopment Area Capital Project	Low and Moderate Housing Capital Project	Redevelopment Area Debt Service	Total Governmental Funds
Revenues:					
Taxes	\$ -	\$ 6,127,598	\$ -	\$ -	\$ 6,127,598
Intergovernmental	14,501,836	-	=	=	14,501,836
Charges for services	99,892	19,026	-	-	118,918
Interest and rental	196,621	93,935	37,945	64	328,565
Developer fees	-	46,505	-	-	46,505
Other revenue	627,461	30	47,071		674,562
Total Revenues	15,425,810	6,287,094	85,016	64	21,797,984
Expenditures:					
Current: Community development	15,930,949	666,256	167,721	_	16,764,926
Capital outlay	15,950,949	2,090,009	101,121		2,090,009
Debt service	-	-	-	4,493,110	4,493,110
Total Expenditures	15,930,949	2,756,265	167,721	4,493,110	23,348,045
•		, ,		, ,	
Excess (Deficiency) of Revenues Over (Under) Expenditures	(505,139)	3,530,829	(82,705)	(4,493,046)	(1,550,061)
Other Financing Sources (Uses):					
Transfers in	-	-	-	3,094,350	3,094,350
Transfers out	-	(3,094,350)	-	-	(3,094,350)
Long-term debt issued	-	-	-	898,759	898,759
Pass-through agreement payments	-	(612,760)	-	-	(612,760)
Contribution to/from City		15,162,404			15,162,404
Total Other Financing					
Sources (Uses):		11,455,294		3,993,109	15,448,403
Extraordinary gain/(loss) on the dissolution of the Redevelopment Agency (Note 10)		(28,264,163)	(15,332,775)	205,791	(43,391,147)
Net Change in Fund Balances	\$ (505,139)	\$ (13,278,040)	\$ (15,415,480)	\$ (294,146)	\$ (29,492,805)
Fund Balances:					
Beginning of Year, as previously reported Restatements	\$ 6,644,055 (3,673,546)	\$ 13,278,040 -	\$ 15,415,480 -	\$ 294,146	\$ 35,631,721 (3,673,546)
Beginning of Year, as restated	2,970,509	13,278,040	15,415,480	294,146	31,958,175
End of Year	\$ 2,465,370	\$ -	\$ -	\$ -	\$ 2,465,370

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds	\$	(29,492,805)
Amounts reported for governmental activities in the Statement of Activities are difference because:		
Proceeds of debt is revenue in the governmental funds, but these are additions to the Statement of Net Assets.		
Advances received from City of Oceanside		(898,759)
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Bonds payable	\$ 2,330,000	
Advances from City of Oceanside	13,155	
		2,343,155
Accrued compensated absences are reported on the Statement		
of Net Assets and not in the governmental fund.		(46,295)
		, ,
Collections on receivables and loan transactions offset by deferred revenue are		
reported as revenue and expenditures in governmental funds; however, they do not		2 220 200
provide revenue or expenses in the Statement of Activities.		3,328,309
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets in capitalized and allocated over their estimated useful lives through depreciation expense:		
Capital outlay expenditures removed	2,089,557	
Transfer and disposals	(3,428,752)	
Depreciation	(437,385)	
2 opi osialion	(101,000)	(1,776,580)
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:		,
in governmental funds: Prior year accrual of interest due on long-term liabilities	927,913	
Thor year accidation interest due of fong-term habilities	927,913	927,913
Extraordinary gains and losses relating to capital assets and long term liabilities transferred to the Successor Agency are reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in		
the governmental funds.	(20 272 400)	
Capital assets Deferred Revenues	(38,272,109) (6,134,880)	
Long-term liabilities	(6,134,660) 77,480,419	
- 		33,073,430
Change in net assets of governmental activities	_9	7,458,368

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Note 1: Summary of Significant Accounting Policies

The basic financial statements of the Oceanside Community Development Commission (the Commission) 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 Commission's accounting policies are described below.

a. Financial Reporting Entity

The Commission was established on July 16, 1980, and includes all activities previously performed by the Oceanside Redevelopment Agency and the Oceanside Housing Authority. The Oceanside Redevelopment Agency was originally established on November 19, 1975, pursuant to the State of California Health and Safety Code entitled "Community Redevelopment Law". Its purpose is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational and public facilities. The Oceanside Housing Authority was originally established on February 24, 1971, and dissolved April 9, 1975, due to inactivity. It was reactivated on April 9, 1980, pursuant to the State of California Health and Safety Code. This department is responsible for all assisted housing projects within the City of Oceanside (the City). The redevelopment activities of the Oceanside Community Development Commission include only the activities of the Redevelopment Agency that was dissolved as of January 31, 2012 through the Supreme Court decision on Assembly Bill 1X 26. See Note 10 for more information on the dissolution.

b. Basis of Accounting and Measurement Focus

The accounts of the Commission are 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. 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.

