

**NORTH CITY WEST SCHOOL
FACILITIES FINANCING AUTHORITY**

FINANCIAL STATEMENTS

JUNE 30, 2012

**NORTH CITY WEST SCHOOL
FACILITIES FINANCING AUTHORITY
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INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
North City West School
Facilities Financing Authority
Solana Beach, California**

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of North City West School Facilities Financing Authority (the Entity), as of and for the year ended June 30, 2012 which collectively comprise the Entity's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Entity's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of North City West School Facilities Financing Authority as of June 30, 2012, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2013, on our consideration of the Entity'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* and should be considered in assessing the results of our audit.

Wilkinson Hadley King & Co., LLP

El Cajon, California
February 5, 2013

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(Unaudited)

This section of the North City West School Facilities Financing Authority's (the "Entity") annual financial report presents management's discussion and analysis of the Entity's financial performance during the fiscal year ended June 30, 2012 (FY 2012). The management's discussion and analysis is required as an element of the reporting model established by the Government Accounting Standards Board (GASB) in Statement Number 34. This is the ninth year of implementation and the financial data and statements reflect prior year information. The Entity's financial statements follow this section.

Using the Financial Statements

The Entity is a Joint Powers Authority (JPA) established in 1983 to provide school facilities, concurrent with need, to support the educational programs for Carmel Valley kindergarten through twelfth grade students. Carmel Valley was formerly named North City West (changed in 1991), and sits within the coastal northwest portion of the City of San Diego. There are three member school districts in the Entity: Del Mar Union School District (grades K through 6); Solana Beach School District (grades K through 6); and San Dieguito Union High School District (grades 7 through 12).

The Entity provides funds for the needed school facilities using available state funding and school fees paid by residential construction. One of the methods currently employed to obtain needed funding from local sources has been to establish Community Facilities Districts (CFDs) and issue Mello-Roos bonds.

The individual school sites and buildings are owned and maintained by the member school districts. The Entity only has ownership of the relocatable classrooms located on school sites.

The absence of school facility assets and the obligation of long-term Mello-Roos bonds is the reason why the reader will see that the Entity's liabilities exceed its assets.

The Entity maintains cash accounts with the Treasurer of San Diego County and construction and other bond accounts with our Trustee, US Bank. While the Entity is not a school district, the San Diego County Office of Education uses its district accounting services to provide our accounting and monthly financial reporting. US Bank, our Trustee, provides the monthly bond fund accounting.

Overview of the Financial Statements

This annual audit consists of three parts: Management's Discussion and Analysis (this section); the basic financial statements; and notes to the financial statements. In addition, our consolidated financials consist of three funding parts: general; construction; and debt service.

Financial Highlights

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Total net assets are:	\$(57,862,151)	\$(61,069,806)
Total assets consist of: current assets	\$36,089,713	\$ 20,822,923
capital and intangible assets	\$4,633,680	\$ 4,982,566
Total liabilities consist of: current liabilities	\$23,135,316	\$5,177,374
long-term liabilities	\$75,450,228	\$81,697,921

North City West School Facilities Financing Authority as a Financial Entity

Table 1 provides a comparative summary of the Entity's total net assets for fiscal years ending June 30, 2012 and June 30, 2011.

Table 1
Statement of Net Assets

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Assets:		
Cash in County Treasury	\$ 10,478,547	\$ 9,918,999
Cash with Fiscal Agent	25,602,452	10,891,831
Interest Receivable	<u>8,714</u>	<u>12,093</u>
Total Current Assets	36,089,713	20,822,923
Non-current Assets:		
Buildings and Improvements, net	1,360,023	1,519,631
Intangible Assets, net	<u>3,273,657</u>	<u>3,462,935</u>
Total Assets	<u>\$40,723,393</u>	<u>\$25,805,489</u>
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 37,032	\$ -
Accrued Interest	1,128,284	1,327,374
Bonds Payable – Current Portion	<u>21,970,000</u>	<u>3,850,000</u>
Total Current Liabilities	23,135,316	5,177,374
Non-current Liabilities:		
Bonds Payable	<u>75,450,228</u>	<u>81,697,921</u>
Total Liabilities	<u>\$ 98,585,544</u>	<u>\$ 86,875,295</u>
Net Assets:		
Restricted	20,901,559	2,985,351
Unrestricted	<u>(78,763,710)</u>	<u>(64,055,157)</u>
Total Net Assets	<u>(57,862,151)</u>	<u>(61,069,806)</u>
Total Liabilities and Net Assets	<u>\$ 40,723,393</u>	<u>\$ 25,805,489</u>

