

**NORTH CITY WEST SCHOOL  
FACILITIES FINANCING AUTHORITY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

**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**

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North City West School Facilities Financing Authority (the Authority), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to 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, each major fund, and the aggregate remaining fund information of North City West School Facilities Financing Authority as of June 30, 2018 and 2017, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## 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 February 14, 2019 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  
February 14, 2019

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
(Required Supplementary Information-Unaudited)  
**Management’s Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2018 and 2017**  
(Unaudited)

This section of the North City West School Facilities Financing Authority’s (“Authority”) annual financial report presents management’s discussion and analysis of the Authority’s financial performance during the fiscal years ended June 30, 2018 (“FY 2018”) and 2017 (“FY 2017”). 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 fourteenth year of implementation and the financial data and statements reflect prior year information. The Authority’s financial statements follow this section.

**Overview of the Authority**

The Authority 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 Authority: 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 Authority 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 Authority 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 Authority’s liabilities exceed its assets.

The Authority maintains cash accounts with the Treasurer of San Diego County and construction and other bond accounts with our Trustee, US Bank. While the Authority 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.

### Financial Highlights

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Total net position is:	\$ (40,713,507)	\$ (29,716,941)
Total assets consist of: current assets	\$ 11,732,694	\$ 27,525,603
capital and intangible assets	\$ 443,080	\$ 541,147
Total liabilities consist of: current liabilities	\$ 5,721,980	\$ 5,521,650
long-term liabilities	\$ 47,679,986	\$ 52,856,693

Table 1 provides a comparative summary of the Authority's total net position for fiscal years ending June 30, 2018 and June 30, 2017.

Table 1  
Statement of Net Position  
Year Ended

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<b>Assets:</b>		
Cash in County Treasury	\$ 8,169,936	\$ 19,915,711
Cash with Fiscal Agent	3,529,366	7,559,659
Interest Receivable	<u>33,392</u>	<u>50,233</u>
Total Current Assets	11,732,694	27,525,603
Non-current Assets:		
Buildings and Improvements, net	<u>443,080</u>	<u>541,147</u>
<b>Total Assets</b>	<b><u>\$ 12,175,774</u></b>	<b><u>\$28,066,750</u></b>
<b>Deferred Outflows of Resources</b>	<b><u>\$ 512,685</u></b>	<b><u>\$ 594,652</u></b>
<b>Liabilities</b>		
Current Liabilities:		
Accrued Interest	\$ 766,980	\$ 841,650
Bonds Payable – Current Portion	<u>4,955,000</u>	<u>4,680,000</u>
Total Current Liabilities	5,721,980	5,521,650
Non-current Liabilities:		
Bonds Payable	45,462,921	50,417,921
Unamortized Bond Premium	<u>2,217,065</u>	<u>2,438,772</u>
<b>Total Liabilities</b>	<b><u>47,679,986</u></b>	<b><u>52,856,693</u></b>
<b>Net Position:</b>		
Restricted	3,635,582	8,386,436
Unrestricted	<u>(44,349,089)</u>	<u>(38,103,377)</u>
<b>Total Net Position</b>	<b><u>\$(40,713,507)</u></b>	<b><u>\$(29,716,941)</u></b>

Table 2 provides a comparative summary of the Authority's statement of activities for fiscal years ending June 30, 2018 and June 30, 2017.

Table 2  
Statement of Activities  
Year Ended

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<b>General Revenues:</b>		
Tax Assessments	\$ 8,422,588	\$ 8,421,352
Mitigation Fees	2,000,000	3,636,289
Other Revenues	16,690	16,877
Interest and Investment Earnings	<u>262,813</u>	<u>192,300</u>
<b>Total General Revenues</b>	<b>\$ 10,702,091</b>	<b>\$ 12,266,818</b>
<b>Functions/Programs:</b>		
<b>Governmental Activities:</b>		
Program Services	\$ 19,279,769	\$ 321,712
General Administration	102,681	144,568
Interest on Long-Term Debt	2,119,483	2,339,093
Other Outgo – Prepaid Insurance	81,967	81,967
Depreciation – Unallocated	<u>114,757</u>	<u>110,585</u>
<b>Total Governmental Activities</b>	<b>\$ 21,698,657</b>	<b>\$ 2,997,925</b>
Change in Net Position	\$(10,996,566)	\$ 9,268,893
Net Position – Beginning	<u>(29,716,941)</u>	<u>(38,985,834)</u>
<b>Net Position – Ending</b>	<b><u>\$(40,713,507)</u></b>	<b><u>\$(29,716,941)</u></b>

Tables 3 and 4 summarize the revenues and expenditures for the twelve-month periods ending June 30, 2018 and June 30, 2017.

