



Office of City Manager  
Erik Sund, Assistant City Manager  
Phone: (949) 361-8360 Fax: (949) 361-8283  
E-mail: [sunde@san-clemente.org](mailto:sunde@san-clemente.org)

November 30, 2015

The Honorable Glenda Sanders  
Presiding Judge of the Superior Court  
700 Civic Center Drive  
Santa Ana, CA 92701

The Honorable Glenda Sanders,

Please accept this as the City of San Clemente Public Financing Authority's official response to the 2014-2015 *Joint Powers Authorities: Issues of Viability, Control, Transparency, and Solvency*.

### **Findings**

- F.3. Orange County has 18 vertical Joint Powers Authorities created by a city along with its redevelopment agency that no longer exists. The Grand Jury determined that these Joint Powers Authorities serve no benefit to the public or the taxpayers and have the potential for misuse or obfuscation of public funds.**

The San Clemente Public Financing Authority partially agrees with the finding. Vertical Joint Powers Authorities were created with redevelopment agencies. However, the statement that these joint powers authorities serve no benefit is overstated and generalized.

In the San Clemente Public Financing Authority's situation, the joint power authority allowed taxpayers to achieve present value savings of \$1,184,153 (see attachment) which translated to lower annual tax assessments on citizens. Hence, the use of the joint powers authority did serve a benefit to the public, the taxpayers, and was not a misuse or obfuscation of public funds in our situation.

- F.4. Vertical Joint Powers Authorities with a single controlling entity, such as a city council, have the potential to use this organizational structure as a shell company to avoid other legal constraints on the controlling entity and to obfuscate taxpayer visibility.**

The San Clemente Public Financing Authority agrees with the finding that there is a potential to misuse this type of entity and although meetings are public and clearly transparent the Public Financing Authority will not be utilized the in the future.

**F.5. Vertical Joint Powers Authorities in which the controlling entity transfers assets from itself to a Joint Powers Authority for the purpose of obtaining additional funding, or signs a long-term lease to a Joint Powers Authority to obtain assets, are avoiding transparency and are not acting in the best financial interest of the taxpayers.**

The San Clemente Public Financing Authority partially agrees with this finding. Joint powers authorities may transfer assets, obtain additional funding and sign long term leases to obtain assets that may in some circumstances may not be in the best financial interest of the taxpayers. However, these actions do not avoid transparency and actions taken are subject to the public notification process and are done in open public meetings.

Although these joint power authority meetings are public and clearly transparent, the City affirms that it will not utilize the existing Public Financing Authority in the future to perform these functions.

**F.6. 32 of the Joint Powers Authorities identified in Orange County are not complying with the California State reporting requirements in code Section 6500 and SB 282 according to the latest information available form the year 2013.**

The San Clemente Public Financing Authority partially agrees with this finding. In compliance with Government Code Section 6505, a separate audited financial statement is prepared for the Public Financing Authority and is also mentioned as such in the City's financial statements which are posted on-line.

We agree and understand that the County and the State may need to perform a more adequate review as stated in your report. To facilitate this review, the San Clemente Public Financing Authority FY 2014 audit was sent to the County Auditor-Controller on September 8, 2015 and to the State Auditor on November 19, 2015. As required under State law, the San Clemente Public Financing Authority has been completing the local government annual financial reports filing through the State Controllers Special Districts Financial Transactions Report. The City will continue to respond in a timely fashion to any questions from the State Controllers Office related to the Financial Transactions Report process. The Fiscal Year 2015 filing was completed and filed by October 20, 2015 as required. Upon the completion of the FY 2015 audited financial statements, both the County and the State will receive copies.

## Recommendations

- R.2. All Vertical Joint Powers Authorities created by a city along with its redevelopment agency should submit the necessary paperwork with the State of California requesting termination of their existence. (F.3.)**

San Clemente agrees with this recommendation, however there are currently existing agreements outstanding that relate to this joint power agreement. This recommendation will be implemented upon the completion of these agreements.

The necessary paperwork will be filed with the State of California requesting the termination of their existence. In addition, no new arrangements can or will be entered into where the redevelopment agency and the City as a Joint Powers Authority. The fulfillment of these agreements will continue to save the taxpayers funds from breach of contract lawsuits.

