

CITY OF LANCASTER, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2006

CITY OF LANCASTER
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2006

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CITY OF LANCASTER, CALIFORNIA
44933 Fern Avenue
Lancaster, California 93534

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT**
For the Year Ended June 30, 2006

Prepared by the City of Lancaster, Finance Department
Barbara Boswell, Finance Director
Cindy M. Prothro, Assistant Finance Director

For additional information, please contact the Finance Department at
(661) 723-6033.

CITY OF LANCASTER

JUNE 30, 2006

CITY COUNCIL MEMBERS

		<u>Term Expires</u>
Bishop Henry W. Hearn	Mayor	2008
Ed Sileo	Vice Mayor	2010
Jim Jeffra	Council Member	2008
Ronald D. Smith	Council Member	2010
Andrew D. Visokey	Council Member	2008

CITY OFFICIALS

Robert S. LaSala	City Manager
Mark V. Bozigian	Assistant City Manager
Al Holliman	Assistant City Manager
Barbara Boswell	Finance Director
Brian S. Ludicke	Community Development Director
Lyle W. Norton	Parks, Recreation and Arts Director
James R. Williams	Public Works Director
Geri K. Bryan	City Clerk
David R. McEwen	City Attorney
Elizabeth A. Brubaker	Housing & Neighborhood Revitalization Director
Vern Lawson	Economic Development Director
Beverly Glode	Human Resources Director

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October 26, 2006

Honorable Mayor and Members of the City Council:

We are pleased to submit for your consideration the Comprehensive Annual Financial Report (CAFR) of the City of Lancaster, California, for the fiscal year ended June 30, 2006. This report was prepared by the Finance Department of the City; responsibility for the accuracy and completeness of the presentation, including all disclosures, rests with City staff. This report includes the annual audit report of the City's independent auditors, Lance, Soll, and Lunghard. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City's Comprehensive Annual Financial Report is prepared in conformance with the standards of financial reporting developed by the Government Finance Officers Association of the United States and Canada (GFOA), and the Governmental Accounting Standards Board (GASB). A Certificate of Achievement for Excellence in Financial Reporting is presented to those governmental units whose annual financial reports are judged to conform to these standards. This report will be submitted to GFOA for their review. The City has received the Award for the past twenty consecutive years.

The data presented is accurate in all material aspects. It is designed to factually set forth the City's financial condition and to present results of City operations as measured by activity among the various fund groups in an easily readable and understandable style. All disclosures necessary for the reader to gain an understanding of the City's financial affairs have been included. Financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Government Accounting Standards Board.

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City's organizational chart, and a list of principal officers. The financial section includes the basic financial statements, including the management's discussion and analysis, the combining and individual fund statements and schedules, and the auditor's report on the financial statements and schedules. The statistical section includes selected multi-year financial and demographic information.

This CAFR includes all of the funds of the City including the separate entities under the direction of the City Council. The separate entities include the Lancaster Redevelopment Agency, the Lancaster Housing Authority, the Lancaster Community Services Foundation, Community Facilities District 89-1, Community Facilities District 90-1, Community Facilities District 91-1, and Community Facilities District 91-2.

The City provides a broad range of services normally associated with a municipality. These services include highway, street, drainage, and infrastructure construction and maintenance; planning and zoning; and parks, recreation, and cultural activities. Sheriff's and animal control

Bishop Henry W. Hearn
Mayor

Ed Sileo
Vice Mayor

Jim Jeffra
Council Member

Ronald D. Smith
Council Member

Andrew D. Visokey
Council Member

Robert S. LaSala
City Manager

services are provided under contract with Los Angeles County, whereas fire protection, water, sanitation, school, and library are funded by special districts not under City control.

Lancaster: A brief history, major accomplishments, and prospects for the future

I. History

Following the completion of the Southern Pacific Railroad in 1867, Lancaster was established as a water stop along the route. In 1898, gold was discovered in the hills north of Lancaster and attracted many prospectors to the area. Some of the mines can still be seen and are still operational. Also in 1890, borax was found in what is now known as Boron, just to the north east of Lancaster. The world's largest open-pit borax mine is still operational today.

The 1930's introduced the first airplane to the area and the Air Force started conducting flight tests at Muroc Air Base (now Edwards Air Force Base).

