

OCEANSIDE PUBLIC FINANCING AUTHORITY

**COMPONENT UNIT
FINANCIAL STATEMENTS**

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

YEAR ENDED JUNE 30, 2012

OCEANSIDE PUBLIC FINANCING AUTHORITY

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FINANCIAL STATEMENTS

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OCEANSIDE PUBLIC FINANCING AUTHORITY COMPONENT UNIT
FINANCIAL STATEMENTS

JUNE 30, 2012

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CERTIFIED PUBLIC ACCOUNTANTS

- David E. Hale, CPA, CFP
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

Brandon W. Burrows, CPA, Retired

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Oceanside Public Financing Authority
Oceanside, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Oceanside Public Financing Authority (the Authority), a blended component unit of the City of Oceanside, California (the City), as of and for the year ended June 30, 2012, 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 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, the business-type activities and each major fund of the Authority as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, 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 February 1, 2013, on our consideration of the Oceanside Public Financing Authority'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.

The Authority has not presented a 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

Brea, California
February 1, 2013

OCEANSIDE PUBLIC FINANCING AUTHORITY

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets:			
Cash and investments	\$ 2,036,150	\$ 5,960,798	\$ 7,996,948
Restricted cash and investments	2,161,961	930,832	3,092,793
Interest receivable	216,594	245,669	462,263
Deferred charges	-	184,732	184,732
Lease receivable	1,900,000	1,550,000	3,450,000
Total current assets	<u>6,314,705</u>	<u>8,872,031</u>	<u>15,186,736</u>
Noncurrent assets:			
Lease receivable	16,426,889	13,630,005	30,056,894
Total noncurrent assets	<u>16,426,889</u>	<u>13,630,005</u>	<u>30,056,894</u>
Total Assets	<u>22,741,594</u>	<u>22,502,036</u>	<u>45,243,630</u>
Liabilities:			
Current liabilities:			
Interest payable	216,594	245,669	462,263
Certificates of participation payable	1,900,000	1,550,000	3,450,000
Total current liabilities	<u>2,116,594</u>	<u>1,795,669</u>	<u>3,912,263</u>
Noncurrent liabilities:			
Certificates of participation payable	20,625,000	20,706,367	41,331,367
Total noncurrent liabilities	<u>20,625,000</u>	<u>20,706,367</u>	<u>41,331,367</u>
Total Liabilities	<u>22,741,594</u>	<u>22,502,036</u>	<u>45,243,630</u>
Net Assets:			
Restricted for:			
Debt service	4,198,111	930,832	5,128,943
Unrestricted	(4,198,111)	(930,832)	(5,128,943)
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

OCEANSIDE PUBLIC FINANCING AUTHORITY

STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>
Functions/Programs				
Governmental Activities:				
Interest on long-term debt	\$ 1,189,807	\$ -	\$ -	\$ -
Total Governmental Activities	1,189,807	-	-	-
Business-Type Activities:				
Water certificates of participation	531,895	-	-	-
Wastewater certificates of participation	1,087,271	-	-	-
Total Business-Type Activities	\$ 1,619,166	\$ -	\$ -	\$ -
General Revenues:				
Interest earnings				
Lease revenues				
Total General Revenues				
Change in Net Assets				
Net Assets at Beginning of Year				
Net Assets at End of Year				

**Net (Expense) Revenue and
Changes in Net Assets**

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (1,189,807)	\$ -	\$ (1,189,807)
(1,189,807)	-	(1,189,807)
-	(531,895)	(531,895)
-	(1,087,271)	(1,087,271)
-	(1,619,166)	(1,619,166)
(1,452)	1,619,166	1,617,714
1,191,259	-	1,191,259
1,189,807	1,619,166	2,808,973
-	-	-
-	-	-
\$ -	\$ -	\$ -

OCEANSIDE PUBLIC FINANCING AUTHORITY

**BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2012**

	<u>Debt Service Fund</u>		<u>Total Governmental Funds</u>
	<u>2003 Certificates of Participation</u>	<u>2011 Certificates of Participation</u>	
Assets:			
Cash and investments	\$ 1,927,298	\$ 108,852	\$ 2,036,150
Restricted cash and investments	2,161,961	-	2,161,961
Total Assets	<u>\$ 4,089,259</u>	<u>\$ 108,852</u>	<u>\$ 4,198,111</u>
Fund Balances:			
Restricted for:			
Debt service	\$ 4,089,259	\$ 108,852	\$ 4,198,111
Total Fund Balances	<u>\$ 4,089,259</u>	<u>\$ 108,852</u>	<u>\$ 4,198,111</u>
Total Liabilities and Fund Balances	<u>\$ 4,089,259</u>	<u>\$ 108,852</u>	<u>\$ 4,198,111</u>