- R.3. All Joint Powers Authorities should take the following actions to insure transparency to the taxpayers: (1) have an annual outside audit, (2) post the complete audit on their city website as a separate Joint Powers Authority entity, (3) send the audit to the County Controller and the State Auditor, and (4) ensure the required reports are filed annually to the County and the State. (F.4. and F.5.)**

Recommendation 3.1 and 3.2 will not be implemented, the San Clemente Public Financing Authority has implemented and does have an annual outside audit and financial statements prepared (a copy is attached). In addition, the Public Financing Authority is also included in the City of San Clemente's financial statements which are posted online and these statements indicate the availability of the separately audited financial statements.

Recommendation 3.3 and 3.4 are implemented. The San Clemente Public Financing Authority FY 2014 audit was sent to the County Auditor-Controller on September 8, 2015 and the State Auditor on November 19, 2015. In addition, as required under State law, the San Clemente Public Financing Authority has been completing the local government annual financial reports filing through the State Controllers Special Districts Financial Transactions Report. This filing for Fiscal Year 2015 was completed and filed by October 20, 2015 as required. Upon the completion of the FY 2015 audited financial statements, both the County and the State will receive copies.

- R.4. The 32 Joint Powers Authorities that are not complying with the California State Law requiring annual reporting should become compliant by submitting their 2014 report by December 31, 2015, and submitting the required reports annually thereafter.**

This recommendation has been implemented, the San Clemente Public Financing Authority FY 2014 audit was sent to the County Auditor-Controller on September 8,

2015 and the State Auditor on November 19, 2015. In addition, as required under State law, the San Clemente Public Financing Authority has been completing the local government annual financial reports filing through the State Controllers Special Districts Annual Report. This filing for Fiscal Year 2015 was completed and filed by October 20, 2015 as required. Upon the completion of the FY 2015 audited financial statements, both the County and the State will receive copies.

If further information is required regarding this matter, please contact the City's Assistant City Manager, Erik Sund, at (949) 361-8360.

Sincerely,



Erik Sund  
Assistant City Manager

C: Mayor and City Council  
Orange County Grand Jury



**CITY OF SAN CLEMENTE  
PUBLIC FINANCING AUTHORITY  
SAN CLEMENTE, CALIFORNIA**

**Basic Financial Statements and  
Independent Auditor's Report**

**Year Ended June 30, 2014**

**CITY OF SAN CLEMENTE  
PUBLIC FINANCING AUTHORITY  
SAN CLEMENTE, CALIFORNIA**

**BASIC FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

Year Ended June 30, 2014

**City of San Clemente Public Financing Authority  
Financial Statements  
Year Ended June 30, 2014**

**TABLE OF CONTENTS**

	<u>PAGE</u>
<b>Independent Auditor's Report</b>	1
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Position	3
Statement of Activities and Changes in Net Position	4
Governmental Fund Financial Statements:	
Balance Sheet	5
Reconciliation of the Governmental Fund Balance Sheet to the Government-Wide Statement of Net Position	6
Statement of Revenues, Expenditures and Changes in Fund Balances	7
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures And Changes in Fund Balance to the Government-Wide Statement of Activities and Changes in Net Position	8
Notes to the Financial Statements	9
<b>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</b>	



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
San Clemente Public Financing Authority  
San Clemente, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of San Clemente Public Financing Authority (Authority), a component unit of the City of San Clemente, 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 error or fraud.

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

Our responsibility is to express an opinion 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 opinion.



## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the City of San Clemente Public Financing Authority, as of June 30, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Management has omitted 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 required 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 a report dated December 22, 2014 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 the 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 on compliance.