Today, the area is most recognized for its significant contributions in the aerospace industry. Edwards Air Force Base, which is famous for its space shuttle landings and Air Force Flight Test Center programs, sits just to the northeast of Lancaster. Lockheed resides just to the south of Lancaster in the City of Palmdale. This is home to the visiting space shuttle and countless exciting test flights of the B-1b, B-2 stealth bomber and F117A stealth fighter. Residents of Lancaster are frequently treated to spectacular air shows as the newest machines in aerospace fill the skies.

Until incorporation in 1977, the area was under the political influence of Los Angeles County. For many years, Lancaster's economy was driven by the defense and aerospace industries. These two industries have been powerful forces driving the growth of the community. Each downturn in military spending had a significant negative impact on the health of the economy. The leaders of the community have been fully aware of these swings from the end of WWII, to the cold war, to the late 70's Carter era reduction in defense spending, the boom during the Reagan era of rebuilding our defenses, and most recently the downsizing of the military with its base closures; they knew that we had to change.

II. Major Accomplishments

During the 2005-06 Fiscal Year, the City took major steps in planning for the future by creating a 2020 Vision Plan and beginning assessment of where we are and where our community wants to be by 2020. Many strategic plans have been developed or are in the process of being developed supporting our objectives for the 2020 Vision Plan. In addition, we have made progress with each of the initiatives outlined in the 2005-2006 budget. Many revitalization, beautification, safety and improvement projects were also accomplished or begun in 2005-2006.

- The 2020 Vision Plan began with a Citizen Survey that was completed in September 2005. The City Manager, Council Members and Directors used the results of the survey to develop the City of Lancaster's 2020 Vision Plan. Both the Citizen Survey results and the 2020 Vision Plan were published and shared throughout the city with community members, business owners, and all city employees. In February 2006, the City Council adopted a plan that commits the City to pursuing such ideals as becoming the safest city with a population over 100,000 by 2020. This year's budget

was developed and adopted to support the 2020 Vision Plan and set the path for the next 15 years. The following are the priorities contained within the 2020 Vision Plan:

- Public Safety
 - City Services & Infrastructure
 - City Values
 - Health & Human Services
 - Housing & Neighborhood Revitalization
 - Jobs and Economic Vitality
 - Leisure Services
 - Regional Cooperation
 - Financial Health
 - Growth and Development
-
- The Open Space and Parks Master Plan began in 2005-2006. This plan will ensure the City provides the leisure services wanted by the citizenry of Lancaster as well as the space needed for future parks and facilities as the city continue to grow and develop. A consultant has been hired who began a citizen telephone survey. A Citizen Advisory Committee and Project Management Team were established and have begun meetings to develop the plan.
 - The redesign of Lancaster's downtown business district and the North Downtown Neighborhood Revitalization Transit Village project took a major step forward this year with many activities taking place. The Downtown Specific Plan is developing using a community-based process including 3 phases. The first two phases occurred during 2005-2006, which included a 3-day immersion program, a chance for citizens and business owners to understand and get to know the downtown area through planned walks and virtual tours, participate in community workshops and public hearings, and participate on-line through the www.celebratedowntownlanaster.info website. The final phase to complete and implement the plan is scheduled for November 2006 through February 2007. The North Downtown Neighborhood Revitalization Transit Village project continued with the opening of the 15,500 square foot Children's Center of the Antelope Valley. Next door, just to the west of the Children's center, construction has begun on Arbor Grove that will offer our senior population spacious apartments right downtown. The Laurel Crest apartments, which offers low to moderate income housing, is under construction on the east side of the North Downtown Neighborhood Revitalization Transit Village project area. The City continued its acquisitions of properties to assist in revitalizing the downtown area.
 - The Gateway Corridor revitalization project is well under way in the northeast section of Lancaster at the old AV Fairgrounds site. The partnership between California State University Bakersfield and California University Fresno continued to grow as the Lancaster University Center project begins Phase II of the project. This project brings 4-year degree programs to the area that were not previously available. Also on the site will be over a dozen new ball fields to provide both youngsters and adults with first class facilities including grandstands, ample parking and public facilities. Grading is currently underway.
 - The City continued its efforts to address the demands being placed on infrastructure by completing drainage, street resurfacing, traffic signal modification, bikeway and walkway, and street widening projects. During this year, the City's first 6-year Capital Improvement Project Program was

developed. The six-year capital improvement plan begins to address future infrastructure and maintenance needs; however more work needs to be done to quantify fully the maintenance needs of the City. Several vendors have been hired to provide an inventory and assess all of our Public Works assets including all trees, traffic signals, road signs, drains, sidewalks, etc., provide assessment our roadways and implement a new pavement management system, and assist with a new computer system that help with the infrastructure and maintenance needs of the City and one that was utilized to develop our 6-year Capital Improvement Program this year. Much of this will assist us in complying with GASB34 reporting requirements.

