

**EL CERRITO PUBLIC FINANCING AUTHORITY
BASIC COMPONENT UNIT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

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**EL CERRITO PUBLIC FINANCING AUTHORITY
BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

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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 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 ending June 30, 2011 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 generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the 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 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 El Cerrito Public Financing Authority as of June 30, 2011 and the changes in the financial position and cash flows for the year then ended, in conformity with generally accepted accounting principles 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 14, 2011

EL CERRITO PUBLIC FINANCING AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>
Assets:	
Cash and investments (Note 3)	\$3,832
Cash and investments held by trustee (Note 3)	1,710,977
Interest receivable	167,012
Net investment in leases and installment agreement (Note 4)	<u>21,539,462</u>
Total assets	<u>23,421,283</u>
Liabilities:	
Bonds interest payable	167,012
Long-term debt (Note 5):	
Due in one year	695,000
Due in more than one year	<u>22,515,000</u>
Total liabilities	<u>23,377,012</u>
Net Assets (Note 6)	
Restricted for:	
Debt service	<u>1,714,809</u>
Total restricted net assets	<u>1,714,809</u>
Unrestricted net assets (deficit)	<u>(1,670,538)</u>
Total net assets	<u><u>\$44,271</u></u>

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, 2011

Operating Revenues:	
Lease interest revenue	\$1,028,244
Interest income	168
	<hr/>
Total operating revenue	1,028,412
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Operating Expenses:	
Interest on long-term debt	1,028,412
Administrative expenses	6,655
	<hr/>
Total operating expenses	1,035,067
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Change in Net Assets	(6,655)
Net Assets Beginning	50,926
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Net Assets Ending	\$44,271
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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, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$1,703,756
Payments to suppliers	(6,655)
Receipt of interest	168
Payment of interest	<u>(1,033,889)</u>
Net cash provided by operating activities	<u>663,380</u>
 CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payment	<u>(670,000)</u>
Cash Flows from Noncapital Financing Activities	<u>(670,000)</u>
Net increase in cash and cash equivalents	(6,620)
Cash and investments at beginning of period	<u>1,721,429</u>
Cash and investments at end of period	<u><u>\$1,714,809</u></u>
 Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	(\$6,655)
Change in assets and liabilities:	
Lease receivable	670,035
Interest receivable	5,477
Interest payable	<u>(5,477)</u>
Net cash provided by operating activities	<u><u>\$663,380</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	\$3,832
Cash and investments held by trustee	<u>1,710,977</u>
Total Authority Cash and Investments	<u><u>\$1,714,809</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:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum in Portfolio</u>	<u>Maximum Investment In One Issuer</u>
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	5 Years	N/A	No Limit	No Limit
U.S. Federal Agency and U.S. Government 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	25%	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	30%	No Limit
Money Market Mutual Funds	On Demand	Highest Rating Category	5%	No Limit

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		AAA _m or AAA _m -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	\$3,832		\$3,832
Blackrock Institutional Money Market Fund		\$603,317	603,317
Blackrock Liquidity Money Market Fund		741,205	741,205
Federated Prime Obligation Money Market Fund		366,455	366,455
Total Cash and Investments	<u>\$3,832</u>	<u>\$1,710,977</u>	<u>\$1,714,809</u>

Blackrock Money Market Funds are available for withdrawal on demand and at June 30, 2011, and both of the money market funds have an average maturity of 19 days. Federated Prime Obligation Money Market Fund is available for withdrawal on demand and at June 30, 2011, has an average maturity of 40 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, 2011 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, 2011 is calculated as follows:

	Leases		Installment	Total
	Swim Center	City Hall	Street Maintenance/ Improvement	
Total minimum lease/installment payments to be received	\$3,621,001	\$15,418,213	\$19,201,648	\$38,240,862
Less future interest payments	(1,057,454)	(6,756,091)	(8,887,855)	(16,701,400)
Net investment in leases/installment	<u>\$2,563,547</u>	<u>\$8,662,122</u>	<u>\$10,313,793</u>	<u>\$21,539,462</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 Amount	Balance June 30, 2010	Retirements	Balance June 30, 2011	Current Portion
2002 Lease Revenue Bonds					
3.00%-4.70%, due 9/1/2020	\$4,615,000	\$3,165,000	\$235,000	\$2,930,000	\$245,000
2006 Lease Revenue Bonds					
3.60%-5.00%, due 12/1/2036	9,610,000	9,420,000	195,000	9,225,000	205,000
2008 Sales Tax Revenue Bonds					
3.50%-4.75%, due 5/1/2037	11,750,000	<u>11,295,000</u>	<u>240,000</u>	<u>11,055,000</u>	<u>245,000</u>
Total Debt		<u>\$23,880,000</u>	<u>\$670,000</u>	<u>\$23,210,000</u>	<u>\$695,000</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 \$19,201,648 at June 30, 2011. For fiscal year 2011, Street Improvement Sales Tax Revenues amounted to \$1,375,828 which represented coverage of 1.86 over the debt service of \$741,052.

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>
2012	\$695,000	\$1,005,116
2013	725,000	978,887
2014	745,000	951,216
2015	775,000	923,231
2016	805,000	893,045
2017-2021	4,530,000	3,941,129
2022-2026	3,580,000	3,071,096
2027-2031	4,475,000	2,178,749
2032-2036	5,600,000	1,043,117
2037	1,280,000	45,276
	<u>\$23,210,000</u>	<u>\$15,030,862</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.