OCEANSIDE PUBLIC FINANCING AUTHORITY

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

Fund balances of governmental fund	\$ 4,198,111
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Lease receivable, which is not considered to be available to finance current expenditures, is not reported in the governmental fund. For the Statement of Net Assets, this amount is accrued.	18,326,889
Interest receivable, which is not considered to be available to finance current expenditures is not reported in the governmental fund. For the Statement of Net Assets, this amount is accrued.	216,594
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable was not reported as a liability in the Governmental Fund Balance Sheet.	(216,594)
Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the Governmental Fund Balance Sheet.	
Certificates of participation	<u>(22,525,000)</u>
Net assets of governmental activities	<u><u>\$ -</u></u>

OCEANSIDE PUBLIC FINANCING AUTHORITY

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

	<u>Debt Service Fund</u>		<u>Total Governmental Funds</u>
	<u>2003 Certificates of Participation</u>	<u>2011 Certificates of Participation</u>	
Revenues:			
Investment earnings	\$ (6,178)	\$ -	\$ (6,178)
Lease revenue	1,234,704	-	1,234,704
Miscellaneous	941,150	808,560	1,749,710
Total Revenues	2,169,676	808,560	2,978,236
Expenditures:			
Debt service:			
Principal retirement	1,310,000	470,000	1,780,000
Interest and fees	865,842	319,239	1,185,081
Total Expenditures	2,175,842	789,239	2,965,081
Excess of Revenues Over Expenditures	(6,166)	19,321	13,155
Other Financing Sources (Uses):			
Transfers out to the City of Oceanside	-	(7,635,469)	(7,635,469)
Refunding bonds issued	-	7,725,000	7,725,000
Total Other Financing Sources (Uses)	-	89,531	89,531
Net Change in Fund Balances	(6,166)	108,852	102,686
Fund Balances, Beginning of Year	4,095,425	-	4,095,425
Fund Balances, End of Year	\$ 4,089,259	\$ 108,852	\$ 4,198,111

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

Net change in fund balances - total governmental fund	\$ 102,686
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>The principal portion of lease revenues received from the City of Oceanside provides current financial resources to the governmental fund. However, these transactions have no effect on net assets.</p>	(1,310,000)
<p>Investment earnings in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental fund. The following amount represents the change in accrued interest from the prior year.</p>	4,726
<p>The repayment of the principal of long-term debt consumes the current financial resources of governmental fund. These transactions, however, have no effect on net assets. Also, the governmental fund reports the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. These amounts are the net effect of these differences in the treatment of long-term debt:</p>	
Principal payments	1,780,000
<p>Issuance of long-term liabilities (e.g. bonds, leases and loans) provides current financial resources to governmental funds, the issuance of debt increase long-term liabilities in the Statement of Net Assets. Additionally, the issuance of long-term liabilities provides current financial resources to the governmental funds. The Authority therefore reports this as a lease receivable from the City of Oceanside.</p>	
Long-term debt issued	(7,725,000)
Lease receivable issued	7,152,314
	(572,686)
<p>Interest expense on long-term debt is reported in the Government-Wide Statement of Activities, but it does not require the use of current financial resources. Therefore, interest expense is not reported as an expenditure in the governmental fund. The following amount represents the change in accrued interest from the prior year.</p>	(4,726)
Change in net assets of governmental activities	\$ -

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STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water Refunding Certificates of Participation	Waste Water Refunding Certificates of Participation	Totals
Assets:			
Current:			
Cash and investments	\$ 4,843,736	\$ 1,117,062	\$ 5,960,798
Restricted cash and investments	-	930,832	930,832
Deferred charges	-	184,732	184,732
Interest receivable	104,443	141,226	245,669
Leases receivable	560,000	990,000	1,550,000
Total Current Assets	5,508,179	3,363,852	8,872,031
Noncurrent:			
Leases receivable	1,176,264	12,453,741	13,630,005
Total Noncurrent Assets	1,176,264	12,453,741	13,630,005
Total Assets	6,684,443	15,817,593	22,502,036
Liabilities:			
Current:			
Interest payable	104,443	141,226	245,669
Certificates of participation payable	560,000	990,000	1,550,000
Total Current Liabilities	664,443	1,131,226	1,795,669
Noncurrent:			
Certificates of participation payable	6,020,000	14,686,367	20,706,367
Total Noncurrent Liabilities	6,020,000	14,686,367	20,706,367
Total Liabilities	6,684,443	15,817,593	22,502,036
Net Assets:			
Restricted for debt service	-	930,832	930,832
Unrestricted	-	(930,832)	(930,832)
Total Net Assets	\$ -	\$ -	\$ -

