

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**

CITY OF PALMDALE, CALIFORNIA



For the Fiscal Year Ended

June 30, 2010

Prepared By

*Betsy St. John,
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Budget Manager*

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 For the Year Ended June 30, 2010

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INTRODUCTORY
SECTION



CITY OF PALMDALE, CALIFORNIA

Year Ended June 30, 2010

December 15, 2010

Honorable Mayor, Members of the City Council,
and Citizens of the City of Palmdale:

Accepted practice recommends that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformance with generally accepted accounting principles (GAAP) and audited by a firm of licensed certified public accountants 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. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Palmdale for the fiscal year ended June 30, 2010.

This report consists of management's representations concerning the finances of the City of Palmdale. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Palmdale has established a comprehensive internal control framework that is designed to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Palmdale's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Palmdale's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Palmdale's financial statements have been audited by Vavrinek, Trine, Day, & Co., LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Palmdale for the fiscal year ended June 30, 2010, are free of material misstatement. The independent audit involved examination 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; and evaluating the overall financial statement presentation.

Based upon the audit, the independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Palmdale's financial statements for the fiscal year ended June 30, 2010, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Palmdale was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Palmdale's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Palmdale's MD&A can be found immediately following the report of the independent auditors.

Palmdale History

Today's Palmdale has its roots in two small, early communities: Harold (Alpine Station) and Palmenthal. Harold was a natural location for a community because it was at the crossroads of the two major routes on the Valley floor, the Southern Pacific Railroad tracks and Fort Tejon Road (now Barrel Springs Road). In the late 1890s Harold was reduced to a few residents when the railroad decided to build a larger station for its booster engines. Booster engines were needed to get the train over the San Gabriel Mountains, and they needed to be started on flat land. Harold was not flat, and so the new station was built a short distance north of Harold, at what is now central Palmdale.

Palmenthal came to be in 1886 when between 50 and 60 families of Swiss and German descent were moving westward from the Midwest to California. As the settlers came to the Antelope Valley and saw our Joshua trees, they mistook them for palm trees. The families settled about three miles southeast of the present Civic Center and called their new town Palmenthal. The 1890s were a decade of boom and bust spurred on by the lure of cheap land and good living. In 1899 the community relocated to the heart of present-day Palmdale, and changed its name to Palmdale. So this is how Palmdale came to be. Palmenthal and Harold both came to be abandoned, and both settlements relocated to the center of the new city of Palmdale by the new Southern Pacific railroad station.

The Primary Government

The City of Palmdale was incorporated on August 24, 1962 and became a charter City in November 2009. The City is located 60 miles north of Los Angeles and is situated in the high desert at an elevation of 2,600 feet with an average mean temperature of 72 degrees Fahrenheit. Palmdale is an upper-middle class community, with a median household income of \$74,596 in 2009, which is comparable to Los Angeles at \$67,300. Palmdale residents enjoy a comfortable hometown feel with a strong family orientation, excellent education system and abundant opportunities in a safe environment.

There are eighty-eight cities in Los Angeles County with a total population of 10.4 million. Palmdale is the sixth largest and one of the fastest growing cities in the county. The City

currently occupies a land area of 104 square miles and serves a population of 152,622. The City is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

The City of Palmdale operates under the council/manager form of government. The five member City Council consists of an elected Mayor who serves a two-year term and four other members who are elected at large to overlapping four-year terms. The Mayor Pro Tem is selected from among the City Council members. The City Manager serves at the pleasure of the City Council and administers the City's affairs and carries out policies established by the City Council. The City Council is responsible for passing ordinances, adopting the budget, appointing committees, and hiring both the city manager and city attorney. The city manager is responsible for carrying out the policies and ordinances of the council, for overseeing the day-to-day operations of the government, and for appointing various department heads. The City provides the following municipal services:

Municipal Services

Building Services
Economic Development
Engineering
Finance
Library
Parks, Recreation, and Cultural
Human Resources
Planning and Zoning
Public Safety
Public Works

The annual budget serves as the foundation for the City of Palmdale's financial planning and control. All departments of the City of Palmdale are required to submit requests for appropriation to the city manager on or before March 31 each year. The city manager uses these requests as the starting point for developing a proposed budget. The city manager then presents this proposed budget to the council for review prior to May 31. The council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than July 1. The appropriated budget is by fund, function, and department. Department heads may make transfers of appropriations within a department.

The accompanying Comprehensive Annual Financial Report includes the financial activities of the City of Palmdale, the primary government, and its component units, which are the Community Redevelopment Agency of the City of Palmdale, the Palmdale Civic Authority, the Housing Authority of the City of Palmdale, and the Industrial Development Authority of the City of Palmdale. Financial information for the City and these component units is accounted for in the accompanying financial statements in accordance with principles defining the governmental reporting entity adopted by the Governmental Accounting Standards Board. The City Council members, in separate session, serve as the governing board of the Community Redevelopment Agency, the Palmdale Civic Authority, the Housing Authority, and the Industrial Development Authority and, as such, these entities are presented on a blended basis.

The Community Redevelopment Agency of the City of Palmdale (the Agency) was established in March 1975, pursuant to provisions of the State of California Health and Safety Code. The Agency is subject to the financial accountability of the City Council of the City of Palmdale, California (City) and accordingly, is a component unit of the City although it is a separate legal entity. The Agency's primary purpose is to eliminate blighted areas within the City by encouraging development of residential, commercial, industrial, recreational, and public facilities. The Agency receives incremental property tax revenue on property within its project areas over a based assessed valuation on the date the project was established. The funds of the Agency have been included in the governmental activities in the financial statements.

The Palmdale Civic Authority (the Authority) was originally created under a joint powers agreement between the City of Palmdale (City) and the Community Redevelopment Agency of the City of Palmdale (Agency) in May 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. The funds of the Authority have been included in the governmental activities in the financial statements.

Housing Authority of the City of Palmdale (the Housing Authority) was established in April 1997, pursuant to provisions of the State of California Housing Authorities Law. The Housing Authority is subject to the financial accountability of the City Council of the City of Palmdale, California (the City) and, accordingly is a component unit of the City although it is a separate legal entity. The Housing Authority's primary purpose is to address the shortage of multi-family housing in the City of Palmdale with respect to which long-term affordability for low-income persons is ensured as the result of recorded agreements or covenants. The funds of the Housing Authority have been included in the governmental activities in the financial statements.

Industrial Development Authority of the City of Palmdale (the IDA) was established in February 1995, and is authorized to issue bonds pursuant to the provisions of the California Industrial Financing Act (constituting Sections 91500 et seq. of the California Government Code, the "Law") for the purpose of providing financing for the acquisition, construction, and equipping of industrial facilities. The funds of the IDA have been included in the governmental activities in the financial statements.

Factors Affecting Financial Condition

The U.S. economy is slowly emerging from the longest and deepest economic downturn since the 1930s. Although the recession has technically ended, a long period of weak growth – hardly warranting use of the term “recovery” – is expected moving forward. States and local governments across the nation have suffered the impact of dramatic revenue declines and the recessionary effects continue to persist. Consumer spending which typically accounts for approximately 70% of the economy remains weak due to high unemployment levels, low consumer sentiment, stagnant wages, and weak housing prices. Building activity in both the residential and commercial sectors has slowed and the continuing decline in property values, as well as foreclosure rates, continue to cause concern.

The economic downturn and its continuing effects have had the greatest impact on the General Fund, which relies heavily on sales tax, property tax, and development revenue to finance those services typically associated with local government – public safety, library, recreation, parks, building, planning, engineering and general administration. As a result, the City has pursued a comprehensive balancing strategy to mitigate the impacts of both declining revenues and rising costs. Over the past three fiscal years and into 2010-11, the City has taken expenditure measures that have resulted in savings of over \$45 million or approximately \$11 million annually. These measures included, but were not limited to, personnel, benefit, and operating reductions; suspension of non-essential programs; and delaying capital improvement expenditures. In addition, the City has implemented various revenue enhancements including a voter approved hotel tax increase, administration fees for internal services to special funding sources, and fee increases to provide a more appropriate level of cost recovery on City services and programs. Our main objective in this process was to deal directly and honestly with the current economic environment, while minimizing service level impacts to the public, especially in public safety.

Palmdale has achieved many major accomplishments during these difficult times as a result of the dedication and hard work of our staff and the strong leadership provided by our elected officials and city management.

Development has continued in the 746-acre Palmdale Trade and Commerce Center. A new 7-story, 150-suite Embassy Suites Hotel opened at the beginning of 2010. On an adjacent property, the City continues efforts to develop a 77,160 square foot conference center immediately west of the Embassy Suites, with design nearly complete and entitlements expected by late 2010. Over 218,000-square-feet of Class A medical and professional office building space is currently available for lease or purchase in the Trade & Commerce Center, with another 85,000 square feet nearby.

The Palmdale Regional Medical Center, encompassing nearly 380,000 square feet and breathtaking views, opened in December 2010. The hospital is located in the foothills overlooking the Trade and Commerce Center and has the largest emergency room in the Antelope Valley. The housing portion of the complex, called Summer Terrace, opened in 2009 and includes 80 units of affordable senior housing. Adjacent to the hospital is a 60,000 square foot medical office building that is currently leasing space and which also opened in mid-2009. A second 60,000 square foot medical office building is entitled and will begin construction after the first one is fully leased. The City provided the land and funded the off-site infrastructure, including roadways, traffic signals, streetlights, storm drainage, sanitary sewers, water and other utilities for the project.

