

ANNUAL FINANCIAL REPORT

CITY OF PALMDALE, CALIFORNIA

PALMDALE CIVIC AUTHORITY



For the Fiscal Year Ended

June 30, 2012

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PALMDALE CIVIC AUTHORITY

**ANNUAL FINANCIAL REPORT
JUNE 30, 2012**

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INDEPENDENT AUDITORS' REPORT

Honorable Members of the Board of Commissioners
Palmdale Civic Authority
Palmdale, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Palmdale Civic Authority (the Authority), a component unit of the City of Palmdale, California, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2012 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4B to the financial statements, the California State Legislature enacted legislation that provided for the dissolution of all redevelopment agencies in the State of California. The City of Palmdale has elected to become the Successor Agency for the former Community Redevelopment Agency (CRA). As of June 30, 2012, the Palmdale Civic Authority has outstanding loans receivable from the Successor Agency.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, 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 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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.

Vawter, Tami, Day, Co., LLP

Rancho Cucamonga, California

March 8, 2013

Management's Discussion and Analysis

As management of the City of Palmdale Civic Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2012.

Financial Highlights

- The liabilities of the Authority exceeded its assets at the close of the most recent fiscal year by \$71,700,514.
- The government's total net assets increased by \$1,605,626. Details are discussed on page 5.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$32,151,170, a decrease of \$1,832,270 in comparison with the prior year.
- The Authority's total debt decreased by \$3,507,160 or 3.3 percent during the current fiscal year. The decrease is primarily attributable to the fiscal year's regularly scheduled debt service payments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements. The government-wide financial statements, which can be found on pages 10 - 11 of this report, are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of activities and changes in net assets presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended recover all or a significant portion of their costs through user fees and charges (business-type activities). The Authority has no business-type activities. The governmental activities of the Authority include general government and public services.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Both of the funds of the Authority are governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances, provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The basic governmental fund financial statements can be found on pages 13 - 17.

The Authority maintains 2 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Debt Service Fund and the Capital Projects Fund, both of which are considered to be major funds. The Authority does not have any non-major governmental funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 - 38 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, liabilities exceeded assets by \$71,700,514 as of June 30, 2012, as a result of debt issued to finance capital assets on the behalf of the primary government, the City of Palmdale.

Authority's Net Assets

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
Long-Term Receivables	\$ 103,939,051	\$ 107,402,575
Deferred Charges – Cost of Issuance	2,153,102	2,278,930
Other Assets	<u>6,984,866</u>	<u>7,078,039</u>
Total Assets	<u>113,077,019</u>	<u>116,759,544</u>
Long-Term Liabilities Outstanding	100,429,860	104,143,309
Deferred Revenue	78,735,000	80,450,000
Other Liabilities	<u>5,612,673</u>	<u>5,472,375</u>
Total Liabilities	<u>184,777,533</u>	<u>190,065,684</u>
Total Unrestricted Deficit	<u>\$ (71,700,514)</u>	<u>\$ (73,306,140)</u>

The Authority's long-term receivables decreased \$3,463,524, or 3.2 percent, as a result of payments made related to lease and loan agreements. Additional information on the long-term receivables can be found on page 28, Note 4.

Deferred Charges – Costs of Issuance decreased by \$125,828 as a result of the regularly scheduled annual amortizations of deferred bonded debt issuance costs.

Long-term liabilities decreased by \$3,713,449, or 3.6 percent, as the result of the fiscal year's regularly scheduled debt service payments.

Authority's Changes in Net Assets

	Governmental Activities <u>2012</u>	Governmental Activities <u>2011</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 5,768,313	\$ 5,713,426
Operating Grants and Contributions	1,420,454	1,362,425
General Revenues:		
Unrestricted Investment Earnings	<u>157</u>	<u>424</u>
Total Revenues	<u>7,188,924</u>	<u>7,076,275</u>
Expenses:		
General Government	5,546,376	5,645,084
Public Services	<u>36,922</u>	<u>18,305</u>
Total Expenses	<u>5,583,298</u>	<u>5,663,389</u>
Change in Net Assets	1,605,626	1,412,886
Net Assets – Beginning of Year	<u>(73,306,140)</u>	<u>(74,719,026)</u>
Net Assets – End of Year	<u>\$ (71,700,514)</u>	<u>\$ (73,306,140)</u>

Governmental Activities. Governmental activities increased the Authority's net assets by \$1,605,626, or 2.2 percent, during the current fiscal year. Key elements of the governmental activities net asset increase are as follows:

- Charges for services increased \$54,887, or 1.0 percent, resulting primarily from receipt of increased lease payments from the City of Palmdale on the Authority's Certificates of Participation Bonds.
- Operating Grants and Contributions increased \$58,029, or 4.3%, primarily due to increased interest payments received on loans.
- General Government expenses decreased \$98,708, or 1.7 percent, primarily due to decreased interest expenses.

- Public service expenses increased \$18,617, or 101.7 percent, due to the increasing work on the street signal and improvement project.

Financial Analysis of the Government's Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds. The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements.

As of the end of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$32,151,170, a decrease of 5.4 percent in comparison with the prior year. The fund balance is classified into the following components:

- \$31,584,163 is restricted for pay debt service.
- \$567,007 is assigned for capital project contract commitments.

The net decrease in fund balance during the current year in the debt service funds was \$1,746,076, primarily resulting from increased debt service principal and interest payments.

The net decrease in fund balance during the current year in the capital projects funds was \$86,194, resulting from financing the Land Acquisition project through trustee held bond proceeds restricted for this purpose.

Debt Administration

Long-Term Debt. At the end of the current fiscal year, the Authority had bonded debt outstanding of \$104,187,912. The Authority loaned the proceeds of the Revenue Bond issuances to the former Community Redevelopment Agency (Agency) through loan agreements. Upon dissolution of the former Agency, the loans owed to the Authority by the former Agency, were transferred to the now Successor Agency. These loans were approved as enforceable obligations by the State Department of Finance and are expected to be repaid to the Authority through future tax revenues allocated to the Private Purpose Trust Fund. Further information regarding the dissolution has been disclosed in the notes to the financial statements. The loan agreements are secured by pledges of sales taxes and/or incremental property taxes generated in the project areas, and the former Agency is required to repay the Authority under the same terms as the 1993, 1994, 1997, and 2003 Revenue Bonds were issued. Repayment agreements between the Authority and the former Agency require the former Agency to pay the Authority under the terms of the Second Supplement to Loan Agreement No. A-2501 for the 2009 Revenue Bonds. The Certificates of Participation require the City of Palmdale to pay a semi-annual base rental to the Authority. The rentals will be used by the Authority to pay debt service as the Certificates of Participation come due.