Government-Wide Financial Statements:

The Commission's government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental type activities for the Commission.

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Commission's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the Commission in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Commission has presented all funds as major funds.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Commission, are property taxes and other taxes. Expenditures are generally recorded in the accounting period in which the related fund liability is incurred, except for principal and interest on long-term liabilities which are recognized as expenditures only when payment is due.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

The funds designated as major funds are determined by a mathematical calculation consistent with GASB Statement No. 34. The Commission reports the following major governmental funds:

The <u>Housing Assistance Program Special Revenue Fund</u> is used to account for the operation of the City's low and moderate income housing program. Financing is provided by HUD (Section 8), Community Development Block Grants, and service fees on mortgage revenue bonds.

The <u>Redevelopment Area Capital Projects Fund</u> is used to account for administrative costs and capital improvements funded by long-term debt issued by the Community Development Commission.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

The <u>Low and Moderate Housing Capital Projects Fund</u> is used to account for the required 20% set-aside of property tax increments that is legally restricted for increasing or improving housing for low and moderate income households.

The <u>Redevelopment Area Debt Service Fund</u> is used to account for the payment of interest and principal on debt of the Commission.

c. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general, special revenue and capital project funds. By policy, carry-over of unexpended operating appropriations for one fiscal year to another for incomplete projects are allowed with City Manager approval. The City Council must approve all carry-over appropriations for reallocated funds to different projects and programs.

d. Cash, Cash Equivalents and Investments

The Commission pools its available cash for investment purposes with the City of Oceanside. The Commission considers pooled cash and investment amounts with original maturities of three months or less to be cash equivalents.

Highly liquid investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

e. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. The County of San Diego (the County) bills and collects the property taxes and remits them to the Commission in installments during the year. Commission property tax revenues are recognized when levied.

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the property assessed value not more than two percent per year. The Commission received tax revenue based on the incremental increase in taxable valuation in the redevelopment area above the base year valuation.

f. Land and Buildings Held for Resale

Land and buildings held for resale is carried at the lower of cost or market but not greater than the net realizable value.

g. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. City policy has set the capitalization threshold for reporting infrastructure at \$100,000; all other capital assets are set at \$10,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

Buildings 50 - 60 years Improvements other than buildings 30 - 60 years Machinery and equipment 5 - 20 years

Interest accrued during capital assets construction, if any, on an asset financed by governmental fund types is not capitalized as part of the asset cost.

h. Long-Term Liabilities

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in the appropriate funds.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds on a straight-line basis. Bonds payable are reported net of the applicable premium or discount.

Fund Financial Statements

The fund financial statements do not present long-term debt. Therefore, it is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

i. Fund Balances and Net Assets

Fund Financial Statements

The fund balances reported on the fund financial statements consist of the following categories:

Nonspendable Fund Balance - This includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

<u>Restricted Fund Balance</u> - This includes amounts that can be spent only, for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

<u>Committed Fund Balance</u> - This includes amounts that can be used only for the specific purposes determined by a formal action of the commission.

<u>Assigned Fund Balance</u> - This includes amounts that are designated by the commission for specific purposes.

<u>Unassigned Fund Balance</u> - This is the residual classification that includes all spendable amounts not contained in the other classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Commission's policy is to apply restricted fund balance first.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the Commission's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

Government-Wide Financial Statements

The net assets reported on the Statement of Net Assets consist of the following three categories:

<u>Invested in Capital Assets, Net of Related Debt</u> - This amount consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

<u>Restricted Net Assets</u> - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

<u>Unrestricted Net Assets</u> - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Commission's policy is to apply restricted net assets first.

j. 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, 2012, are classified in the accompanying financial statements as follows:

Unrestricted

Cash and investments pooled with the City of Oceanside \$ 2,662,807

\$ 2,662,807

The Commission's funds are pooled with the City of Oceanside's cash and investments in order to generate optimum interest income. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc., is available in the comprehensive annual financial report of the City.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Note 3: Note Receivable

At June 30, 2012, the Commission had notes receivable reported in the following funds:

Housing Assistance Program Special Revenue Fund \$ 5,166,266

Total \$ 5,166,266

At June 30, 2012, the Commission's Housing Assistance Program Special Revenue Fund was owed \$5,166,266 for various low or noninterest bearing loans to property owners for the rehabilitation of property and first time home buyer program within the City. The notes are payable upon the sale of the property or upon the death of the current property owner.

