

**NORTH CITY WEST SCHOOL
FACILITIES FINANCING AUTHORITY**

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

**NORTH CITY WEST SCHOOL
FACILITIES FINANCING AUTHORITY
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P. Robert Wilkinson, CPA
Brian K. Hadley, CPA

Aubrey W. King, CPA
Richard K. Savage, CPA

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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 years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Entity'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 fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the North City West School Facilities Financing Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the North City West School Facilities Financing Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 June 30, 2013 and 2012, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A to the financial statements, in 2013, North City West School Facilities Financing Authority adopted new accounting guidance, Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2014 on our consideration of North City West School Facilities Financing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North City West School Facilities Financing Authority's internal control over financial reporting and compliance.

Wilkinson Hadley King & Co., LLP

El Cajon, California
January 21, 2014

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY

(Required Supplementary Information-Unaudited)

Management's Discussion and Analysis For the Fiscal Years Ended June 30, 2013 (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, 2013 (FY 2013). 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 tenth year of implementation and the financial data and statements reflect prior year information. The Entity's financial statements follow this section.

Overview of the Entity

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 Combined Balance Sheet and Combined Statement of Revenues and Expenditures consist of three funding parts: general; construction; and debt service.

As described in Note B to the financial statements, in FY 2013, the Entity adopted new accounting guidelines under Government Accounting Standards Board Statement No. 63 which requires a change in certain terminology within the financial statements.

Financial Highlights

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Total net position is:	\$(53,114,357)	\$(57,862,151)
Total assets consist of: current assets	\$19,043,490	\$ 36,089,713
capital and intangible assets	\$4,199,224	\$ 4,633,680
Total liabilities consist of: current liabilities	\$5,083,550	\$21,970,000
long-term liabilities	\$71,273,521	\$75,450,228

North City West School Facilities Financing Authority as a Financial Entity

Table 1 provides a comparative summary of the Entity's total net position for fiscal years ending June 30, 2013 and June 30, 2012.

Table 1
Statement of Net Position

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Assets:		
Cash in County Treasury	\$ 10,320,685	\$ 10,478,547
Cash with Fiscal Agent	8,715,491	25,602,452
Interest Receivable	<u>7,314</u>	<u>8,714</u>
Total Current Assets	19,043,490	36,089,713
Non-current Assets:		
Buildings and Improvements, net	1,200,415	1,360,023
Intangible Assets, net	<u>2,998,809</u>	<u>3,273,657</u>
Total Assets	<u>\$23,242,714</u>	<u>\$40,723,393</u>
Liabilities		
Current Liabilities:		
Accounts Payable	\$ 28,716	\$ 37,032
Accrued Interest	1,099,834	1,128,284
Bonds Payable – Current Portion	<u>3,955,000</u>	<u>21,970,000</u>
Total Current Liabilities	5,083,550	23,135,316
Non-current Liabilities:		
Bonds Payable	67,947,921	71,902,921
Unamortized Bond Premium	<u>3,325,600</u>	<u>3,547,307</u>
Total Liabilities	71,273,521	75,450,228
Net Position:		
Restricted	4,013,505	20,901,559
Unrestricted	<u>(57,127,862)</u>	<u>(78,763,710)</u>
Total Net Position	<u>(53,114,357)</u>	<u>(57,862,151)</u>
Total Liabilities and Net Position	<u>\$23,242,714</u>	<u>\$40,723,393</u>

Tables 2, 3 and 4 summarize the revenues and expenses for the twelve-month periods ending June 30, 2013 and June 30, 2012.