**Authority's Outstanding Debt
(Revenue Bonds and Certificates of Participation)**

	Governmental Activities 2012	Governmental Activities 2011
Revenue Bonds	\$ 25,524,051	\$ 27,302,575
Certificates of Participation	78,735,000	80,450,000
Deferred Loss on Refinancing	(483,772)	(527,751)
Bond Premiums	412,633	470,248
Total	\$ 104,187,912	\$ 107,695,072

The Authority's total debt decreased by \$3,507,160, or 3.3 percent, during the current fiscal year. This decrease is primarily attributable to the fiscal year's regularly scheduled debt service payments. Additional information on the Authority's debt can be found on pages 29 - 36, Note 5.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Palmdale Civic Authority, Office of the Finance Director, 38300 Sierra Highway, Suite D, Palmdale, California, 93550.

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Government-Wide Financial Statements

CITY OF PALMDALE CIVIC AUTHORITY

**STATEMENT OF NET ASSETS
JUNE 30, 2012**

	<u>Governmental Activities</u>
Assets:	
Cash and Investments	\$ 24,343
Interest Receivable	45
Leases Receivable	78,735,000
Loans Receivable from the Successor Agency to the Community Redevelopment Agency of the City of Palmdale	25,204,051
Deferred Charges - Cost of Issuance	2,153,102
Restricted Assets:	
Cash and Investments	6,944,403
Interest Receivable	<u>16,075</u>
Total Assets	<u>113,077,019</u>
Liabilities:	
Accounts Payable	4,922
Due to Bank - Overnight Sweep	825
Due to Other Governmental Units	32,000
Accrued Interest Payable	1,816,874
Deferred Revenue - Unearned Lease Revenue	78,735,000
Noncurrent Liabilities:	
Due Within One Year	3,758,052
Due in More than One Year	<u>100,429,860</u>
Total Liabilities	<u>184,777,533</u>
Net Deficit:	
Unrestricted	<u>(71,700,514)</u>
Total Net Deficit	<u><u>\$ (71,700,514)</u></u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE CIVIC AUTHORITY

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Governmental Activities
Governmental Activities:					
General Government	\$ 5,546,376	5,768,313	1,420,454	-	1,642,391
Public Services	36,922	-	-	-	(36,922)
Total Governmental Activities	\$ 5,583,298	5,768,313	1,420,454	-	1,605,469
					157
					1,605,626
					(73,306,140)
					\$ (71,700,514)

See Accompanying Notes to the Financial Statements

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Governmental Fund Financial Statements

Debt Service Funds are used to account for the accumulation of resources for and the payment of principal and interest on bonded debt and other long-term obligations. The following fund has been classified as a major fund:

- **The Debt Service Fund** accounts for resources accumulated and payments made for principal and interest on 1) Revenue Bonds secured by Community Redevelopment Agency project area sales taxes and/or tax increment revenues and 2) Certificates of Participation issued to construct the civic center complex, street and signal improvements and parks and recreation facilities.

Capital Projects Funds are used to account for financial resources to be used for the acquisition and construction of major capital facilities. The following fund has been classified as a major fund:

- **The Capital Project Fund** is used to account for construction projects funded through issuance of Certificates of Participation. Current projects include new park facilities and street and signal improvements.

CITY OF PALMDALE CIVIC AUTHORITY

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012**

Assets	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Cash and Investments	\$ 24,343	\$ -	\$ 24,343
Accounts and Interest Receivable	45	-	45
Restricted Cash and Investments	6,340,484	603,919	6,944,403
Restricted Interest Receivable	16,065	10	16,075
Leases Receivable	78,735,000	-	78,735,000
Loans Receivable from the Successor Agency to the Community Redevelopment Agency of the City of Palmdale	<u>25,204,051</u>	<u>-</u>	<u>25,204,051</u>
Total Assets	<u><u>\$ 110,319,988</u></u>	<u><u>603,929</u></u>	<u><u>110,923,917</u></u>
Liabilities and Fund Balances			
Liabilities:			
Accounts Payable	-	4,922	4,922
Due to Bank	825	-	825
Due to Other Governmental Units	-	32,000	32,000
Deferred Revenue - Unearned Lease Revenue	<u>78,735,000</u>	<u>-</u>	<u>78,735,000</u>
Total Liabilities	<u>78,735,825</u>	<u>36,922</u>	<u>78,772,747</u>
Fund Balances:			
Restricted	31,584,163	-	31,584,163
Assigned	<u>-</u>	<u>567,007</u>	<u>567,007</u>
Total Fund Balances	<u>31,584,163</u>	<u>567,007</u>	<u>32,151,170</u>
Total Liabilities and Fund Balances	<u><u>\$ 110,319,988</u></u>	<u><u>\$ 603,929</u></u>	<u><u>\$ 110,923,917</u></u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE CIVIC AUTHORITY

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balances - Total Governmental Funds (page 14) \$ 32,151,170

Amounts reported for Governmental Activities in the Statement of
Net Assets (page 8) are different because:

Current portions of interest due on long-term debt do not require current financial
resources and therefore are not reported as a liability in the Governmental
Funds Balance Sheet.

Interest Payable	(1,816,874)
Deferred Charge for Issuance Cost	2,153,102

Long-Term Liabilities are not due and payable in the current period and therefore
are not reported as a liability in the Governmental Funds Balance Sheet.