- A 5-year financial plan was developed this year. This is significant in that it provides the Council with information that demonstrates that resources are available to sustain the current and proposed level of service over the next five years.
- The Information Technology Strategic Plan is well underway. This plan is to establish what technology is needed to allow the City to operate in the most efficient manner. It includes assessment of all operating systems, software programs and systems, hardware, intranet and extranet systems, telecommunications systems, etc. Many employees from all departments participated in rapid workflow sessions this year that gave the consultant in-depth information on how we currently do business (manual and computer processes). The consultant made recommendations, provided an extensive presentation to the IT Strategic Plan Committee and has been made available to all employees, and provided the groundwork for the City to develop its Information Technology Strategic Plan in FY06-07 and implementation over the next several years.
- A Comprehensive Cost Recovery Study is also underway. Meetings have been held with each department to capture information on each service that is provided and the fees being charged. This will determine how general fund overhead costs should be allocated and ensure fees for services are appropriate. We look forward to the results of the survey in FY06-07.
- A Communications Strategic Plan was developed and approved by Council this year. The plan gives us guidance on how to communicate and disseminate information to the public. As part of this plan, a new and improved City website is in the final stages of development and scheduled to go live in early FY06-07.

III. Prospects for the Future

The City of Lancaster has many exciting plans for the future. In continuing to support the 2020 Vision Plan, many of the projects begun in FY05-06 will continue to evolve into FY06-07 and several others are just beginning.

- The City will update its General Plan this year. The City's current General Plan was prepared in 1997 and, since that time, Lancaster has experienced rapid growth and many other changes in and around the City. A new General Plan will provide a "blueprint" for growth and development in Lancaster over the next 25 years and will include long-range goals, policies, and maps addressing important community topics ranging from the natural environment to public health and safety to transportation to economic development. Applications for the General Plan Advisory Committee have been distributed and visioning workshops will begin in August 2006.

- The City will begin developing a 10-year financial forecast and 10-year Capital Improvement Plan. These will allow the City ensure the ability to maintain a certain level of service over time and during the ebbs and flows of the economy. The City continues its fiscally conservative General Fund balance reserve to cover unanticipated revenue shortfalls or expenditure requirements. Also in safe and closely monitored condition is the City's status relative to Proposition 4, the Gann initiative, which limits appropriations by a formula, tied to the Consumer Price Index, population growth, and assessed value changes. This year the City continued its long-standing informal policy of maintaining a 10% General Fund unallocated reserve.
- The Redevelopment Agency and the Greater Antelope Valley Economic Alliance continue to work with businesses to expand the opportunities for employment in the community. We expect to see continuing growth of the community. The City looks forward to the completion of the Lancaster Town center at 10th Street West and Avenue K. The new retail shops and restaurants are to include Farmer Boys Restaurant, Chili's, Panera Bread, Rubio's Fresh Mexican Grill, Jamba Juice, WinCo Foods store, CVS Drug Store, Verizon Wireless and Wells Fargo Financial. Hilton Hotels announced its plans to develop two new hotels in Lancaster's Front Row Center adjacent to the Clear Channel Stadium.
- The "Strong Neighborhoods Initiative" to improve and enhance neighborhood stability, engage citizens in the community improvement, and enrich the quality of life in Lancaster began in FY05-06 with the completion of an extensive study and recommendations provided to management and Council in June. Now that the Code Enforcement positions that were added at mid-year last year have been filled, an enforcement plan will be developed in FY06-07 in support of the "Strong Neighborhoods Initiative" and 2020 Vision Plan Public Safety initiative. The City will work in conjunction with the Sheriff's department to expand and enhance the Neighborhood Watch program this year with the addition of the Neighborhood Watch Civilian position that will be a City staff member.
- A new City website will be launched this year and the addition of an intranet system will promote the city and keep employees, citizens and visitors connected and informed. Additional newsletters will be produced and distributed to residents and businesses this year including the additional of the "Outlook Lite". The City currently has a quarterly newsletter or magazine that updates the community on events, the season's classes and programs, changes to procedures, new or changing ordinances, etc. The "Outlook Lite" will be a smaller version that will be distributed during the off months.
- The City will continue its progress on each of the plans and studies that began in FY05-06. The City will review the recommendations made for the Information Technology Strategic Plan, and develop a plan to implement the portions we wish to approve. The results of the Cost Allocation Study will be presented to management for review and handling this year.
- The City will begin to develop and implement Best Practices Initiatives this year in order to improve effectiveness and efficiency as well as give clear objectives and goals throughout the organization. The Sheriff's Department will continue to develop their Best Practices plan that includes conducting a nationwide search for departments to use as models and implementing customer service training for all the deputies. The City will begin a comprehensive training and development program on Best Practices which includes an extensive look at performance measures for the organization and