Table 3  
Statement of Revenues  
Year Ended

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<b>Revenues:</b>		
Special Taxes	\$ 8,422,588	\$ 8,421,352
Mitigation Fees	2,000,000	3,636,289
Other Revenue	-	16,877
Investment Income	<u>262,813</u>	<u>192,300</u>
<b>Total Revenues</b>	<b><u>\$10,685,401</u></b>	<b><u>\$12,266,818</u></b>

Table 4  
Statement of Expenditures  
Year Ended

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<b>Expenditures:</b>		
Professional Fees	\$ 74,037	\$ 77,927
Legal Fees	11,588	40,513
Demographic Study	9,080	23,257
General and Administration	28,644	26,128
Capital Reimbursement:		
CVMS Expansion	4,093,736	298,455
Facilities Cost Overrun Payments	9,529,077	-
CFD3 Fund Mitigation Fees	2,000,000	-
One Paseo Fund Mitigation Fees	3,636,288	-
Debt Service:		
Principal	4,680,000	4,515,000
Interest	<u>2,415,860</u>	<u>2,632,500</u>
<b>Total Expenditures</b>	<b><u>\$26,478,310</u></b>	<b><u>\$7,613,780</u></b>

**Current Financial Related Activities**

The Authority 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 was approved by the Board for an appropriation of \$5,586,098 in June 2016, is also included in the document.

The Fiscal Year Ending June 30, 2017 is highlighted by continuing new development in the non-CFD areas of the Authority. In May 2017, the Authority entered into a Mitigation Agreement with a developer proposing development of a mixed-use project named One Paseo (the "Project") approved by the City of San Diego and located in an area outside the boundaries of the Authority's existing community facilities districts. The initial phase of the Project is to consist of 608 multi-family residential units and approximately 100,000 square feet of commercial/retail space with a potential for an additional 280,000 square feet of office development planned for a potential future phase. To mitigate the impact of the students generated by the initial Project phase on the Authorities school facilities, the developer paid the Authority a one-time mitigation fee of \$3,636,289 in Fiscal Year 2017. If the developer seeks building permits for the future commercial phase of the Project, an additional mitigation fee will be paid to the Authority based on the square footage reflected in the building permits at the applicable California statutory school fee amount for commercial and industrial construction.

Construction of the Carmel Valley Middle School Expansion project began in FY 2017 and includes removal of temporary classrooms and building additional permanent core facilities for music, drama, and food services. Total budgeted costs are \$5.7 million. Construction is expected to be completed at the end of 2018.



Total Assets decreased by approximately \$15.9 million in FY 2018 primarily resulting from distributions of the \$3.6 million One Paseo mitigation fee, \$2.0 million CFD3 Fund Mitigation, \$9.5 million in school cost Overrun Payments to member agencies and payment of \$4 million to the Carmel Valley Middle School expansion. The Authority continues to levy the maximum special tax for CFD Nos. 1 and 2 in anticipation of funding for the Carmel Valley Middle School expansion and to reimburse member school districts for cost overruns on completed schools that totaled approximately \$9.5 million at September 30, 2018. Total Liabilities continue to be reduced by approximately \$5.0 million per year as the Authority makes scheduled bond principal payments.

Total Revenues for FY 2018 and FY 2017 are primarily from Special Taxes on developed residential property within the CFDs. Mitigation fees, or direct deposit fees, of \$2.0 million were received relating to the CFD 3 in FY 2018 and \$3.63 million were received relating to the One Paseo Project in FY 2017.

Total Expenditures for FY 2018 were significantly impacted by the initial reimbursement of \$4.1 million to San Dieguito Union High School District for the Carmel Valley Middle School Expansion and \$9.5 million for combined overrun distributions to Del Mar Union School District, San Dieguito Union High School District, and Solana Beach School District. Legal fees in FY 2018 decreased by \$28,925 (71.4%) over FY 2017 primarily resulting from completion of negotiations relating to the One Paseo Mitigation Agreement. Demographic Study expense was lower in FY 2018 by approximately \$14,000 (61.0%) compared to FY 2017 that included a one-time reimbursement of \$10,150 to Del Mar Union School District for the Authority's share of a 2004 survey fee relating to the Ocean Air Elementary School construction not previously reimbursed.

### **Contacting the Authority's Financial Management**

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 200, Temecula, CA, 92590.