Certificates of Participation	\$ 78,735,000	
Revenue Bonds Payable	25,524,051	
Less Loss on Refinance	(483,772)	
Plus Issuance Premium	<u>412,633</u>	<u>(104,187,912)</u>

Net Assets of Governmental Activities (page 10) \$ (71,700,514)

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE CIVIC AUTHORITY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Lease Revenues from City of Palmdale	\$ 5,768,313	\$ -	\$ 5,768,313
Loan Revenues from the Community Redevelopment Agency of the City of Palmdale	1,227,977	-	1,227,977
Interest Revenue	146,002	157	146,159
Other	46,476	-	46,476
	<u>7,188,768</u>	<u>157</u>	<u>7,188,925</u>
Expenditures:			
Capital Outlay	-	36,922	36,922
Debt Service			
Principal	3,540,000	-	3,540,000
Interest	5,394,844	-	5,394,844
	<u>8,934,844</u>	<u>36,922</u>	<u>8,971,766</u>
Deficiency of Revenues under Expenditures	<u>(1,746,076)</u>	<u>(36,765)</u>	<u>(1,782,841)</u>
Other Financing Sources (Uses):			
Transfers Out to City of Palmdale-Park Assessment Fund		(49,429)	(49,429)
	<u>-</u>	<u>(49,429)</u>	<u>(49,429)</u>
Net Change in Fund Balances	(1,746,076)	(86,194)	(1,832,270)
Fund Balances, Beginning of Year	<u>33,330,239</u>	<u>653,201</u>	<u>33,983,440</u>
Fund Balances, End of Year	<u>\$ 31,584,163</u>	<u>\$ 567,007</u>	<u>\$ 32,151,170</u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE CIVIC AUTHORITY

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances - Total Governmental Funds (page 16) \$ (1,832,270)

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets (page 9) are different because:

Long-Term Debt Proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Assets. Principal repayments of long-term debt and escrow agent payments are expenditures/uses in the Governmental Funds, but they reduce long-term liabilities in the Government-Wide Statement of Net Assets. Also issuance costs and premiums are recognized in the current period in the Governmental Funds, whereas these amounts are deferred and amortized in the Government-Wide Statement of Activities. This is the amount by which repayments exceeded proceeds.

Principal Repayments:		
Certificates of Participation	1,715,000	
Revenue Bonds	<u>1,825,000</u>	3,540,000

Some Expenses reported in the Government-Wide Statement of Activities and Changes in Net Assets do not require the use of current financial resources and therefore are not reported as expenditures in the Governmental Funds.

Accrued Interest on Debt	\$ 56,565	
Accreted Interest on Bonds	(46,476)	
Amortization of Deferred Loss	(43,979)	
Amortization of Issuance Costs	(125,829)	
Amortization of Bond Premiums	<u>57,615</u>	<u>(102,104)</u>

Change in Net Assets of Governmental Activities (page 11) \$ 1,605,626

See Accompanying Notes to the Financial Statements

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**CITY OF PALMDALE CIVIC AUTHORITY
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FOR THE YEAR ENDED JUNE 30, 2012**

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CITY OF PALMDALE CIVIC AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

(1) Summary of Significant Accounting Policies

A. Description of the Reporting Entity

The Palmdale Civic Authority of the City of Palmdale, California (Authority) was originally created under a joint powers agreement between the City of Palmdale (City) and the former Community Redevelopment Agency of the City of Palmdale (Agency) on May 1, 1976 for the purpose of financing public improvements in the City. The Authority is financially accountable to the City and, accordingly, is a component unit of the City although it is a separate legal entity. Assets of the Authority, after providing for all debts and obligations, are to be transferred to the City upon final payment of the loans.

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X26 that provides for the dissolution of all redevelopment agencies in the State of California effective January 31, 2012. The Successor Agency for the former Community Redevelopment Agency was formed for the purpose of holding the assets and liabilities for the former Agency until they are distributed to the other units of state and local government. The Successor Agency is subject to the control of an oversight board and remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution. All Assets and liabilities of the former Agency were transferred to either the Successor Agency Private Purpose Trust Fund or the Housing Successor. Obligations owed to the Authority by the former Agency are now accounted for in the Successor Agency Private Purpose Trust Fund and can be found on the City of Palmdale's Financial Statements. The assets and activities that are reported in the Private Purpose Trust Fund and its debts and obligations are not debts of the City or the Authority. Although the former Agency has been dissolved, the Authority will continue to exist for the purpose of repayment of existing debt.

The financial statements of the Palmdale Civic Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

B. Financial Statement Presentation, Basis of Accounting and Measurement Focus

The accounts of the Authority are organized on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are to be controlled.

Government-Wide Financial Statements

The Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements report information on all of the activities of the Authority. Interfund activity, including payables and receivables, have been eliminated in the Statement of Activities and the Statement of Net Assets as prescribed by GASB Statement No. 34.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific

CITY OF PALMDALE CIVIC AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

function. Program revenues include 1) charges for services to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function. Investment Earnings and other items not properly included among program revenues are reported instead as general revenues.

The Government-Wide Financial Statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Accordingly, all of the Authority's assets and liabilities (including long-term liabilities) are reported in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major funds individually. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements.

Governmental Fund Financial Statements are presented using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Interest revenue is considered susceptible to accrual. Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The Authority has presented both the debt service and capital projects funds as major funds because the Authority believes the financial position and activities of these funds are significant to the Authority as a whole. Specific fund descriptions can be found on page 11 for these funds.

C. Budgets and Budgetary Accounting

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the debt service governmental fund. Project-length financial plans are adopted for the capital projects fund. Unexpended appropriations at year-end may be added to the subsequent year's adopted budget by the Director of Finance with the approval of the City Manager per Council Resolution 92-120, Section 5. Encumbrance accounting is employed in governmental funds.

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D. Cash and Investments

Investments include amounts in U.S. Treasury and Agency Securities, the Local Agency Investment Fund, money market funds and investment agreements. The U.S. Treasury and Agency Securities were adjusted to fair value based on market prices on June 30, 2012. The fair value change in the Trustee held Local Agency Investment Fund came to an amount that was not considered material for presentation in the financial statements. Amounts invested in money market funds are reported at fair value and amounts invested in investment agreements are reported at cost as of June 30, 2012.

E. Restricted Assets

Restricted assets represent bond reserve amounts and interest earnings thereon related to the Revenue Bonds and Certificates of Participation. The bond resolutions and indentures require that the bond reserves be maintained in amounts equal to the maximum amount of principal and interest to be paid in any single future fiscal year for each issue.

F. Long-Term Obligations

In the Government-Wide Financial Statements long-term debt and other long-term obligations are reported as liabilities. Bond premium/discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the straight-line method.

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

G. Fund Equity

In the Fund Financial Statements, governmental funds report fund balance into five components whereby each component identifies the extent to which the Authority is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The five components of the fund balance are as follows:

Nonspendable: Resources that are 1) not in spendable form, such as inventories, prepaids, long-term receivables, or non-financial assets held for resale, or 2) required to be maintained intact such as an endowment.

Restricted: Resources that are subject to externally enforceable legal restrictions; these restrictions would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

Committed: Resources that are constrained to specific purposes by a formal action of the Authority such as an ordinance or resolution. The constraint remains binding unless removed in the same formal manner

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by the Authority. Authority action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently.