individual units as well as investment in our human capital with through trainings, workshops and educational opportunities.

FINANCIAL INFORMATION

Internal Controls

Internal controls are designed to provide reasonable, but not absolute, assurance regarding:

- the safeguarding of assets against loss from unauthorized use or disposition; and
- the reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that:

- the cost of a control should not exceed the benefits likely to be derived; and
- the valuation of costs and benefits requires estimates and judgments by qualified management staff.

All internal control evaluations occur within the aforementioned framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Controls

The City Council adopts an annual budget that is the legal authority for expenditures for the City. The level of adoption is at the Department level for the General Fund and at the fund level for the Special Revenue Funds. Special Revenue funds are expended through the Capital Projects Fund; therefore, the budgeted expenses are reflected as Operating Transfers in the report.

The City's accounting records for general government operations are maintained on a modified accrual basis, with revenues recorded when available and measurable, and expenditures recorded when the services or goods are received and the liabilities incurred. The City also maintains an encumbrance accounting system where the encumbrance of purchase order amounts is made prior to the release of purchase orders to vendors. Open encumbrances are reported as reservations of fund balance on June 30, 2006, and reappropriated in the next fiscal year.

Cash Management

Idle cash is invested in accordance with the City's adopted Investment Policy. The following chart represents the City's portfolio on June 30, 2006:

Local Agency Investment Fund	42.3%
Sweep	26.5%
Treasury Notes	10.5%
Federal Government Agencies	16.6%
Corporate Paper	2.2%
Money Market	0.4%
Certificates of Deposit	0.4%
Cash in Bank	1.1%

Total interest earned for all funds approximated \$9.5 including \$3.4 million in interest payable to the City by the Redevelopment Agency. The average yield for the City during fiscal year ended June 30, 2006 was 4.54%.

Risk Management

The City of Lancaster maintains commercial coverage for property damage, earthquake, special events, and \$15 million liability insurance coverage with a \$250,000 self-insured retention. City Safety and Risk Management committees, along with a risk management consultant, actively review the City's claim activity and exposure to hazards and lawsuits, and recommends changes and improvements to reduce our future exposure to loss. The City is a member of the CSAC/CPEIA risk pool, whereby we have experienced annual reductions in our costs while maintaining roughly the same risk of loss.

All contractors are required to include the City as an additional insured on their coverage, and all work in the City right-of-way must be done by permit and have "hold harmless" clauses in all permits and contracts. Groups or individuals renting City facilities may purchase liability coverage along with their application fees for facility use as they are required to show proof of insurance and the naming of the City as additional insured for a minimum of \$1,000,000.

OTHER INFORMATION

Independent Audit

The City requires an annual audit of the books of account, financial records, and transactions of all administrative departments of the City. This report was prepared with the assistance of the auditor, the independent certified public accounting firm of Lance, Soll, and Lunghard. The auditor's opinion is included in this report.

Financial Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lancaster for its comprehensive annual financial report for the fiscal year ended June 30, 2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The City of Lancaster has received a Certificate of Achievement for the last twenty (20) consecutive years. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA.

The City received the GFOA Award of Excellence, its most prestigious award, which recognizes the most valuable contribution to the field of government finance, with particular focus upon transferability, creativity, technical significance and overall value to the profession. The award was for the Urban

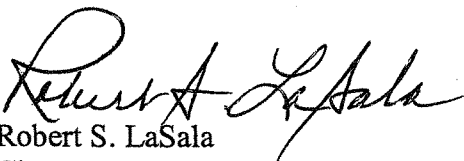
Structure Program, a computerized fiscal model that promotes efficient urban development patterns and equitable infrastructure and facility financing. It is the first program to address the costs of providing and maintaining municipal facilities and services in a comprehensive manner, identifying costs and assessing them to those developments that will be creating the needs.