*Van Lant + Fankhanel, LLP*

December 22, 2014

## **BASIC FINANCIAL STATEMENTS**

# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**City of San Clemente Public Financing Authority**  
**Statement of Net Position**  
**June 30, 2014**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current Assets:	
Cash	\$ 139,293
Taxes Receivable	17,417
Interest Receivable	233
Total Current Assets	156,943
Noncurrent Assets:	
Cash and Investments Held by Fiscal Agents	1,841,337
Advance to Assessment District No. 98-1	10,869,799
Total Noncurrent Assets	12,711,136
Total Assets	12,868,079
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	1,043
Interest Payable	178,295
Long-term Debt - Due Within One Year	557,841
Total Current Liabilities	737,179
Noncurrent Liabilities:	
Long-term Debt - Due in More than One Year	10,989,093
Total Liabilities	11,726,272
<b>NET POSITION</b>	
Restricted For Debt Service	1,141,807
Total Net Position	\$ 1,141,807

**City of San Clemente Public Financing Authority  
Statement of Activities  
Year Ended June 30, 2014**

Functions/Programs	Expenses	Governmental Activities Net (Expenses) Revenues
Governmental Activities:		
General Government	\$ 21,312	\$ (21,312)
Interest and Fiscal Charges	545,644	(545,644)
Total Governmental Activities	\$ 566,956	(566,956)
General Revenues:		
Property Taxes		682,840
Investment Earnings		(710)
Total General Revenues		682,130
Change in Net Position		115,174
Net Position - Beginning		1,026,633
Net Position - Ending		\$ 1,141,807

# **GOVERNMENTAL FUND FINANCIAL STATEMENTS**

**City of San Clemente Public Financing Authority  
Balance Sheet  
Governmental Fund  
June 30, 2014**

	Debt Service Fund
<b>ASSETS</b>	
Cash and Investments	\$ 139,293
Taxes Receivable	17,417
Interest Receivable	233
Cash and Investments with Fiscal Agents	1,841,337
Advance to Assessment District No. 98-1	10,869,799
Total Assets	\$ 12,868,079
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts Payable	\$ 1,043
Total Liabilities	1,043
Fund Balances:	
Restricted	12,867,036
Total Fund Balances	12,867,036
Total Liabilities and Fund Balances	\$ 12,868,079

**City of San Clemente Public Financing Authority**  
**Reconciliation of the Governmental Fund Balance Sheet to the Government-wide**  
**Statement of Net Position**  
**June 30, 2014**

Fund balances - total governmental fund	\$ 12,867,036
Amounts reported for governmental activities in the statement of net position are different because:	
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable is not reported as a liability in the fund financial statements.	(178,295)
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.	
Long-term liabilities - due within one year	(557,841)
Long-term liabilities - due in more than one year	<u>(10,989,093)</u>
Net Position of Governmental Activities	<u>\$ 1,141,807</u>



**City of San Clemente Public Financing Authority**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Fund**  
**Year Ended June 30, 2014**

	<u>Debt Service Fund</u>
<b>REVENUES</b>	
Property Taxes	\$ 682,840
Use of Money and Property	<u>(710)</u>
Total Revenues	<u>682,130</u>
<b>EXPENDITURES</b>	
Administration	12,330
Contractual Services	8,982
Debt Service:	
Principal Retirement	540,000
Interest and Fiscal Charges	<u>545,685</u>
Total Expenditures	<u>1,106,997</u>
Net Change in Fund Balances	(424,867)
Fund Balance, Beginning of Year	<u>13,291,903</u>
Fund Balance, End of Year	<u><u>\$ 12,867,036</u></u>

**City of San Clemente Public Financing Authority**  
**Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund**  
**Balance of Governmental Fund to the Statement of Activities**  
**Year Ended June 30, 2014**

Net change in fund balances - governmental fund \$ (424,867)

Amounts reported for governmental activities in the Statement of Activities are different because:

Amortization expense is reported in the Government-wide Statement of Activities, but it did not require the use of current financial resources. Therefore, amortization expense is not reported as an expenditure in the fund financial statements:

Amortization of discount (7,159)

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 fund financial statements.

The reconciling amount is the change in accrued interest payable from the prior year. 7,200

Repayment of bond principal is an expenditure in the fund financial statements, but the repayment reduced long-term liabilities in the Government-wide Statement of Net Position:

Long-term debt repayment 540,000

Change in Net Position of Governmental Activities \$ 115,174

**City of San Clemente Public Financing Authority**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the City of San Clemente Public Financing Authority (Authority), a component unit of the City of San Clemente, California (City), have been prepared in conformity with generally accepted accounting principles (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. Nature of Business and Reporting Entity**

The Authority is a joint exercise of powers authority created by a joint powers agreement between the City and the former Redevelopment Agency of the City of San Clemente (Agency), dated May 1, 2007. The purpose of the Authority is to provide, through the issuance of debt, financing necessary for the construction of public improvements. The Authority is not subject to federal or state income taxes.

