

ANNUAL FINANCIAL REPORT

CITY OF PALMDALE, CALIFORNIA

PALMDALE FINANCING AUTHORITY

(A Component Unit of the City of Palmdale)



For the Fiscal Year Ended

June 30, 2013

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PALMDALE FINANCING AUTHORITY

**ANNUAL FINANCIAL REPORT
JUNE 30, 2013**

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INDEPENDENT AUDITORS' REPORT

Honorable Members of the Board of Directors
Palmdale Financing Authority
Palmdale, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Palmdale Financing Authority (Authority), a component unit of the City of Palmdale, California, as of June 30, 2013 and from the period of inception (September 26, 2013) to June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority as of June 30, 2013, and the respective change in financial position thereof for the initial period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as of July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Vawter, Tami, Day, Co., LLP

Rancho Cucamonga, California
December 18, 2013

Management's Discussion and Analysis

As management of the City of Palmdale Financing Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority from the date of inception (September 26, 2012) to June 30, 2013.

Financial Highlights

- Fiscal Year 2012-2013 is the Authority's first year of operation as it was created under a joint powers agreement between the City of Palmdale and the Housing Authority of the City of Palmdale on September 26, 2012.
- The liabilities of the Authority exceeded its assets at the close of the most recent fiscal year by \$8,467,622. This deficit exists due to the deferral of a lease receivable and the assets constructed are carried on the City of Palmdale's financial statements.
- The government's total net position decreased by \$8,467,622. Details are discussed on page 5.
- As of the close of the current fiscal year, the Authority's governmental fund reported an ending fund balance of \$3,992, an increase of \$3,992 in comparison with the prior year.
- The Authority's total debt increased by \$8,695,000 during the current fiscal year. The increase is attributable to the issuance of the 2012 Lease Revenue Bonds.

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 9 - 10 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 position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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.

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 12 - 16.

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 - 27 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, liabilities exceeded assets by \$8,467,622 as of June 30, 2013, as a result of debt issued to finance capital assets on the behalf of the primary government, the City of Palmdale.

Authority's Net Position

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>
Long-Term Receivables	\$ 8,695,000	\$ -
Deferred Charges – Cost of Issuance	310,223	-
Other Assets	<u>3,992</u>	-
Total Assets	<u>9,009,215</u>	-
Long-Term Liabilities Outstanding	8,695,000	-
Deferred Revenue	8,695,000	-
Other Liabilities	<u>86,837</u>	-
Total Liabilities	<u>17,476,837</u>	-
Total Unrestricted Position	<u>\$ (8,467,622)</u>	<u>\$ -</u>

The Authority's long-term receivables increased \$8,695,000 as a result of a lease agreement entered into with the City of Palmdale relating to the issuance of the 2012 Lease Revenue Bonds. Additional information on the long-term receivables can be found on pages 24-25, Note 4.

Deferred Charges – Costs of Issuance increased by \$310,223 as a result of bonded debt issuance costs incurred from the 2012 Lease Revenue Bonds issuance.

Long-term liabilities increased by \$8,695,000 as the result of the issuance of the 2012 Lease Revenue Bonds.

Authority's Changes in Net Position

	Governmental Activities <u>2013</u>	Governmental Activities <u>2012</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 52,102	\$ -
Operating Grants and Contributions	<u>1,065</u>	<u>-</u>
Total Revenues	<u>53,167</u>	<u>-</u>
Expenses:		
General Government	<u>8,520,789</u>	<u>-</u>
Total Expenses	<u>8,520,789</u>	<u>-</u>
Change in Net Position	(8,467,622)	-
Net Position – September 26, 2012	<u>-</u>	<u>-</u>
Net Position – June 30, 2013	<u>\$ (8,467,622)</u>	<u>\$ -</u>

Governmental Activities. Governmental activities decreased the Authority's net position by \$8,467,622 during the current fiscal year. Key elements of the governmental activities net position decrease are as follows:

- Charges for services increased \$52,102, resulting from receipt of lease payments from the City of Palmdale on the Authority's Lease Revenue Bonds.
- Operating Grants and Contributions increased \$1,065, due to interest earnings in an escrow account related to the defeasance of the Palmdale Civic Authority's 1999 Certificates of Participation Bonds.
- General Government expenses increased \$8,520,789, primarily due to the transfer of bond proceeds to the Palmdale Civic Authority to defease the 1999 Certificates of Participation Bonds.

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 fund 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 fund reported an ending fund balance of \$3,992. The fund balance is classified into the following components:

- \$3,992 is restricted for pay debt service.