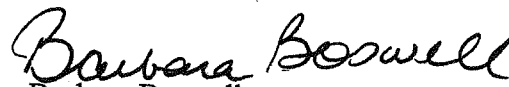
The Government Finance Officers Association of the United States and Canada (GFOA) again awarded a Distinguished Budget Presentation Award to the City of Lancaster for Fiscal Year 2006-2007. This is the highest form of recognition in governmental budgeting, and represents a significant achievement by any organization. The document is judged by an independent, anonymous panel of experts in the field of finance and budgeting. In order to receive the budget award, Lancaster had to satisfy nationally recognized guidelines for effective budget presentation. These guidelines are designed to assess how well a government's budget serves as a policy document, a financial plan, an operations guide and a communications device. The California Society of Municipal Finance Officers likewise awarded the City of Lancaster the Certificate of Award - Excellence in Operational Budgeting.

Acknowledgments

The preparation of this document is the result of the hard work of the entire Finance Department staff. Special recognition goes to Cindy Prothro, Assistant Finance Director for her dedication, and whose efforts, coupled with the assistance of our auditors, have culminated in the timely completion of this report. We are pleased with the product and wish to thank all involved. Special appreciation goes to the members of the City Council for their continuing interest and support in the financial activities of the City. The financial success of the City of Lancaster is greatly attributable to the City Council's progressive and responsible manner in addressing the business of the municipality.