The Authority is a component unit of the City of San Clemente and, accordingly, the financial statements of the Authority are included in the financial statements of the City of San Clemente. The Authority is an integral part of the reporting entity of the City of San Clemente. The funds of the Authority have been blended within the financial statements of the City because the City Council of the City of San Clemente is the governing board of the Authority and exercises control over the operations of the Authority. Only the funds of the Authority are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of San Clemente. The Authority has the same fiscal year as the City. The Comprehensive Annual Financial Report of the City can be obtained from the Finance Department 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 balance, revenues, and expenditures, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes 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 and Changes in Net Position. These financial statements present summaries of activities for the Authority.

**City of San Clemente Public Financing Authority**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**B. Basis of Accounting and Measurement Focus - Continued**

Government-Wide Financial Statements - Continued

The Government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are expenses that are clearly identifiable with a specific program, project, function or segment. Program revenues of the Authority include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for all governmental funds. All governmental funds are accounted for using the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balance presents 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. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. Expenditures are recorded in the accounting period in which the related fund liability is incurred. The Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

**City of San Clemente Public Financing Authority**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**B. Basis of Accounting and Measurement Focus - Continued**

Taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and therefore have been recognized as revenues within the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received.

The Authority reports a single governmental fund - a debt service fund to account for the repayment of long-term debt and the related revenues.

**C. Cash and Investments**

The Authority's cash and investments consist of cash and investments pooled with the City and cash and investments held by fiscal agents to meet debt obligations. Cash and investments with fiscal agents are restricted for the redemption of bonded debt and for acquisition and construction of capital projects.

**D. Long-Term Obligations**

In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, if material, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the Fund Financial Statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The fund financial statements do not present long-term debt.

**E. Net Position**

In the Government-Wide Financial Statements, net position is classified as follows:

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

**City of San Clemente Public Financing Authority**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**F. Fund Balance**

In the Fund Financial Statements, the governmental fund reports restricted fund balances which encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

**G. 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 consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority currently has no items that qualify for reporting in this category.

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 Authority currently has no items that qualify for reporting in this category.

**H. 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 statement of net position, 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.

**I. Fund Balance Assumption**

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources (total 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.

**City of San Clemente Public Financing Authority  
Notes to Financial Statements  
Year Ended June 30, 2014**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**J. Use of Estimates**

The preparation of basic financial statements in conformity with generally accepted accounting principles requires Authority management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

**K. Property Tax**

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	March 1	
Levy Year	July 1 to June 30	
Due Dates	November 1	1st Installment
	February 1	2nd Installment
Delinquent Dates	December 10	1st Installment
	April 10	2nd Installment

Under California law, property taxes and other charges (such as assessments) are assessed and collected by counties up to 1% of assessed value, plus other increases approved by voters. Property tax revenues are pooled and then allocated to agencies based on complex formulas prescribed by state statutes.

**2) CASH AND INVESTMENTS**

The Authority's cash and investments consist of cash and investments pooled with the City and cash and investments held by fiscal agents. At June 30, 2014, the Authority had the following:

Cash and Investments Pooled with the City	\$ 139,293
Cash and Investments Held by Fiscal Agents	<u>1,841,337</u>
 Total	 <u>\$ 1,980,630</u>

**A. Cash Deposits**

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this matter shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

**City of San Clemente Public Financing Authority**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014**

**2) CASH AND INVESTMENTS - Continued**

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure government deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the month-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

**B. Investments**

The following are the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where it is more restrictive):

- U.S. Treasury Obligations
- U.S. Agency Securities
- Banker's Acceptances
- Medium-Term Notes
- Money Market Mutual Funds
- Local Agency Investment Fund (LAIF)
- Commercial Paper
- Repurchase Agreements
- Insured Certificates of Deposit

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The following are the investment types that are authorized to be held by bond trustees:

- Repurchase Agreements
- Money Market Mutual Funds
- Investment Contracts
- Local Agency Investment Fund (LAIF)



**City of San Clemente Public Financing Authority**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014**

**2) CASH AND INVESTMENTS - Continued**

**B. Risk Disclosures**

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 the City 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.