New businesses that opened during fiscal year 2009-2010 include Patton Steel, e-Solar, DeVry University, Sierra Medical Group, Community Therapies, Ashley's Furniture, Michael Anthony Spa, San Angelo's Spa, Pars Persian restaurant, Mana Asian restaurant, Gino's Italian restaurant, Shakey's Pizza, Round Table Pizza, Applebee's restaurant, Sonora Steakhouse, Nadia's Cakes, and La Casa Rustica. In addition, the Redevelopment Agency has penned a deal to provide funds to help rehab a vacant department store at the Antelope Valley Mall that will be home to Macy's department store by the fall of 2010.

The street resurfacing/sealing program for fiscal year 2009-10 was funded by the American Recovery and Reinvestment Act (ARRA), which provided \$4,324,000 to pave 70 miles of roadway at 14 locations throughout the City.

The 120-acre Fairway Business Park is considered the premier business park in the Antelope Valley. Prominent businesses such as Delta Scientific Corporation, U.S. Pole Company and FedEx Ground Distribution Center were recently joined by Patton Steel and e-Solar. Over 443,000-square-feet of building space is occupied in the business park, with over 277,000-square-feet of industrial/commercial building space available for purchase or lease. Eight lots remain available in the Park, totaling nearly 35 acres.

The U.S. Air Force Plant 42 is one of the largest regional employers and a major force in the local economy. The City continues to be diligent in its lobbying efforts to keep jobs in Palmdale while realizing that it is unable to control decisions made by the federal government, which largely funds numerous aerospace programs at Plant 42.

NASA Dryden manages an Aircraft Operations Facility at Site 9 at U.S. Air Force Plant 42. Five specialized science platform aircraft are housed at the facility, including the DC-8 Airborne Laboratory, the Stratospheric Observatory for Infrared Astronomy (SOFIA), two ER-2 high-altitude aircraft and a Gulfstream-III multi-role cooperative research platform. An estimated 200 Dryden civil service and contractor staff are working at the facility. In addition, visiting scientists from around the world are based at the site while their experiments or missions are in progress.

The Palmdale Institute of Technology building is home to the AERO Institute. The AERO Institute represents a unique collaboration with the NASA Dryden Flight Research Center, the California Space Grant Foundation and the City of Palmdale. The Institute offers college-credit courses in business and multiple engineering disciplines from public and private colleges and universities around the country. The Palmdale site also offers workshops and materials for educators teaching kindergarten through twelfth grade and is home to the NASA Exploratorium, a hands-on science exhibit.

Long Term Financial Planning

Safe, affordable, reliable power is vital to keeping businesses here and attracting new jobs. Recognizing the need for improvements and additions to the electrical infrastructure in southern California, the City has been pursuing development of a 500-megawatt natural gas powered plant and a 50-megawatt solar plant. Inland Energy has been engaged by the City to obtain all necessary entitlements for the project. In approximately four years, the City hopes to provide enough power to serve more than 400,000 homes in southern California. Due to Palmdale's unique location in the high desert and close proximity to readily accessible transmission lines flowing into the Los Angeles basin, the Palmdale power plant will be a vital component in meeting the energy needs of the Los Angeles and Inland Empire regions.

Transportation and traffic improvements also play a key role in Palmdale's and the Antelope Valley's development. Many key projects will take place this fiscal year following years of planning and working to compile funding from numerous sources including federal, state and local.

The Tierra Subida Avenue Improvement Project will serve the transportation and traffic flow needs of the Palmdale Regional Medical Center. The project will widen the street from Avenue Q-8 to Rayburn Road. Because much of the work is adjacent to property owned by the Los Angeles County Waterworks District, the City and County will enter into a cooperative agreement for funding to complete the design of this project. Work will commence in Fall 2010 and should be completed in early fiscal year 2011-12.

The safety and capacity improvements to Rancho Vista Boulevard between Division Street and 15th Street East will commence with Phase 1 in fiscal year 2010-11. Phase 1 includes signalization and improvements to the 10th Street East intersection of Rancho Vista Boulevard. Phase 2, scheduled to start construction in fiscal year 2011-12, will make improvements to the 3rd Street East and 8th Street East intersections of Rancho Vista Boulevard. Phase 3, scheduled to start construction in Fiscal Year 2013-14, will be a grade separation to take Rancho Vista Boulevard under Sierra Highway and the railroad tracks. The final Phase faces significant financial hurdles however.

The City will spend approximately \$1.7 million this year to complete the design and installation of four new traffic signals. This will bring the total number of city-owned signals to 92 and the total number of city-maintained signals to 143. Additionally, the City has allocated approximately \$370,000 in ARRA funding for a traffic signal synchronization project. The project will synchronize 49 signals among five major corridors (Rancho Vista Boulevard, 10th Street West, Palmdale Boulevard, Avenue R and Avenue S) along with upgrading the existing Citywide Centralized Traffic Signal Software and replacing 84 traffic signal controllers.

The City applied for and received a State Route to School (SR2S) grant to install two signals and street improvements at Golden Poppy Elementary School located on Rockie Lane south of Avenue R, east of 60th Street East. The matching funds required by the CalTrans grant were provided by an ARRA grant. Design and right of way acquisition will be completed by the end of Fiscal Year 2010-11 and construction thereafter.

Because 20th Street West is a major north/south arterial serving the west side of Palmdale, the crossing at Amargosa Creek is critical to provide another link between commercial development in the Trade and Commerce Center and the residential areas of Anaverde and Ritter Ranch. Design work will be completed in early Fiscal Year 2010-11.

The Wright Brothers Court housing project represents the first step in the development of affordable and market rate housing specific to the needs of commuting workforce households, and is responsive to State demands for “Transit Village” type housing developments. This project will address the existing blight and deterioration in the area bounded by East Avenue Q and the Transportation Center, and 6th Street East to 4th Street East. By eliminating blight in this area and developing new affordable housing targeted for first time home buyers and working class renters, the Housing Division will increase the City’s supply of affordable housing and create a pleasant and beautiful extension to the Transportation Center. The proposed development will provide workforce housing as well as affordable housing opportunities for low to moderate income households in the City of Palmdale by constructing a 121-unit town home development and a twin tower 156-unit multi-family rental housing development with related amenities and parking. This project is expected to break ground in November 2010, with resident occupancy in the spring of 2012.

Work will continue this year on infrastructure improvements for the final two phases of the Courson Connection Project east of Poncitlan Square. Whispering Palms, the first of four phases of affordable senior apartment buildings opened in mid-2008 with 75 units for very low and low-income seniors. The second phase of apartments, Palo Verde Terrace, a 78-unit affordable senior rental housing project, began construction in 2008 and opened in late 2009. The City expects to complete two subsequent phases of about 75 units each by 2012. A new 14,900-square-foot Senior Center began construction in mid-2008 and opened in July 2010.

complete two subsequent phases of about 75 units each by 2012. A new 14,900-square-foot Senior Center began construction in mid-2008 and opened in July 2010.

Award and Acknowledgements

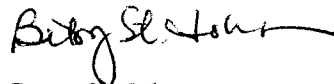
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Palmdale for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2009. This was the nineteenth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. I believe that our current CAFR continues to meet the Certificate of Achievement program's requirements and I am submitting it to the GFOA to determine its eligibility for another certificate.

The City also received the Excellence in Operational Budgeting Award from CSMFO and the Distinguished Budget Presentation Award from GFOA for the fiscal year 2009-10 Budget.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. I would like to express my appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor, City Council members, and the City Manager for their support for maintaining the highest standards of professionalism in the management of the City of Palmdale's finances.