Table 2
Operating Revenue, Twelve Months Ended

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Operating Revenue:		
Mello-Roos Special Tax Apportionments	\$ <u>8,447,835</u>	\$ <u>8,421,943</u>
Total Operating Revenue	\$ <u>8,447,835</u>	\$ <u>8,421,943</u>

Table 3
Operating Expenses, Twelve Months Ended

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Operating Expenses:		
General and Administrative	\$ 94,738	\$ 114,321
Capital Expenditure	-	167,493
Depreciation	159,608	159,608
Amortization	<u>274,848</u>	<u>1,040,709</u>
Total Operating Expenses	\$ <u>529,194</u>	\$ <u>1,482,131</u>

Table 4
Non-Operating Revenues & Expenses, Twelve Months Ended

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Non-Operating Revenue & Expenses:		
Interest & Investment Income	\$ 66,289	\$ 86,685
Interest & Financing Charges	<u>(3,237,136)</u>	<u>(3,818,842)</u>
Total Non -Operating Revenues and Expenses	\$ <u>(3,170,847)</u>	\$ <u>(3,732,157)</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, 2013 (FY 2013) is highlighted by the partial refunding on September 4, 2012 of \$17,495,000 in principal for the Series 2002 bonds. The proceeds for the refunding were provided by the issuance of the Subordinated Special Tax Revenue Bonds, Series 2012A, for \$27,485,000 in FY 2012. The effect of the repayment was to lower the Entity's Cash with Fiscal Agent, Total Assets and Current Liabilities by a similar amount at June 30, 2013 compared to June 30, 2012.

Operating revenue for FY 2013 and FY 2012 was solely from Special Taxes as new residential development within the School Districts is complete or near completion. Special tax revenue increased to \$8,447,835 in FY 2013 compared to \$8,421,943 for FY 2012, a 0.31% increase which is slightly less than in prior years due to the lower debt service requirement on the refunded bonds. General and Administrative expense for FY 2013 decreased approximately 19% from FY 2012, which included additional fees paid to financing professionals relating to the Series 2012A bond issuance. There were no Capital expenditures for FY 2013. For FY 2012, the \$167,493 Capital Expenditure represents the final payment for construction costs on the Ocean Air Middle School. Amortization Costs decreased \$765,861 (73.59%) in FY 2013 compared to FY 2012, which included the write off of \$819,075 in unamortized bond issuance costs relating to the Series 2005A bonds that were paid in full in FY 2012. Interest earnings for FY 2013 are down \$20,396 (23.53%) compared to FY 2012 primarily due to the expiration of a high yielding guaranteed investment contract on the bond reserves in FY 2012 and lower investment rate availability in FY 2013. Interest and Financing Charges for FY 2013 are \$581,706 (15.23%) less than FY 2012 primarily due to the \$17,495,000 Series 2002 bond principal reduction made in September 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 POSITION
JUNE 30, 2013 AND 2012

	June 30,	
	2013	2012
ASSETS		
Current Assets:		
Cash in County Treasury	\$ 10,320,685	\$ 10,478,547
Cash with Fiscal Agent	8,715,491	25,602,452
Interest Receivable	7,314	8,714
Total Current Assets	19,043,490	36,089,713
Non-current Assets:		
Buildings and Improvements, net	1,200,415	1,360,023
Intangible Assets, net	2,998,809	3,273,657
Total Non-current Assets	4,199,224	4,633,680
TOTAL ASSETS	\$ 23,242,714	\$ 40,723,393
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 28,716	\$ 37,032
Accrued Interest	1,099,834	1,128,284
Bonds Payable - Current Portion	3,955,000	21,970,000
Total Current Liabilities	5,083,550	23,135,316
Non-current Liabilities:		
Bonds Payable	67,947,921	71,902,921
Unamortized Bond Premium	3,325,600	3,547,307
Total Non-current Liabilities	71,273,521	75,450,228
TOTAL LIABILITIES	76,357,071	98,585,544
NET POSITION		
Restricted	4,013,505	20,901,559
Unrestricted	(57,127,862)	(78,763,710)
TOTAL NET POSITION	(53,114,357)	(57,862,151)
TOTAL LIABILITIES AND NET POSITION	\$ 23,242,714	\$ 40,723,393

See the accompanying notes to the financial statements

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
STATEMENT OF ACTIVITIES
JUNE 30, 2013 AND 2012**