Note 4: Interfund Transactions

Transfers

Transfers in and out for the year ended June 30, 2012, are as follows:

Transfer From	Transfer To	Amount
Redevelopment Area Capital	Redevelopment Area Debt	
Projects Fund	Service Fund	\$ 3,094,350
		\$ 3,094,350

The transfers were for debt service payments.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Note 5: Capital Assets

A summary of changes in the capital assets at June 30, 2012, is as follows:

	Balance at	ansfer to the Successor			Ral	ance at
	luly 1, 2011	Agency*	Additions	Deletions		30, 2012
Capital assets, not being depreciated:		<u> </u>				<i>,</i>
Land	\$ 20,634,231	\$ (16,959,469)	\$ -	\$ 3,674,762	\$	-
Construction in progress	1,920,963	(2,590,200)	2,389,587	1,720,350		-
Total capital assets, not being depreciated	22,555,194	(19,549,669)	2,389,587	5,395,112		
Capital assets, being depreciated:						
Buildings and structures	27,236,400	(27,750,875)	514,475	_		-
Machinery and equipment	200,413	(200,413)	-	-		-
Improvements other than building	843,474	(1,995,329)	1,151,855			-
Total capital assets, being	_	_	_	_		
depreciated	28,280,287	(29,946,617)	1,666,330			
Less accumulated depreciation for:						
Buildings and structures	10,440,314	(10,797,830)	357,516	-		-
Machinery and equipment	177,783	(184,383)	6,600	-		-
Improvements other than building	168,695	(241,964)	73,269			-
Total accumulated depreciation	10,786,792	(11,224,177)	437,385			_
Total capital assets, being depreciated, net	17,493,495	(18,722,440)	1,228,945			
Capital assets, net	\$ 40,048,689	\$ (38,272,109)	\$ 3,618,532	\$ 5,395,112	\$	-

^{*}As a result of the dissolution of the redevelopment agency, assets of the former redevelopment agency were transferred to the Successor Agency. See Note 10 for additional information.

Depreciation expense of \$437,385 was charged to community development and is reflected on the Statement of Activities.

Note 6: Land and Buildings Held for Resale:

Land and buildings held for resale that were recorded in the Redevelopment Area Capital Projects Fund at the lower of cost or market, but not greater than net realizable value at June 30, 2011, were transferred to the Successor Agency as a result of the dissolution of the redevelopment agency. See Note 10 for additional information.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Note 7: Long Term Liabilities:

The following is a summary of changes in governmental activities long-term debt for the year ended June 30, 2012:

	Balance July 1, 2011	Transfer to the Successor Agency*	Additions	Deletions	Balance June 30, 2012
Bonds payable	\$ 48,560,000	\$ (46,230,000)	\$ -	\$ (2,330,000)	\$ -
Certificates of Participation	17,995,000	(17,995,000)	-	-	-
Compensated Absences	-	(46,295)	46,295	-	-
Advances from City	12,323,520	(13,209,124)	898,759	(13,155)	
Total	\$ 78,878,520	\$ (77,480,419)	\$ 945,054	\$ (2,343,155)	\$ -

^{*}As a result of the dissolution of the redevelopment agency, indebtedness of the former redevelopment agency was transferred to the Successor Agency. See Note 10 for additional information.

Note 8: Commitments and Contingencies

a. Contingent Liabilities

The Commission is involved in certain matters of litigation that have arisen in the normal course of conducting business. Commission management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Commission. Additionally, Commission management believes that the current insurance programs are sufficient to cover any potential losses should an unfavorable outcome be realized.

b. Development Disposition Agreement

On June 17, 2009, the Commission approved a Disposition Agreement and authorized the Executive Director of the Commission to enter into a lease with S.D. Malkin Properties for the development of the Beachfront Resort. The Commissions investment in the project was expected to total \$27.61 million and includes environmental impact reports, off-site public improvements, and parking garage easements and extraordinary covenants. Due to the dissolution of the redevelopment agency, the Successor Agency will be funding the project through completion of the Disposition Agreement with S.D, Malkin Properties. See Note 10 for additional information.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Note 9: Restatement of Net Assets and Fund Balances

a. Governmental Fund Financial Statements

Beginning fund balances in the governmental fund financial statements were restated as follows:

Housing Assistance Program Special Revenue

To correct long term receivables not recorded as deferred revenue

\$ (3,673,546)

\$ (3,673,546)

Note 10: California Redevelopment Agency Dissolution

On July 18, 2011, the California Redevelopment Association ("CRA") and the League of California Cities ("League") filed a petition for writ of mandate with the California Supreme Court, requesting the Court to declare unconstitutional two bills that were passed as part of the 2011-12 State Budget, AB X1 26 and 27 (*California Redevelopment Association v. Matosantos*). AB X1 26 dissolves redevelopment agencies effective October 1, 2011. AB X1 27 gave redevelopment agencies an option to avoid dissolution if it commits to making defined payments for the benefit of the State, school districts and certain special districts. In 2011-12, these payments amounted to a state-wide total of \$1.7 billion. In 2012-13 and subsequent years, the payments totaled \$400 million, annually. Each city or county's share of these payments was determined based on its proportionate share of state-wide tax increment.