Respectfully submitted,



Betsy St. John
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Palmdale
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

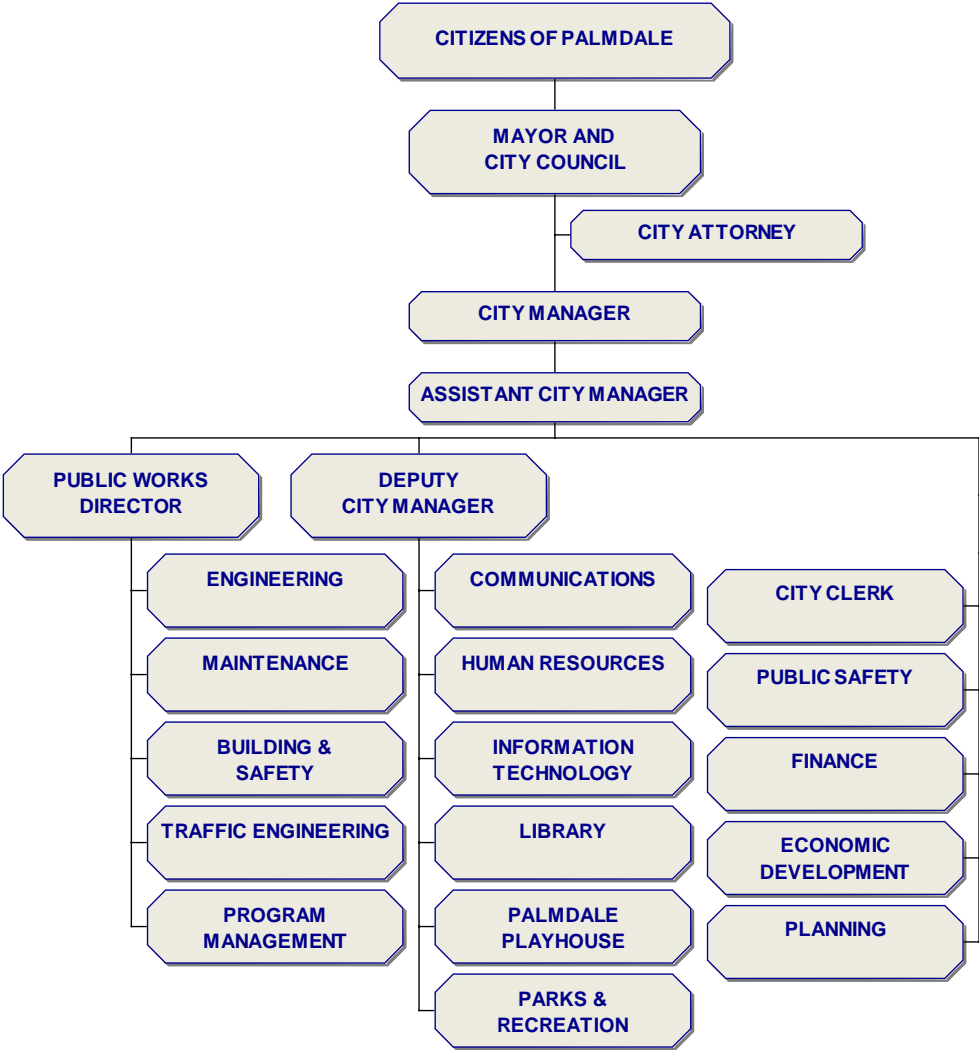
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

City of Palmdale Organizational Chart



City Officials

Year Ended June 30, 2010

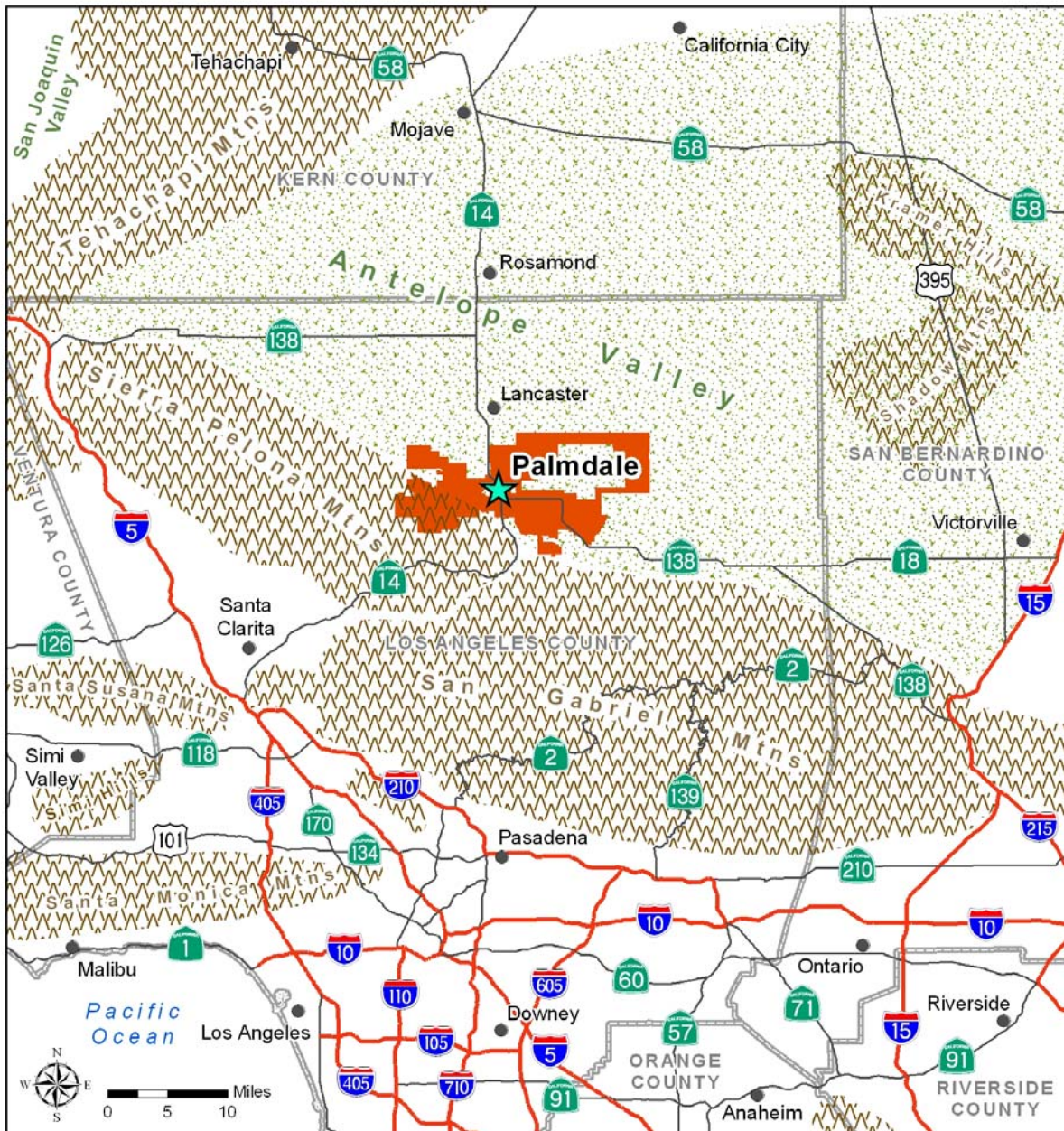
City Council

James C. Ledford, Jr.	Mayor
Tom Lackey	Mayor Pro Tem
Laura Bettencourt	Councilmember
Mike Dispenza	Councilmember
Steven D. Hofbauer	Councilmember

Administration and Department Heads

Stephen H. Williams	City Manager
Laurie Lile	Assistant City Manager
Nancy Quelland	Deputy City Manager
Matthew Ditzhazy	City Attorney
Betsy St. John	Finance/City Treasurer
Mike Mischel	Public Works
Anne Ambrose	Public Safety and Community Relations

LOCATION MAP



Map of the Antelope Valley

The beautiful Antelope Valley, situated at the northern tip of Los Angeles County, is bounded by the Tehachapi Mountains in Kern County to the north, the Angeles National Forest and Santa Clarita Valley to the west, the San Gabriel Mountains to the south, and a long expanse of high desert stretching all the way to Victorville, in San Bernardino County, to the east. The City of Palmdale, encompassing 104 square miles, sits at the southern end of the Antelope Valley at an elevation of 2,600 feet.

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FINANCIAL
SECTION



CITY OF PALMDALE, CALIFORNIA

Year Ended June 30, 2010



INDEPENDENT AUDITORS' REPORT

The Honorable Members of the City Council of
The City of Palmdale

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Palmdale, California (the City), as of and for the year ended June 30, 2010, which collectively comprise the City of Palmdale's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Palmdale'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 City'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 statements presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Palmdale, California, as of June 30, 2010, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 13 and the required supplemental information on page 86 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, and combining individual non-major fund statements and schedules, and statistical section as listed in the table of contents are presented for purpose of additional analysis and are not a required part of the basic financial statements. The combining, individual non-major fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vawter, Tami, Day, Co., LLP

Rancho Cucamonga, California
December 15, 2010

City of Palmdale

Management's Discussion and Analysis

As management of the City of Palmdale, we offer readers of the City of Palmdale's financial statements this narrative overview and analysis of the financial activities of the City of Palmdale for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i through xii of this report.

Financial Highlights

- The assets of the City of Palmdale exceeded its liabilities at the close of the most recent fiscal year by \$731,360,888 (net assets). Of this amount \$9,229,647 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$1,553,956. Details are discussed on page 7.
- As of the close of the current fiscal year, the City of Palmdale's governmental funds reported combined ending fund balances of \$162,126,554, a decrease of \$15,607,039 in comparison with the prior year. Approximately 54.3 percent or \$88,103,106 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$18,112,832, or 27.4 percent of total general fund expenditures.
- The City of Palmdale's total debt decreased by \$4,782,455 or 19.2 percent during the current fiscal year. The decrease is primarily due to regular scheduled annual debt payments. Details are discussed at Note 11.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Palmdale's basic financial statements. The City of Palmdale's basic financial statements comprise of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Palmdale's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Palmdale'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 City of Palmdale is improving or deteriorating.

The statement of activities 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 (e.g., uncollected taxes and earned but unused vacation leave).

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Both of the government-wide financial statements distinguish functions of the City of Palmdale that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Palmdale include general government, public safety, public services, community development, cultural and recreational, health and welfare, and interest on debt. The City does not have any business-type activities.