The net increase in fund balance during the current year in the debt service fund was \$3,992, resulting from restricted cash held by the fiscal agent of the 2012 Lease Revenue Bonds.

Debt Administration

Long-Term Debt. At the end of the current fiscal year, the Authority had bonded debt outstanding of \$8,695,000. The Lease Revenue Bonds 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 Lease Revenue Bonds come due.

**Authority's Outstanding Debt
(Revenue Bonds)**

	Governmental Activities 2013	Governmental Activities 2012
Revenue Bonds	\$ 8,695,000	\$ -
Total	\$ 8,695,000	\$ -

The Authority's total debt increased by \$8,695,000 during the current fiscal year. This increase is attributable to the issuance of the 2012 Lease Revenue Bonds. Additional information on the Authority's debt can be found on pages 25 - 26, 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 Financing 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 FINANCING AUTHORITY

STATEMENT OF NET POSITION

JUNE 30, 2013

	<u>Governmental Activities</u>
Assets:	
Leases Receivable	\$ 8,695,000
Deferred Charges - Cost of Issuance	310,223
Restricted Assets:	
Cash and Investments	<u>3,992</u>
Total Assets	<u>9,009,215</u>
Liabilities:	
Accrued Interest Payable	86,837
Deferred Revenue - Unearned Lease Revenue	8,695,000
Noncurrent Liabilities:	
Due in More than One Year	<u>8,695,000</u>
Total Liabilities	<u>17,476,837</u>
Net Position:	
Unrestricted	<u>(8,467,622)</u>
Total Net Position	<u><u>\$ (8,467,622)</u></u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE FINANCING AUTHORITY

**STATEMENT OF ACTIVITIES
FROM THE DATE OF INCEPTION (SEPTEMBER 26, 2012) TO JUNE 30, 2013**

		<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Change in Net Position</u>
Governmental Activities:				
General Government	\$ 8,520,789	52,102	1,065	(8,467,622)
Public Services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>\$ 8,520,789</u>	<u>52,102</u>	<u>1,065</u>	<u>(8,467,622)</u>
Change in Net Position				(8,467,622)
Net Position - September 26, 2012				<u>-</u>
Net Position - June 30, 2013				<u>\$ (8,467,622)</u>

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 Lease Revenue Bonds secured by lease payments by the City of Palmdale as rental for certain property pursuant to a lease agreement.

CITY OF PALMDALE FINANCING AUTHORITY

**BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2013**

Assets	Debt Service Fund
Restricted Cash and Investments	\$ 3,992
Leases Receivable	<u>8,695,000</u>
Total Assets	<u><u>8,698,992</u></u>
Liabilities and Fund Balances	
Liabilities:	
Deferred Revenue - Unearned Lease Revenue	<u>8,695,000</u>
Total Liabilities	<u>8,695,000</u>
Fund Balances:	
Restricted	<u>3,992</u>
Total Fund Balances	<u>3,992</u>
Total Liabilities and Fund Balances	<u><u>\$ 8,698,992</u></u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE FINANCING AUTHORITY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total Fund Balances - Total Governmental Fund (page 13)	\$	3,992
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Amounts reported for Governmental Activities in the Statement of Net Position (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 Fund Balance Sheet.

Interest Payable		(86,837)
Deferred Charge for Issuance Cost		310,223

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

Revenue Bonds Payable		<u>(8,695,000)</u>
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Net Position of Governmental Activities (page 9)	\$	<u><u>(8,467,622)</u></u>
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See Accompanying Notes to the Financial Statements

CITY OF PALMDALE FINANCING AUTHORITY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
FROM THE DATE OF INCEPTION (SEPTEMBER 26, 2012) TO JUNE 30, 2013**

	<u>Debt Service Fund</u>
Revenues:	
Lease Revenues from City of Palmdale	\$ 52,102
Interest Revenue	1,065
Other	-
Total Revenues	<u>53,167</u>
Expenditures:	
Debt Service	
Principal	-
Interest	52,102
Costs of Issuance	<u>320,404</u>
Total Expenditures	<u>372,506</u>
Deficiency of Revenues under Expenditures	<u>(319,339)</u>
Other Financing Sources (Uses):	
Proceeds from Bond Issuance	8,730,543
Transfers Out to PCA Debt Service Fund	<u>(8,407,212)</u>
Total Other Financing Sources (Uses)	<u>323,331</u>
Net Change in Fund Balances	3,992
Fund Balances, September 26, 2012	<u>-</u>
Fund Balances, June 30, 2013	<u>\$ 3,992</u>