Assigned: For the Authority's capital project and debt service funds the residual fund balance in excess of what can be properly classified as nonspendable, restricted, or committed.

Unassigned: Within all of the Authority's governmental funds, the negative residual resources in excess of what can be properly classified as nonspendable, restricted, or committed.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, or assigned) fund balances are available, the Authority's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed or assigned fund balances are available, the Authority's policy is to first apply committed fund balance, and finally assigned fund balances.

This policy delegates to the Finance Director the authority to assign unrestricted fund balance amounts where the Authority's intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.

H. Use of Estimates

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

I. Implemented Accounting Pronouncements

During fiscal year 2011-12, the City adopted GASB Statement No. 57, *OPEB Measurements by Agency Employers and Agent Multiple-Employer Plans*. The objective of this statement is to address issues related to the use of alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple employers other post-employment benefit plans. The statement is effective for the periods beginning after June 15, 2011. The implementation did not have any significant impact on the Authority's financial statements.

During fiscal year 2011-12, the City adopted GASB Statement no. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement no. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Statement was effective for periods beginning after June 15, 2011. The implementation did not have any significant impact on the Authority's financial statements.

J. Deferred Revenue /Unearned Revenue

The Authority and the City of Palmdale have entered into lease agreements that obligate the City to pay lease payments to the Authority in consideration of the City's use and enjoyment of certain property and improvements. The deferred revenue reported on the Statement of Net Assets and the Governmental funds were lease payments that have not yet been received. The Authority recognizes lease payments as they become due and in the year that lease payments are received.

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**NOTES TO FINANCIAL STATEMENTS
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(2) Cash and Investments

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 24,343
Cash overdraft	(825)
Restricted cash and investments	<u>6,944,403</u>
Total cash and investments	<u>\$ 6,967,921</u>

Cash and investments as of June 30, 2012 consist of the following:

Cash overdraft		\$ (825)
Investments:		
State investment pool	\$ 24,343	
Held by bond trustees	<u>6,944,403</u>	<u>6,968,746</u>
Total cash and investments		<u>\$ 6,967,921</u>

Cash and investments of the Authority are pooled with funds of the City for deposit and investment purposes, except for funds required to be held by outside fiscal agents. Interest earned on pooled cash and investments is credited to the funds based on each respective fund's month-end cash balance. In addition, restricted cash and investments were held by fiscal agents in accordance with bond indenture agreements.

Detailed information concerning the City's pooled cash and investments can be found in the City's Comprehensive Annual Financial Report for the year ended June 30, 2012.

A. Investments Authorized by the California Government Code and the Authority's Investment Policy

Investments of the Authority are pooled with funds of the City and therefore adhere to the City's Investment Policy. The table following identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements with the Authority, rather than the general provisions of the California Government Code or the City's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	2%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None

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**NOTES TO FINANCIAL STATEMENTS
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<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	15%	10%
Money Market Mutual Funds	N/A	20%	10%
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

*Excluding amounts held by bond trustees that are not subject to California Government Code restrictions.

The City's investment policy also authorizes Demand Deposits of up to \$2,000,000 (and \$2,500,000 in the aggregate) with Bank of America or Wells Fargo Bank.

B. Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, created in connection with the issuance of debt rather than the general provisions of the California Government Code. Certificates of Participation and Revenue Bond indentures specify the types of securities in which proceeds may be invested as well as any related insurance, collateral, or minimum credit rating requirements. Although requirements may vary between debt issues, money market funds are all required to be investment grade. Guaranteed investment contracts are required to be acceptable to the municipal bond insurer. The fair value of investments is based on the valuation provided by trustee banks.

C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Investment Policy of the City, Sections 4.1 and 4.2, provide guidelines for managing risk. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

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<u>Investment Type</u>	<u>Total</u>	Remaining Maturity (in Months)			
		<u>12 Months or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>
State Investment Pool	\$ 24,343	\$ 24,343	\$ -	\$ -	\$ -
Held by bond trustees:					
Money market funds	4,528,592	4,528,592	-	-	-
Investment agreements	<u>2,415,811</u>	<u>-</u>	<u>-</u>	<u>956,951</u>	<u>\$ 1,458,860</u>
Total	<u>\$ 6,968,746</u>	<u>\$ 4,552,935</u>	<u>\$ -</u>	<u>\$ 956,951</u>	<u>\$ 1,458,860</u>

D. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of year end for each investment type:

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Not Required To Be Rated</u>	<u>AAA/Aaa</u>
State Investment Pool	\$ 24,343		\$ 24,343	\$ -
Held by bond trustees:				
Money market funds	4,528,592	A	-	4,528,592
Investment agreements	<u>2,415,811</u>	N/A	<u>2,415,811</u>	<u>-</u>
Total	<u>\$ 6,968,746</u>		<u>\$ 2,440,154</u>	<u>\$ 4,528,592</u>

E. Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total Authority's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Bayerische Landesbank	Investment Agreement	\$ 956,951
IXIS	Investment Agreement	798,860
Societe Generale	Investment Agreement	660,000

F. Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of

CITY OF PALMDALE CIVIC AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

another party. 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 or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: Authority deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts held with the City of Palmdale. As of June 30, 2012, Authority investments were held by the safekeeping department of the broker-dealer (counterparty) used by the City of Palmdale to buy the securities.

G. Investment in State Investment Pool

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Authority’s investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

H. Disclosures by Reporting Unit

Investments in any one issuer that represent 5% or more of total investments by reporting unit (governmental activities, major fund, non-major in the aggregate, etc.) are as follows:

\$2,415,811 of investments (including amounts held by bond trustees) reported in the Debt Service Fund (a major fund of the Authority) are held in the form of guaranteed investment contracts as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>	<u>Maturity</u>
Bayerische Landesbank	Investment Agreement	\$ 956,951	07/01/2015
IXIS Funding	Investment Agreement	\$ 798,860	09/01/2029
Societe General	Investment Agreement	\$ 660,000	06/25/2023

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

(3) Fund Balance Classification

The Governmental Fund Balances at June 30, 2012 were classified as follows:

	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Restricted for Debt Service	31,584,163	-	31,584,163
Assigned for Capital Projects	-	567,007	567,007
 Total Fund Balance	 <u>\$ 31,584,163</u>	 <u>\$ 567,007</u>	 <u>\$ 32,151,170</u>

