EL CERRITO PUBLIC FINANCING AUTHORITY
BASIC COMPONENT UNIT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

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MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements 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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic component unit 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 the 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 Authority'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 Authority'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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2014, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1, the component unit financial statements present only the Authority and are not intended to present fairly the financial position and the results of operations of the City of El Cerrito 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 Accounts 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated February 24, 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.

Maze & Associates

Pleasant Hill, California
February 24, 2015

EL CERRITO PUBLIC FINANCING AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2014

Assets:	
Cash and investments held by trustee (Note 3)	$1,530,791
Interest receivable	142,277
Net investment in leases and installment agreement (Note 4)	22,655,948
Total assets	24,329,016
Liabilities:	
Accounts payable	1,080
Bonds interest payable	142,277
Long-term debt (Note 5):	
Due in one year	1,057,500
Due in more than one year	23,088,800
Total liabilities	24,289,657
Net Position (Note 6):	
Restricted for debt service	1,529,711
Unrestricted net position (deficit)	(1,490,352)
Total net position	$39,359

See accompanying notes to financial statements

EL CERRITO PUBLIC FINANCING AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

Operating Revenues:	
Lease interest revenue	$963,599
Interest income	9,237
Total operating revenue	972,836
Operating Expenses:	
Interest on long-term debt	953,121
Administrative expenses	250
Total operating expenses	953,371
Change in Net Position	19,465
Net Position Beginning	19,894
Net Position Ending	$39,359

See accompanying notes to financial statements

EL CERRITO PUBLIC FINANCING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$1,979,361
Payments to suppliers	(250)
Receipt of interest	9,237
Payment of interest	(978,859)
Net cash provided by operating activities	1,009,489
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments	(1,026,300)
Cash Flows from Noncapital Financing Activities	(1,026,300)
Net increase in cash and cash equivalents	(16,811)
Cash and investments at beginning of period	1,547,602
Cash and investments at end of period	$1,530,791
Reconciliation of change in net position to net cash provided by operating activities:	
Change in net position	$19,465
Cost of issuance	
Change in assets and liabilities:	
Lease receivable	990,024
Interest receivable	25,738
Interest payable	(25,738)
Net cash provided by operating activities	$1,009,489

See accompanying notes to financial statements

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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 El Cerrito Redevelopment Agency was dissolved effective January 31, 2012. 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 sponsored projects using leases signed by the City 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'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, deferred outflows/inflows of resources and liabilities and disclosure of contingent assets, deferred outflows/inflows of resources 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.

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. 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.

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	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	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.

C. 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:

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		
For all purposes other than defeasance:		
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

NOTE 3 – CASH AND INVESTMENTS (Continued)

D. 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 by maturity or earliest call date:

	Investments with Fiscal Agent	Maturity Date
Blackrock Institutional Money Market Fund	$187,357	45 days average maturity
Blackrock Liquidity Money Market Fund	3,434	45 days average maturity
Federal National Mortgage Association Federal Agency Securities	1,340,000	September 26, 2017
Total Cash and Investments	$1,530,791	

E. 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, 2014 for the Blackrock Institutional and Liquidity Money Market Funds were AAAm and the Federal National Mortgage Association Federal Agency Securities were AA+ as provided by Standard and Poor's investment ratings service.

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, 2014 is calculated as follows:

	Leases			Installment	
	Swim Center Revenue Refunding	City Hall	Recycling Facility Revenue Refunding	Street Maintenance Improvement	Total
Total minimum lease/installment payments to be received	$2,347,844	$13,626,489	$3,525,417	$16,984,766	$36,484,516
Less future interest payments	(329,485)	(5,603,066)	(457,817)	(7,438,200)	(13,828,568)
Net investment in leases/installment	$2,018,359	$8,023,423	$3,067,600	$9,546,566	$22,655,948

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, 2013	Retirements	Balance June 30, 2014	Current Portion
2006 Lease Revenue Bonds 3.60%-5.00%, due 12/1/2036	$9,610,000	$8,805,000	$220,000	$8,585,000	$230,000
2008 Sales Tax Revenue Bonds 3.50%-4.75%, due 5/1/2037	11,750,000	10,555,000	265,000	10,290,000	270,000
2012 Lease Revenue Refunding Bonds 1.960%, due 9/1/2020	2,516,500	2,516,500	312,800	2,203,700	323,300
2012 Recycling Facility Revenue Refunding Bonds 2.36%, due 10/1/2025	3,405,600	3,296,100	228,500	3,067,600	234,200
Total Debt		$25,172,600	$1,026,300	$24,146,300	$1,057,500

B. 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.

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

C. 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 $16,984,766 at June 30, 2014. For fiscal year 2014, Street Improvement Sales Tax Revenues amounted to $1,453,527 which represented coverage of 1.96 over the debt service of $740,152.

D. 2012 Public Financing Authority Lease Revenue Refunding Bonds

On September 26, 2012, the Authority issued Lease Revenue Refunding Bonds, Series 2012, in the original principal amount of $2,516,500 at 1.960% interest to provide for the refunding of the City's 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. 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.

E. 2012 Public Financing Authority Recycling Facility Revenue Refunding Bonds

On September 19, 2012, the 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 and retirement of the City's outstanding Recycling Center Lease Purchase Agreement and related Site Lease. The Authority transferred $3,359,176 to the City to retire the prior lease. Principal and interest payments are due quarterly on July 1, October 1, January 1, and April1, through October 1, 2025. Repayment of these bonds is from charges for services received by the Integrated Waste Management Enterprise Fund.

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

F. Debt Service Requirements

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

Year ending June 30	Principal	Interest
2015	$1,057,500	$945,620
2016	1,088,000	914,793
2017	1,118,000	882,282
2018	1,152,500	849,284
2019	1,186,500	814,131
2020-2024	5,213,600	3,522,974
2025-2029	4,540,200	2,568,936
2030-2034	5,115,000	1,532,494
2035-2037	3,675,000	307,702
	$24,146,300	$12,338,216

NOTE 6 – NET POSITION

Net Position is divided into two captions and is described below:

Restricted describes the portion of Net Position 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 Position which is not restricted as to use.