The government-wide financial statements include not only the City of Palmdale as the primary government, but also a legally separate Community Redevelopment Agency of the City of Palmdale, the Palmdale Civic Authority, the Housing Authority of the City of Palmdale, and the Industrial Development Authority of the City of Palmdale. Financial information for these component units is reported on a blended basis. The government-wide financial statements can be found on pages 16-17 of this report.

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 City of Palmdale, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City of Palmdale can be divided into two categories: governmental funds and fiduciary 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 City of Palmdale maintains 42 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 General fund, the Community Redevelopment Agency (CRA) Housing Development Special Revenue fund, the CRA Project Area No. 1 Debt Service and Capital Projects funds, the CRA Project Area No. 2A Debt Service and Capital Projects funds, the CRA Housing Debt Service fund, and the Palmdale Civic Authority Debt Service and Capital Projects funds, all of which are considered to be major funds. Data from the remaining 33 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on pages 87-95.

The City of Palmdale adopts an annual appropriated budget for its General fund, and its CRA Housing Development Special Revenue funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their respective budgets. The basic governmental fund financial statements can be found on pages 19-30.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide statement because the

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resources of those funds are not available to support the City of Palmdale's own programs. The basic fiduciary fund financial statement can be found on pages 31-32 of this report.

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 33-84 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 City of Palmdale, assets exceeded liabilities by \$731,360,888 as of June 30, 2010.

The City of Palmdale's investment in capital assets, net of related debt reflects a balance of \$575,275,003. Pursuant to GASB Statement 34, the City has recorded infrastructure assets acquired prior to the City's implementation year of June 30, 2002. Investment in capital assets is defined as land, buildings, machinery and equipment, infrastructure, and construction in progress, less any related debt used to acquire these assets that is still outstanding. The City of Palmdale uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Palmdale's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Palmdale's Net Assets

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
Current and Other Assets	\$ 197,459,696	\$ 207,882,065
Capital Assets	<u>807,335,873</u>	<u>803,771,915</u>
Total Assets	<u>1,004,795,569</u>	<u>1,011,653,980</u>
Long-Term Liabilities Outstanding	235,153,359	240,470,669
Other Liabilities	<u>38,281,322</u>	<u>38,268,467</u>
Total Liabilities	<u>273,434,681</u>	<u>278,739,136</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	575,275,003	576,227,953
Restricted	146,856,238	138,882,700
Unrestricted	<u>9,229,647</u>	<u>17,804,191</u>
Total Net Assets	<u>\$ 731,360,888</u>	<u>\$ 732,914,844</u>

The City of Palmdale's restricted net assets of \$146,856,238 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$9,229,647 may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City of Palmdale is able to report positive balances in all three categories of net assets for its governmental activities.

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City of Palmdale's Changes in Net Assets

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 32,435,510	\$ 28,671,230
Operating Grants and Contributions	7,454,967	7,223,053
Capital Grants and Contributions	34,558,609	48,552,845
General Revenues:		
Tax Increment	43,025,101	48,020,519
Property Taxes	16,593,602	20,237,674
Sales Taxes	14,104,937	14,448,749
Other Taxes	7,690,327	7,012,002
Unrestricted Investment Earnings	137,085	2,064,949
Land Sale Proceeds	310,632	-
Other	<u>803,398</u>	<u>744,262</u>
Total Revenues	<u>157,114,168</u>	<u>176,975,283</u>
Expenses:		
General Government	30,120,518	19,185,451
Public Safety	21,998,235	27,202,602
Public Services	43,942,305	42,531,740
Community Development	34,169,400	39,966,752
Cultural and Recreation	13,652,211	16,894,235
Health and Welfare	2,004,790	1,240,971
Interest on Long-Term Debt	<u>12,780,665</u>	<u>12,868,534</u>
Total Expenses	<u>158,668,124</u>	<u>159,890,285</u>
Increase (Decrease) in Net Assets	(1,553,956)	17,084,998
Net Assets – Beginning of Year (as restated)	<u>732,914,844</u>	<u>715,829,846</u>
Net Assets – End of Year	<u>\$ 731,360,888</u>	<u>\$ 732,914,844</u>

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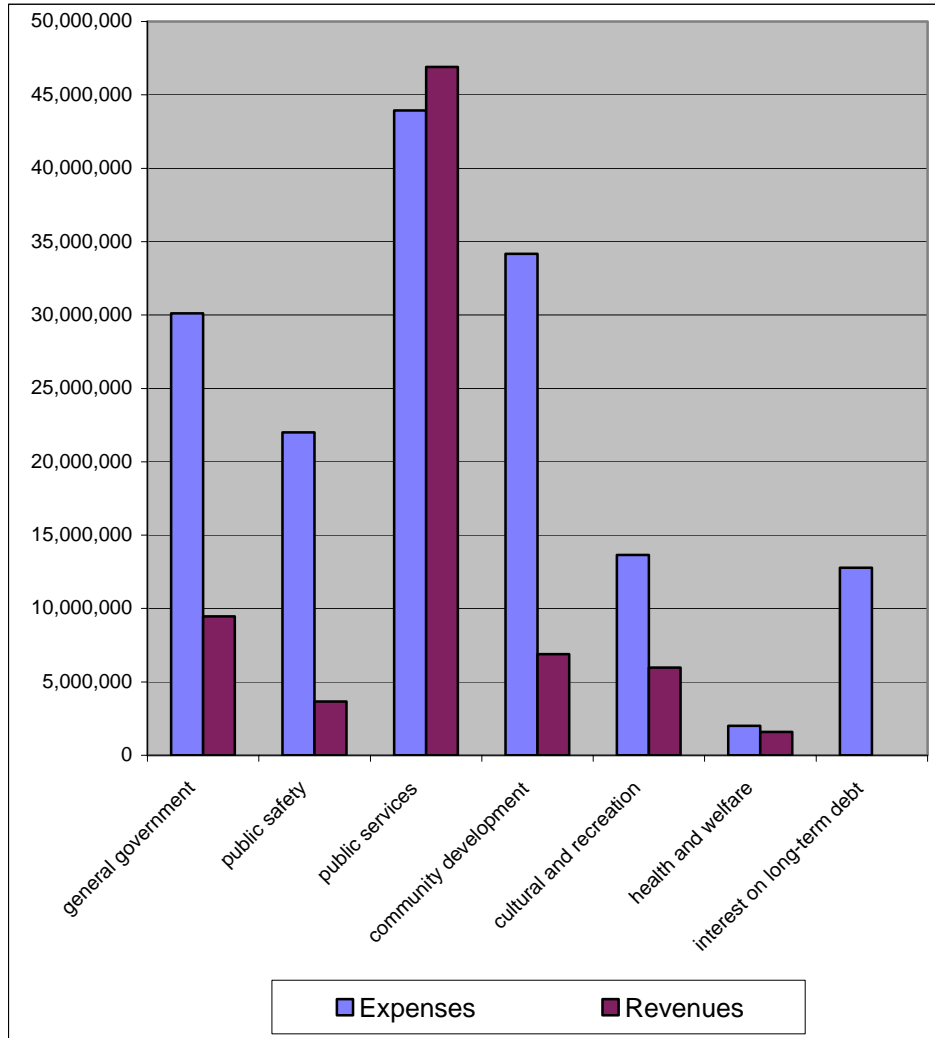
Governmental Activities. Governmental activities decreased the City of Palmdale's net assets by \$1,553,956, or .2 percent, during the current fiscal year. Key elements of the governmental activities net asset increase are as follows:

- Charges for Services increased by \$3,764,280, or 13.1 percent, primarily as a result of the City assuming responsibility for the operation and maintenance of the City sewer system beginning July 1, 2009 and receiving increased Sewer assessment fees by \$2,711,642. Other increases include healthcare contributions for the self-funded healthcare fund and increased administration fees offset by decreases in Parking and Motor Vehicle Fines and Plan Inspection Fees.
- Operating grants and contributions increased by \$231,914, or 3.2 percent, as a result increases in WIA Grant, CDBG Recovery Grant and changes in recognizing Deferred Revenue in the current year offset by decreases in interest earnings, sponsorships, Traffic Congestion Revenue, County Park Operating Maintenance Grant and Federal Home Program Grant.
- Capital grants and contributions decreased by \$13,994,236, or 28.8 percent, primarily as a result of the decreases in donations in capital assets by \$11,708,516 from the completion of developer infrastructure improvements on large capital projects transferred to the City during FY2009-10 as compared to FY2008-09. Other revenue decreases include decreases in development impact fees by \$1,885,670, interest earning allocated to Grants by \$843,417, Developer Contributions by \$873,609, and special sales tax revenues by \$498,552. The decreases were offset by increases in Federal, State and County Grants by \$1,194,972.
- Tax increment revenue decreased by \$4,995,418, or 10.4 percent, as a result of the decline of 2009-10 assessed values by 14.9 percent as compared to the assessed values in FY2008-09.
- Property Taxes decreased by \$3,644,072, or 18.0 percent due to the decline in FY2009-10 taxable assessed values by 14.9 percent as compared to the assessed values in FY2008-09.
- Sales and Use Taxes decreased by \$343,812, or 2.4 percent as a result of the economic downturn, increased fuel costs and residents having less disposable income for spending at the City businesses.
- Unrestricted Investment Earnings decreased by \$1,927,864 or 93.4 percent as a result of LAIF twelve-month average earnings decreasing from 2.19 percent to an average of .65 percent and a general decrease in fair value of investments.
- General Government expenses increased by \$10,935,067, or 57.0 percent primarily due to the result of the payment made to the Supplemental Educational Revenue Augmentation Fund (SERAF) of \$11,605,102.
- Public Safety expenses decreased by \$5,204,367, or 19.1 percent primarily as a result of one-time expensing non-City owned capital improvements for two new fire stations completed during FY2008-09 of \$4,317,720. Also, further decreases are the result of the reduction of workforce in the Public Safety Departments.
- Public Service expenses increased by \$1,410,565, or 3.3 percent primarily as a result of the City assuming responsibility for the operation and maintenance of the City sewer system beginning July 1, 2009.