(4) Long-Term Receivables

A. Leases Receivable

The Authority and the City of Palmdale have entered into lease agreements that obligate the City to pay lease payments to the Authority in consideration of the City's use and enjoyment of certain property and improvements. The lease payment schedules, as well as the facilities subject to the leases, are more fully described in pages 27 - 31, Note 5 A - Certificates of Participation. Lease receivable activity for the year ended June 30, 2012, was as follows:

	<u>Balance at July 1, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at June 30, 2012</u>
Lease Receivable Related to:				
1999 Certificates of Participation	\$ 9,705,000	\$ -	\$ (330,000)	\$ 9,375,000
2002 Certificates of Participation	41,515,000	-	(495,000)	41,020,000
2004 Certificates of Participation	10,360,000	-	(575,000)	9,785,000
2007 Certificates of Participation	<u>18,870,000</u>	<u>\$ -</u>	<u>(315,000)</u>	<u>18,555,000</u>
 Total Lease Receivables	 <u>\$ 80,450,000</u>	 <u>\$ -</u>	 <u>\$ (1,715,000)</u>	 <u>\$ 78,735,000</u>

Corresponding deferred revenue is recorded on the Statement of Net Assets and on the Governmental Balance Sheet in the amount of \$78,735,000.

B. Loans Receivable

The Authority and the former Community Redevelopment Agency have entered into loan and repayment agreements whereby the Authority has loaned the proceeds of Revenue Bond debt issuances to the former Agency. The loan agreements between the Authority and the former Community Redevelopment Agency require the former Agency to pay the Authority under the same terms as the bonds were issued.

Upon dissolution of the former Community Redevelopment, Note Payable related to the Revenue Bonds were approved enforceable obligation by the State Department of Finance, therefore beginning February 1, 2012, the pledge and payments will be made from future property tax revenues received by the Successor Agency Private Purpose Trust.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

The debt service schedules, as well as the purpose for the loans, are more fully described in pages 31 - 34, Note 5 B - Revenue Bonds Payable. Loan receivable activity for the year ended June 30, 2012, was as follows:

	Balance at July 1, 2011	Additions	Payments	Balance at June 30, 2012
Loan Receivable Related to:				
1994 Revenue Bonds	\$ 882,575	\$ 46,476	\$ (190,000)	\$ 739,051
1997 Revenue Bonds	4,055,000	-	(730,000)	3,325,000
2003 Revenue Bonds	16,075,000	-	(780,000)	15,295,000
2009 Revenue Bonds	5,940,000	-	(95,000)	5,845,000
 Total Loan Receivables	 \$ 26,952,575	 \$ 46,476	 \$ (1,795,000)	 \$ 25,204,051

(5) Long-Term Debt

A. Certificates of Participation

1999 Certificates of Participation Payable - On March 17, 1999, the Authority issued \$12,310,000 of Certificates of Participation (1999 Certificates). Interest on the 1999 Certificates is payable semi-annually on March 1 and September 1 at rates ranging from 4.00% to 5.00% per annum. Principal installments are payable September 1 of each year from 2001 to 2029.

The 1999 Certificates maturing on September 1, 2019, September 1, 2028, and September 1, 2029, are subject to mandatory sinking fund redemption beginning on September 1 in each year on and after September 1, 2014, September 1, 2001, and September 1, 2020, respectively, in the amount of the principal component of scheduled lease payments required to be made by the City together with interest accrued thereon. The 1999 Certificates maturing on or after September 1, 2001, are subject to extraordinary mandatory redemption from net proceeds of an insurance, title insurance, condemnation or eminent domain award on any interest payment date, in the amount of principal and accrued interest, to the extent that the City credits these proceeds towards the prepayment of lease payments. The 1999 Certificates maturing on or after September 1, 2010, excluding the certificates maturing September 1, 2028, as discussed below, may be redeemed on or after September 1, 2009, from proceeds of optional lease prepayments made by the City, at decreasing premiums of 2% in 2009 to 1% in 2011 and at par thereafter. The 1999 Certificates maturing on September 1, 2028, are subject to special redemption on any interest payment date, in the amount of principal and accrued interest, from any available moneys credited towards the prepayment of lease payments by the City.

The proceeds of the 1999 Certificates were used to finance the construction, installation and equipping of a new Courthouse building and a new City Hall building and to fund a reserve fund.

The 1999 Certificates represent direct, undivided fractional interests in a lease of the City Hall Site, Administration Building, Public Works/Building and Safety Building, Central Maintenance Yard and the Hammack Activity Center. Upon completion of construction of the City Hall and Courthouse, the City has the right, subject to certain conditions, to substitute the City Hall and Courthouse projects for the above properties, as the property subject to the lease.

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The lease agreement requires the City to pay a semi-annual base rental on August 15 and February 15 to the Authority for the use of the facilities through September 2029. The rentals will be used by the Authority to pay principal and interest with respect to the 1999 Certificates as they become due. Title to the land and facilities covered by the lease and the 1999 Certificates is vested in the Authority, for the benefit of the 1999 Certificate holders, during the lease term.

Upon completion of the term of the lease and payment in full to the 1999 Certificate holders, title to the property shall vest in the City. The City may, on any date, deposit sufficient funds into an irrevocable trust to pay all remaining lease payments, at which time the lease agreement shall cease and terminate and title to the property shall vest in the City.

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 345,000	\$ 445,590	\$ 790,590
2014	360,000	429,245	789,245
2015	375,000	411,450	786,450
2016	395,000	392,200	787,200
2017	415,000	371,950	786,950
2018-2022	2,400,000	1,521,444	3,921,444
2023-2027	3,035,000	867,975	3,902,975
2028-2030	<u>2,050,000</u>	<u>142,956</u>	<u>2,192,956</u>
Totals	<u>\$ 9,375,000</u>	<u>\$ 4,582,810</u>	<u>\$ 13,957,810</u>

2002 Certificates of Participation Payable - On December 10, 2002, the Authority issued \$43,215,000 of Certificates of Participation (2002 Certificates). Interest on the 2002 Certificates is payable semi-annually on March 1 and September 1 at rates ranging from 2.00% to 5.25% per annum. Principal installments are payable September 1 of each year from 2004 to 2032. The 2002 Certificates maturing on September 1, 2024 and September 1, 2032, are subject to mandatory sinking fund redemption beginning on September 1 in each year on and after September 1, 2023 and September 1, 2025, respectively, in the amount of the principal component of scheduled lease payments required to be made by the City together with interest accrued thereon. The 2002 Certificates maturing on or after September 1, 2004, are subject to mandatory redemption from the net proceeds of an insurance, title insurance, condemnation or eminent domain award on any date, in the amount of principal and accrued interest, to the extent that the City credits these proceeds towards the prepayment of lease payments. The 2002 Certificates maturing on or after September 1, 2013, may be redeemed on or after September 1, 2012, from proceeds of optional lease prepayments made by the City, at decreasing premiums of 2% in 2012 to 1% in 2013 and at par thereafter.

