

**EL CERRITO PUBLIC FINANCING AUTHORITY
BASIC COMPONENT UNIT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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FOR THE YEAR ENDED JUNE 30, 2012**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
<i>Basic Component Unit Financial Statements:</i>	
Statement of Net Assets	2
Statement of Revenues, Expenses and Changes in Net Assets.....	3
Statement of Cash Flows	4
Notes to Basic Component Unit Financial Statements	5

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INDEPENDENT AUDITOR'S REPORT

Members of the Governing Board
El Cerrito Public Financing Authority
El Cerrito, California

We have audited the accompanying financial statements of the business-type activities of the El Cerrito Public Financing Authority, a component unit of the City of El Cerrito, California, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic component unit 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 an opinion on these basic component unit financial statements based on our audit.

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

In our opinion the basic component unit financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2012 and the changes in the financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The Authority has not presented the Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic component unit financial statements

Maze & Associates

December 18, 2012

EL CERRITO PUBLIC FINANCING AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
Assets:	
Cash and investments (Note 3)	\$1,910
Cash and investments held by trustee (Note 3)	1,711,009
Interest receivable	161,225
Net investment in leases and installment agreement (Note 4)	20,844,430
Total assets	22,718,574
Liabilities:	
Accounts payable	1,555
Due to the City of El Cerrito	2,580
Bonds interest payable	161,225
Long-term debt (Note 5):	
Due in one year	725,000
Due in more than one year	21,790,000
Total liabilities	22,680,360
Net Assets (Note 6):	
Restricted for debt service	1,708,784
Unrestricted net assets (deficit)	(1,670,570)
Total net assets	\$38,214

See accompanying notes to financial statements

EL CERRITO PUBLIC FINANCING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

Operating Revenues:	
Lease interest revenue	\$999,185
Interest income	143
	<hr/>
Total operating revenue	999,328
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Operating Expenses:	
Interest on long-term debt	1,002,989
Administrative expenses	2,396
	<hr/>
Total operating expenses	1,005,385
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Change in Net Assets	(6,057)
Net Assets Beginning	44,271
	<hr/>
Net Assets Ending	\$38,214
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See accompanying notes to financial statements

EL CERRITO PUBLIC FINANCING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$1,700,004
Payments to suppliers	(841)
Receipt of interest	143
Payment of interest	<u>(1,008,776)</u>
Net cash provided by operating activities	<u>690,530</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Increase in due to the City	2,580
Principal payments	<u>(695,000)</u>
Cash Flows from Noncapital Financing Activities	<u>(692,420)</u>
Net increase in cash and cash equivalents	(1,890)
Cash and investments at beginning of period	<u>1,714,809</u>
Cash and investments at end of period	<u><u>\$1,712,919</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	(\$6,057)
Change in assets and liabilities:	
Lease receivable	695,032
Interest receivable	5,787
Accounts payable	1,555
Interest payable	<u>(5,787)</u>
Net cash provided by operating activities	<u><u>\$690,530</u></u>

See accompanying notes to financial statements

EL CERRITO PUBLIC FINANCING AUTHORITY
Notes to Component Unit Financial Statements

NOTE 1- DESCRIPTION OF REPORTING ENTITY

The El Cerrito Public Financing Authority is a nonprofit corporation organized by the City of El Cerrito and the El Cerrito Redevelopment Agency on July 1, 2002 under the laws of the State of California. The Authority was organized to provide financial assistance to the City by financing real and personal property and improvements for the benefit of the residents of the City and surrounding areas. Administrative and related normal business expenses incurred in the day-to-day operations of the Authority are provided by the City and are not included in the accompanying financial statements. Such expenses are insignificant to the Authority's operations.

The Authority obtains financing for City and Agency sponsored projects using leases signed by the City or Agency as collateral. The amounts of the leases are calculated to provide sufficient resources to repay the debt incurred to finance the projects.