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STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water Refunding Certificates of Participation	Waste Water Refunding Certificates of Participation	Totals
Nonoperating Revenues (Expenses):			
Interest revenue	\$ 531,895	\$ 1,087,271	\$ 1,619,166
Interest expense and fiscal charges	(531,895)	(1,087,271)	(1,619,166)
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>-</u>
Changes in Net Assets	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets:			
Beginning of Fiscal Year	<u>-</u>	<u>-</u>	<u>-</u>
End of Fiscal Year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

OCEANSIDE PUBLIC FINANCING AUTHORITY

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water Refunding Certificates of</u>	<u>Waste Water Refunding Certificates of</u>	<u>Totals</u>
Cash Flows from Non-Capital Financing Activities:			
Due from the City of Oceanside	\$ -	\$ 925,000	\$ 925,000
Lease payment received	2,784,472	717,016	3,501,488
Principal paid on long-term debt	(540,000)	(943,835)	(1,483,835)
Interest paid on long-term debt	(541,634)	(1,090,539)	(1,632,173)
	<u>1,702,838</u>	<u>(392,358)</u>	<u>1,310,480</u>
Cash Flows from Investing Activities:			
Investment earnings	541,634	1,093,638	1,635,272
	<u>541,634</u>	<u>1,093,638</u>	<u>1,635,272</u>
Net Increase in Cash and Cash Equivalents	2,244,472	701,280	2,945,752
Cash and Cash Equivalents at Beginning of Year	2,599,264	1,346,614	3,945,878
Cash and Cash Equivalents at End of Year	<u>\$ 4,843,736</u>	<u>\$ 2,047,894</u>	<u>\$ 6,891,630</u>
Non-Cash Investing, Capital, and Financing Activities:			
Bond discount amortization	\$ -	\$ 11,640	\$ 11,640
Bond issuance cost amortization	-	11,546	11,546

OCEANSIDE PUBLIC FINANCING AUTHORITY

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 1: Summary of Significant Accounting Policies

The basic financial statements of the Oceanside Public Financing 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 Public Financing Authority was established January 23, 2002 under the Joint Exercise of Powers Law of the State of California (constituting Chapter 5 of Division 7 of Title 1 of the California Government Code) to assist in the financing of public capital improvements to be owned by any of its members (the City of Oceanside and the Oceanside Community Development Commission). The Authority is a blended component unit of the City since the governing Board of the Authority is substantively the same as the City. Accordingly the financial operations of the Authority have also been included in the basic financial statements of the City.

b. Basis of Accounting and Measurement Focus

The accounts of the Authority 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 or expenses 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.

Government-Wide Financial Statements:

The Authority's government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental and business-type activities of the Authority, accompanied by a total column.

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and 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.

The Authority applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the government-wide financial statements and the business-type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure.

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.

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 the Authority's major governmental fund. Accompanying schedules are 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.

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. 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.

Expenditures are generally recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned 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 Authority reports the following major governmental funds:

The 2003 Certificates of Participation Debt Service Fund is used to account for the payment of principal and interest of the 2003 Certificates of Participation.

The 2011 Certificates of Participation Debt Service Fund is used to account for the payment of principal and interest of the 2011 Certificates of Participation.

Proprietary Fund Financial Statements:

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows for all proprietary funds.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets present increases (revenues) and decreases (expenses) in total 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 liability is incurred.

OCEANSIDE PUBLIC FINANCING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

The Authority reports the following major enterprise funds:

The Water Refunding Certificates of Participation is used to account for the payment of principal and interest of the 2003 Water Refunding Certificates of Participation.

The Waste Water Refunding Certificates of Participation is used to account for the payment of principal and interest of the 2003 and 2008 Waste Water Certificates of Participation.

c. Cash, Cash Equivalents and Investments

The Authority pools its available cash, other than the restricted cash and investments held by bond trustee, with the City of Oceanside 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.

d. Fund Balances

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

Nonspendable Fund Balance - This includes amounts that cannot be spent because they are either not in spendable form or must be maintained intact pursuant to legal or contractual requirements, such as endowments.