The proceeds of the 2002 Certificates were used to finance a portion of the development of (1) a 33-acre eastside park site, (2) an additional 40 acres in the existing Marie Kerr 17-acre park site and (3) approximately four miles of Avenue S, between the Antelope Valley Freeway and 40th Street East. The 2002 Certificates represent direct, undivided fractional interests in a lease of Marie Kerr Park, the Eastside Park Site, Domenic Massari Park, Desert Sands Park, the Palmdale City Hall, the Palmdale Main Library, the Larry Chimbole Cultural Center, and the above referenced portion of Avenue S.

The lease agreement requires the City to pay a semi-annual base rental on August 15 and February 15 to the Authority for the facilities through September 2032. The rentals will be used by the Authority to pay principal and interest with respect to the 2002 Certificates as they become due. Title to the land and

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**NOTES TO FINANCIAL STATEMENTS
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facilities covered by the lease and the 2002 Certificates is vested in the Authority, for the benefit of the 2002 Certificate holders, during the lease term. Upon completion of the term of the lease and payment in full to the 2002 Certificate holders, title to the property shall vest in the City. The City may, on any date, deposit sufficient funds into an irrevocable trust to pay all remaining lease payments, at which time the lease agreement shall cease and terminate and title to the property shall vest in the City.

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 575,000	\$ 2,026,613	\$ 2,601,613
2014	660,000	2,001,912	2,661,912
2015	750,000	1,973,713	2,723,713
2016	845,000	1,939,700	2,784,700
2017	945,000	1,900,606	2,845,606
2018-2022	6,600,000	8,620,169	15,220,169
2023-2027	10,635,000	6,426,831	17,061,831
2028-2032	16,010,000	3,125,750	19,135,750
2033	4,000,000	100,000	4,100,000
Totals	<u>\$ 41,020,000</u>	<u>\$ 28,115,294</u>	<u>\$ 69,135,294</u>

2004 Certificates of Participation Payable - On November 30, 2004, the Authority issued \$13,455,000 of Certificates of Participation (2004 Certificates). Interest on the 2004 Certificates is payable semi-annually on May 1 and November 1 at rates ranging from 2.00% to 4.625% per annum. Principal installments are payable November 1 of each year from 2005 to 2024. The 2004 Certificates maturing on or after November 1, 2005, are subject to mandatory redemption from the net proceeds of an insurance, title insurance, condemnation or eminent domain award on any date, in the amount of principal and accrued interest, to the extent that the City credits these proceeds towards the prepayment of lease payments. The 2004 Certificates maturing on or after November 1, 2015, may be redeemed on or after November 1, 2014, from proceeds of optional lease prepayments made by the City, at decreasing premiums of 2% in 2015 to 1% in 2016 and at par thereafter.

The proceeds of the 2004 Certificates were used to finance new traffic signal installation projects and finance the rehabilitation or reconstruction of various City arterial and neighborhood streets. The 2004 Certificates represent direct, undivided fractional interests in a lease of various arterial streets located in the City as discussed above.

The lease agreement requires the City to pay a semi-annual base rental on October 15 and April 15 to the Authority for the facilities through November 2024. The rentals will be used by the Authority to pay principal and interest with respect to the 2004 Certificates as they become due. Title to the land and facilities covered by the lease and the 2004 Certificates is vested in the Authority, for the benefit of the 2004 Certificate holders, during the lease term. Upon completion of the term of the lease and payment in full to the 2004 Certificate holders, title to the property shall vest in the City. The City may, on any date, deposit sufficient funds into an irrevocable trust to pay all remaining lease payments, at which time the lease agreement shall cease and terminate and title to the property shall vest in the City.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 595,000	\$ 394,281	\$ 989,281
2014	615,000	373,850	988,850
2015	635,000	351,578	986,578
2016	660,000	327,694	987,694
2017	685,000	321,047	987,047
2018-2022	3,855,000	1,055,753	4,910,753
2023-2025	2,740,000	193,241	2,933,241
Totals	<u>\$ 9,785,000</u>	<u>\$ 2,998,444</u>	<u>\$ 12,783,444</u>

2007 Certificates of Participation Payable (\$19,960,000) - On April 12, 2007, the Authority issued \$19,960,000 of Certificates of Participation (2007 Certificates). Interest on the 2007 Certificates is payable semi-annually on April 1 and October 1 at rates ranging from 5.705% to 6.311% per annum. Principal installments are payable April 1 of each year from 2008 to 2037.

The 2007 Certificates maturing on April 1, 2017 and April 1, 2037, are subject to mandatory sinking fund redemption beginning on April 1 in each year on and after April 1, 2008 and April 1, 2018, respectively, in the amount of the principal component of scheduled lease payments required to be made by the City together with interest accrued thereon, without premium. The 2007 Certificates maturing on or after April 1, 2008, are subject to mandatory redemption from the net proceeds of an insurance, title insurance, condemnation or eminent domain award on any date, in the amount of principal and accrued interest, to the extent that the City credits these proceeds towards the redemption of lease payments. The 2007 Certificates maturing on or after April 1, 2018, may be redeemed on or after April 1, 2017, from proceeds of optional lease prepayments made by the City, without premium.

The 2007 Certificates are subject to extraordinary redemption, in whole, on any date upon the election of the City to do so prior to (a) the commencement of construction of a power generating plant on the property, or (b) the closing of a construction loan to finance a power generating plant on the property, in the amount of principal and accrued interest, to the extent that the City credits these proceeds towards the prepayment of lease payments, without premium. The 2007 Certificates are subject to extraordinary redemption, in whole or in part, on any date on or after April 1, 2010, from the proceeds derived by the City of the sale of all or a portion of the property to the extent that the City credits these proceeds towards the prepayment of lease payments, without premium.

The proceeds of the 2007 Certificates were used to finance the acquisition of certain real property for future use as the site of a power generating plant and for other City uses.

The 2007 Certificates represent direct, undivided fractional interests in a lease of the certain property to be the location of a power generating plant as discussed above.