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018 AND 2017**

	June 30,	
	2018	2017
<b>ASSETS</b>		
Current Assets:		
Cash in County Treasury	\$ 8,169,936	\$ 19,915,711
Cash with Fiscal Agent	3,529,366	7,559,659
Interest Receivable	33,392	50,233
Total Current Assets	11,732,694	27,525,603
Non-current Assets:		
Buildings and Improvements, net	443,080	541,147
<b>TOTAL ASSETS</b>	12,175,774	28,066,750
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	512,685	594,652
<b>LIABILITIES</b>		
Current Liabilities:		
Accrued Interest	766,980	841,650
Bonds Payable - Current Portion	4,955,000	4,680,000
Total Current Liabilities	5,721,980	5,521,650
Non-current Liabilities:		
Bonds Payable	45,462,921	50,417,921
Unamortized Bond Premium	2,217,065	2,438,772
Total Non-current Liabilities	47,679,986	52,856,693
<b>TOTAL LIABILITIES</b>	53,401,966	58,378,343
<b>NET POSITION</b>		
Restricted	3,635,582	8,386,436
Unrestricted	(44,349,089)	(38,103,377)
<b>TOTAL NET POSITION</b>	\$ (40,713,507)	\$ (29,716,941)

See the accompanying notes to the financial statements

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
**JUNE 30, 2018**

	Program Revenues			Governmental Activities	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<b>Functions/Programs</b>					
<b>Governmental Activities:</b>					
Program Services	\$ 19,279,769	\$ -	\$ -	\$ -	\$ (19,279,769)
General Administration	102,681	-	-	-	(102,681)
Interest on Long-Term Debt	2,119,483	-	-	-	(2,119,483)
Other Outgo - Prepaid Insurance	81,967	-	-	-	(81,967)
Depreciation - Unallocated	114,757	-	-	-	(114,757)
<b>Total Governmental Activities</b>	<b>\$ 21,698,657</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(21,698,657)</b>

<b>General Revenues:</b>	
Tax Assessments	8,422,588
Mitigation Fees	2,000,000
Gain (Loss) Disposal of Assets	16,690
Interest and Investment Earnings	262,813
<b>Total General Revenues</b>	<b>10,702,091</b>
Change in Net Position	(10,996,566)
Net Position - Beginning	(29,716,941)
<b>Net Position - Ending</b>	<b>\$ (40,713,507)</b>

The accompanying notes are an integral part of this statement

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
**JUNE 30, 2017**

	Program Revenues			Governmental Activities	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<u>Functions/Programs</u>					
Governmental Activities:					
Program Services	\$ 321,712	\$ -	\$ -	\$ -	\$ (321,712)
General Administration	144,568	-	-	-	(144,568)
Interest on Long-Term Debt	2,339,093	-	-	-	(2,339,093)
Other Outgo - Prepaid Insurance	81,967	-	-	-	(81,967)
Depreciation - Unallocated	110,585	-	-	-	(110,585)
Total Governmental Activities	<u>\$ 2,997,925</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(2,997,925)</u>

General Revenues:	
Tax Assessments	8,421,352
Mitigation Fees	3,636,289
Other Revenues	16,877
Interest and Investment Earnings	<u>192,300</u>
Total General Revenues	<u>12,266,818</u>
Change in Net Position	9,268,893
Net Position - Beginning	<u>(38,985,834)</u>
Net Position - Ending	<u>\$ (29,716,941)</u>

The accompanying notes are an integral part of this statement

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY  
 COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUND TYPES  
 JUNE 30, 2018**

	Governmental Fund Types			Totals
	General	Construction	Debt Service	
<b>ASSETS</b>				
Cash in County Treasury	\$ 8,064,197	\$ 105,739	\$ -	\$ 8,169,936
Cash with Fiscal Agent	-	389,729	3,139,637	3,529,366
Accrued Interest Receivable	32,915	477	-	33,392
	<u>\$ 8,097,112</u>	<u>\$ 495,945</u>	<u>\$ 3,139,637</u>	<u>\$ 11,732,694</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted				
Debt Services	-	-	3,139,637	3,139,637
Capital Facilities	-	495,945	-	495,945
Unassigned				
Other Unassigned	8,097,112	-	-	8,097,112
Total Fund Balances	<u>8,097,112</u>	<u>495,945</u>	<u>3,139,637</u>	<u>11,732,694</u>
	<u>\$ 8,097,112</u>	<u>\$ 495,945</u>	<u>\$ 3,139,637</u>	<u>\$ 11,732,694</u>

See the accompanying notes to the financial statements.