Tables 2 and 3 summarize the revenues and expenses for the twelve-month periods ending June 30, 2012 and June 30, 2011.

Table 2
Operating Revenue, Twelve Months Ended

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Operating Revenue:		
Mello-Roos Special Tax Apportionments	\$ 8,421,943	\$ 8,334,650
Developer School Fees	<u> -</u>	<u> 315,360</u>
Total Operating Revenue	<u>\$ 8,421,943</u>	<u>\$ 8,650,010</u>

Table 3
Operating Expenses, Twelve Months Ended

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Operating Expenses:		
General and Administrative	\$ 114,321	\$ 100,164
Capital Expenditure	167,493	-
Depreciation	159,608	159,608
Amortization	<u>1,040,709</u>	<u>271,931</u>
Total Operating Expenses	<u>\$ 1,482,131</u>	<u>\$ 531,703</u>

Current Financial Related Activities

The Entity developed a Facilities Funding Agreement approved in September 2002 that identifies the school facilities remaining to be funded for Carmel Valley students. Included were two new schools: Solana Pacific Elementary School for the Solana Beach School District (completed and opened in September 2004) and Ocean Air Elementary School for the Del Mar Union School District (completed and opened in August 2007). Funding for a major expansion of the Carmel Valley Middle School in the San Dieguito High School District, which is currently under evaluation by the Entity, is also included in the document.

The Fiscal Year Ending June 30, 2012 (FY 2012) is highlighted by the issuance of the Subordinated Special Tax Revenue Bonds, Series 2012A, for \$27,485,000 to partially refund the Series 2002 bonds and fully refund the Series 2005A bonds. The refunding also provided approximately \$3 million dollars in unrestricted cash as the bonds were sold at a premium. The refunding will result in total debt service savings of \$7,478,021 over the term of the Series 2012A bonds representing a present value savings of \$2,980,048 (See Note E-Bonds Payable of the financial statements). The remaining principal of \$15,130,000 for the Series 2005A was retired on June 12, 2012 and principal of \$17,495,000 for the Series 2002 was retired on September 4, 2012. Approximately \$4.8 million is held in the restricted fund for the completion of future school facilities.

The increases in the June 30, 2012 Cash with Fiscal Agent and current portion of Bonds Payable are related to the pending principal pay down on the 2002 bonds in September 2012. Net assets increased approximately \$3.2 million primarily from the premium received from the issuance of the Series 2012A bonds.

Operating revenue declined for the first time in the FY 2012 as no Developer School Fees were received signaling that new residential development within the School Districts is complete or near completion. Special tax revenue increased to \$8,421,943 in FY 2012 compared to \$8,334,650 for FY 2011, a 1% increase from parcels levied the special tax for the first time in FY 2012. General and Administrative expense for FY 2012 increased approximately 14% from FY 2011 primarily from additional fees paid to financing professionals relating to the Series 2012A bond issuance. Capital expenditures of \$167,493 for FY 2012 represent the final payment for construction costs on the Ocean Air Middle School. Amortization Costs increased \$768,778 (282.71%) over FY 2011 due to the write off of \$819,075 in unamortized bond issuance costs relating to the Series 2002 bonds that were paid in full on June 12, 2012.

Contacting the Entity's Financial Management

This financial report is designed to provide citizens, taxpayers, and investors and credit rating agencies with a general overview of the Entity's finances and determine the Entity's accountability for the funds received and spent. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, North City West School Facilities Financing Authority, c/o Willdan Financial Services, 27368 Via Industria, Suite 110, Temecula, CA, 92590.