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- Community Development expenses decreased by \$5,797,352 or 14.5 percent due to a decrease in the expensing of non-City owned capital improvements made in prior year .
- Cultural and Recreation expenses decreased by \$3,242,024 or 19.2 percent due to a reduction of workforce and programs offered under the Parks and Recreation Departments, Library Departments and Playhouse

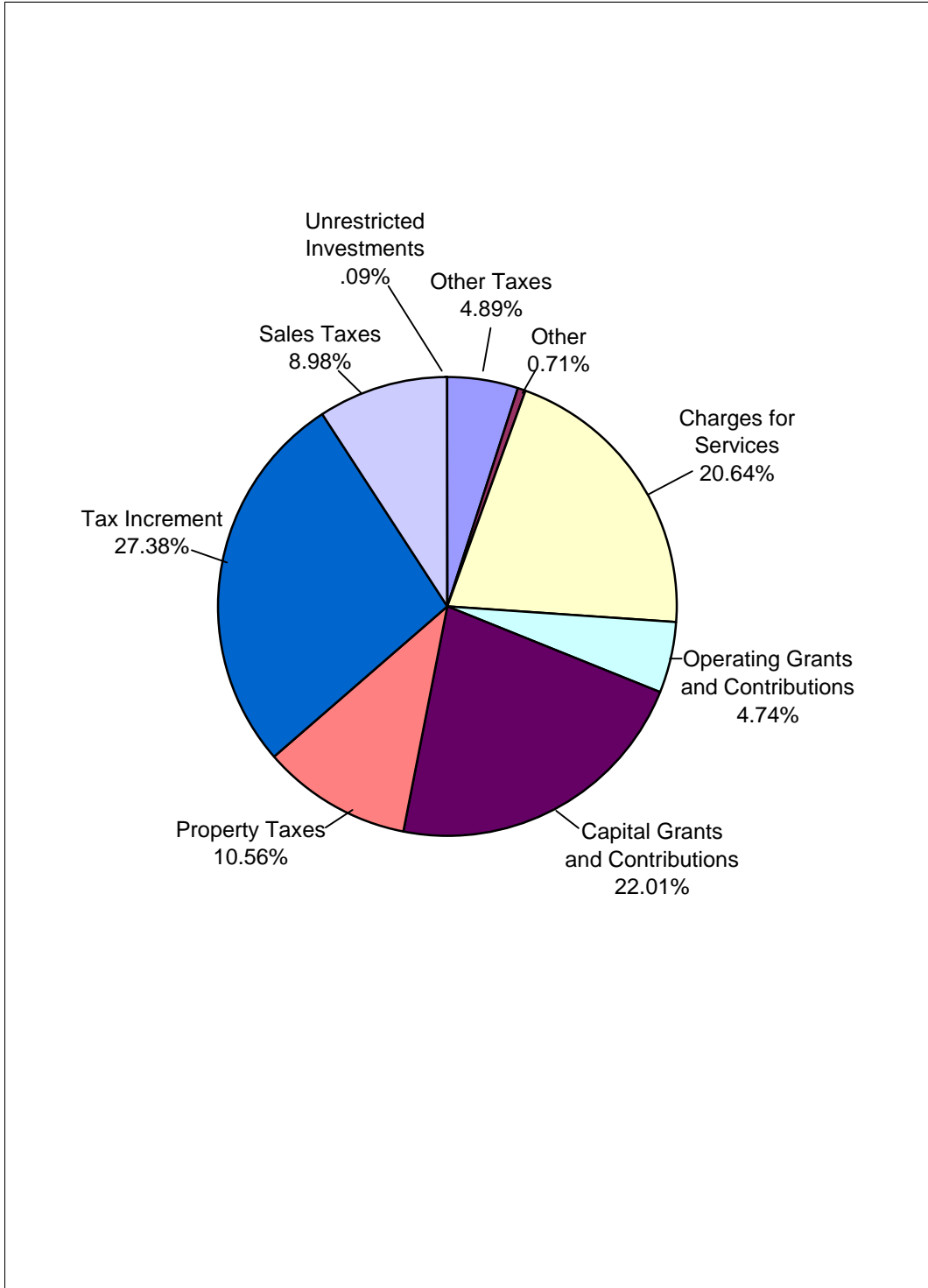
Expenses and Revenues-Governmental Activities



For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

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Revenues by Source-Governmental Activities



Capital grants and contributions totaled \$34,558,609. Of this amount approximately 92.5 percent or \$31,963,272 were program revenues of the public services governmental activity. This is particularly noteworthy, since the effect of this funding source is to show positive net governmental activities of \$2,953,678 for public services in the government-wide statement of activities and changes in net assets.

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Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the City of Palmdale's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Palmdale's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Palmdale's governmental funds reported combined ending fund balances of \$162,126,554 a decrease of \$15,607,039 in comparison with the prior year. Approximately 54.0 percent of this total amount, or \$87,626,032, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed as follows:

- \$16,685,673 for advances
- \$23,284,281 for notes and liens
- \$4,801,361 to pay debt service
- \$22,814,960 for land/permit held for resale
- \$3,076,264 for encumbrances
- \$3,837,983 for a variety of restricted purposes

The general fund is the chief operating fund of the City of Palmdale. At the end of the current fiscal year, unreserved fund balance of the general fund was \$18,112,832, while total fund balance reached \$23,476,666. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 27.4 percent of total general fund expenditures, while total fund balance represents 35.5 percent of that same amount.

The fund balance of the City of Palmdale's general fund decreased by \$4,658,836 during the current fiscal year. Key factors in the decline are as follows:

- Decreases in Sales Tax, and decreases in Property Tax Revenues as the result of decline in economy and assessed property values.

The CRA Housing Development Fund accounts for 20 percent of the total CRA property tax increment revenues received. The total fund balance of the CRA Housing Development fund was \$47,665,887. Of this amount \$9,108,190 constitutes unreserved fund balance that was available for spending on low and moderate income housing programs and projects. The remainder of the fund balance is reserved for restricted investments, payment of advances and notes, land held for resale, and encumbrances. The CRA Housing Development fund balance increased by \$3,575,715 during the current fiscal year.

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The CRA Project Area No. 1 Debt Service Fund has a negative fund balance of \$751,613. The net decrease in fund balance during the current year was \$2,326,223, primarily resulting from the payment made to the Supplemental Educational Revenue Augmentation Fund (SERAF) of \$2,533,394.

The CRA Project Area No. 2A Debt Service Fund has a negative fund balance of \$7,290,058. The net decrease in fund balance during the current year was \$9,056,253, primarily resulting from the payment made to the Supplemental Educational Revenue Augmentation Fund (SERAF) of \$9,071,708.

The CRA Housing Debt Service Fund has a fund balance of \$872,065 all of which is reserved for payment on bonded debt of mobile home parks and low/moderate income housing set-aside projects. The net increase in fund balance during the current year was \$296,653, primarily resulting from an increase of funding received from the Mobile Home Parks.

The Palmdale Civic Authority Debt Service Fund has a fund balance of \$3,929,296, all of which is reserved for payment on certificates of participation issued to finance public improvements in the City. The net decrease in fund balance during the current year was \$13,249, primarily resulting from the increases in debt service payments.

The CRA Project Area No. 1 Capital Projects Fund has a fund balance of \$11,916,531, of which \$1,783,691 is available for ongoing capital projects and the remainder is reserved for land held for resale and encumbrances. The net decrease in fund balance during the current year was \$1,125,492, primarily due to decreased funding received from the Area No. 1 Debt Service Fund.

The CRA Project Area No. 2A Capital Projects Fund has a fund balance of \$9,712,222, of which \$887,722 is available for ongoing capital projects and the remainder is reserved for land held for resale payment of notes and encumbrances. The net decrease in fund balance during the current year was \$1,192,664, primarily due to increased capital expenditures related to the Conference Center, Courson Connection, and Library Remodeling projects.

The Palmdale Civic Authority Capital Projects Fund has a fund balance of \$671,082, of which \$671,082 is available for ongoing park facilities and street improvement projects and the remainder is reserved for encumbrances. The net decrease in fund balance during the current year in the capital projects funds was \$296,526, resulting from financing the Signal and Street project through trustee held bond proceeds restricted for this purpose.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget resulted in an increase of appropriations by \$3,440,090. The primary reason for the increase is the result of additional litigation cost and capital outlay anticipated.