The Authority is an integral part of the City and accordingly, the accompanying financial statements are included as a component of the Comprehensive Annual Financial Report prepared by the City. A component unit is a separate governmental unit, agency, or nonprofit corporation controlled by the City which, when combined with all other component units, constitutes the reporting entity as defined in the City's Comprehensive Annual Financial Report.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Basis of Presentation*

The Authority's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

B. *Basis of Accounting*

The Authority reports its activities as a proprietary fund type (Enterprise Fund) which is maintained on the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned regardless of whether they are received, and expenses are recognized in the period the related fund liability is incurred. The Authority follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

The Authority's revenues and expenses are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Certain indirect costs are included in program expenses reported for individual functions and activities.

C. *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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 expenses during the reporting period. Actual results could differ from those estimates.

EL CERRITO PUBLIC FINANCING AUTHORITY
Notes to Component Unit Financial Statements

NOTE 3 – CASH AND INVESTMENTS

The Authority pools cash from all sources and all funds with the City of El Cerrito, except Cash with Fiscal Agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. Policies

The Authority and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the Authority’s fiscal agents as required under its debt issues.

The Authority’s investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Authority debt instruments or agency agreements.

Cash and investments available for Authority operations	\$1,910
Cash and investments held by trustee	<u>1,711,009</u>
Total Authority Cash and Investments	<u><u>\$1,712,919</u></u>

C. Investments Authorized by the California Government Code and the City’s Investment Policy

The City’s Investment Policy and the California Government Code allow the Authority to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded.

EL CERRITO PUBLIC FINANCING AUTHORITY
Notes to Component Unit Financial Statements

NOTE 3 – CASH AND INVESTMENTS (Continued)

The table below also identifies certain provisions of the California Government Code, or the City's Investment Policy:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
State of California Local Agency Investment Fund (LAIF Pool)	On Demand	N/A	\$50,000,000 per account	\$50,000,000 per account
U. S. Treasury Bonds, Notes and Bills U.S. Federal Agency and U.S. Government	5 Years	N/A	No Limit	No Limit
Sponsored Enterprise Securities	5 Years	N/A	No Limit	No Limit
Banker's Acceptances	180 Days	N/A	30%	30%
Commercial Paper	270 Days	P-1, A-1, F-1	10%*	10%
Certificates of Deposit	5 Years	N/A	30%	10%
Negotiable Certificates of Deposit	5 Years	A	30%	No Limit
Medium-Term Corporate Notes	5 Years	A	10%*	No Limit
Derivative Securities (limited to Federal Agency callable issues)	5 Years	N/A	10%	No Limit
Money Market Mutual Funds	On Demand	Highest Rating Category	5%	No Limit

* Total combined corporate debt (Commercial Paper and Medium-Term Notes) may not exceed 20% of the cost value of the portfolio.

The City's investment policy prohibits investments in inverse floaters, range notes, or interest only strips that are derived from a pool of mortgages in accordance with California Government Code Section 53601.6. With the exception of callable Federal Agency securities, any security that derives its value from another asset or index is prohibited. In addition, the City may not invest any funds in any security that could result in zero interest accrual if held to maturity.

D. Investments Authorized by Debt Agreements

The Authority must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the Authority fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Authority ordinance, bond indentures or State statute. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

EL CERRITO PUBLIC FINANCING AUTHORITY
Notes to Component Unit Financial Statements

NOTE 3 – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
Obligations of any of the following federal agencies which obligations represent the full faith and credit of the U.S. including:		
U.S. Treasury Obligations		
All direct or fully guaranteed obligations		
Farmers Home Administration		
General Services Administration		
Guaranteed Title XI Financing		
Government National Mortgage Association (GNMA)		
State and Local Government Series		
Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the U.S.:		
Senior debt obligations of:		
Federal National Mortgage Association		
Federal Home Loan Mortgage Corporation		
Federal Home Loan Bank System		
Farm Credit System		
Resolution Funding Corporation		
Financing Corp. Debt Obligations		
U.S. Agency for International Development Guaranteed Notes		
<i>For all purposes other than defeasance:</i>		
Obligations of any of the following federal agencies which obligations represent the full faith and credit of the U.S. including:		
Export-Import Bank		
Rural Economic Community Development Administration		
U.S. Maritime Administration		
Small Business Administration		
U.S. Department of Housing & Urban Development (PHAs)		
Federal Housing Administration		
Federal Financing Bank		
Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the U.S.:		
Senior debt obligations of:		
Federal National Mortgage Association		
Federal Home Loan Mortgage Corporation		
Federal Home Loan Bank System		
Other Government Sponsored Agencies approved by the Bond Issuer		
Resolution Funding Corporation		
Bankers' Acceptances	360 days	P-1, A-1 or A-1+
Commercial Paper	270 days	P-1 or A-1+
Money Market Funds		AAAm or AAAm-G
Pre-refunded Municipal Obligations		Highest ratings category
Municipal Obligations		Aaa/AAA
General Obligations of States		A2/A
Investment Agreements (A)		
Other forms of investments (including repurchase agreements) (A)		