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2012**

ASSETS

Current Assets:

Cash in County Treasury	\$ 10,478,547
Cash with Fiscal Agent	25,602,452
Interest Receivable	8,714

Total Current Assets	36,089,713
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Non-current Assets:

Buildings and Improvements, net	1,360,023
Intangible Assets, net	3,273,657

Total Non-current Assets	4,633,680
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TOTAL ASSETS	\$ 40,723,393
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 37,032
Accrued Interest	1,128,284
Bonds Payable - Current Portion	21,970,000

Total Current Liabilities	23,135,316
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Non-current Liabilities:

Bonds Payable	71,902,921
Unamortized Bond Premium	3,547,307

TOTAL LIABILITIES	98,585,544
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NET ASSETS

Restricted	20,901,559
Unrestricted	(78,763,710)

TOTAL NET ASSETS	(57,862,151)
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TOTAL LIABILITIES AND NET ASSETS	\$ 40,723,393
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See the accompanying notes to the financial statements

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
STATEMENT OF ACTIVITIES
JUNE 30, 2012**

OPERATING REVENUES	
Tax Apportionments	\$ 8,421,943
TOTAL OPERATING REVENUES	8,421,943
OPERATING EXPENSES	
Professional Fees	70,884
Demographic Study	6,340
General and Administration	37,097
Site/Construction Reimbursement	167,493
Depreciation	159,608
Amortization	1,040,709
TOTAL OPERATING EXPENSES	1,482,131
OPERATING INCOME (LOSS)	6,939,812
NON-OPERATING REVENUES (EXPENSES)	
Interest and Investment Income	86,685
Interest and Fiscal Charges	(3,818,842)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(3,732,157)
INCREASE (DECREASE) IN NET ASSETS	3,207,655
NET ASSETS, BEGINNING OF YEAR	(61,069,806)
NET ASSETS, END OF YEAR	\$ (57,862,151)

See the accompanying notes to the financial statements

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
 COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUND TYPES
 JUNE 30, 2012**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Construction	Debt Service	
ASSETS				
Cash in County Treasury	\$ 10,394,228	\$ 84,319	\$ -	\$ 10,478,547
Cash with Fiscal Agent	-	4,707,322	20,895,130	25,602,452
Accrued Interest Receivable	8,504	210	-	8,714
	\$ 10,402,732	\$ 4,791,851	\$ 20,895,130	\$ 36,089,713
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 37,032	\$ -	\$ -	\$ 37,032
	37,032	-	-	37,032
 Fund Balances:				
Restricted				
Debt Services	-	-	20,895,130	20,895,130
Escrow Funds	-	6,429	-	6,429
Unassigned				
Other Unassigned	10,365,700	4,785,422	-	15,151,122
	10,365,700	4,791,851	20,895,130	36,052,681
	\$ 10,402,732	\$ 4,791,851	\$ 20,895,130	\$ 36,089,713

See the accompanying notes to the financial statements

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS BALANCE SHEET	\$	36,052,681
 Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets in governmental activities are not reported in the funds, net of accumulated depreciation:		1,360,023
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities are reported. Long-term liabilities relating to governmental activities consisted of:		(97,420,228)
Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in intangible assets, net of accumulated amortization:		3,273,657
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatrued interest owing at the end of the period was:		(1,128,284)
 NET GOVERNMENTAL ASSETS - STATEMENT OF NET ASSETS	 \$	 <u>(57,862,151)</u>

See the accompanying notes to the financial statements

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES
 YEAR ENDED JUNE 30, 2012**