Differences between the final amended budget and actual resulted in a \$4,034,692 decrease in appropriations and can be briefly summarized as follows:

- \$660,114 decrease in general governmental activities.
- \$362,524 decrease in public safety contracts.
- \$1,826,317 decrease in public services.
- \$843,959 decrease in cultural and recreational programs.
- \$37,172 decrease in health and welfare services.
- \$308,950 decrease in capital projects.
- \$4,344 increase in debt service payments.

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The decrease is due to not only expenditures coming in less than anticipated but also the result of activities that were budgeted but not completed during the current fiscal year.

Capital Asset and Debt Administration

Capital Assets. The City of Palmdale's investment in capital assets for its governmental activities as of June 30, 2010, amounts to \$807,335,873 (net of accumulated depreciation). This investment in capital assets includes land, buildings and structures, improvements, machinery and equipment, infrastructure and construction in progress. The total increase in the City of Palmdale's investment in capital assets for the current fiscal year was .85 percent.

City of Palmdale's Capital Assets (Net of Depreciation)

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
Land and Improvements	\$ 119,523,152	\$ 118,734,041
Buildings and Structures	45,864,112	47,002,197
Machinery and Equipment	2,953,232	3,944,111
Infrastructure	625,208,997	620,600,634
Construction in Progress	<u>13,786,380</u>	<u>10,219,231</u>
	<u>\$ 807,335,873</u>	<u>\$ 800,500,214</u>

Major capital asset events during the current fiscal year included the following:

- Sewer lines contributed by Developers in the amount of \$1,813,194.
- Conference Center cost in the amount of \$1,703,148.
- Various storm drain and basin repair and mitigation improvements contributed by Developers in the amount of \$2,553,507.
- Completion of various traffic signal improvement projects in the amount of \$765,810.

Additional information on the City of Palmdale's capital assets can be found on page 54, Note 9.

Long-Term Debt. At the end of the current fiscal year, the City of Palmdale had total bonded debt outstanding of \$199,372,293. The Tax Allocation Bonds and the Revenue Bonds are secured by pledges of sales taxes and/or incremental property taxes generated in the Community Redevelopment Agency project areas. Certificates of Participation require the City to pay a semi-annual base rental to the Palmdale Civic Authority (PCA). The rentals will be used by the PCA to pay debt service as the Certificates of Participation come due.

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City of Palmdale's Outstanding Bonded Debt Tax Allocation and Revenue Bonds and Certificates of Participation

	Governmental Activities <u>2010</u>	Governmental Activities <u>2009</u>
Tax Allocation Bonds	\$ 90,607,264	\$ 91,490,186
Revenue Bonds	28,987,709	30,498,952
Certificates of Participation	82,045,000	83,525,000
Deferred Loss on Refinancing	(2,907,728)	(3,075,812)
Bond Premiums	<u>640,048</u>	<u>731,291</u>
Total	<u>\$ 199,372,293</u>	<u>\$ 203,169,617</u>

The remainder of the City of Palmdale's debt of \$45,174,191 was comprised of \$3,720,250 in compensated absences, \$1,817,457 in self-insurance liability claims, \$1,411,759 in capital leases payable for equipment purchases and \$38,224,725 in notes payable, primarily for Fairway Business Park land acquisition, developer infrastructure and a Section 108 HUD Loan.

The City of Palmdale's total debt decreased by \$4,782,455 or 1.9 percent, during the current fiscal year. The decrease is primarily due to regular scheduled annual debt payments. Additional information on the City of Palmdale's debt can be found on pages 55-73, Note 10 and Note 11.

Economic Factors and Next Year's Budgets and Rates

As of June 30, 2010, unreserved fund balance in the general fund is \$18,112,832. The City has appropriated \$227,360 of this amount for spending in the fiscal year 2010-11, annual budget.

Additionally, the City took into consideration the following factors in preparing the budget for the 2010-11 fiscal year:

- Property tax declines from homeowner appeals of property values.
- Continued slowdown in housing development.
- Continued sales tax decreases as the result of less disposable income available to City residents to spend at City retail stores.
- The unemployment rate for the City is currently 15.1 percent, compared to a rate of 13.9 percent a year ago. This compares to the state's average unemployment rate of 12.6 percent and the national average rate of 9.7 percent.
- Inflationary trends in the region compare favorably to national indices.
- City funds impacted by State budget actions.

Requests for Information

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

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Government-Wide Financial Statements

City of Palmdale
Statement of Net Assets
June 30, 2010

	Governmental Activities
Assets:	
Cash	\$ 142,686
Investments	95,766,521
Accounts Receivable	12,112,745
Interest Receivable	968,342
Property Taxes Receivable	3,079,140
Due from Other Governmental Units	1,589,741
Net OPEB Asset	949,048
Notes and Liens	23,284,281
Deposits and Prepays	567,132
Deferred Charges - Cost of Issuance	4,517,588
Land Held for Resale	14,537,616
Permit Held for Resale	8,277,344
Restricted Assets:	
Cash and Investments	31,651,221
Interest Receivable	16,291
Capital Assets:	
Not Being Depreciated:	
Land and Improvements	119,523,152
Construction in Progress	13,786,380
Being Depreciated, Net of Accumulated Depreciation:	
Buildings and Structures	45,864,112
Machinery, Equipment and Other Improvements	2,953,232
Infrastructure	625,208,997
Total Assets	1,004,795,569
Liabilities:	
Accounts Payable	7,269,073
Accrued Salaries & Employee Benefits	1,248,155
Due to Bank - Overnight Sweep	2,891,253
Due to Other Governmental Units	4,363,467
Deposits	8,664,939
Accrued Interest Payable	4,263,962
Unearned Revenue	187,348
Noncurrent Liabilities:	
Due Within One Year	9,393,125
Due in More than One Year	235,153,359
Total Liabilities	273,434,681
Net Assets:	
Invested in Capital Assets, Net of Related Debt	575,275,003
Restricted for:	
Public Safety	2,713,114
Public Services	50,856,410
Community Development	74,594,268
Cultural & Recreational	12,650,207
Health & Welfare	34,987
Debt Service	6,007,252
Unrestricted	9,229,647
Total Net Assets	\$ 731,360,888

See Accompanying Notes to the Financial Statements

City of Palmdale
Statement of Activities
For the Year Ended June 30, 2010

	Program Revenues				Net Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government	\$ 30,120,518	\$ 8,553,972	\$ 905,419	\$ -	\$ (20,661,127)
Public Safety	21,998,235	2,915,485	509,429	232,287	(18,341,034)
Public Services	43,942,305	11,845,911	3,086,800	31,963,272	2,953,678
Community Development	34,169,400	4,272,836	1,272,374	1,338,720	(27,285,470)
Cultural and Recreational	13,652,211	4,549,359	391,796	1,024,330	(7,686,726)
Health and Welfare	2,004,790	297,947	1,289,149	-	(417,694)
Interest on Long-Term Debt	12,780,665	-	-	-	(12,780,665)
Total Governmental Activities	\$ 158,668,124	32,435,510	7,454,967	34,558,609	(84,219,038)

General Revenues:

Taxes:	
Tax Increment	43,025,101
Property Taxes	16,593,602
Sales and Use Taxes	14,104,937
Unrestricted Motor Vehicle in Lieu	444,842
Franchise Taxes	3,795,048
Transient Occupancy Taxes	2,581,658
Property Transfer Tax	439,863
Business License Taxes	428,916
Unrestricted Investment Earnings	137,085
Other	803,398
Land Sale Proceeds	310,632
Total General Revenues	82,665,082
 Change in Net Assets	 (1,553,956)
 Net Assets - Beginning of Year (as restated)	 <u>732,914,844</u>
 Net Assets - End of Year	 <u>\$ 731,360,888</u>

See Accompanying Notes to the Financial Statements

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Governmental Fund Financial Statements

The General Fund is the City's primary operating fund and has been classified as a major fund. It accounts for all financial resources of the general government that are not already required legally or by sound financial management to be accounted for in another fund.

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for a particular purpose. The following funds have been classified as major funds:

CRA Housing Development Fund

This fund accounts for the transfer of the 20 percent set aside funds from CRA property tax increments, as well as expenditures related to low and moderate income housing needs.

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

CRA Project Area No. 1 Fund

This fund is used to account for resources accumulated and payments made for principal and interest on bonded debt and other long-term obligations of the Agency and Authority that are secured by Project Area Project Area No. 1 tax increment revenues.

CRA Project Area No. 2A Fund This fund is used to account for resources accumulated and payments made for the principal and interest on bonded debt and other long-term obligations of the Agency and Authority that are secured by No. 2A sales tax and/or tax increment revenues.

CRA Housing Fund

This fund accounts for resources accumulated and payments made for principal and interest on bonded debt of mobile home parks and on low/moderate income housing set-aside projects.

Palmdale Civic Authority Fund This fund accounts for resources accumulated and payments made for principal and interest certificates of participation issued to construct the civic center complex.

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

CRA Project Area No. 1 Fund This fund is used to account for all capital projects of Project Area No. 1.

Palmdale Civic Authority Fund This fund is used to account for construction projects funded through issuance of Certificates of Participation. Current projects include new park facilities and street improvements.