	June 30,	
	2013	2012
OPERATING REVENUES		
Tax Apportionments	\$ 8,447,835	\$ 8,421,943
TOTAL OPERATING REVENUES	8,447,835	8,421,943
OPERATING EXPENSES		
Professional Fees	55,900	70,884
Demographic Study	6,784	6,340
General and Administration	32,054	37,097
Site/Construction Reimbursement	-	167,493
Depreciation	159,608	159,608
Amortization	274,848	1,040,709
TOTAL OPERATING EXPENSES	529,194	1,482,131
OPERATING INCOME (LOSS)	7,918,641	6,939,812
NON-OPERATING REVENUES (EXPENSES)		
Interest and Investment Income	66,289	86,685
Interest and Fiscal Charges	(3,237,136)	(3,818,842)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(3,170,847)	(3,732,157)
INCREASE (DECREASE) IN NET POSITION	4,747,794	3,207,655
NET POSITION, BEGINNING OF YEAR	(57,862,151)	(61,069,806)
NET POSITION, END OF YEAR	\$ (53,114,357)	\$ (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, 2013**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Construction	Debt Service	
ASSETS				
Cash in County Treasury	\$ 10,235,918	\$ 84,767	\$ -	\$ 10,320,685
Cash with Fiscal Agent	-	4,701,986	4,013,505	8,715,491
Accrued Interest Receivable	7,247	67	-	7,314
	\$ 10,243,165	\$ 4,786,820	\$ 4,013,505	\$ 19,043,490
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 28,716	\$ -	\$ -	\$ 28,716
Total Liabilities	28,716	-	-	28,716
 Fund Balances:				
Restricted				
Debt Services	-	-	4,013,505	4,013,505
Unassigned				
Other Unassigned	10,214,449	4,786,820	-	15,001,269
Total Fund Balances	10,214,449	4,786,820	4,013,505	19,014,774
	\$ 10,243,165	\$ 4,786,820	\$ 4,013,505	\$ 19,043,490

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	<u>8,504</u>	<u>210</u>	<u>-</u>	<u>8,714</u>
	<u>\$ 10,402,732</u>	<u>\$ 4,791,851</u>	<u>\$ 20,895,130</u>	<u>\$ 36,089,713</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 37,032	\$ -	\$ -	\$ 37,032
	<u>37,032</u>	<u>-</u>	<u>-</u>	<u>37,032</u>
Fund Balances:				
Restricted				
Debt Services	-	-	20,895,130	20,895,130
Escrow Funds	-	6,429	-	6,429
Unassigned				
Other Unassigned	<u>10,365,700</u>	<u>4,785,422</u>	<u>-</u>	<u>15,151,122</u>
	<u>10,365,700</u>	<u>4,791,851</u>	<u>20,895,130</u>	<u>36,052,681</u>
	<u>\$ 10,402,732</u>	<u>\$ 4,791,851</u>	<u>\$ 20,895,130</u>	<u>\$ 36,089,713</u>

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 POSITION
JUNE 30, 2013 AND 2012**

	June 30,	
	2013	2012
TOTAL FUND BALANCES - GOVERNMENTAL FUNDS BALANCE SHEET	\$ 19,014,774	\$ 36,052,681
 Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets in governmental activities are not reported in the funds, net of accumulated depreciation:	1,200,415	1,360,023
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities are reported. Long-term liabilities relating to governmental activities consisted of:	(75,228,521)	(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:	2,998,809	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:	(1,099,834)	(1,128,284)
 NET GOVERNMENTAL POSITION - STATEMENT OF NET POSITION	\$ (53,114,357)	\$ (57,862,151)