(A) Investment agreements and other forms of investments, including repurchase agreements, must be approved in writing by the Bond Issuer

EL CERRITO PUBLIC FINANCING AUTHORITY
Notes to Component Unit Financial Statements

NOTE 3 – CASH AND INVESTMENTS (Continued)

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the Authority's investments, which are available for withdrawal on demand as discussed below:

	Investments	Investments with Fiscal Agent	Total
City of El Cerrito Investment Pool	\$1,910		\$1,910
Blackrock Institutional Money Market Fund		\$603,309	603,309
Blackrock Liquidity Money Market Fund		741,211	741,211
Federated Prime Obligation Money Market Fund		366,489	366,489
Total Cash and Investments	<u>\$1,910</u>	<u>\$1,711,009</u>	<u>\$1,712,919</u>

Blackrock Money Market Funds are available for withdrawal on demand and at June 30, 2012, and both of the money market funds have an average maturity of 43 days. Federated Prime Obligation Money Market Fund is available for withdrawal on demand and at June 30, 2012, has an average maturity of 42 days.

F. Credit Risk

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 actual ratings as of June 30, 2012 for the Blackrock Institutional and Liquidity Money Market Funds and the Federated Prime Obligation Money Market Fund were AAAM as provided by Standard and Poor's investment ratings service.

EL CERRITO PUBLIC FINANCING AUTHORITY
Notes to Component Unit Financial Statements

NOTE 4 – LEASES/INSTALLMENTS RECEIVABLE

The Authority financed the City Swim Center project, City Hall project and the City's annual street maintenance/improvement program. The Authority's net investment in lease and installment agreements at June 30, 2012 is calculated as follows:

	Leases		Installment	Total
	Swim Center	City Hall	Street Maintenance/ Improvement	
Total minimum lease/installment payments to be received	\$3,255,945	\$14,820,805	\$18,463,996	\$36,540,746
Less future interest payments	(937,434)	(6,363,675)	(8,395,207)	(15,696,316)
Net investment in leases/installment	<u>\$2,318,511</u>	<u>\$8,457,130</u>	<u>\$10,068,789</u>	<u>\$20,844,430</u>

Anticipated receipts of principal and interest on the leases and installment agreement are scheduled to mirror the schedule of Repayment Requirements as shown at Note 5, less an adjustment factor for anticipated interest earnings by the Authority.

NOTE 5 – LEASE AND SALES TAX REVENUE BONDS

A. Current Year Transactions and Balances

	Original Issue	Balance	Retirements	Balance	Current Portion
	Amount	June 30, 2011		June 30, 2012	
2002 Lease Revenue Bonds					
3.00%-4.70%, due 9/1/2020	\$4,615,000	\$2,930,000	\$245,000	\$2,685,000	\$255,000
2006 Lease Revenue Bonds					
3.60%-5.00%, due 12/1/2036	9,610,000	9,225,000	205,000	\$9,020,000	\$215,000
2008 Sales Tax Revenue Bonds					
3.50%-4.75%, due 5/1/2037	11,750,000	11,055,000	245,000	10,810,000	255,000
Total Debt		<u>\$23,210,000</u>	<u>\$695,000</u>	<u>\$22,515,000</u>	<u>\$725,000</u>

B. 2002 Lease Revenue Bonds

On July 17, 2002, the Authority issued \$4,615,000 original principal amount of 2002 Lease Revenue Bonds at 3.00%-4.70% interest. The proceeds from the sale of the Bonds were used for the rebuilding and renovation of the City Swim Center. Parcel tax revenues are pledged for the repayment of these Bonds. If parcel tax revenues are insufficient to pay the annual principal and interest payments on the bonds the City has covenanted to use General Fund revenues. Principal and interest are payable semi-annually each March 1 and September 1 through 2020.