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY  
COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUND TYPES  
JUNE 30, 2017**

	Governmental Fund Types			Totals
	General	Construction	Debt Service	
<b>ASSETS</b>				
Cash in County Treasury	\$ 19,839,359	\$ 76,352	\$ -	\$ 19,915,711
Cash with Fiscal Agent	-	4,460,866	3,098,793	7,559,659
Accrued Interest Receivable	50,006	227	-	50,233
	<u>\$ 19,889,365</u>	<u>\$ 4,537,445</u>	<u>\$ 3,098,793</u>	<u>\$ 27,525,603</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Total Liabilities	-	-	-	-
Fund Balances:				
Restricted				
Debt Services	-	-	3,098,793	3,098,793
Capital Facilities	750,198	4,537,445	-	5,287,643
Unassigned				
Other Unassigned	19,139,167	-	-	19,139,167
Total Fund Balances	19,889,365	4,537,445	3,098,793	27,525,603
	<u>\$ 19,889,365</u>	<u>\$ 4,537,445</u>	<u>\$ 3,098,793</u>	<u>\$ 27,525,603</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, 2018 AND 2017**

	June 30,	
	2018	2017
<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS BALANCE SHEET</b>	<b>\$ 11,732,694</b>	<b>\$ 27,525,603</b>
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:	443,080	541,147
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:	(52,634,986)	(57,536,693)
Unamortized prepaid insurance costs: In governmental funds, prepaid insurance costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs for prepaid insurance are amortized over the life of the debt. Unamortized prepaid insurance costs as deferred outflows of resources on the statement of net position are:	512,685	594,652
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 unamatured interest owing at the end of the period was:	(766,980)	(841,650)
<b>NET GOVERNMENTAL POSITION - STATEMENT OF NET POSITION</b>	<b>\$ (40,713,507)</b>	<b>\$ (29,716,941)</b>

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, 2018**

	<u>General Fund</u>	<u>Construction Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
<b>REVENUES</b>				
Special Taxes	\$ 8,422,588	\$ -	\$ -	\$ 8,422,588
Mitigation Fees	-	2,000,000	-	2,000,000
Investment Income	<u>166,534</u>	<u>52,235</u>	<u>44,044</u>	<u>262,813</u>
<b>TOTAL REVENUES</b>	<u>8,589,122</u>	<u>2,052,235</u>	<u>44,044</u>	<u>10,685,401</u>
<b>EXPENDITURES</b>				
Current:				
Professional Fees	74,037	-	-	74,037
Legal Fees	11,588	-	-	11,588
Demographic Study	9,080	-	-	9,080
Facilities Cost Overrun Payments	9,529,077	-	-	9,529,077
CFD #3 Mitigation Payments	-	2,000,000	-	2,000,000
Construction Reimbursements	-	4,093,736	-	4,093,736
One Paseo Mitigation Payments	-	3,636,288	-	3,636,288
General and Administrative	28,644	-	-	28,644
Debt Service:				
Principal	-	-	4,680,000	4,680,000
Interest	-	-	2,415,860	2,415,860
<b>TOTAL EXPENDITURES</b>	<u>9,652,426</u>	<u>9,730,024</u>	<u>7,095,860</u>	<u>26,478,310</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,063,304)</u>	<u>(7,677,789)</u>	<u>(7,051,816)</u>	<u>(15,792,909)</u>
<b>OTHER SOURCES (USES):</b>				
Transfers In (Out)	<u>(10,728,949)</u>	<u>3,636,289</u>	<u>7,092,660</u>	<u>-</u>
<b>TOTAL OTHER SOURCES (USES)</b>	<u>(10,728,949)</u>	<u>3,636,289</u>	<u>7,092,660</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(11,792,253)	(4,041,500)	40,844	(15,792,909)
<b>FUND BALANCE, July 1, 2017</b>	<u>19,889,365</u>	<u>4,537,445</u>	<u>3,098,793</u>	<u>27,525,603</u>
<b>FUND BALANCE, June 30, 2018</b>	<u>\$ 8,097,112</u>	<u>\$ 495,945</u>	<u>\$ 3,139,637</u>	<u>\$11,732,694</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, 2017**