	General Fund	Construction Fund	Debt Service Fund	Totals (Memorandum Only)
REVENUES				
Tax Apportionments	\$ 8,421,943	\$ -	\$ -	\$ 8,421,943
Investment Income	30,707	4,784	51,194	86,685
TOTAL REVENUES	8,452,650	4,784	51,194	8,508,628
EXPENDITURES				
Administration:				
Professional Fees	70,884	-	-	70,884
Demographic Study	6,340	-	-	6,340
General and Administrative	37,097	-	-	37,097
Site/Construction Reimbursements	-	167,493	-	167,493
TOTAL EXPENDITURES	114,321	167,493	-	281,814
Excess of Revenues Over (Under) Expenditures	8,338,329	(162,709)	51,194	8,226,814
OTHER SOURCES (USES):				
Proceeds from Sale of Bonds	-	-	30,493,868	30,493,868
Issuance Costs	-	-	(312,992)	(312,992)
Principal Reduction	-	-	(19,160,000)	(19,160,000)
Interest Expense	-	-	(4,017,932)	(4,017,932)
Transfers In (Out)	(7,652,859)	(3,209,208)	10,862,067	-
TOTAL OTHER SOURCES (USES)	(7,652,859)	(3,209,208)	17,865,011	7,002,944
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	685,470	(3,371,917)	17,916,205	15,229,758
FUND BALANCE, July 1, 2011	9,680,230	8,163,768	2,978,925	20,822,923
FUND BALANCE, June 30, 2012	\$ 10,365,700	\$ 4,791,851	\$ 20,895,130	\$ 36,052,681

See the accompanying notes to the financial statements

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2012**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 15,229,758**

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

Capital outlay: In governmental funds, the cost of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is: (159,608)

Debt service: In governmental funds, repayment of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 19,160,000

Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:

Issue costs incurred during the period	851,431	
Issue costs amortized during the period	(1,040,709)	
Net		(189,278)

Debt Proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were: (27,485,000)

Amortization of debt issue premium: In governmental funds, if debt is issued at a premium, the premium is recognized as an Other Financing Source in the period it is incurred. In the government-wide statements, the premium is amortized as interest over the life of the debt. Amortization of premium for the period is: (3,547,407)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was: 199,090

CHANGE IN GOVERNMENTAL NET ASSETS - STATEMENT OF ACTIVITIES **\$ 3,207,555**

See the accompanying notes to the financial statements

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

A. Organization:

The North City West School Facilities Financing Authority (the Entity) was formed by a joint powers agreement among the following San Diego County School Districts: San Dieguito Union High School District, Del Mar Union School District, and Solana Beach School District. The purpose of the Entity is to collect developer fees and rebate the monies to the districts to build the necessary facilities. The North City West School Facilities Financing Authority is an entity separate and distinct from each of its participant districts.

B. Summary of Significant Accounting Policies:

Reporting Entity

In evaluating how to define the Entity for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles and GASB Statement No. 14. The basic, but not the only criterion for including a potential component unit within the reporting entity is the Board of Director's ability to exercise oversight responsibility. A second criterion used in evaluating potential component units is the scope of public services. A third criterion used to evaluate potential component units is the existence of special financing relationships, regardless of whether the Entity is able to exercise oversight responsibilities.

Based on these criteria, the Entity has no component units. Additionally, the Entity is not a component unit of any other reporting entity as defined by the GASB Statement.

Basic of Presentation and Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) including Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

The financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. The Entity has no business-type activities.

Government-wide financial statements report information about the reporting unit as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the Entity and the change in aggregate financial position resulting from the activities of the year. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

The government-wide financial statements are reported using the 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.

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

B. Summary of Significant Accounting Policies: (Continued)

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. The emphasis of fund financial statements is on major and non-major governmental funds each displayed in a separate column.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. The Entity has no proprietary fund types.

The Entity reports the following major governmental funds:

General Fund. This is the Entity's primary operating fund. It is used to account for all financial resources of the Entity except those required to be accounted for in another fund.

In addition, the Entity reports the following fund types:

Debt Service Fund. This fund is used to account for the payment of principal and interest on general long-term debt. The Entity maintains the debt service fund to account for the accumulation of resources for, and the repayment of bonds, interest and related costs.

Construction Fund. This fund is used to account for capital outlay expenditures to build the necessary facilities for each of the participating school districts.

