

**OCEANSIDE PUBLIC FINANCING AUTHORITY**

**COMPONENT UNIT  
FINANCIAL STATEMENTS**

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

**YEAR ENDED JUNE 30, 2014**

**OCEANSIDE PUBLIC FINANCING AUTHORITY**

**COMPONENT UNIT  
FINANCIAL STATEMENTS**

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

**YEAR ENDED JUNE 30, 2014**

OCEANSIDE PUBLIC FINANCING AUTHORITY COMPONENT UNIT  
FINANCIAL STATEMENTS

JUNE 30, 2014

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITORS' REPORT .....	1
BASIC FINANCIAL STATEMENTS:	
Government - Wide Financial Statements:	
Statement of Net Position .....	3
Statement of Activities .....	4
Governmental Funds - Fund Financial Statements:	
Balance Sheet .....	6
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position .....	7
Statement of Revenues, Expenditures and Changes in Fund Balance .....	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities .....	9
Proprietary Funds - Fund Financial Statements:	
Statement of Net Position .....	10
Statement of Revenues, Expenses and Changes in Net Position .....	11
Statement of Cash Flows .....	12
Notes to Basic Financial Statements .....	13
Report Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i> .....	24

## INDEPENDENT AUDITORS' REPORT

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

### **Report on Financial Statements**

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) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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 from material misstatement.

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

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



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

### **Opinions**

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

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 an 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2015 on our consideration of the 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* in considering the Authority's internal control over financial reporting and compliance.

Brea, California  
January 23, 2015

OCEANSIDE PUBLIC FINANCING AUTHORITY

STATEMENT OF NET POSITION  
JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Current assets:			
Cash and investments	\$ 2,186,727	\$ 12,178,067	\$ 14,364,794
Restricted cash and investments	6,025	-	6,025
Interest receivable	81,127	231,739	312,866
Lease receivable	1,743,970	2,940,000	4,683,970
Total current assets	<u>4,017,849</u>	<u>15,349,806</u>	<u>19,367,655</u>
Noncurrent assets:			
Lease receivable	11,883,713	20,882,341	32,766,054
Total noncurrent assets	<u>11,883,713</u>	<u>20,882,341</u>	<u>32,766,054</u>
<b>Total Assets</b>	<b><u>15,901,562</u></b>	<b><u>36,232,147</u></b>	<b><u>52,133,709</u></b>
<b>Deferred Outflows of Resources:</b>			
Deferred charge of refunding	-	290,983	290,983
<b>Total Deferred Outflows of Resources</b>	<b><u>-</u></b>	<b><u>290,983</u></b>	<b><u>290,983</u></b>
<b>Liabilities:</b>			
Current liabilities:			
Interest payable	68,232	231,739	299,971
Certificates of participation payable	1,743,970	2,940,000	4,683,970
Total current liabilities	<u>1,812,202</u>	<u>3,171,739</u>	<u>4,983,941</u>
Noncurrent liabilities:			
Certificates of participation payable	14,089,360	33,351,391	47,440,751
Total noncurrent liabilities	<u>14,089,360</u>	<u>33,351,391</u>	<u>47,440,751</u>
<b>Total Liabilities</b>	<b><u>15,901,562</u></b>	<b><u>36,523,130</u></b>	<b><u>52,424,692</u></b>
<b>Net Position:</b>			
Restricted for debt service	-	-	-
<b>Total Net Position</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

OCEANSIDE PUBLIC FINANCING AUTHORITY

STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>
<b>Functions/Programs</b>				
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 39,046	\$ -	\$ -	\$ -
Interest on long-term debt	432,609	-	-	-
<b>Total Governmental Activities</b>	<b>471,655</b>	<b>-</b>	<b>-</b>	<b>-</b>
Business-Type Activities:				
Water certificates of participation	1,636,768	-	-	-
Sewer Refunding Bonds	720,104	-	-	-
<b>Total Business-Type Activities</b>	<b>\$ 2,356,872</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>General Revenues:</b>				
Taxes:				
Interest earnings				
Lease revenues				
<b>Total General Revenues</b>				
Change in Net Position				
Net Position at Beginning of Year				
<b>Net Position at End of Year</b>				

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

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (39,046)	\$ -	\$ (39,046)
(432,609)	-	(432,609)
<b>(471,655)</b>	<b>-</b>	<b>(471,655)</b>
-	(1,636,768)	(1,636,768)
-	(720,104)	(720,104)
<b>-</b>	<b>(2,356,872)</b>	<b>(2,356,872)</b>
18,939	2,356,872	2,375,811
452,716	-	452,716
<b>471,655</b>	<b>2,356,872</b>	<b>2,828,527</b>
-	-	-
-	-	-
<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