	General Fund	Construction Fund	Debt Service Fund	Totals
<b>REVENUES</b>				
Special Taxes	\$ 8,421,352	\$ -	\$ -	\$ 8,421,352
Mitigation Fees	3,636,289	-	-	3,636,289
Other Revenues	16,877	-	-	16,877
Investment Income	135,453	36,548	20,299	192,300
<b>TOTAL REVENUES</b>	<b>12,209,971</b>	<b>36,548</b>	<b>20,299</b>	<b>12,266,818</b>
<b>EXPENDITURES</b>				
Current:				
Professional Fees	77,927	-	-	77,927
Legal Fees	40,513	-	-	40,513
Demographic Study	23,257	-	-	23,257
Construction Reimbursement	-	298,455	-	298,455
General and Administrative	26,128	-	-	26,128
Debt Service:				
Principal	-	-	4,515,000	4,515,000
Interest	-	-	2,632,500	2,632,500
<b>TOTAL EXPENDITURES</b>	<b>167,825</b>	<b>298,455</b>	<b>7,147,500</b>	<b>7,613,780</b>
Excess of Revenues Over (Under) Expenditures	12,042,146	(261,907)	(7,127,201)	4,653,038
<b>OTHER SOURCES (USES):</b>				
Transfers In (Out)	(7,147,300)	-	7,147,300	-
<b>TOTAL OTHER SOURCES (USES)</b>	<b>(7,147,300)</b>	<b>-</b>	<b>7,147,300</b>	<b>-</b>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	4,894,846	(261,907)	20,099	4,653,038
<b>FUND BALANCE, July 1, 2016</b>	<b>14,994,519</b>	<b>4,799,352</b>	<b>3,078,694</b>	<b>22,872,565</b>
<b>FUND BALANCE, June 30, 2017</b>	<b>\$19,889,365</b>	<b>\$ 4,537,445</b>	<b>\$ 3,098,793</b>	<b>\$27,525,603</b>

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, 2018 AND 2017**

	June 30,	
	2018	2017
<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ (15,792,909)</b>	<b>\$ 4,653,038</b>
<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:	(114,757)	(110,585)
Debt service: In governmental funds, repayment of long-term debt is reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for the repayment of the principal portion of long-term debt were:	4,680,000	4,515,000
Prepaid debt insurance costs: In governmental funds, prepaid debt insurance costs are recognized as expenditures in the period they are incurred. In the government-wide statements prepaid debt insurance costs are amortized over the life of the debt. The difference between prepaid debt insurance costs recognized in the current period and prepaid debt insurance costs amortized for the period is:	(81,967)	(81,967)
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	221,707
Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:	16,690	-
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 the 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:	74,670	71,700
<b>CHANGE IN NET GOVERNMENTAL POSITION - STATEMENT OF ACTIVITIES</b>	<b>\$ (10,996,566)</b>	<b>\$ 9,268,893</b>

See the accompanying notes to the financial statements

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**A. Organization:**

The North City West School Facilities Financing Authority (the Authority) 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 Authority 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 Authority separate and distinct from each of its participant districts.

**B. Summary of Significant Accounting Policies:**

*Component Units*

Component units are legally separate organizations for which the Authority is financially accountable. Component units may also include organizations that are fiscally independent of the Authority in that the Authority approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the Authority is not financially accountable but the nature and significance of the organization's relationship with the Authority is such that the exclusion would cause the Authority's financial statements to be misleading or incomplete.

The Authority has no component units. Additionally, the Authority is not a component unit of any other reporting entity as defined by GASB Statements 14, 39, and 61.

*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 Authority 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 Authority and the change in aggregate financial position resulting from the activities of the year. These aggregated statements consist of the Statement of Net Position 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, 2018 AND 2017**  
**(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 Authority. 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 Authority has no proprietary fund types.

The Authority reports the following major governmental funds:

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

In addition, the Authority 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 Authority 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 Authority'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 Authority'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, 2018 AND 2017**  
**(Continued)**

**B. Summary of Significant Accounting Policies: (Continued)**

*Deposits and Investments*

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized. For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

In accordance with Education Code Section 41001, the Authority maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other entities in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

*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 Authority. Tax revenues are recognized by the Authority 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 Authority'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.

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
**(Continued)**

**B. Summary of Significant Accounting Policies: (Continued)**

Assigned Fund Balance – represents amounts which the Authority 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 Authority 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.

*Fund Balance Reserves and Designations*

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

*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
--	----------

*Income Taxes*

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

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
**(Continued)**

**B. Summary of Significant Accounting Policies: (Continued)**

*Funding Sources*

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

*Unearned Revenue*

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the Authority prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Authority has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

*Deferred Inflows and Deferred Outflows of Resources*

Deferred outflows of resources is a consumption of net position that is applicable to a future reporting period. Deferred inflows of resources is an acquisition of net position that is applicable to a future reporting period. Deferred outflows of resources and deferred inflows of resources are recorded in accordance with GASB Statement numbers 63 and 65.

*Fair Value Measurements*

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as defined by Government Accounting Standards Board (GASB) Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy is detailed as follows:

Level 1 Inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.

Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 Inputs: Unobservable inputs for an asset or liability.

For the current fiscal year, the Authority did not have any recurring or nonrecurring fair value measurements.

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
**(Continued)**

**B. Summary of Significant Accounting Policies: (Continued)**

*Change in Accounting Policies*

The Authority has adopted accounting policies compliant with new pronouncements issued by the Government Accounting Standards Board (GASB) that are effective for the fiscal year June 30, 2018. These newly implemented procedures are as follows:

GASB 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). This statement replaces the requirements of GASB 45 and GASB 57. This statement establishes standards for recognizing and measuring OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense. This statement also identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service for defined benefit OPEB. The Authority has no employees and currently does not provide a defined benefit OPEB plan.

GASB 85 – Omnibus 2017

The primary objective of this statement is to address practice issues that were identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). This statement was issued as a clarifying measure to previously issued statements. The implementation of this statement resulted in no changes to the Authority's financial statements and did not affect previous periods.

GASB 86 – Certain Debt Extinguishment Issues

The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, other than proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial statements debt that is defeased in substance. The Authority does not have any in-substance defeasance of debt as of June 30, 2018. The Authority has adopted the accounting policies in the event that the Authority extinguishes debt through use of a legal extinguishment or through an in-substance defeasance in a future period. There have been no adjustments made to the financial statements or note disclosures as a result of adoption of the accounting policies pursuant to GASB 86.

**C. Cash and Investments:**

Cash in County Treasury

In accordance with Education Code Section 41001, the Authority maintains a substantial amount of its cash in the San Diego County Treasury as part of the common investment pool (\$8,169,936 as of June 30, 2018) and (\$19,915,711 as of June 30, 2017). The fair value of the Authority's portion of this pool as of that date, as provided by the pool sponsor, was \$8,169,936 as of June 30, 2018 and \$19,915,711 as of June 30, 2017.



**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
**(Continued)**

**C. Cash and Investments: (Continued)**

Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer. The Authority is considered to be an involuntary participant in an external investment pool as the Authority is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the Authority's investments in the pool is reported in the accounting financial statements as amounts based upon the Authority's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of the portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. The San Diego County Treasury is not registered with the Securities and Exchange Commission (SEC) as an investment company; however, the County Treasury acts in accordance with investment policies monitored by a Treasury Oversight Committee consisting of members appointed by participants in the investment pool and up to five members of the public having expertise, or an academic background in, public finance. In addition, the County Treasury is audited annually by an independent auditor.

Cash in Banks

Cash balances on hand and in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation.

Cash with Fiscal Agent

The Authority's cash with fiscal agent at June 30, 2018 is shown below:

<u>Investment or Investment Type</u>	<u>Days to Maturity</u>	<u>Cost Reported</u>	<u>Fair Value</u>
Money Market Funds	<30 Days	\$ 440,470	\$ 440,470
First American Treasury Obligations	30 - 60 Days	69,721	69,721
U.S. Government Issues	>80 Days	3,019,175	2,992,162
Total Investments		<u>\$ 3,529,366</u>	<u>\$ 3,502,353</u>

The Authority's cash with fiscal agent at June 30, 2017 is shown below:

<u>Investment or Investment Type</u>	<u>Days to Maturity</u>	<u>Cost Reported</u>	<u>Fair Value</u>
Money Market Funds	<30 Days	\$ 1,637,572	\$ 1,637,572
First American Treasury Obligations	30 - 60 Days	50,847	50,847
Discount Note	90 Days	846,583	847,884
U.S. Government Issues	>168 Days	5,024,657	5,011,032
Total Investments		<u>\$ 7,559,659</u>	<u>\$ 7,547,335</u>

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
**(Continued)**

**C. Cash and Investments: (Continued)**

Analyst of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the Authority was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurers re-purchase or reverse repurchase agreements.

The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The San Diego County Investment Pool is rated AAf/S1 by Standard and Poors. U.S. Government Issues are rated AA+ by Standard and Poors with a Moody's rating of Aaa.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Authority's name. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name.

The Authority's money market funds of \$190,470 as of June 30, 2018 and \$1,387,572 as of June 30, 2017 were exposed to custodial credit risk because the funds were insured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the Authority.

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
**(Continued)**

**C. Cash and Investments: (Continued)**

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the total investments are either an external investment pool and are therefore exempt. As such, the Authority was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority manages its exposure to interest rate risk by investing in the county pool and laddering maturities for government issues from 1-3 years.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the Authority was not exposed to foreign currency risk.