Restricted Fund Balance - This includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, or laws or regulations of the other governments through enabling litigations.

Committed Fund Balance - This includes amounts that can be used only for the specific purposes determined by a formal action of the City Council via ordinances, resolutions, and formal policy. These amounts cannot be used for any other purposes unless the City Council removes or changes the specified use by taking the same type of action it employed previously to commit those amounts.

Assigned Fund Balance - This includes amounts that are designated by the City Council for specific purposes and do not meet the criteria to be classified as restricted or committed.

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

OCEANSIDE PUBLIC FINANCING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) fund balances are available, the Authority's policy is to apply restricted fund balance first.

When expenditures are incurred for purposes for which committed, assigned or unassigned fund balances are available, the Authority's policy is to apply committed fund balance first and then assigned fund balance followed by unassigned fund balance.

e. Net Assets

The net assets reported on the Statement of Net Assets in the government-wide financial statements and proprietary fund financial statements consist of the following three categories:

Invested in Capital Assets, Net of Related Debt - 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.

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

Unrestricted Net Assets - 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".

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

Cash and investments	\$ 7,996,948
Restricted cash and investments	3,092,793
	<u>\$ 11,089,741</u>

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

The table below identifies the investment types that are authorized for the Authority by the California Government Code (or the Authority's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, where more restrictive) that address interest rate risk, credit

OCEANSIDE PUBLIC FINANCING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Note 2: Cash and Investments (Continued)

risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Authority, rather than the general provisions of the California Government Code or the Authority's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio *</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	5 years	None	None
United States Government Sponsored Enterprise Securities	5 years	None	25%
Banker's Acceptance	180 days	20%	5%
Time Deposits	3 year	5%	None
Repurchase Agreements	30 days	30%	None
Reverse Repurchase Agreements	60 days	15%	None
Commercial Paper	270 days	15%	1%
Corporate Medium Term Notes	36-48 months	15%	1%
Municipal Bonds	36-60 months	15%	1%
Local Agency Investment Fund (LAIF)	N/A	None	None

N/A - Not Applicable

* Excluding amounts held in bond trustees that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy. Investments authorized for funds held by bond trustee include, United States Treasury Obligations, United States Government Sponsored Enterprise Securities, Commercial Paper, Bankers' Acceptances, Money Market Mutual Funds, Investment Contracts and any other investments permitted by bond insurer. There were no limitations on the maximum amount that can be invested in one issuer, maximum percentage allowed or the maximum maturity of an investment, except for the maturity of Banker's Acceptance and Commercial Paper which are limited to 180 days and 270 days, respectively.

Disclosures Relating to Interest Rate Risk

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

Note 2: Cash and Investments (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Authority's investments held by bond trustee consist of money market mutual funds in the amount of \$3,092,793, which are rated AAA by Standard and Poor.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

A provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction account at all FDIC-insured institutions. This provision was effective from December 31, 2010 and will remain effective until December 31, 2012. Noninterest-bearing transaction accounts is defined as an account (1) with respect to which interest is neither accrued nor paid; (2) on which the depositor or account holder is permitted to make withdrawals by negotiable or transferable instrument, payment orders of withdrawal, telephone or other electronic media transfers, or other similar items for the purpose of making payments or transfers to third parties or others; and (3) on which the FDIC-insured depository institutions does not reserve the right to require advance notice of an intended withdrawal. As of June 30, 2012, the City maintains cash deposits that are temporary covered by this provision.

Disclosures Related to Interest Rate Risk, Credit Risk and Custodial Credit Risk

The Authority's cash and investments are pooled with the City of Oceanside's cash and investments. Additional disclosures regarding pooled investments related to interest rate risk, credit risk and custodial credit risk are available in the City of Oceanside's Comprehensive Annual Financial Report.

Note 3: Leases Receivable

The City has entered into various master lease agreements with the Authority. The annual payments required under the leases approximate the debt service requirements of the respective capital improvement project certificates of participation issued by the Authority.

OCEANSIDE PUBLIC FINANCING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2012

Note 3: Leases Receivable (Continued)

The leases 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 lease. The Authority has accounted for the agreements as a capital lease. At June 30, 2012, leases receivable from the City in the amount \$33,506,894 has been reflected in the accompanying financial statements. The minimum lease payments to be received correspond approximately to the debt service payments with the final debt service payments to be made from the respective reserve funds of the Authority.