The lease agreement requires the City to pay a semi-annual base rental on September 15 and March 15 to the Authority for the use and occupancy of the property through April 2037. The rentals will be used by the Authority to pay principal and interest with respect to the 2007 Certificates as they become due. Title to the property covered by the lease and the 2007 Certificates is vested in the Authority, for the benefit of the 2007 Certificate holders, during the lease term.

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Upon completion of the term of the lease and payment in full to the 2007 Certificate holders, title to the property shall vest in the City. The City may, on any date, deposit sufficient funds into an irrevocable trust to pay all remaining lease payments, at which time the lease agreement shall cease and terminate and title to the property shall vest in the City.

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 335,000	\$ 1,159,704	\$ 1,494,704
2014	350,000	1,140,592	1,490,592
2015	370,000	1,120,625	1,490,625
2016	395,000	1,099,516	1,494,516
2017	415,000	1,076,982	1,491,982
2018-2022	2,485,000	4,971,806	7,456,806
2023-2027	3,380,000	4,081,639	7,461,639
2028-2032	4,590,000	2,871,821	7,461,821
2033-2037	6,235,000	1,228,436	7,463,436
Totals	<u>\$ 18,555,000</u>	<u>\$ 18,751,121</u>	<u>\$ 37,306,121</u>

B. Revenue Bonds

1994 Revenue Bonds Payable - On June 29, 1994, the Authority issued \$44,999,493 of 1994 Revenue Bonds (1994 Bonds). The proceeds of the 1994 Bonds were loaned to the former Community Redevelopment Agency to finance redevelopment activities in Project Area No. 2A and to fully advance refund the 1985 Tax Allocation Bonds and the 1989 Revenue Bonds. Interest on the 1994 Bonds is payable semi-annually on March 1 and September 1 at rates ranging from 4.80% to 6.40% per annum. Principal installments are payable on September 1 of each year from 2000 to 2034.

The liability for the 1994 Revenue Bonds was partially in-substance defeased in June 2004 in the amount of \$17,230,000 by the former Community Redevelopment Agency's 2004 Tax Allocation Bonds. Subsequently, on September 1, 2004, these refunded 1994 Revenue Bonds were called and redeemed at a premium of \$340,300.

The remaining 1994 Bonds maturing on September 1, 2007 through 2015 in the initial aggregate principal amount of \$1,469,493 constitute capital appreciation bonds that are not subject to optional redemption prior to their respective stated maturities. Interest on the Capital Appreciation Bonds compounds on March 1 and September 1, commencing March 1, 1995 and the principal and accreted value on the Capital Appreciation Bonds is payable at maturity or upon earlier redemption.

The loan agreement between the Authority and former Community Redevelopment Agency requires the former Agency to pay the Authority under the same terms as the 1994 Bonds were issued. Upon dissolution of the former Community Redevelopment Agency, Note Payable related to the 1994 Bonds were approved enforceable obligation by the State Department of Finance, therefore beginning February 1, 2012, the pledge and payments will be made from future property tax revenues received by the Successor Agency Private Purpose Trust.

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The Successor Agency will use sales tax and incremental property tax generated in Project Area No. 2A to repay the Authority which will, in turn, pay principal and interest with respect to the 1994 Bonds as they become due.

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 193,063	\$ -	\$ 193,063
2014	190,741	-	190,741
2015	179,081	-	179,081
2016	176,166	-	176,166
Totals	\$ 739,051	\$ -	\$ 739,051

1997 Revenue Bonds Payable - On May 28, 1997, the Authority issued \$10,890,000 of 1997 Revenue Bonds, Series A (1997 Series A Bonds). The proceeds were loaned to the former Community Redevelopment Agency to refinance the 1987 Refunding Certificates of Participation. Interest on the 1997 Series A Bonds is payable semi-annually on January 1, and July 1 at rates ranging from 4.00% to 5.60% per annum. Principal installments are payable July 1 of each year from 1998 through 2015.

The 1997 Series A Term Bonds maturing on July 1, 2012 and July 1, 2015, are subject to mandatory sinking fund redemption beginning July 1, 2011 and July 1, 2013, respectively, in the amount of principal. The 1997 Series A Bonds maturing on or after July 1, 2008, may be redeemed on or after July 1, 2007, at decreasing premiums of 2.00% in 2007 to 1.00% in 2008, and at par thereafter.

The loan agreement between the Authority and former Community Redevelopment Agency requires the former Agency to pay the Authority under the same terms as the 1997 Series A Bonds were issued. Upon dissolution of the former Community Redevelopment Agency, Note Payable related to the 1997 Series A Bonds were approved enforceable obligation by the State Department of Finance, therefore beginning February 1, 2012, the pledge and payments will be made from future property tax revenues received by the Successor Agency Private Purpose Trust.

The Successor Agency will use incremental property tax and sales tax generated in Project Area No. 2A, but reserves the option under the repayment agreement to use incremental property tax generated in Project Area No. 1, to repay the Authority, which will in turn pay principal and interest with respect to the 1997 Series A Bonds as they become due.

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 765,000	\$ 163,919	\$ 928,919
2014	805,000	120,820	925,820
2015	850,000	74,480	924,480
2016	905,000	25,340	930,340
Totals	\$ 3,325,000	\$ 384,559	\$ 3,709,559

2003 Revenue Bonds Payable - On May 13, 2003, the Authority issued \$19,220,000 of 2003 Revenue Bonds, Series A (2003 Series A Bonds). The proceeds were loaned to the former Community Redevelopment Agency to advance refund a portion of the 1993 Revenue Bonds. Interest on the 2003 Series A Bonds is payable semi-annually on January 1, and July 1 at rates ranging from 2.00% to 5.00% per annum. Principal installments are payable July 1 of each year from 2004 through 2025.

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The 2003 Series A Bonds maturing on or after July 1, 2014, may be redeemed on or after July 1, 2013, in the amount of principal and accrued interest. The 2003 Series A Bonds maturing on July 1, 2025, are subject to mandatory sinking fund redemption on July 1, 2023, and on July 1 in each year thereafter to and including July 1, 2025, in the amount on principal and accrued interest.

The loan agreement between the Authority and former Community Redevelopment Agency requires the former Agency to pay the Authority under the same terms as the 2003 Series A Bonds were issued. Upon dissolution of the former Community Redevelopment Agency, Note Payable related to the 2003 Series A Bonds were approved enforceable obligation by the State Department of Finance, therefore beginning February 1, 2012, the pledge and payments will be made from future property tax revenues received by the Successor Agency Private Purpose Trust.