Investment Accounting Policy

The Authority is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The Authority's general policy is to report money market investments and short-term participating interest-bearing investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value.

The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
**(Continued)**

**D. Capital Assets:**

A summary of changes in capital asset activity for the years ended June 30, 2017 and 2018 is as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Buildings and Improvements	\$ 3,551,769	\$ -	\$ -	\$ 3,551,769
Less Accumulated Depreciation	(2,900,037)	(110,585)	-	(3,010,622)
Net Capital Assets	<u>\$ 651,732</u>	<u>\$ (110,585)</u>	<u>\$ -</u>	<u>\$ 541,147</u>

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Buildings and Improvements	\$ 3,551,769	\$ -	\$ 364,692	\$ 3,187,077
Less Accumulated Depreciation	(3,010,622)	(114,757)	(381,382)	(2,743,997)
Net Capital Assets	<u>\$ 541,147</u>	<u>\$ (114,757)</u>	<u>\$ (16,690)</u>	<u>\$ 443,080</u>

**E. Deferred Outflows of Resources:**

Debt issue costs for 2005B Bonds, 2006C Bonds, and 2012A Bonds each included prepaid debt insurance. In accordance with GASB Statement No. 65, prepaid debt insurance is recorded as a deferred outflow of resources and amortized over the life of the debt.

A summary of the deferred outflows of resources as of June 30, 2018 is as follows:

Description	Amortization Term	Beginning Balance	Current Year Additions	Current Year Amortization	Ending Balance
2005B Prepaid Debt Insurance	22 Years	\$ 318,430	\$ -	\$ 29,169	\$ 289,261
2006C Prepaid Debt Insurance	14 Years	114,210	-	38,069	76,141
2012A Prepaid Debt Insurance	16 Years	162,012	-	14,729	147,283
Total Deferred Outflows of Resources		<u>\$ 594,652</u>	<u>\$ -</u>	<u>\$ 81,967</u>	<u>\$ 512,685</u>

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
**(Continued)**

**F. Bonds Payable:**

*Series 2002*

In September 2002 the Authority 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 Authority payable, as noted below, from proceeds of an annual special tax levied on the developed property located with the Authority 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.

The principal amount outstanding at June 30, 2018 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>
2019	\$ -	\$ -	\$ -
2020	-	-	-
2021	-	-	-
2022	-	-	-
2023	-	-	-
2024-2028	<u>4,362,921</u>	<u>10,612,079</u>	<u>14,975,000</u>
Totals	<u>\$ 4,362,921</u>	<u>\$ 10,612,079</u>	<u>\$ 14,975,000</u>

*Series 2005B*

In August 2005 the Authority 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 Authority payable, as noted below, from proceeds of an annual special tax levied on the developed property located within the Authority 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, 2018 was \$17,215,000. Principal payments are made on September 1 of each year while interest is payable semi-annually on March 1 and September 1.

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
**(Continued)**

**F. Bonds Payable: (Continued)**

The bonds mature through September 1, 2027 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,350,000	\$ 868,350	\$ 2,218,350
2020	1,425,000	795,506	2,220,506
2021	1,500,000	718,725	2,218,725
2022	1,575,000	638,006	2,213,006
2023	1,660,000	553,087	2,213,087
2024-2028	<u>9,705,000</u>	<u>1,326,019</u>	<u>11,031,019</u>
Totals	<u>\$ 17,215,000</u>	<u>\$ 4,899,693</u>	<u>\$ 22,114,693</u>

*Series 2006C*

In June 2006 the Authority 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 Authority payable, as noted below, from the proceeds of an annual special tax levied on the developed property located within the Authority 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, 2018 was \$5,890,000. 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>
2019	\$ 2,875,000	\$ 222,625	\$ 3,097,625
2020	<u>3,015,000</u>	<u>75,375</u>	<u>3,090,375</u>
Totals	<u>\$ 5,890,000</u>	<u>\$ 298,000</u>	<u>\$ 6,188,000</u>

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
**(Continued)**

**F. Bonds Payable: (Continued)**

*Series 2012A*

On June 6, 2012, the Authority 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.