OCEANSIDE PUBLIC FINANCING AUTHORITY

**BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2014**

	<u>Debt Service Fund</u>		<u>Total Governmental Funds</u>
	<u>2011 Certificates of Participation</u>	<u>2013 Certificates of Participation</u>	
<b>Assets:</b>			
Cash and investments	\$ 4,106	\$ 2,182,621	\$ 2,186,727
Receivables:			
Accrued interest	-	12,895	12,895
Restricted cash and investments	-	6,025	6,025
<b>Total Assets</b>	<b><u>\$ 4,106</u></b>	<b><u>\$ 2,201,541</u></b>	<b><u>\$ 2,205,647</u></b>
<b>Fund Balances:</b>			
Restricted for:			
Debt service	\$ 4,106	\$ 2,201,541	\$ 2,205,647
<b>Total Fund Balances</b>	<b><u>\$ 4,106</u></b>	<b><u>\$ 2,201,541</u></b>	<b><u>\$ 2,205,647</u></b>

OCEANSIDE PUBLIC FINANCING AUTHORITY

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014

---

Fund balances of governmental fund	\$ 2,205,647
Amounts reported for governmental activities in the Statement of Net Position 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.	13,627,683
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 Position, this amount is accrued.	68,232
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.	(68,232)
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>(15,833,330)</u>
<b>Net position of governmental activities</b>	<b><u><u>\$ -</u></u></b>

OCEANSIDE PUBLIC FINANCING AUTHORITY

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2014

	Debt Service Fund		Total Governmental Funds
	2011 Certificates of Participation	2013 Certificates of Participation	
<b>Revenues:</b>			
Investment earnings	\$ -	\$ 18,638	\$ 18,638
<b>Total Revenues</b>	<b>-</b>	<b>18,638</b>	<b>18,638</b>
<b>Expenditures:</b>			
Current:			
General government	-	39,046	39,046
Debt service:			
Principal retirement	540,000	1,158,306	1,698,306
Interest and fees	245,614	186,694	432,308
<b>Total Expenditures</b>	<b>785,614</b>	<b>1,384,046</b>	<b>2,169,660</b>
Excess of Revenues Over Expenditures	(785,614)	(1,365,408)	(2,151,022)
<b>Other Financing Sources (Uses):</b>			
Transfers (to) from the City of Oceanside	789,065	1,345,000	2,134,065
<b>Total Other Financing Sources (Uses)</b>	<b>789,065</b>	<b>1,345,000</b>	<b>2,134,065</b>
Net Change in Fund Balances	3,451	(20,408)	(16,957)
Fund Balances, Beginning of Year	655	2,221,949	2,222,604
<b>Fund Balances, End of Year</b>	<b>\$ 4,106</b>	<b>\$ 2,201,541</b>	<b>\$ 2,205,647</b>

OCEANSIDE PUBLIC FINANCING 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, 2014

---

Net change in fund balances - total governmental fund	\$ (16,957)
Amounts reported for governmental activities in the Statement of Activities are different because:	
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 position.	(1,681,349)
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.	301
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 position. 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:	
Principal payments	1,698,306
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.	(301)
<b>Change in net position of governmental activities</b>	<u><u>\$ -</u></u>