CRA Project Area No. 2A Fund This fund is used to account for all capital projects of Project Area No. 2A

City of Palmdale
Balance Sheet
Governmental Funds
June 30, 2010

Assets	Special Revenue Fund		Debt Service Funds	
	General	CRA Housing Development	CRA Project Area No. 1	CRA Project Area No. 2A
Assets:				
Cash	\$ 133,406	-	-	-
Investments	23,496,747	8,521,487	181,462	5,206,387
Receivables:				
Accounts and Interest Receivable	2,609,393	357,215	235,425	1,074,016
Property Taxes Receivable	207,811	-	495,279	1,187,522
Due from Other Funds	5,934,839	1,366,197	-	-
Advances Due from Fiduciary Funds	-	-	-	-
Due from Other Governmental Units	1,005,882	-	-	-
Notes and Liens	46,404	17,937,051	-	-
Advances Due from Other Funds	36,302	15,734,541	-	330,971
Deposits and Prepaids	246,532	-	-	-
Restricted Assets:				
Investments	-	1,923,436	1,583,840	1,671,751
Interest Receivable	-	-	653	530
Land Held for Resale	-	2,859,089	-	-
Permit Held for Resale	3,534,951	-	-	-
Total Assets	<u>37,252,267</u>	<u>48,699,016</u>	<u>2,496,659</u>	<u>9,471,177</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable	5,465,931	294,813	-	311,200
Due to Bank - Overnight Sweep	662,534	292,082	5,074	145,592
Due to Other Funds	129,603	58,869	338,438	1,343,221
Accrued Self Insurance Liability	470,042	-	-	-
Accrued Compensated Absences	177,146	80,308	-	-
Advances Due to Other Funds	-	-	2,888,932	10,578,997
Advances Due To Other Gov't Units	-	-	15,828	4,347,639
Deposits	5,228,844	3	-	34,586
Deferred Revenue	1,641,501	307,054	-	-
Total Liabilities	<u>13,775,601</u>	<u>1,033,129</u>	<u>3,248,272</u>	<u>16,761,235</u>
Fund Balances:				
Reserved for Restricted Investments	-	1,923,436	-	-
Reserved for Advances	36,302	15,734,541	-	330,971
Reserved for Notes and Liens	46,404	17,937,051	-	-
Reserved for Deposits and Prepaids	246,532	-	-	-
Reserved for Debt Service	-	-	-	-
Reserved for Encumbrances	152,230	103,580	-	-
Reserved for Self Insured Liability Claims	1,347,415	-	-	-
Reserved for Land Held for Resale	-	2,859,089	-	-
Reserved for Permit Held for Resale	3,534,951	-	-	-
Unreserved, Reported in:				
General Fund	18,112,832	-	-	-
Debt Service Funds	-	-	(751,613)	(7,621,029)
Special Revenue Funds	-	9,108,190	-	-
Capital Projects Funds	-	-	-	-
Total Fund Balances	<u>23,476,666</u>	<u>47,665,887</u>	<u>(751,613)</u>	<u>(7,290,058)</u>
Total Liabilities and Fund Balances	<u>\$ 37,252,267</u>	<u>48,699,016</u>	<u>2,496,659</u>	<u>9,471,177</u>

See Accompanying Notes to the Financial Statements

Debt Service Funds		Capital Projects Funds			Other	Total
CRA Housing	Palmdale Civic Authority	CRA Project Area No. 1	CRA Project Area No. 2A	Palmdale Civic Authority	Governmental Funds	Governmental Funds
-	-	-	-	-	9,280	142,686
832,759	19,730	486,846	2,992,723	50,420	53,977,960	95,766,521
62,021	48	-	-	123	8,742,846	13,081,087
-	-	-	-	-	1,188,528	3,079,140
572	-	-	-	-	903,139	8,204,747
-	-	-	-	-	583,859	583,859
-	-	-	-	-	-	1,005,882
-	-	-	719,707	-	4,581,119	23,284,281
-	-	-	-	-	-	16,101,814
-	-	-	173,383	-	147,217	567,132
-	-	-	-	-	-	-
-	3,895,240	1,332,932	-	621,939	20,622,083	31,651,221
-	14,830	22	-	10	246	16,291
-	-	10,126,800	1,546,727	-	5,000	14,537,616
-	-	-	4,742,393	-	-	8,277,344
<u>895,352</u>	<u>3,929,848</u>	<u>11,946,600</u>	<u>10,174,933</u>	<u>672,492</u>	<u>90,761,277</u>	<u>216,299,621</u>
-	-	6,455	379,022	-	2,059,807	8,517,228
23,287	552	13,614	83,689	1,410	1,663,419	2,891,253
-	-	-	-	-	6,334,616	8,204,747
-	-	-	-	-	-	470,042
-	-	-	-	-	107,485	364,939
-	-	-	-	-	2,633,885	16,101,814
-	-	-	-	-	-	4,363,467
-	-	10,000	-	-	3,391,506	8,664,939
-	-	-	-	-	2,646,083	4,594,638
<u>23,287</u>	<u>552</u>	<u>30,069</u>	<u>462,711</u>	<u>1,410</u>	<u>18,836,801</u>	<u>54,173,067</u>
-	-	-	-	-	-	1,923,436
-	-	-	-	-	583,859	16,685,673
-	-	-	719,707	-	4,581,119	23,284,281
-	-	-	173,383	-	147,217	567,132
872,065	3,929,296	-	-	-	-	4,801,361
-	-	6,040	1,642,290	-	1,172,124	3,076,264
-	-	-	-	-	-	1,347,415
-	-	10,126,800	1,546,727	-	5,000	14,537,616
-	-	-	4,742,393	-	-	8,277,344
-	-	-	-	-	-	18,112,832
-	-	-	-	-	-	(8,372,642)
-	-	-	-	-	45,551,453	54,659,643
-	-	1,783,691	887,722	671,082	19,883,704	23,226,199
<u>872,065</u>	<u>3,929,296</u>	<u>11,916,531</u>	<u>9,712,222</u>	<u>671,082</u>	<u>71,924,476</u>	<u>162,126,554</u>
<u>895,352</u>	<u>3,929,848</u>	<u>11,946,600</u>	<u>10,174,933</u>	<u>672,492</u>	<u>90,761,277</u>	<u>216,299,621</u>

City of Palmdale
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Assets
 June 30, 2010

Total Fund Balances - Total Governmental Funds (page 21) \$ 162,126,554

Amounts reported for Governmental Activities in the Statement of Net Assets (page 16) are different because:

Capital Assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.

Governmental Capital Assets	\$ 1,140,863,390	
Less Accumulated Depreciation	<u>(333,527,517)</u>	807,335,873

Deferred Charge for Issuance Costs are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet. 4,517,588

Net OPEB Asset contribution in excess of the ARC are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet. 949,048

Accounts receivable not available to pay for current-period expenditures are deferred in the funds 4,407,290

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		(4,263,962)
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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.

Compensated Absences	\$ 3,355,311	
Claims Payable	1,347,415	
Capital Leases Payable	1,411,759	
Notes Payable	38,224,725	
Bonds & Certificates of Participation Payable	201,639,973	
Less Deferred Loss on Refinance	(2,907,728)	
Plus Issuance Premiums	<u>640,048</u>	<u>(243,711,503)</u>

Net Assets of Governmental Activities (page 16) \$ 731,360,888

See Accompanying Notes to the Financial Statements

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City of Palmdale
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

	Special Revenue Fund		Debt Service Funds	
	General	CRA Housing Development	CRA Project Area No. 1	CRA Project Area No. 2A
Revenues:				
Property Taxes	\$ 16,593,602	-	7,981,001	35,044,100
Sales and Use Taxes	4,887,975	-	1,631,170	7,585,792
Other Taxes	7,594,427	-	-	-
Subventions and Grants	171,125	-	-	-
Park Development Fees	-	-	-	-
Licenses and Permits	1,925,096	-	-	-
Motor Vehicle License Fees	444,842	-	-	-
Fines and Forfeitures	435,623	-	-	-
Special Assessments	102	-	-	-
Use of Property	467,511	1,828	-	-
Charges for Current Services	7,134,867	120,343	-	-
Sewer Upgrade Fees	-	-	-	-
Traffic Impact Fees	-	-	-	-
Facilities Impact Fees	-	-	-	-
Interest	113,968	188,074	31,568	91,687
Net Decrease in the Fair Value of Investments:	(85,260)	(46,552)	(1,355)	(29,913)
Developer Contributions	-	-	-	-
State Contributions	-	-	-	-
County Contributions	-	-	-	-
Other	3,857,938	104	-	-
Total Revenues	43,541,816	263,797	9,642,384	42,691,666
Expenditures:				
Current:				
General Government	18,396,016	-	-	-
Public Safety	21,898,106	-	-	-
Public Services	11,216,663	-	-	-
Community Development	-	4,024,998	2,637,889	9,496,478
Cultural and Recreational	9,950,801	-	-	-
Health and Welfare	713,928	-	-	-
Intergovernmental - Tax Sharing	-	-	258,021	20,848,209
Capital Outlay	2,409,840	233,313	-	-
Debt service:				
Principal	1,510,052	-	1,648,125	1,580,050
Interest	121,082	-	2,905,610	3,042,784
Cost of Issuance	-	-	-	-
Total Expenditures	66,216,488	4,258,311	7,449,645	34,967,521
Excess (Deficiency) of Revenues Over (Under) Expenditures	(22,674,672)	(3,994,514)	2,192,739	7,724,145
Other Financing Sources (Uses):				
Land Sale Proceeds	-	310,632	-	-
Issuance of Notes	2,200,000	-	-	-
Transfers In	23,615,095	8,605,020	28,746	131,884
Transfers Out	(7,799,259)	(1,345,423)	(4,547,708)	(16,912,282)
Total Other Financing Sources (Uses)	18,015,836	7,570,229	(4,518,962)	(16,780,398)
Net Change in Fund Balances	(4,658,836)	3,575,715	(2,326,223)	(9,056,253)
Fund Balances - Beginning of Year (as restated)	28,135,502	44,090,172	1,574,610	1,766,195
Fund Balances - End of Year	\$ 23,476,666	47,665,887	(751,613)	(7,290,058)