Budget and Budgetary Accounting

By state law, the Entity's governing board must approve a tentative budget no later than July 1, and adopt a final budget no later than September 15. A public hearing must be conducted to receive comments prior to adoption. The Entity's governing board satisfied these requirements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

B. Summary of Significant Accounting Policies: (Continued)

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Entity considers all highly liquid debt or equity investments purchased with an original maturity of three months or less to be cash equivalents.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the Entity. Tax revenues are recognized by the Entity when received.

Fund Balance Reserves and Designations

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the Entity's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the Entity intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the Entity itself.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

B. Summary of Significant Accounting Policies: (Continued)

Fund Balance Reserves and Designations

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the Entity considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Entity considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Income Taxes

The Entity is a governmental organization exempt from federal and state income taxes.

Funding Sources

Significantly all of the Entity's primary funding sources come from tax apportionment fees and developer fees collected.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. A capitalization threshold of \$5,000 is used.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the asset's life is recorded in operating expense in the year which the expense was incurred. Depreciation is computed using the straight-line method with a half-year convention over the following estimated useful lives of the assets:

Relocatable Buildings and Improvements	25 years
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Intangible Assets

Intangible assets consists of issuance costs on bond proceeds. The issuance costs are being amortized over the debt service life of the bond to which the issuance costs relate. Amortization for intangible assets has been computed using the straight-line method. Intangible assets are reported net of accumulated amortization as of June 30, 2012.

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

C. Cash and Investments:

Cash in County Treasury

In accordance with Education Code Section 41001, the Entity maintains a substantial amount of its cash in the San Diego County Treasury as part of the common investment pool (\$10,478,547 as of June 30, 2012). The fair value of the Entity's portion of this pool as of that date, as provided by the pool sponsor, was \$10,506,922. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

Cash in Banks

Cash balances on hand and in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

Cash Held by Fiscal Agent

The Entity records its accounting for investments at the lesser of cost or market value in accordance with GASB 31. As of June 30, 2012, cash held by fiscal agent on behalf of the Entity is presented below:

	<u>Cost</u>	<u>Market Value</u>	<u>Carrying Amount</u>
First American Treasury Obligations	\$ 112,792	\$ 112,792	\$ 112,792
US Treasury Certificate	17,913,486	17,913,486	17,913,486
US Bank Money Market Funds	6,483,720	6,483,720	6,483,720
Investment Agreements	<u>1,092,454</u>	<u>1,092,454</u>	<u>1,092,454</u>
Total	<u>\$25,602,452</u>	<u>\$25,602,452</u>	<u>\$25,602,452</u>

D. Capital Assets:

A summary of changes in capital asset activity for the year ended June 30, 2012 is as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Buildings and Improvements	\$ 4,321,049	\$ -	\$ -	\$ 4,321,049
Less Accumulated Depreciation	<u>(2,801,418)</u>	<u>(159,608)</u>	<u>-</u>	<u>(2,961,026)</u>
Net Capital Assets	<u>\$ 1,519,631</u>	<u>\$ (159,608)</u>	<u>\$ -</u>	<u>\$ 1,360,023</u>

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

E. Bonds Payable:

Series 2002

In September 2002 the Entity issued \$21,857,921 of subordinate special tax revenue bonds with an interest rate of 4.50% to 5.00%. These bonds were issued to finance the acquisition and construction of certain elementary and secondary school buildings and facilities. The bonds are special limited obligations of the Entity payable, as noted below, from proceeds of an annual special tax levied on the developed property located with the Entity district and the levy of the special tax on underdeveloped property to the extent the levy on the developed property, is insufficient to pay the bond requirements, the amounts held in the bond escrow fund and certain other funds and investment earnings pledged under the Trust Indenture and the Master Bond Resolution.