OCEANSIDE PUBLIC FINANCING AUTHORITY

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 JUNE 30, 2014

	Business-Type Activities - Enterprise Funds			Totals
	2003 Water Refunding Certificates of Participation	2013 Water Refunding Bonds	2013 Waste Water Refunding Bonds	
<b>Assets:</b>				
Current:				
Cash and investments	\$ -	\$ 11,177,895	\$ 1,000,172	\$ 12,178,067
Interest receivable	-	143,369	88,370	231,739
Leases receivable	-	1,350,000	1,590,000	2,940,000
<b>Total Current Assets</b>	<b>-</b>	<b>12,671,264</b>	<b>2,678,542</b>	<b>15,349,806</b>
Noncurrent:				
Leases receivable	-	8,295,990	12,586,351	20,882,341
<b>Total Noncurrent Assets</b>	<b>-</b>	<b>8,295,990</b>	<b>12,586,351</b>	<b>20,882,341</b>
<b>Total Assets</b>	<b>-</b>	<b>20,967,254</b>	<b>15,264,893</b>	<b>36,232,147</b>
<b>Deferred Outflows of Resources:</b>				
Deferred charge on refunding	-	95,555	195,428	290,983
<b>Total Deferred Outflows of Resources</b>	<b>-</b>	<b>95,555</b>	<b>195,428</b>	<b>290,983</b>
<b>Liabilities:</b>				
Current:				
Interest payable	-	143,369	88,370	231,739
Certificates of participation and bonds payable	-	1,350,000	1,590,000	2,940,000
<b>Total Current Liabilities</b>	<b>-</b>	<b>1,493,369</b>	<b>1,678,370</b>	<b>3,171,739</b>
Noncurrent:				
Certificates of participation and bonds payable	-	19,569,440	13,781,951	33,351,391
<b>Total Noncurrent Liabilities</b>	<b>-</b>	<b>19,569,440</b>	<b>13,781,951</b>	<b>33,351,391</b>
<b>Total Liabilities</b>	<b>-</b>	<b>21,062,809</b>	<b>15,460,321</b>	<b>36,523,130</b>
<b>Net Position:</b>				
Restricted for debt service	-	-	-	-
<b>Total Net Position</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

OCEANSIDE PUBLIC FINANCING AUTHORITY

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2014

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>2003 Water Refunding Certificates of Participation</b>	<b>2013 Water Refunding Bonds</b>	<b>2013 Waste Water Refunding Bonds</b>	<b>Totals</b>
<b>Nonoperating Revenues (Expenses):</b>				
Interest revenue	\$ 571,380	\$ 1,065,388	\$ 720,104	\$ 2,356,872
Interest expense and fiscal charges	(571,380)	(802,163)	(720,104)	(2,093,647)
Bond issuance costs	-	(263,225)	-	(263,225)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Changes in Net Position	-	-	-	-
<b>Net Position:</b>				
Beginning of Fiscal Year	-	-	-	-
<b>End of Fiscal Year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

OCEANSIDE PUBLIC FINANCING AUTHORITY

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 YEAR ENDED JUNE 30, 2014

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>2003 Water Refunding Certificates of Participation</b>	<b>2013 Water Refunding Bonds</b>	<b>2013 Waste Water Refunding Bonds</b>	<b>Totals</b>
<b>Cash Flows from Non-Capital Financing Activities:</b>				
Due from the City of Oceanside	\$ -	\$ (3,815,832)	\$ (19,714)	\$ (3,835,546)
Lease payment received	6,020,000	-	1,570,000	7,590,000
Lease payment expense	-	(6,020,000)	-	(6,020,000)
Principal paid on long-term debt	(6,020,000)	(550,000)	(1,570,000)	(8,140,000)
Interest paid on long-term debt	(571,380)	(1,065,388)	(720,104)	(2,356,872)
<b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>	<b>(571,380)</b>	<b>(11,451,220)</b>	<b>(739,818)</b>	<b>(12,762,418)</b>
<b>Cash Flows from Investing Activities:</b>				
Investment earnings	571,380	1,065,388	720,104	2,356,872
<b>Net Cash Provided by Investing Activities</b>	<b>571,380</b>	<b>1,065,388</b>	<b>720,104</b>	<b>2,356,872</b>
<b>Cash Flows from Capital and and Related Financing Activities:</b>				
Proceeds from bonds issued	-	21,563,727	-	21,563,727
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<b>-</b>	<b>21,563,727</b>	<b>-</b>	<b>21,563,727</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>-</b>	<b>11,177,895</b>	<b>(19,714)</b>	<b>11,158,181</b>
Cash and Cash Equivalents at Beginning of Year	-	-	1,019,886	1,019,886
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ -</b>	<b>\$ 11,177,895</b>	<b>\$ 1,000,172</b>	<b>\$ 12,178,067</b>
<b>Non-Cash Investing, Capital, and Financing Activities:</b>				
Bond premium amortization	\$ -	\$ 94,287	\$ 130,623	\$ 224,910

## OCEANSIDE PUBLIC FINANCING AUTHORITY

### NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2014

---

#### 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 Position 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 Position. The Statement of Activities presents changes in net position. 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.

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 position as presented in these statements to the net position 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.

Unavailable 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 fund:

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.

The 2013 Certificates of Participation Debt Service Fund is used to account for the payment of principal and interest of the 2013 Certificates of Participation.

**Proprietary Fund Financial Statements:**

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, 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 Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting,

**OCEANSIDE PUBLIC FINANCING AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

---

**Note 1: Summary of Significant Accounting Policies (Continued)**

revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability is incurred.