See Accompanying Notes to the Financial Statements

CITY OF PALMDALE FINANCING AUTHORITY

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FROM THE DATE OF INCEPTION (SEPTEMBER 26, 2012) TO JUNE 30, 2013**

Net Change in Fund Balances - Total Governmental Fund (page 15) \$ 3,992

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Position (page 10) are different because:

Long-Term Debt Proceeds provide current financial resources to the Governmental Fund, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Position. Principal repayments of long-term debt and escrow agent payments are expenditures/uses in the Governmental Fund, but they reduce long-term liabilities in the Government-Wide Statement of Net Position. Also issuance costs and premiums are recognized in the current period in the Governmental Fund, 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:		
Lease Revenue Bond Issuance	(8,695,000)	
Lease Revenue Bond Premium	(35,543)	
Deferred Costs of Issuance Charges	<u>320,404</u>	(8,410,139)

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

Accrued Interest on Debt	\$ (86,837)	
Amortization of Issuance Costs	(10,181)	
Amortization of Bond Premiums	<u>35,543</u>	<u>(61,475)</u>

Change in Net Position of Governmental Activities (page 10) \$ (8,467,622)

See Accompanying Notes to the Financial Statements

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**CITY OF PALMDALE FINANCING AUTHORITY
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FROM THE DATE OF INCEPTION (SEPTEMBER 26, 2012) TO JUNE 30, 2013**

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CITY OF PALMDALE FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

(1) Summary of Significant Accounting Policies

A. Description of the Reporting Entity

The Palmdale Financing Authority of the City of Palmdale, California (Authority) was originally created under a joint powers agreement between the City of Palmdale (City) and the Housing Authority of the City of Palmdale (Agency) on September 26, 2012 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 financial statements of the Palmdale Financing 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 Position and a Statement of Activities and Changes in Net Position. These statements report information on all of the activities of the Authority.

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 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 Position. The Statement of Activities presents changes in net position. 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.

CITY OF PALMDALE FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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 the debt service fund as a major fund because the Authority believes the financial position and activities of this fund are significant to the Authority as a whole. A specific fund description can be found on page 12 for this fund.

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. 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.

D. Cash and Investments

Investments include amounts invested in money market funds held by a trustee. Amounts invested in money market funds are reported at fair value, which is the same as the carrying amount as of June 30, 2013. See Note 2 for additional details.

E. Restricted Assets

Restricted assets represent bond reserve amounts and interest earnings thereon related to the Revenue Bonds. 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

CITY OF PALMDALE FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 Board such as an ordinance. The constraint remains binding unless removed in the same formal manner by the Authority Board. Authority Board 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 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.

CITY OF PALMDALE FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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 2012-13, the Authority adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. 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 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 was effective for periods beginning after December 15, 2011. The implementation did not have any significant impact on the Authority's financial statements.

During fiscal year 2012-13, the Authority adopted GASB 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 implementation did not have any significant impact on the Authority's financial statements.

During fiscal year 2012-13, the Authority adopted GASB 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 following pronouncements issued on or before November 30, 1989, which does not conflict with or contract GASB pronouncements: 1) Financing Accounting Standards Board (FASB) Statements and Interpretations, 2) Accounting Principles Board Opinions, and 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement also supersedes Statement No. 20, *Accounting and Financial Reporting for proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretation that do not conflict with or contact GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989, GASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The Statement was effective for periods beginning after December 15, 2011. The implementation did not have any significant impact on the Authority's financial statements.

During fiscal year 2012-13, the Authority adopted GASB 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

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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 was effective for periods beginning after December 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 a lease agreement that obligates 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 Position 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.

(2) Cash and Investments

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of net position:	
Restricted cash and investments	<u>\$ 3,992</u>
Total cash and investments	<u><u>\$ 3,992</u></u>

Cash and investments as of June 30, 2013 consist of the following:

Investments:	
Held by bond trustees	<u>\$ 3,992</u>
Total cash and investments	<u><u>\$ 3,992</u></u>

Restricted cash and investments were held by fiscal agents in accordance with bond indenture agreements.

A. 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. 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. The fair value of investments is based on the valuation provided by trustee banks.