Note 4: Long-Term Liabilities

a. Governmental Activities Long-Term Liabilities

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

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012	Due Within One Year
2003 COP	\$16,580,000	\$ -	\$1,310,000	\$ 15,270,000	\$1,375,000
2011 COP	-	7,725,000	470,000	7,255,000	525,000
Certificates of participation	\$16,580,000	\$7,725,000	\$1,780,000	\$ 22,525,000	\$1,900,000

2003 Certificates of Participation - Original Issue \$25,185,000

The 2003 Certificates of Participation were issued by the Oceanside Public Financing Authority to refinance \$24,510,000 outstanding 1993 Series A Refunding Certificates of Participation. The City has entered into an agreement with the Authority to lease certain facilities and projects from the Authority at an amount necessary to meet the annual debt service and related costs.

The certificates are due in annual installments of \$1,185,000 to \$1,770,000 through 2023. Interest rates range from 4.5% to 5.2% and are payable semiannually on September 15 and March 15. Certificates maturing before April 1, 2013, are not subject to redemption prior to maturity. Certificates maturing on or after April 1, 2013, are subject to redemption in whole or in part on April 1, 2012, and each interest date thereafter. At June 30, 2012, the outstanding balance of these certificates was \$15,270,000.

The annual debt service requirements on these certificates are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 1,375,000	\$ 796,103	\$ 2,171,103
2014	1,445,000	727,353	2,172,353
2015	1,520,000	651,490	2,171,490
2016	1,600,000	571,690	2,171,690
2017	1,680,000	487,690	2,167,690
2018-2022	6,500,000	1,215,655	7,715,655
2023	1,150,000	59,800	1,209,800
Totals	\$ 15,270,000	\$ 4,509,781	\$ 19,779,781

OCEANSIDE PUBLIC FINANCING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2012

Note 4: Long-Term Liabilities (Continued)

2011 Refunding Certificates of Participation - Original Issue \$7,725,000

The 2011 Refunding Certificates of Participation were issued by the Oceanside Public Financing Authority to refund the 1998 Certificates of Participation, which were issued by the Financing 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 consist of serial certificates in the amount of \$7,725,000 due in annual installments of \$470,000 to \$840,000. Interest rates range from 2.19% to 4.77% and are payable semiannually on December 1 and June 1. At June 30, 2012, the outstanding balance of these certificates was \$7,255,000.

The annual debt service requirements on these certificates are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 525,000	\$ 257,762	\$ 782,762
2014	540,000	245,614	785,614
2015	565,000	231,672	796,672
2016	590,000	215,457	805,457
2017	620,000	196,864	816,864
2018-2022	3,575,000	600,739	4,175,739
2023	840,000	20,034	860,034
Totals	<u>\$ 7,255,000</u>	<u>\$ 1,768,142</u>	<u>\$ 9,023,142</u>

b. Business-Type and Proprietary Funds Long-Term Liabilities

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

	Balance at July 1, 2011	Additions	Deletions	Balance at June 30, 2012	Due Within One Year
Revenue COP (1993 Water System Refunding Project) Series 2003 Water System	\$ 7,120,000	\$ -	\$ 540,000	\$ 6,580,000	\$ 560,000
Revenue COP (1993 Wastewater System Refunding Project) Series 2003	7,100,000	-	585,000	6,515,000	605,000
Revenue COP Series 2008	9,710,000	-	370,000	9,340,000	385,000
Subtotal	<u>23,930,000</u>	<u>-</u>	<u>1,495,000</u>	<u>22,435,000</u>	<u>1,550,000</u>
Bond discount	(189,798)	-	(11,165)	(178,633)	-
Total	<u>\$ 23,740,202</u>	<u>\$ -</u>	<u>\$ 1,483,835</u>	<u>\$ 22,256,367</u>	<u>\$ 1,550,000</u>

OCEANSIDE PUBLIC FINANCING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2012

Note 4: Long-Term Liabilities (Continued)

Revenue Certificates of Participation (1993 Water System Refunding Project)
Series 2003 - Original Issue \$15,855,000

The 2003 Revenue Certificates of Participation were issued by the Oceanside Public Financing Authority (the Authority) to refinance \$14,835,000 outstanding 1993 Water System Refunding Plan Certificates of Participation. The City has entered into an installment sale agreement with the Authority which provides for the payment by the City from the pledged revenues derived from the operation of the water system equivalent to the principal and interest on the certificates and related costs. Annual payments of \$540,000 to \$1,430,000 will be made through August 1, 2021; interest ranges from 2.00% to 4.13%. Certificates maturing before August 1, 2014, are not subject to redemption prior to maturity. Certificates maturing on or after August 1, 2014, are subject to redemption in whole or in part on August 1, 2013, and each interest date thereafter. At June 30, 2012, the outstanding balance of these certificates was \$6,580,000.

