



**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**

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## 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 & Fankhaed, 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<br/>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<br>Activities Net<br>(Expenses)<br>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<br>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**

|                                 | Debt Service<br>Fund        |
|---------------------------------|-----------------------------|
| <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   | <u>540,000</u>           |
| Change in Net Position of Governmental Activities  | <u><u>\$ 115,174</u></u> |

**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>        |
| <br>Total                                  | <br><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<br>Balance | Additions   | Deletions           | Ending<br>Balance    | Due Within<br>One Year | Due in<br>More Than<br>One Year |
|--|----------------------|-------------|---------------------|----------------------|------------------------|---------------------------------|
| Reassessment Refunding<br>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<br>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 + Fankhaenel, LLP*

December 22, 2014



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