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, 2018 was \$22,950,000. 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>
2019	\$ 730,000	\$ 1,088,050	\$ 1,818,050
2020	755,000	1,058,350	1,813,350
2021	3,955,000	944,375	4,899,375
2022	4,155,000	741,625	4,896,625
2023	4,360,000	543,750	4,903,750
2024-2028	<u>8,995,000</u>	<u>789,625</u>	<u>9,784,625</u>
Totals	<u>\$ 22,950,000</u>	<u>\$ 5,165,775</u>	<u>\$ 28,115,775</u>

**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
**(Continued)**

**G. Changes in Long-Term Debt:**

A schedule of changes in long-term debt is as follows:

	Balance <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2018</u>
2002 Bonds	\$ 4,362,921	\$ -	\$ -	\$ 4,362,921
2005B Bonds	18,500,000	-	1,285,000	17,215,000
2006C Bonds	8,625,000	-	2,735,000	5,890,000
2012A Bonds	23,610,000	-	660,000	22,950,000
2012A Bond Premium	<u>2,438,772</u>	<u>-</u>	<u>221,707</u>	<u>2,217,065</u>
Total	<u>\$57,536,693</u>	<u>\$ -</u>	<u>\$ 4,901,707</u>	<u>\$52,634,986</u>

**H. Bond Premium:**

Bond premium arises when the market rate of interest is higher than the stated interest rate on the bond. Generally Accepted Accounting Principles (GAAP) require that the premium increase the face value of the bond and then amortize the premium over the life of the bond as interest. Premium issued on the bonds resulted in an effective interest rate as follows:

	2012 Series A <u>Bonds</u>
Total Interest Payments on Bond	\$ 11,791,153
Less Bond Premium	<u>(3,547,306)</u>
Net Interest Payments	<u>\$ 8,243,847</u>
Par Amount of Bond	\$ 27,485,000
Periods	16
Effective Interest Rate	1.87%

**I. CFD #3 Mitigation Payments:**

In March 2016, the Authority formed and established North City West School Facilities Financing Authority Community Facilities District #3 (CFD #3) and to authorize the levy of a special tax therein to finance school facilities. The purpose of financing certain school facilities, authorized to be financed pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982 (Act), is necessary to serve new development within CFD #3. The special tax, secured by the recordation of a continuing lien against all non-exempt real property within the proposed CFD #3, will be sufficient to finance the school facilities and related incidental expenses authorized by the Act and will be levied within the boundaries of CFD #3 and will be due and payable pursuant to the rate and method of apportionment of the special tax. The one-time special tax is equal to \$2,000,000 and was received by the Authority in September 2017, which then was allocated 52.53% to San Dieguito Union High School District and 47.47% to Del Mar Union School District to accommodate student growth from an apartment complex being built within these school district's boundaries.



**NORTH CITY WEST SCHOOL FACILITIES FINANCING AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**  
**(Continued)**

**J. One Paseo Mitigation Payments:**

In May 2017, the Authority entered into a mitigation agreement with a developer proposing development of a mixed-use project named One Paseo (the “Project”) approved by the City of San Diego and located in an area outside the boundaries of the Authority’s existing community facilities districts. The initial phase of the Project is to consist of 608 multi-family residential units and approximately 280,000 square feet of office development planned for a potential future phase. To mitigate the impact of the students generated by the initial Project phase on the Authority’s school facilities, the developer paid the Authority a one-time mitigation fee of \$3,636,288 in fiscal year 2016-17. In September 2017, the Authority approved the allocation of the one-time One Paseo mitigation fees of \$3,636,288 to be distributed 52.53% to San Dieguito Union High School District and 47.47% to Solana Beach School District to accommodate student growth from the development being built within these school district’s boundaries.

**K. Facilities Cost Overrun Payments:**

The Facilities Funding Agreement (FFA) for the Authority was approved in September 2002 and allows for the reimbursement of cost overruns by the member agencies for financed facilities listed in the FFA. Member school districts submitted their facilities costs, funding sources, and overrun amounts to the Authority; consequently, the Authority has applied the provision of the FFA and determined the amount of the current and projected reimbursable overruns to be \$9,529,077 in unencumbered funds as of September 2017. The calculations were subsequently approved at the December 2017 board meeting and \$9,529,077 in unencumbered funds were distributed to the member school districts accordingly in February 2018, which consisted of \$4,143,612 allocated to Del Mar Union School District, \$4,143,612 allocated to Solana Beach School District, and \$1,241,853 allocated to San Dieguito Union High School District.

**L. Construction Reimbursements:**

San Dieguito Union School District, a member school district of the Authority, received a cost reimbursement of \$4,093,736 from the Authority’s construction funds for the Carmel Valley Middle School expansion project.



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**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, each major fund, and the aggregate remaining fund information of North City West School Facilities Financing Authority, as of and for the years ended June 30, 2018 and 2017, 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 February 14, 2019.

**Internal Control Over Financing Reporting**

In planning and performing our audit of the financial statements, 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 Authority'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.

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## **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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Wilkinson Hadley King & Co., LLP*

El Cajon, California  
February 14, 2019