The Successor Agency will use incremental property tax generated in Project Area No. 1 to repay the Authority, which will in turn pay principal and interest with respect to the 2003 Series A Bonds as they become due.

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 810,000	\$ 705,837	\$ 1,515,837
2014	845,000	672,737	1,517,737
2015	875,000	638,338	1,513,338
2016	910,000	602,638	1,512,638
2017	950,000	564,844	1,514,844
2018-2022	5,470,000	2,068,000	7,538,000
2023-2026	<u>5,435,000</u>	<u>560,125</u>	<u>5,995,125</u>
Totals	<u>\$ 15,295,000</u>	<u>\$ 5,812,519</u>	<u>\$ 21,107,519</u>

2009 Revenue Bonds Payable (\$6,380,000) - On June 5, 2009, the Authority issued \$6,380,000 of 2009 Revenue Bonds, Series A (2009 Series A Bonds). The proceeds of the 2009 Series A Bonds were loaned to the former Community Redevelopment Agency to advance refund the 2003 Bond Anticipation Notes. Interest on the 2009 Series A Bonds is payable semi-annually on January 1 and July 1 at rates ranging from 3.625% to 6.00% per annum. Principal installments are payable July 1 of each year from 2010 through 2027.

The 2009 Series A Bonds maturing on or after July 1, 2020, may be redeemed on or after July 1, 2019, in the amount of principal and accrued interest. The 2009 Series A Term Bonds maturing on July 1, 2027, are subject to mandatory sinking fund redemption on July 1, 2021, and on July 1 in each year thereafter to and including July 1, 2027, in the amount of principal and accrued interest.

The loan agreement between the Authority and former Community Redevelopment Agency requires the former Agency to pay the Authority under the same terms as the Second Supplement to Loan Agreement No. A-2501. Upon dissolution of the former Community Redevelopment Agency, Note Payable related to the Second Supplement to Loan Agreement No. A-2501 were approved enforceable obligation by the State Department of Finance, therefore beginning February 1, 2012, the pledge and payments will be made from future property tax revenues received by the Successor Agency Private Purpose Trust.

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The Successor Agency has pledged incremental property tax generated in Project Area No. 1 to repay the Authority, which will in turn, pay principal and interest with respect to the 2009 Series A Bonds as they become due.

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	130,000	349,289	479,289
2014	135,000	344,317	479,317
2015	140,000	338,726	478,726
2016	150,000	332,376	482,376
2017	155,000	325,359	480,359
2018-2022	875,000	1,502,473	2,377,473
2023-2027	2,685,000	1,162,350	3,847,350
2028	1,895,000	56,850	1,951,850
Totals	<u>\$ 6,165,000</u>	<u>4,411,740</u>	<u>10,576,740</u>

D. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	<u>Principal Balance at July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal Balance at June 30, 2012</u>	<u>Amounts Due Within One Year</u>
1999 Certificates of Participation	\$ 9,705,000	\$ -	(330,000)	\$ 9,375,000	\$ 345,000
2002 Certificates of Participation	41,515,000	-	(495,000)	41,020,000	575,000
2004 Certificates of Participation	10,360,000	-	(575,000)	9,785,000	595,000
2007 Certificates of Participation	18,870,000	-	(315,000)	18,555,000	335,000
1994 Revenue Bonds	882,575	46,476	(190,000)	739,051	193,063
1997 Revenue Bonds	4,055,000	-	(730,000)	3,325,000	765,000
2003 Revenue Bonds	16,075,000	-	(780,000)	15,295,000	810,000
2009 Revenue Bonds	6,290,000	-	(125,000)	6,165,000	130,000
Less Deferred Loss on Refinancing	(527,751)	-	43,979	(483,772)	(43,979)
Plus Deferred Issuance Premiums	470,248	-	(57,615)	412,633	53,968
Total	<u>\$ 107,695,072</u>	<u>\$ 46,476</u>	<u>\$ (3,553,595)</u>	<u>\$ 104,187,912</u>	<u>\$ 3,758,052</u>

(6) New Accounting Pronouncements

GASB Statement No. 60 – GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, is effective for periods beginning in fiscal 2013. This statement address the issues related to service concession arrangements (SCA’s), which, for the purposes of this statement, are arrangements between the transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in

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exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The statement also provides guidance for governments that are operators in an SCA, and requires disclosures pertaining to an SCA. The provisions of the statement generally are required to be applied retroactively. The statement is effective for fiscal 2012-13. The Authority has not determined its effect on the financial statements.

GASB Statement No. 61 – In November 2010, GASB issued Statement no. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14. and No. 34.* The objective of this Statement is to improve financial reporting for a governmental financial reporting entity and modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement is effective for periods beginning after June 15, 2012. The Authority has not determined its effect on the financial statements.

GASB Statement No. 62 – In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures that were issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Statement is effective for periods beginning after December 15, 2011. The Authority has not determined its effect on the financial statements.

GASB Statement no. 63 – In June 2011, GASB issued Statement no. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporation deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement is effective for periods beginning after December 15, 2012. The Authority has not determined its effect on the financial statements.

GASB Statement no. 65 – In March 2012, GASB issued Statement no. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement is effective for periods beginning after December 15, 2012. The Authority has not determined if there will be an effect on the financial statements.

GASB Statement No. 66 – In March 2012, GASB issued Statement no. 66, *Technical Corrections – 2012 an amendment of GASB statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA*

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Pronouncements. The Statement is effective for periods beginning after December 15, 2012. The Authority has not determined if there will be an effect on the financial statements.

GASB Statement No. 67 – In June 2012, GASB issued Statement no. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to define contribution plans that provide postemployment benefits other than pensions. The Statement is effective for periods beginning after December 15, 2013. The Authority has not determined if there will be an effect on the financial statements.

GASB Statement No. 68 – In June 2012, GASB issued Statement no. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014. The Authority has not determined if there will be an effect on the financial statements.

(7) Contingency

The City of Palmdale Civic Authority has a Loan Receivable due from the Successor Agency to the Community Redevelopment Agency of the City of Palmdale in the amount of \$25,204,051 as of June 30, 2012. The Loan is approved as an enforceable obligation in existence at the date of the former Community Redevelopment Agency's dissolution and will be repaid by the Successor Agency from future tax increment. However, these balances are subject to review by the California Department of Finance and the outcomes of these reviews, if any, are unknown.