See Accompanying Notes to the Financial Statements

Debt Service Funds		Capital Projects Funds			Other	Total
CRA Housing	Palmdale Civic Authority	CRA Project Area No. 1	CRA Project Area No. 2A	Palmdale Civic Authority	Governmental Funds	Governmental Funds
-	-	-	-	-	-	59,618,703
-	-	-	-	-	-	14,104,937
-	-	-	-	-	2,465,611	10,060,038
-	-	-	-	-	15,796,911	15,968,036
-	-	-	-	-	855,392	855,392
-	-	-	-	-	17,349	1,942,445
-	-	-	-	-	-	444,842
-	-	-	-	-	591,922	1,027,545
-	-	-	-	-	13,375,323	13,375,425
-	-	-	6,000	-	4,210,200	4,685,539
-	-	-	-	-	738,915	7,994,125
-	-	-	-	-	3,344	3,344
-	-	-	-	-	476,969	476,969
-	-	-	-	-	367,978	367,978
13,453	45,537	544	17,648	687	473,345	976,511
(2,929)	(70)	(167)	(1,637)	(195)	(227,394)	(395,472)
-	-	-	-	-	143,520	143,520
-	-	-	-	-	36,358	36,358
-	-	-	-	-	116,815	116,815
-	-	-	-	-	347,647	4,205,689
10,524	45,467	377	22,011	492	39,790,205	136,008,739
-	-	-	-	-	82,173	18,478,189
-	-	-	-	-	-	21,898,106
-	-	-	-	-	9,245,928	20,462,591
-	-	1,943,901	571,071	-	5,081,013	23,755,350
-	-	-	-	-	2,946,646	12,897,447
-	-	-	-	-	1,303,647	2,017,575
-	-	-	-	-	-	21,106,230
-	-	2,737	2,853,694	297,018	8,456,869	14,253,471
660,000	1,480,000	-	-	-	322,258	7,200,485
1,209,649	4,430,890	-	-	-	343,227	12,053,242
-	3,724	-	-	-	-	3,724
1,869,649	5,914,614	1,946,638	3,424,765	297,018	27,781,761	154,126,410
(1,859,125)	(5,869,147)	(1,946,261)	(3,402,754)	(296,526)	12,008,444	(18,117,671)
-	-	-	-	-	-	310,632
-	-	-	-	-	-	2,200,000
2,155,778	5,884,644	961,961	3,352,461	-	4,383,275	49,118,864
-	(28,746)	(141,192)	(1,142,371)	-	(17,201,883)	(49,118,864)
2,155,778	5,855,898	820,769	2,210,090	-	(12,818,608)	2,510,632
296,653	(13,249)	(1,125,492)	(1,192,664)	(296,526)	(810,164)	(15,607,039)
575,412	3,942,545	13,042,023	10,904,886	967,608	72,734,640	177,733,593
872,065	3,929,296	11,916,531	9,712,222	671,082	71,924,476	162,126,554

City of Palmdale
 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 Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds (page 25) \$ (15,607,039)

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets (page 17) are different because:

Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives and recorded as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Asset Additions - Current Year	\$ 31,875,546	
Less Depreciation Expense	<u>(25,039,887)</u>	6,835,659

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred Grant Revenues Earned, but not received within the 60-day Accrual Period		1,584,778
Deferred Interest Revenue Earned but not received within the 60-day Accrual Period		<u>247,082</u>

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.

Debt Issued or Incurred:		
Self Insurance Liability Claims Payable	\$ (20,553)	
Notes Payable	(2,200,000)	
Principal Repayments:		
Capital Leases	919,892	
Notes Payable	1,890,592	
Bonds & Certificates of Participation Payable	<u>4,390,000</u>	4,979,931

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.

Compensated Absences	\$ 424,653	
Accrued OPEB Obligations	980,033	
Accrued Interest on Debt	(185,453)	
Accreted Interest on Bonds	(515,835)	
Amortization of Deferred Loss	(168,084)	
Amortization of Issuance Costs	(220,924)	
Amortization of Bond Premiums	<u>91,243</u>	<u>405,633</u>

Change in Net Assets of Governmental Activities (page 17) \$ (1,553,956)

See Accompanying Notes to the Financial Statements

Budgetary Comparison Statements

City of Palmdale
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$ 16,436,190	16,469,080	16,593,602	124,522
Sales and Use Taxes	4,218,000	4,869,000	4,887,975	18,975
Other Taxes	7,134,400	6,979,130	7,594,427	615,297
Subventions and Grants	7,500	25,000	171,125	146,125
Licenses and Permits	1,725,920	1,590,280	1,925,096	334,816
Motor Vehicle License Fees	250,000	250,000	444,842	194,842
Fines and Forfeitures	398,500	398,810	435,623	36,813
Special Assessments	300	20	102	82
Use of Property	331,860	442,710	467,511	24,801
Charges for Current Services	7,280,660	7,232,040	7,134,867	(97,173)
Interest	423,760	260,500	113,968	(146,532)
Net Decrease in the Fair Value of Investments	-	-	(85,260)	(85,260)
Other	4,159,520	3,187,320	3,857,938	670,618
Total Revenues	42,366,610	41,703,890	43,541,816	1,837,926
Expenditures:				
Current:				
General Government	18,575,920	19,056,130	18,396,016	660,114
Public Safety	23,012,970	22,260,630	21,898,106	362,524
Public Services	11,880,930	13,042,980	11,216,663	1,826,317
Cultural and Recreational	10,584,390	10,794,760	9,950,801	843,959
Health and Welfare	620,000	751,100	713,928	37,172
Capital Outlay	776,000	2,718,790	2,409,840	308,950
Debt Service:				
Principal	1,237,680	1,505,710	1,510,052	(4,342)
Interest	123,200	121,080	121,082	(2)
Total Expenditures	66,811,090	70,251,180	66,216,488	4,034,692
Excess (Deficiency) of Revenues: Over (Under) Expenditures	(24,444,480)	(28,547,290)	(22,674,672)	5,872,618
Other Financing Sources (Uses):				
Issuance of Notes Payable	-	2,200,000	2,200,000	-
Transfers In	24,401,380	24,542,760	23,615,095	(927,665)
Transfers Out	(7,968,030)	(8,261,750)	(7,799,259)	462,491
Total Other Financing Sources (Uses)	16,433,350	18,481,010	18,015,836	(465,174)
Net Change in Fund Balance	(8,011,130)	(10,066,280)	(4,658,836)	5,407,444
Fund Balance - Beginning of Year	28,135,502	28,135,502	28,135,502	-
Fund Balance - End of Year	<u>\$ 20,124,372</u>	<u>18,069,222</u>	<u>23,476,666</u>	<u>5,407,444</u>

See Accompanying Notes to the Financial Statements

City of Palmdale
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
CRA Housing Development Special Revenue Fund
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Use of Property	\$ 15,000	1,830	1,828	(2)
Charges for Current Services	112,830	107,340	120,343	13,003
Interest	343,610	507,620	188,074	(319,546)
Net Decrease in the Fair Value of Investments	-	-	(46,552)	(46,552)
Other	-	40	104	64
Total Revenues	471,440	616,830	263,797	(353,033)
Expenditures:				
Current:				
Community Development	8,451,180	15,550,320	4,024,998	11,525,322
Capital Outlay	-	515,140	233,313	281,827
Total Expenditures	8,451,180	16,065,460	4,258,311	11,807,149
Excess (Deficiency) of Revenues: Over (Under) Expenditures	(7,979,740)	(15,448,630)	(3,994,514)	11,454,116
Other Financing Sources (Uses):				
Land Sale Proceeds	-	-	310,632	310,632
Transfers In	8,605,480	10,762,400	8,605,020	(2,157,380)
Transfers Out	(625,740)	(13,364,600)	(1,345,423)	12,019,177
Total Other Financing Sources (Uses)	7,979,740	(2,602,200)	7,570,229	10,172,429
Net Change in Fund Balance	-	(18,050,830)	3,575,715	21,626,545
Fund Balance - Beginning of Year	44,090,172	44,090,172	44,090,172	-
Fund Balance - End of Year	<u>\$ 44,090,172</u>	<u>26,039,342</u>	<u>47,665,887</u>	<u>21,626,545</u>

See Accompanying Notes to the Financial Statements