EL CERRITO PUBLIC FINANCING AUTHORITY
Notes to Component Unit Financial Statements

NOTE 5 – LEASE AND SALES TAX REVENUE BONDS (Continued)

C. 2006 Lease Revenue Bonds

On November 1, 2006 the Authority issued Series 2006 Lease Revenue Bonds in the amount of \$9,610,000 at 3.60%-5.00% interest. The proceeds from the sale of the Bonds were used for the construction of a new City Hall. Rental revenues are pledged for the repayment of these Bonds. Principal and interest payments are due semi-annually each June 1 and December 1 through 2036.

D. Sales Tax Revenue Bonds

On May 20, 2008, the Authority issued \$11,750,000 original principal amount of 2008 Sales Tax Revenue Bonds at 4.40%-4.75% interest. The proceeds from the sale of the Bonds will be used for the City's annual street maintenance and/or improvement program following the recommendations and priorities established annually by the City Council and Citizens' Oversight Committee. Principal payments are due annually on May 1, with interest payments payable semi-annually on May 1 and November 1 through May 1, 2037. Street Improvement Sales Tax revenues are pledged for the repayment of these bonds. Projected revenues are expected to provide coverage over debt service of 1.75% over the life of the bonds. The total principal and interest remaining to be paid on the bonds is \$18,463,996 at June 30, 2012. For fiscal year 2012, Street Improvement Sales Tax Revenues amounted to \$1,546,542 which represented coverage of 2.10 over the debt service of \$737,652.

E. Debt Service Requirements

Future principal and interest payments on the Bonds are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2013	\$725,000	\$978,887
2014	745,000	951,216
2015	775,000	923,231
2016	805,000	893,045
2017	835,000	860,562
2018-2022	4,350,000	3,756,175
2023-2027	3,745,000	2,908,563
2028-2032	4,675,000	1,974,388
2033-2037	5,860,000	779,679
	<u>\$22,515,000</u>	<u>\$14,025,746</u>

EL CERRITO PUBLIC FINANCING AUTHORITY
Notes to Component Unit Financial Statements

NOTE 6 – NET ASSETS

A. Net Assets

Net Assets are divided into two captions and are described below:

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Authority cannot unilaterally alter. These principally include debt service requirements.

Unrestricted describes the portion of Net Assets which is not restricted as to use.

NOTE 7 – SUBSEQUENT EVENTS

2012 Public Financing Authority Lease Revenue Refunding Bonds

On September 26, 2012, the El Cerrito Public Financing Authority issued Lease Revenue Refunding Bonds, Series 2012 in the original principal amount of \$2,516,500 at 1.96% interest to provide for the refunding of the outstanding 2002 Swim Center Lease Revenue Bonds. Principal payments are due annually on September 1, with interest payments payable semi-annually on March 1 and September 1 through September 1, 2020. Repayment of these bonds is from a pledge of revenue from the City's Measure A Parcel Tax Special Revenue Fund

2012 Public Financing Authority Recycling Facility Revenue Refunding Bonds

On September 19, 2012, the El Cerrito Public Financing Authority issued Recycling Facility Revenue Refunding Bonds in the original principal amount of \$3,405,600 at 2.36% interest to provide for the refunding of the City's outstanding Recycling Center Lease Purchase Agreement and related Site Lease. Principal and interest payments are due quarterly on July 1, October 1, January 1, and April 1 through October 1, 2025. Repayment of these bonds is from lease payments and charges received by the City's Integrated Waste Management Enterprise Fund.