On August 17, 2011, the Supreme Court issued a stay of the implementation of AB X1 26 and 27 which allowed a redevelopment agency to continue if it adopted an AB X1 27 ordinance. However, because of the effect of the stay order, the authority for the Redevelopment Agency to engage in most activities was suspended.

The Supreme Court heard oral arguments on November 10, 2011 and on December 29, 2011, announced its decision in *California Redevelopment Association v. Matosantos*. The court upheld AB X1 26 which dissolves redevelopment agencies, but invalidated in its entirety AB X1 27 which allowed redevelopment agencies to continue as long as they made the required payments. AB X1 26 established deadlines for the process of Redevelopment Agency dissolution and the handling of existing obligations. The full text of AB X1 26 may be obtained from the California legislative information website maintained by the Legislative Counsel of the State of California at: http://www.leginfo.ca.gov/bilinfo.html.

As of January 31, 2012, the Redevelopment Agency has been dissolved and the City of Oceanside has elected to become the Successor Agency. The Successor Agency will be responsible for winding down the remaining activities of the dissolved Redevelopment Agency.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Note 10: California Redevelopment Agency Dissolution (Continued)

On April 20, 2012, pursuant to Health and Safety Code Section 34167.5, the California State Controller issued an order to Cities, Counties, and Agencies, directly or indirectly receiving assets from a redevelopment agency after January 1, 2011, to reverse the transfer and return assets to successor agency. All such reversals of transfers are reflected in the financial statements as of June 30, 2012, and were transferred to the Successor Agency in accordance with the order.

Extraordinary gain/(loss)

As a result of the dissolution of the Redevelopment Agency, and extraordinary transaction occurred and is reflected in the financial statements. Because of the difference in the measurement focus a difference in the extraordinary item differs between the governmental fund and government wide presentation. The difference is as follows:

Total extraordinary items reported in governmental funds: (\$43,391,147)

 Capital assets
 (38,272,109)

 Long-term debt
 77,480,419

 Deferred Revenue
 (<u>6,134,880)</u>

Government-wide Extraordinary item (\$10,317,717)

BUDGETARY COMPARISON SCHEDULE HOUSING ASSISTANCE PROGRAM FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budget /	Amounts	Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1, as restated	\$2,970,509	\$ 2,970,509	\$ 2,970,509	\$ -
Resources (Inflows):				
Intergovernmental	14,751,805	15,264,919	14,501,836	(763,083)
Charges for services	234,308	117,154	99,892	(17,262)
Interest and rental	1,311,912	1,311,912	196,621	(1,115,291)
Other Revenue	2,598,735	2,638,735	627,461	(2,011,274)
Contribution from (to) City	60,000	60,000		(60,000)
Amounts Available for Appropriation	21,927,269	22,363,229	18,396,319	(3,966,910)
Charges to Appropriation (Outflow):				
Community development	18,760,324	19,283,438	15,930,949	3,352,489
Total Charges to Appropriations	18,760,324	19,283,438	15,930,949	3,352,489
Budgetary Fund Balance, June 30	\$ 3,166,945	\$ 3,079,791	\$ 2,465,370	\$ (614,421)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2012

1. BUDGETARY INFORMATION:

The Commission follows these procedures in establishing the budgetary data reflected in the financial statements.

- During May of each year, the Executive Director submits to the Commissioners a
 proposed annual operating budget for the fiscal year commencing the following July 1.
 The operating budget includes proposed expenditures and the revenue sources to
 finance the expenditures.
- Public hearings are conducted at Commissioners' meetings to obtain taxpayer comments prior to and after May.
- Prior to July 1, the budget is legally adopted through passage of an appropriation resolution.

The Executive Director is authorized to transfer funds appropriated within the same fund. Revisions that alter the total appropriations of any department or fund must be approved by the Commissioners.

Budgets are adopted for the special revenue and capital project funds on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts arc as originally adopted and as further amended by the Commissioners. All annual appropriations lapse at year-end.

Formal budgetary integration is employed as a management control device during the year for the governmental fund types other than the debt service funds. Expenditures may not legally exceed appropriations at the activity level.