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

The Series 2013A Water Revenue Refunding Bonds Fund is used to account for the payment of principal and interest of the Series 2013A Water Revenue Refunding Bonds.

The Series 2013A Sewer Revenue Refunding Bonds Fund is used to account for the payment of principal and interest of the Series 2013A Sewer Revenue Refunding Bonds.

**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. Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Agency only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the proprietary statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Agency has no items that qualify for reporting in this category.

**OCEANSIDE PUBLIC FINANCING AUTHORITY**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014**

---

**Note 1: Summary of Significant Accounting Policies (Continued)**

**e. 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 (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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

Committed Fund Balance - This includes amounts that can be used only for the specific purposes determined by a formal action of the Board.

Assigned Fund Balance - This includes amounts that are designated by the Board for specific purposes.

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

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.

**f. Net Position**

The net position reported on the Statement of Net Position can be classified into the following three categories:

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

Unrestricted Net Position - This amount is all net position that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net position".

OCEANSIDE PUBLIC FINANCING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014

---

**Note 1: Summary of Significant Accounting Policies (Continued)**

**g. Flow Assumption**

Net Position flow assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund balance flow assumptions

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**h. 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, 2014, are classified in the accompanying financial statements as follows:

Cash and investments	\$ 14,364,794
Restricted cash and investments	6,025
	<u>\$ 14,370,819</u>

OCEANSIDE PUBLIC FINANCING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2014

**Note 2: Cash and Investments (Continued)**

**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 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio *	Maximum Investment in One Issuer
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	36-60 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.

**Note 2: Cash and Investments (Continued)**

**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.

**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 \$73,928, 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.

**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.

OCEANSIDE PUBLIC FINANCING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2014

**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. 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, 2014, leases receivable from the City in the amount \$37,450,024 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, 2014:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014	Due Within One Year
2011 COP	\$ 6,730,000	\$ -	\$ 540,000	\$ 6,190,000	\$ 565,000
2013 COP	10,801,636	-	1,158,306	9,643,330	1,178,970
Certificates of participation	<u>\$ 17,531,636</u>	<u>\$ -</u>	<u>\$ 1,698,306</u>	<u>\$ 15,833,330</u>	<u>\$ 1,743,970</u>

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

The 2011 Refunding Certificates of Participation were issued by the Authority to refund the 1998 Certificates of Participation, which were also 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 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, 2014, the outstanding balance of these certificates was \$6,190,000.

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 565,000	\$ 231,672	\$ 796,672
2016	590,000	215,457	805,457
2017	620,000	196,864	816,864
2018	640,000	175,616	815,616
2019	675,000	151,260	826,260
2020-2023	3,100,000	293,897	3,393,897
Totals	<u>\$ 6,190,000</u>	<u>\$ 1,264,766</u>	<u>\$ 7,454,766</u>

OCEANSIDE PUBLIC FINANCING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2014

**Note 4: Long-Term Liabilities (Continued)**

2013 Refunding Certificates of Participation Series A - Original Issue \$12,126,893

The 2013 Refunding Certificates of Participation were issued by the Authority to refund the 2003 Certificates of Participation, which were also issued by the Authority for the purpose of refinance outstanding 1993 Series A Refunding Certificates of Participation and to lease certain facilities and projects. The current refunding resulted in a cash flow difference of \$6,289,645 and resulted in an economic gain (difference between the present values of the old debt and new debt service payments) of \$5,816,271 or (\$2,137,653 less prior funds on hand). The certificates consist of serial certificates in the amount of \$12,500,000 due in annual installments of \$1,345,000 including interest. Interest rate is 1.776% and payments are payable semiannually on October 1 and April 1. As of June 30, 2014, the outstanding balance of these certificates was \$9,643,330.