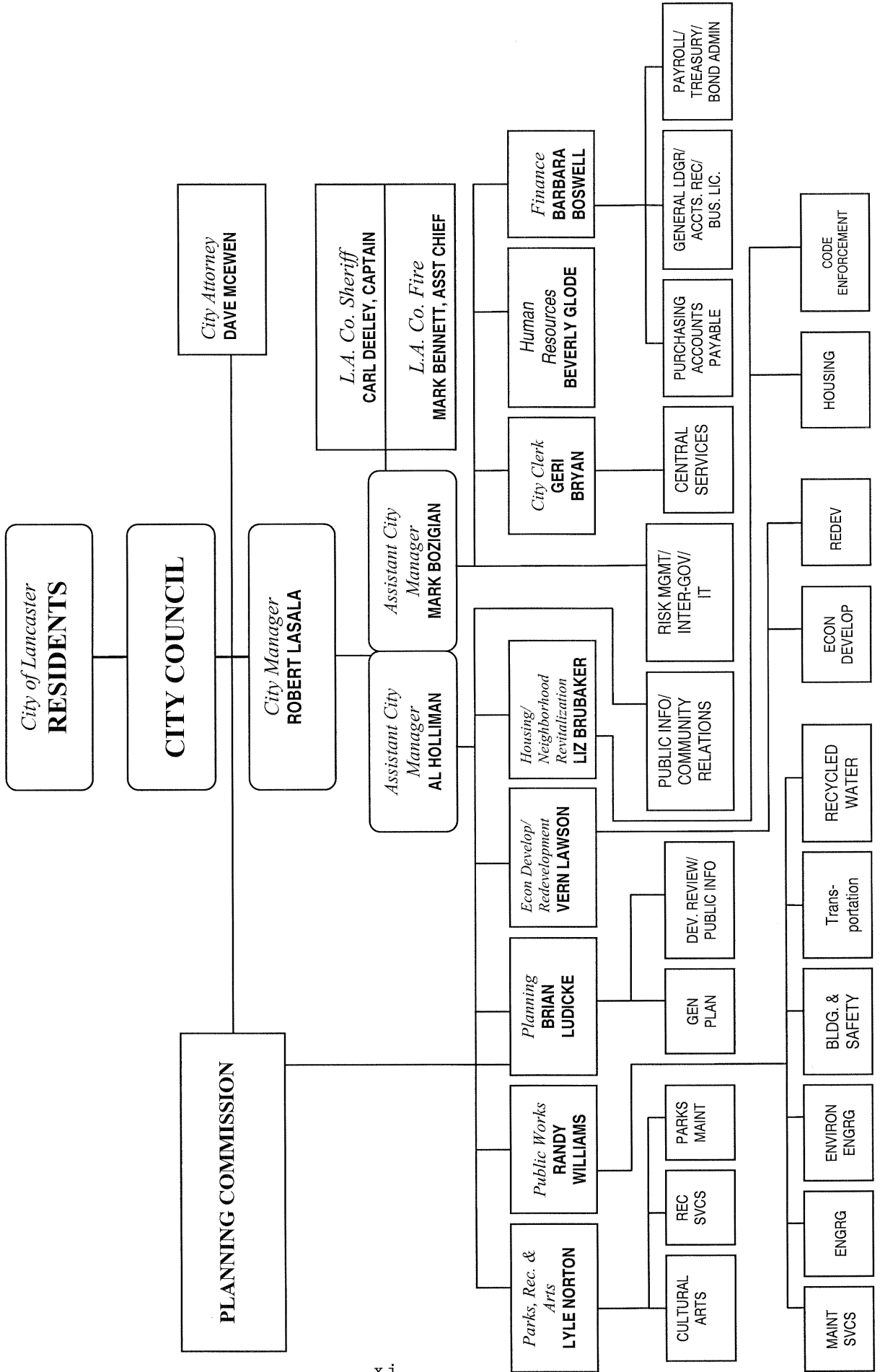
Respectfully submitted,


Robert S. LaSala
City Manager


Barbara Boswell
Finance Director



2006 Organization Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lancaster
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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.

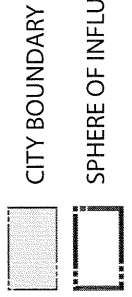
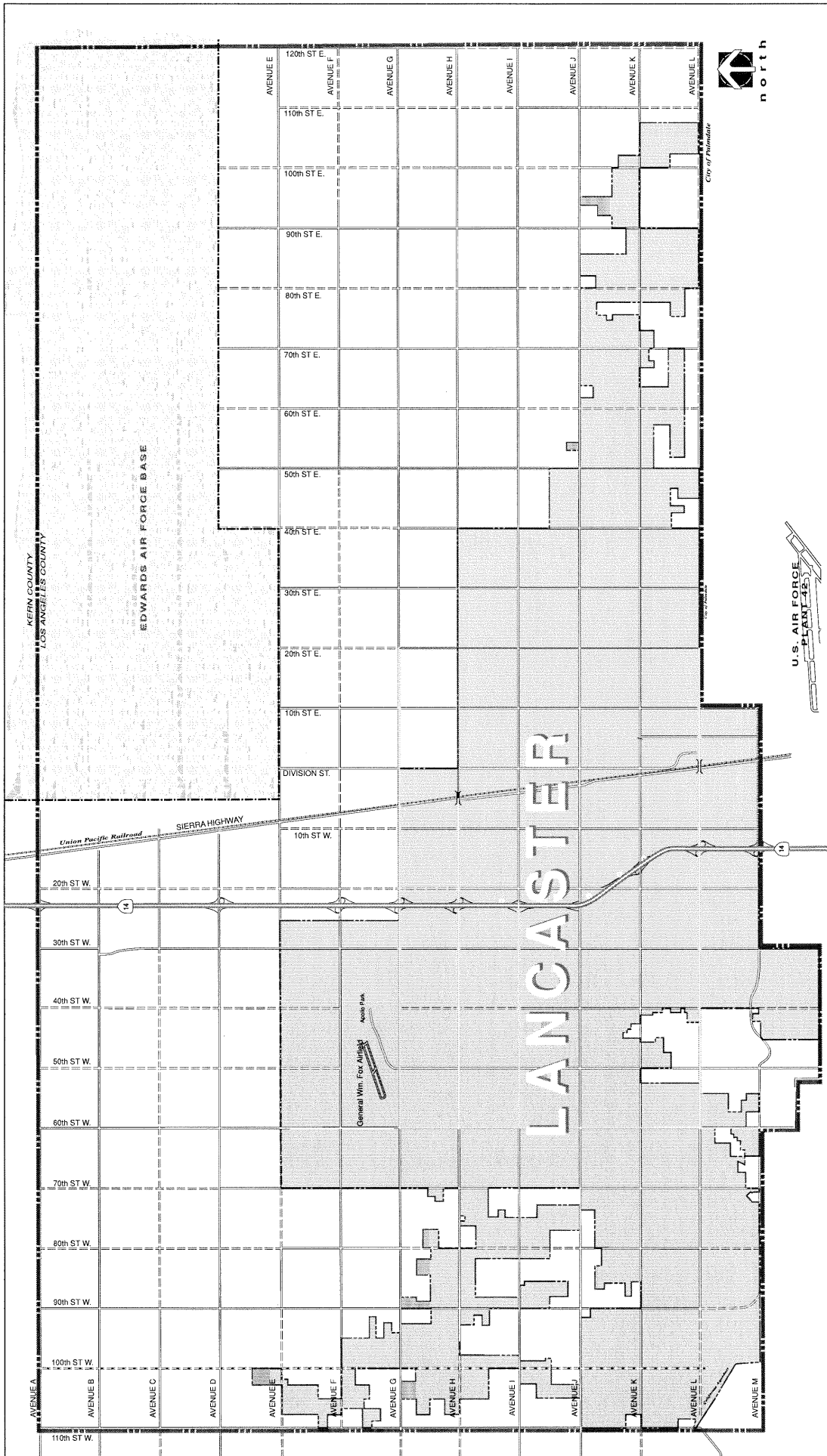