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, 2013**

	<u>General Fund</u>	<u>Construction Fund</u>	<u>Debt Service Fund</u>	<u>Totals (Memorandum Only)</u>
REVENUES				
Tax Apportionments	\$ 8,447,835	\$ -	\$ -	\$ 8,447,835
Investment Income	<u>24,729</u>	<u>1,398</u>	<u>40,162</u>	<u>66,289</u>
TOTAL REVENUES	<u>8,472,564</u>	<u>1,398</u>	<u>40,162</u>	<u>8,514,124</u>
EXPENDITURES				
Administration:				
Professional Fees	55,900	-	-	55,900
Demographic Study	6,784	-	-	6,784
General and Administrative	<u>24,854</u>	<u>-</u>	<u>7,200</u>	<u>32,054</u>
TOTAL EXPENDITURES	<u>87,538</u>	<u>-</u>	<u>7,200</u>	<u>94,738</u>
Excess of Revenues Over (Under) Expenditures	<u>8,385,026</u>	<u>1,398</u>	<u>32,962</u>	<u>8,419,386</u>
OTHER SOURCES (USES):				
Principal Reduction	-	-	(21,970,000)	(21,970,000)
Interest Expense	-	-	(3,487,293)	(3,487,293)
Transfers In (Out)	<u>(8,536,277)</u>	<u>(6,429)</u>	<u>8,542,706</u>	<u>-</u>
TOTAL OTHER SOURCES (USES)	<u>(8,536,277)</u>	<u>(6,429)</u>	<u>(16,914,587)</u>	<u>(25,457,293)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(151,251)	(5,031)	(16,881,625)	(17,037,907)
FUND BALANCE, July 1, 2012	<u>10,365,700</u>	<u>4,791,851</u>	<u>20,895,130</u>	<u>36,052,681</u>
FUND BALANCE, June 30, 2013	<u>\$ 10,214,449</u>	<u>\$ 4,786,820</u>	<u>\$ 4,013,505</u>	<u>\$ 19,014,774</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, 2013 AND 2012**

	June 30,	
	2013	2012
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (17,037,907)	\$ 15,229,758
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
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)	(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:	21,970,000	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:	(274,848)	(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:	221,707	(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:	28,450	199,090
CHANGE IN GOVERNMENTAL POSITION - STATEMENT OF ACTIVITIES	\$ 4,747,794	\$ 3,207,555

See the accompanying notes to the financial statements

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 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, 2013 AND 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, 2013 AND 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, 2013 AND 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, 2013 and 2012.

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

B. Summary of Significant Accounting Policies: (Continued)

GASB 63 Implementation

The Entity has implemented GASB Statement Number 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The purpose of this pronouncement is to improve financial reporting by standardizing the presentation of deferred inflows and outflows of resources and their effects on a government's net position. Transactions that result in consumption or acquisition of net assets in one period that are applicable to future periods as deferred outflows and inflows of resources are distinguished from assets and liabilities. Net position is the difference between 1) assets and deferred outflows of resources; and 2) liabilities and deferred inflows of resources. For the year ended June 30, 2013 the Entity did not have any items which would be considered deferred outflows and inflows of resources.

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 and \$10,320,685 as of June 30, 2013). 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 as of June 30, 2012 and \$10,348,551 as of June 30, 2013. 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. Cash held by fiscal agent on behalf of the Entity is presented below:

	<u>June 30, 2012</u>		
	<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>

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

C. Cash and Investments: (Continued)

	June 30, 2013		
	Cost	Market Value	Carrying Amount
First American Treasury Obligations	\$ 46,994	\$ 46,994	\$ 46,994
GE Capital Commercial Paper	5,083,553	5,083,553	5,083,553
US Bank Money Market Funds	1,224,852	1,224,852	1,224,852
Investment Agreements	2,360,392	2,360,392	2,360,392
Total	<u>\$ 8,715,791</u>	<u>\$ 8,715,791</u>	<u>\$ 8,715,791</u>