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 1,178,970	\$ 166,030	\$ 1,345,000
2016	1,200,000	145,000	1,345,000
2017	1,221,408	123,592	1,345,000
2018	1,243,196	101,804	1,345,000
2019	1,265,374	79,626	1,345,000
2020-2023	3,534,382	142,704	3,677,086
Totals	<u>\$ 9,643,330</u>	<u>\$ 758,756</u>	<u>\$ 10,402,086</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, 2014:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014	Due Within One Year
Revenue COP (1993 Water System Refunding Project) Series 2003 Water System	\$ 6,020,000	\$ -	\$ 6,020,000	\$ -	\$ -
2013A Water Revenue Refunding Bonds	-	19,490,000	550,000	18,940,000	1,350,000
2013A Sewer Revenue Refunding Bonds	15,135,000	-	1,570,000	13,565,000	1,590,000
Subtotal	21,155,000	19,490,000	8,140,000	32,505,000	2,940,000
Bond premium	1,937,574	2,073,727	224,910	3,786,391	-
Total	<u>\$23,092,574</u>	<u>\$ 21,563,727</u>	<u>\$ 8,364,910</u>	<u>\$36,291,391</u>	<u>\$ 2,940,000</u>

OCEANSIDE PUBLIC FINANCING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2014

**Note 4: Long-Term Liabilities (Continued)**

**Bonds Payable**

2013A Sewer Revenue Refunding Bonds - Original Issue \$15,135,000

The bonds were issued by the Authority to (a) prepay all of City of Oceanside Revenue Certificates of Participation (1993 Wastewater System Refunding Project) Series 2003 and City of Oceanside Revenue Refunding Certificates of Participation, Series 2008; (b) to prepay all amounts due under the 1993 State Loan; (c) to finance certain improvements to the City's Sewer System; and (d) to pay the costs of issuing the 2013A Bonds. The bonds are due in semi-annual installments ranging from \$1,590,000 to \$1,615,000 through November 2028. Interest rates range from 2.0% to 5.0% and are payable semiannually on May 1 and November 1. Bonds are subject to optional redemption prior to maturity. A portion of the proceeds of were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2003 and 2008 Certificates of Participation. As a result, the 2003 and 2008 Certificates of Participation are considered to be defeased and the liability for those bonds has been removed from the statement of net position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$209,556. This difference, reported in the accompanying financial statements as a deferred charge on refunding, is being charged to operations through the year 2028. The Authority completed the advance refunding to reduce its total debt service payments by \$5,248,340 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4,649,651 or (\$3,714,329 less refunding funds on hand). As of June 30, 2014, the outstanding balance of these bonds was \$13,565,000. The unamortized bond premium at June 30, 2014, was \$1,806,951.

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 1,590,000	\$ 530,219	\$ 2,120,219
2016	1,615,000	498,419	2,113,419
2017	1,075,000	433,819	1,508,819
2018	1,120,000	390,819	1,510,819
2019	1,160,000	346,019	1,506,019
2020-2024	4,250,000	1,072,794	5,322,794
2025-2028	2,755,000	297,125	3,052,125
Totals	<u>\$ 13,565,000</u>	<u>\$ 3,569,214</u>	<u>\$ 17,134,214</u>

2013A Water Revenue Refunding Bonds - Original Issue \$19,490,000

The bonds were issued by the Authority to (a) prepay all of City of Oceanside Water Revenue Refunding Bonds (1998 Water Refunding Project) and City of Oceanside Revenue Certificates of Participation (1993 Water System Refunding Project) Series 2003; (b) to finance certain improvements to the City's Water System; and (c) to pay the costs of issuing the 2013A Bonds. The bonds are due in semi-annual installments

OCEANSIDE PUBLIC FINANCING AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014

---

**Note 4: Long-Term Liabilities (Continued)**

ranging from \$550,000 to \$1,475,000 through May 2033. Interest rates range from 2.0% to 5.25% and are payable semiannually on May 1 and November 1. Bonds are subject to optional redemption prior to maturity. The City completed the advance refunding to reduce its total debt service payments by \$1,005,141 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,101,012 or (\$756,040 less refunding funds on hand). As of June 30, 2014, the outstanding balance of these bonds was \$18,940,000. The unamortized bond premium at June 30, 2014, was \$1,979,440.

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 1,350,000	\$ 860,213	\$ 2,210,213
2016	1,375,000	833,213	2,208,213
2017	1,425,000	778,213	2,203,213
2018	1,475,000	721,213	2,196,213
2019	1,120,000	662,213	1,782,213
2020 - 2024	4,885,000	2,514,813	7,399,813
2025 - 2029	3,655,000	1,527,738	5,182,738
2030 - 2033	3,655,000	491,925	4,146,925
Totals	<u>\$ 18,940,000</u>	<u>\$ 8,389,541</u>	<u>\$ 27,329,541</u>

**Certificates of Participation**

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 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. The bonds were fully defeased with the issuance of the 2013A Water Revenue Refunding Bonds.

**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.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Oceanside Public Financing Authority (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 23, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Lance, Solt & Lughard, LLP*

Brea, California  
January 23, 2015