B. Interest Rate Risk

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>	<u>12 Months or Less</u>
Held by bond trustees:		
Money market funds	\$ 3,992	\$ 3,992
 Total	 \$ 3,992	 \$ 3,992

C. 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>AAA/Aaa</u>
Held by bond trustees:			
Money market funds	\$ 3,992	A	\$ 3,992
 Total	 \$ 3,992		 \$ 3,992

(3) Fund Balance Classification

The Governmental Fund Balances at June 30, 2013 were classified as follows:

	<u>Debt Service Fund</u>
Restricted for Debt Service	\$ 3,992
 Total Fund Balance	 \$ 3,992

(4) Long-Term Receivables

A. Leases Receivable

The Authority and the City of Palmdale have entered into a lease agreement that obligates 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 schedule, as well as the facilities subject to the lease, are more fully described on pages 25-26, Note 5 A – Lease Revenue Bonds. Lease receivable activity for the year ended June 30, 2013, was as follows:

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	Balance at Sept. 26, 2012	Additions	Payments	Balance at June 30, 2013
Lease Receivable Related to:				
2012 Lease Revenue Bonds	\$ -	\$ 8,695,000	\$ -	\$ 8,695,000
 Total Lease Receivables	\$ -	\$ 8,695,000	\$ -	\$ 8,695,000

Corresponding deferred revenue is recorded on the Statement of Net Position and on the Governmental Balance Sheet in the amount of \$8,695,000.

(5) Long-Term Debt

A. Lease Revenue Bonds

2012 Lease Revenue Bond Payable - On December 19, 2012, the Authority issued \$8,695,000 of Lease Refunding Revenue Bonds (2012 Bonds). Interest on the 2012 Bonds is payable semi-annually on March 1 and September 1 at rates ranging from 2.00% to 4.00% per annum. Principal installments are payable September 1 of each year from 2015 to 2029.

The 2012 Bonds maturing on or after September 1, 2015, 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 2012 Bonds maturing on or after September 1, 2023, may be redeemed on or after September 1, 2022, from proceeds of optional lease prepayments made by the City, without premium.

The proceeds of the 2012 Bonds were used to refinance an existing lease and refund the related certificates of participation, to satisfy the reserve requirement of the bonds, and pay the costs incurred in connection with the issuance of the bonds.

The 2012 Bonds represent direct, undivided fractional interests in a lease of the City’s Development Services Building and the South Valley WorkSource Center. The City has the right, subject to certain conditions, to substitute alternate property for the above properties, as the property subject to the lease.

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 2012 Bonds as they become due. Title to the land and facilities covered by the lease and the 2012 Bonds is vested in the Authority, for the benefit of the 2012 Bond holders, during the lease term.

Upon completion of the term of the lease and payment in full to the 2012 Bond 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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<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ 260,510	\$ 260,510
2015	-	260,510	260,510
2016	490,000	255,610	745,610
2017	500,000	243,210	743,210
2018	515,000	227,985	742,985
2019-2023	2,810,000	891,712	3,701,712
2024-2028	3,235,000	454,177	3,689,177
2029-2030	1,145,000	38,856	1,183,856
Totals	<u>\$ 8,695,000</u>	<u>\$ 2,632,570</u>	<u>\$ 11,327,570</u>

B. Changes in Long-Term Liabilities

Long-term liability activity from the date of inception (September 26, 2012) to June 30, 2013, was as follows:

	<u>Principal Balance at Sept. 26, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal Balance at June 30, 2013</u>	<u>Amounts Due Within One Year</u>
2012 Lease Revenue Bond	\$ -	\$ 8,695,000	\$ -	\$ 8,695,000	\$ -
Total	<u>\$ -</u>	<u>\$ 8,695,000</u>	<u>\$ -</u>	<u>\$ 8,695,000</u>	<u>\$ -</u>

(6) New Accounting Pronouncements

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, or the 2013-2014 fiscal year. The Authority has not determined the 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, Statements 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 Pronouncements*. The Statement is effective for periods beginning after December 15, 2012, or the 2013-2014 fiscal year. The Authority has not determined the 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

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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 Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and Statement No. 50, Pension Disclosures, as they relate to pension plans that are not administered through trust covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pension. The Statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. The Authority has not determined the 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, or the 2014-2015 fiscal year. The Authority has not determined the effect on the financial statements.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to establish reporting standards related to government combinations and disposals of government operations. The Statement is effective for periods beginning after December 15, 2013, or the 2014-2015 fiscal year. The Authority has not determined the effect on the financial statements.

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The Statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. The Authority has not determined the effect on the financial statements.

GASB Statement No. 71 - In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The Authority has not determined the effect on the financial statements.