The principal amount outstanding at June 30, 2012 was \$21,857,921. Principal payments are made on September 1 while interest is payable semi-annually on March 1 and September 1. The bonds mature through September 1, 2027 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	17,495,000	421,475	17,916,475
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018-2022	-	-	-
2023-2027	3,358,446	7,866,554	11,225,000
2028	1,004,475	2,745,525	3,750,000
Totals	<u>21,857,921</u>	<u>11,033,554</u>	<u>32,891,475</u>

The principal that matures for the fiscal year end June 30, 2013 represents the partial early retirement of debt on the bonds as a result of the issuance of the Series 2012A Subordinate Special Tax Revenue Bonds. The partial refunding of the Series 2002 bonds in the amount of \$17,495,000 was paid on September 4, 2012.

Series 2005B

In August 2005 the Entity issued \$31,110,000 of subordinate special tax refunding bonds with an interest rate of 3.00% to 5.25%. These bonds were issued to provide funds to refund the 1997C senior bonds and pay certain costs related to the bonds. The bonds are special limited obligations of the Entity payable, as noted below, from proceeds of an annual special tax levied on the developed property located within the Entity district and the levy of the special tax on undeveloped property to the extent the levy on the developed property, is insufficient to pay the bond requirements, the amounts held in the bond escrow fund and certain other funds and investment earnings pledged under the Trust Indenture and the Master Bond Resolution.

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

E. Bonds Payable: (Continued)

The principal amount outstanding at June 30, 2012 was \$24,065,000. Principal payments are made on September 1 of each year while interest is payable semi-annually on March 1 and September 1. The bonds mature through September 1, 2027 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	1,020,000	1,214,400	2,234,400
2014	1,065,000	1,175,250	2,240,250
2015	1,100,000	1,125,075	2,225,075
2016	1,160,000	1,065,750	2,225,750
2017	1,220,000	1,003,275	2,223,275
2018-2022	7,135,000	3,958,106	11,093,106
2023-2027	9,220,000	1,822,800	11,042,800
2028	2,145,000	56,306	2,201,306
Totals	<u>24,065,000</u>	<u>11,420,962</u>	<u>35,485,962</u>

Series 2006C

In June 2006 the Entity issued \$31,030,000 of subordinate special tax revenue refunding bonds with an interest rate of 5.00%. These bonds were issued to provide funds to refund the 1995B senior bonds and pay certain costs related to the bonds. The bonds are special limited obligations of the Entity payable, as noted below, from the proceeds of an annual special tax levied on the developed property located within the Entity district and the levy of the special tax on undeveloped property to the extent the levy on the developed property, is insufficient to pay the bond requirements, the amounts held in the bond escrow fund and certain other funds and investment earnings pledged under the Trust Indenture and the Master Bond Resolution.

The principal amount outstanding at June 30, 2012 was \$20,465,000. Principal payments are made on September 1 of each year while interest is payable semi-annually on March 1 and September 1. The bonds mature through September 1, 2019 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	2,140,000	969,750	3,109,750
2014	2,250,000	860,000	3,110,000
2015	2,360,000	744,750	3,104,750
2016	2,480,000	623,750	3,103,750
2017	2,610,000	496,500	3,106,500
2018-2020	<u>8,625,000</u>	<u>660,875</u>	<u>9,285,875</u>
Totals	<u>20,465,000</u>	<u>4,355,625</u>	<u>24,820,625</u>

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

E. Bonds Payable: (Continued)

Series 2012A

On June 6, 2012, the Entity issued \$27,485,000 of Subordinate Special Tax Revenue Bonds, Series 2012A. The bonds bear fixed interest rates ranging from 2.00% to 5.00% with annual maturities from September 2012 through September 2027. The net proceeds of \$30,493,868 (after premium of \$3,547,307 less underwriters discount of \$178,653 and cost of assured guaranty insurance and surety premium in the amount of \$359,786) were used to refund \$15,310,000 of the District's outstanding Subordinate Special Tax Revenue Bonds, Series 2005A and partially refund \$17,495,000 of the District's outstanding Subordinate Special Tax Revenue Bonds, Series 2002. In addition, \$3,209,208 in prior bond funds from Series 2005A and \$28,111 in prior bond funds from Series 2002 were made available and used for an additional funding source for the refunding and to offset insurance expense, discounts, and other issuance costs.