D. Capital Assets:

A summary of changes in capital asset activity for the years ended June 30, 2012 and 2013 is as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Buildings and Improvements	\$ 4,321,049	\$ -	\$ -	\$ 4,321,049
Less Accumulated Depreciation	(2,801,418)	(159,608)	-	(2,961,026)
Net Capital Assets	<u>\$ 1,519,631</u>	<u>\$ (159,608)</u>	<u>\$ -</u>	<u>\$ 1,360,023</u>
	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Buildings and Improvements	\$ 4,321,049	\$ -	\$ -	\$ 4,321,049
Less Accumulated Depreciation	(2,961,026)	(159,608)	-	(3,120,634)
Net Capital Assets	<u>\$ 1,360,023</u>	<u>\$ (159,608)</u>	<u>\$ -</u>	<u>\$ 1,200,415</u>

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. In September 2012, \$17,450,000 in principal was refunded from the proceeds of the Subordinated Special Tax Revenue Bonds, Series 2012A.

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

E. Bonds Payable: (Continued)

The principal amount outstanding at June 30, 2013 was \$4,362,921. The bonds mature through September 1, 2027 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019-2023	-	-	-
2024-2028	<u>4,362,921</u>	<u>10,612,079</u>	<u>14,975,000</u>
Totals	<u><u>4,362,921</u></u>	<u><u>10,612,079</u></u>	<u><u>14,975,000</u></u>

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.

The principal amount outstanding at June 30, 2013 was \$23,045,000. 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>
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	1,285,000	937,519	2,222,519
2019-2023	7,510,000	3,573,675	11,083,675
2024-2028	<u>9,705,000</u>	<u>1,326,019</u>	<u>11,031,019</u>
Totals	<u><u>23,045,000</u></u>	<u><u>10,206,563</u></u>	<u><u>33,251,563</u></u>

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
(Continued)

E. Bonds Payable: (Continued)

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, 2013 was \$18,325,000. 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>
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	2,735,000	362,875	3,097,875
2019-2020	5,890,000	298,000	6,188,000
Totals	<u>18,325,000</u>	<u>3,385,875</u>	<u>21,710,875</u>

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 on September 4, 2012.

NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 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, 2013 was \$26,170,000. 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>
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	660,000	1,112,550	1,772,550
2019-2023	13,955,000	4,376,150	18,331,150
2024-2028	8,995,000	789,625	9,784,625
Totals	<u>26,170,000</u>	<u>10,911,400</u>	<u>37,081,400</u>

F. Changes in Long-Term Debt:

A schedule of changes in long-term debt for the fiscal year ended June 30, 2013 is as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
2002 Bonds	\$ 21,857,921	\$ -	\$ 17,495,000	\$ 4,362,921
2005B Bonds	24,065,000	-	1,020,000	23,045,000
2006C Bonds	20,465,000	-	2,140,000	18,325,000
2012A Bonds	27,485,000	-	1,315,000	26,170,000
2012A Bond Premium	<u>3,547,307</u>	<u>-</u>	<u>221,707</u>	<u>3,325,600</u>
Total	<u>\$97,420,228</u>	<u>\$ -</u>	<u>\$ 22,191,707</u>	<u>\$75,228,521</u>

Subsequent Events

Effective for the fiscal year beginning July 1, 2013 the Entity is implementing GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*. The purpose of this pronouncement is to improve financial reporting by clarifying the appropriate use of the financial statement elements of deferred inflows and outflows of resources to ensure consistency in financial reporting. With implementation of this pronouncement, the District will recognize certain items previously reported as assets and liabilities as outflows of resources or inflows of resources.

OTHER INDEPENDENT AUDITOR'S REPORTS

**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 Trustees
North City West School
Facilities Financing Authority
Solana Beach, 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 the aggregate remaining fund information of North City West School Facilities Financing Authority, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise North City West School Facilities Financing Authority's basic financial statements, and have issued our report thereon dated January 21, 2014.

Internal Control Over Financing Reporting

In planning and performing our audits, we considered North City West School Facilities Financing Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North City West School Facilities Financing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of North City West School Facilities Financing 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 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wilkinson Hadley King & Co., LLP

El Cajon, California
January 21, 2014