The annual debt service requirements on these certificates are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 560,000	\$ 241,913	\$ 801,913
2014	580,000	224,100	804,100
2015	595,000	205,369	800,369
2016	615,000	183,400	798,400
2017	640,000	158,300	798,300
2018-2022	3,590,000	377,619	3,967,619
Totals	<u>\$ 6,580,000</u>	<u>\$ 1,390,701</u>	<u>\$ 7,970,701</u>

Revenue Certificates of Participation (1993 Wastewater System Refunding Project)
Series 2003 - Original Issue \$11,080,000

The 2003 Revenue Certificates of Participation were issued by the Oceanside Public Financing Authority (the Authority) to refinance \$10,960,000 outstanding 1993 Wastewater System Refunding Plan Certificates of Participation. The City has entered into an installment sale agreement with the Authority which provides for the payment by the City from the pledged revenues derived from the operation of the sewer system equivalent to the principal and interest on the certificates and related costs. Annual payments of \$540,000 to \$865,000 will be made through May 1, 2021; interest ranges from 2.25% to 5.00%. Certificates maturing before May 1, 2014, are not subject to redemption prior to maturity. Certificates maturing on or after May 1, 2014, are subject to redemption in whole or in part on May 1, 2013, and each interest date thereafter. At June 30, 2012, the outstanding balance of these certificates was \$6,515,000.

The annual debt service requirements on these certificates are as follows:

Year Ending June 30	Principal	Interest	Total
2013	\$ 605,000	\$ 299,950	\$ 904,950
2014	635,000	275,750	910,750
2015	660,000	250,350	910,350
2016	680,000	223,950	903,950
2017	710,000	196,750	906,750
2018-2022	3,225,000	412,750	3,637,750
Totals	<u>\$ 6,515,000</u>	<u>\$ 1,659,500</u>	<u>\$ 8,174,500</u>

OCEANSIDE PUBLIC FINANCING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Note 4: Long-Term Liabilities (Continued)

Revenue Certificates of Participation Series 2008 - Original Issue \$10,540,000

The 2008 Revenue Certificates of Participation were issued to prepay all outstanding obligations of the City under the Installment Purchase Contract, dated as of April 1, 2002, by and between the City and Water Reuse Financing Authority. Annual payments of \$345,000 to \$875,000 will be made through May 1, 2028; interest ranges from 3.00% to 6.50%. Certificates maturing before May 1, 2014, are not subject to redemption prior to maturity. Certificates maturing on or after May 1, 2014, are subject to redemption in whole or in part on May 1, 2013, and each interest date thereafter. At June 30, 2012, the outstanding balance of these certificates was \$9,340,000.

The annual debt service requirements on these certificates are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 385,000	\$ 547,406	\$ 932,406
2014	405,000	531,044	936,044
2015	420,000	513,831	933,831
2016	440,000	494,406	934,406
2017	460,000	472,956	932,956
2018-2022	2,710,000	1,965,181	4,675,181
2023-2027	3,645,000	1,023,775	4,668,775
2028	875,000	56,875	931,875
Totals	<u>\$ 9,340,000</u>	<u>\$ 5,605,474</u>	<u>\$ 14,945,474</u>

Note 5: Insurance Coverage

The certificates of participation indentures 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 indentures.



CERTIFIED PUBLIC ACCOUNTANTS

- David E. Hale, CPA, CFP
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

Brandon W. Burrows, CPA, Retired

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*

To the Board of Directors
Oceanside Public Financing Authority
Oceanside, California

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Oceanside Public Financing Authority (the Authority), a blended component unit of the City of Oceanside, California, (the City) as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 1, 2013. 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 and correct 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.



CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Oceanside Public Financing Authority
Oceanside, California

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management of the Oceanside Public Financing Authority and others within the Authority, and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Solt & Lingham, LLP

Brea, California
February 1, 2013