Net proceeds of \$17,885,375 were deposited into an individual escrow fund for the refunding of the Series 2002 Bonds and net proceeds of \$12,284,239 were deposited into an individual escrow fund for the refunding of the Series 2005A Bonds with remaining funds of \$324,254 deposited to a cost issuance fund. The outstanding and remaining debt service of \$15,310,000 for the Series 2005A bonds was paid in full on June 12, 2012. The partial refunding of the Series 2002 bonds in the amount of \$17,495,000 was paid in the subsequent fiscal year on September 4, 2012.

The refunding decreased the District's total debt service payments by \$7,478,021.

Decrease in Debt Service Payments:

Series 2012A Bonds	\$ 39,276,153
Old Debt - Series 2002 Bonds and 2005A Bonds	<u>46,754,174</u>
Decrease in Debt Service Payments	<u><u>(7,478,021)</u></u>

Present Value Used as Effective Rate Target:

Face amount of 2012A Bonds	\$ 27,485,000
Premium	3,547,307
All Costs Not Recoverable Through Escrow Rate Earnings	<u>(862,692)</u>
Present Value Used as Effective Rate Target	<u><u>\$ 30,169,615</u></u>

Economic Gain:

Present Value of Old Debt	\$ 36,386,982
Present Value of Series 2012A Bonds	<u>30,169,615</u>
Present Value of Savings from Cash Flow	6,217,367
Less Prior Funds on Hand	<u>(3,237,319)</u>
Calculated Economic Gain	<u><u>\$ 2,980,048</u></u>

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)

E. Bonds Payable: (Continued)

The 2012 Bonds are payable from installment payments to be made by the Community Facilities District pursuant to an agreement dated June 1, 2012. The installment payments are payable from certain special taxes levied on developed property within the boundaries of the Community Facilities District. The principal outstanding at June 30, 2012 was \$27,485,000. Principal payments are made on September 1 of each year while interest is payable semi-annually on March 1 and September 1. The bonds mature through September 1, 2027 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	1,315,000	879,753	2,194,753
2014	640,000	1,180,300	1,820,300
2015	615,000	1,167,750	1,782,750
2016	620,000	1,152,300	1,772,300
2017	685,000	1,132,725	1,817,725
2018-2022	10,255,000	4,944,950	15,199,950
2023-2027	12,170,000	1,303,750	13,473,750
2028	1,185,000	29,625	1,214,625
Totals	<u>27,485,000</u>	<u>11,791,153</u>	<u>39,276,153</u>

F. Changes in Long-Term Debt:

A schedule of changes in long-term debt for the fiscal year ended June 30, 2012 is as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>
2002 Bonds	\$ 21,857,921	\$ -	\$ -	\$ 21,857,921
2005A Bonds	16,130,000	-	16,130,000	-
2005B Bonds	25,055,000	-	990,000	24,065,000
2006C Bonds	22,505,000	-	2,040,000	20,465,000
2012A Bonds	-	27,485,000	-	27,485,000
2012A Bond Premium	<u>-</u>	<u>3,547,307</u>	<u>-</u>	<u>3,547,307</u>
Total	<u>\$85,547,921</u>	<u>\$31,032,307</u>	<u>\$ 19,160,000</u>	<u>\$97,420,228</u>

**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 Trustees
North City West School
Facilities Financing Authority
Solana Beach, California**

We have audited the financial statements and the aggregate remaining fund information of North City West School Facilities Financing Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated February 5, 2013. 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.

Internal Control Over Financing Reporting

In planning and performing our audit, we considered North City West School Facilities Financing Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 North City West School Facilities Financing Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North City West School Facilities Financing Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North City West School Facilities Financing Authority's financial statements are free of 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*.

This report is intended solely for the information of the Board of Trustees, management, others within the entity, and the State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson *Hadley* *King & Co., LLP*

El Cajon, California
February 5, 2013