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. As of June 30, 2014, the City's investments met the minimum ratings allowed by (where applicable) the California Government Code, the City's investment policy, or debt agreements. The actual ratings as of year-end for each investment type was determined by Standard and Poor's and Moody's.

Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2014, the City had multiple investments in which one issuer represented 5% or more of total City investments. These investments included U.S. Treasury securities and various Federal agency securities.

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 City'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

**City of San Clemente Public Financing Authority  
Notes to Financial Statements  
Year Ended June 30, 2014**

**2) CASH AND INVESTMENTS - Continued**

equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: \$1,150,761 of the City's deposits with financial institutions in excess of federal depository insurance limits is held in collateralized accounts.

**3) LONG-TERM OBLIGATIONS**

A summary of the long-term debt transactions of the Governmental Activities for the year ended June 30, 2014, is presented below:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year	Due in More Than One Year
Reassessment Refunding Revenue Bond	\$ 12,180,000	\$ -	\$ (540,000)	\$ 11,640,000	\$ 565,000	\$ 11,075,000
Unamortized Bond Discount	(100,225)	-	7,159	(93,066)	(7,159)	(85,907)
<b>Total</b>	<b>\$ 12,079,775</b>	<b>\$ -</b>	<b>\$ (532,841)</b>	<b>\$ 11,546,934</b>	<b>\$ 557,841</b>	<b>\$ 10,989,093</b>

**Reassessment Refunding Revenue Bonds**

On June 30, 1999, the 98-1 Assessment District (District) issued \$15,355,000 98-1 Assessment District Bonds for the purpose of financing public improvements within the District.

In July 2007, the City, through the Authority, issued \$14,235,000 in Reassessment Refunding Revenue Bonds, which refunded the City of San Clemente 98-1 Assessment District Bonds outstanding in the amount of \$14,570,000.

Interest on the bonds is payable semiannually on each March 2 and September 2. The rates of interest range from 3.750% to 4.700% per annum. Principal is payable in annual installments ranging from \$280,000 to \$1,045,000. Serial bonds of \$8,630,000 and Term bonds of \$2,610,000 and \$2,995,000 mature on September 2, 2022, September 2, 2025 and September 2, 2028, respectively, and are subject to mandatory redemption from a sinking fund account in amounts ranging from \$830,000 to \$1,045,000 as outlined in the bond's official statement. The Municipal Bond Insurance Association (MBIA) has issued a municipal bond insurance policy that insures the payment of the principal and interest on the bonds when due.

**City of San Clemente Public Financing Authority**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014**

**3) LONG-TERM OBLIGATIONS – CONTINUED**

The annual debt service requirements for the Reassessment Refunding Revenue Bonds outstanding at June 30, 2014, are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 565,000	\$ 523,232	\$ 1,088,232
2016	585,000	499,293	1,084,293
2017	610,000	474,046	1,084,046
2018	635,000	447,193	1,082,193
2019	665,000	418,340	1,083,340
2020	695,000	387,740	1,082,740
2021	725,000	355,428	1,080,428
2022	760,000	321,177	1,081,177
2023	795,000	284,920	1,079,920
2024	830,000	246,525	1,076,525
2025	870,000	206,150	1,076,150
2026	910,000	163,875	1,073,875
2027	950,000	119,700	1,069,700
2028	1,000,000	73,387	1,073,387
2029	<u>1,045,000</u>	<u>24,819</u>	<u>1,069,819</u>
<b>Total</b>	<b>\$ <u>11,640,000</u></b>	<b>\$ <u>4,545,825</u></b>	<b>\$ <u>16,185,825</u></b>

**4) RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority participates in the City's risk management program. Details of the City's risk management policies can be found in the City's financial statements.

**5) COMMITMENTS AND CONTINGENES**

As of June 30, 2014, in the opinion of Authority management, there were no outstanding matters that would have a significant effect on the financial position of the Authority.



**Independent Auditor's 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***

Board of Directors  
San Clemente Public Financing Authority  
San Clemente, 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 and each major fund of the City of San Clemente Public Financing Authority (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 December 22, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Van Lant + Fankhaed, LLP*

December 22, 2014



**VLF** Van Lant &  
Fankhanel, LLP  
— Certified Public Accountants —