President

Executive Director

CITY OF LANCASTER

TOTAL INCORPORATED AREA: 94 SQUARE MILES



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Lancaster, California

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Lancaster, California, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lancaster'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to 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 Lancaster as of June 30, 2006, and the respective budgetary comparison for the General 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 October 26, 2006, on our consideration of the City of Lancaster's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.



To the Honorable Mayor and Members of the City Council
City of Lancaster, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, the combining fund statements, individual fund budgetary comparison schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying combining nonmajor fund financial statements and individual fund budgetary comparison 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 accompanying introductory section and statistical tables 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.

Lance, Soll & Lunghard, LLP

October 26, 2006

City of Lancaster Management's Discussion and Analysis

As management of the City of Lancaster, we offer readers of the City of Lancaster's financial statements this narrative overview and analysis of the financial activities of the City of Lancaster for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The program and general revenues were \$165,223,669
- The cost of governmental activities was \$103,054,418
- The General Fund reported excess revenues and transfers in over expenditures and transfers out of \$1,856,938.
- For the General Fund, actual resources available for appropriation (revenue inflows and fund balance) exceeded final budget by \$5,669,830 while actual appropriations (outflows) exceeded final budget by \$3,207,978.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Lancaster's basic financial statements. The City of Lancaster'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 are designed to provide readers with a broad overview of the City of Lancaster's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City of Lancaster'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 Lancaster 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. Thus, 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).

Both of the government-wide financial statements distinguish functions of the City of Lancaster that are principally supported by taxes and intergovernmental revenues (government 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 Lancaster include General Government, Public Safety, Public Works, and Parks and Recreation.

The government-wide financial statements include the blending of separate legal entities--the Lancaster Redevelopment Agency and the Lancaster Housing Authority. Although legally separate, these "component units" are important because the City of Lancaster is financially accountable for them.

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 Lancaster, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Lancaster 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 statements, governmental fund financial statements focus on near-term and outflows of spendable resource, 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, 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 Lancaster maintains thirty-five 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, two capital project funds and one debt service fund, all of which are considered to be major funds. Data from the other thirty-one 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 elsewhere in this report.

The City of Lancaster adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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 financial statement because the resources of those funds are not available to support the City of Lancaster's own programs.

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 statement.

Combining Statements. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes.

Government-wide Financial Analysis

Our analysis focuses on the net assets and changes in net assets of the City's governmental activities.

**City of Lancaster Net Assets
(in Thousands)**

	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 265,735	\$ 234,568
Capital Assets	<u>102,791</u>	<u>87,221</u>
Total Assets	368,526	321,789
Long Term Liabilities Outstanding	238,590	242,692
Other Liabilities	<u>29,108</u>	<u>36,192</u>
Total Liabilities	267,698	278,884
Net Assets		
Invested in capital assets, net of related debt	94,068	78,497
Restricted	87,568	49,398
Unrestricted	<u>(80,808)</u>	<u>(84,993)</u>
Total Net Assets	<u>\$ 100,828</u>	<u>\$ 42,902</u>

**City of Lancaster Asset Type
(in Thousands)**

Land	\$ 12,230
Buildings and Improvements	24,257
Furniture and Equipment	2,625
Infrastructure	29,780
Construction in Progress	<u>33,899</u>
Net Capital Assets	<u>\$ 102,791</u>

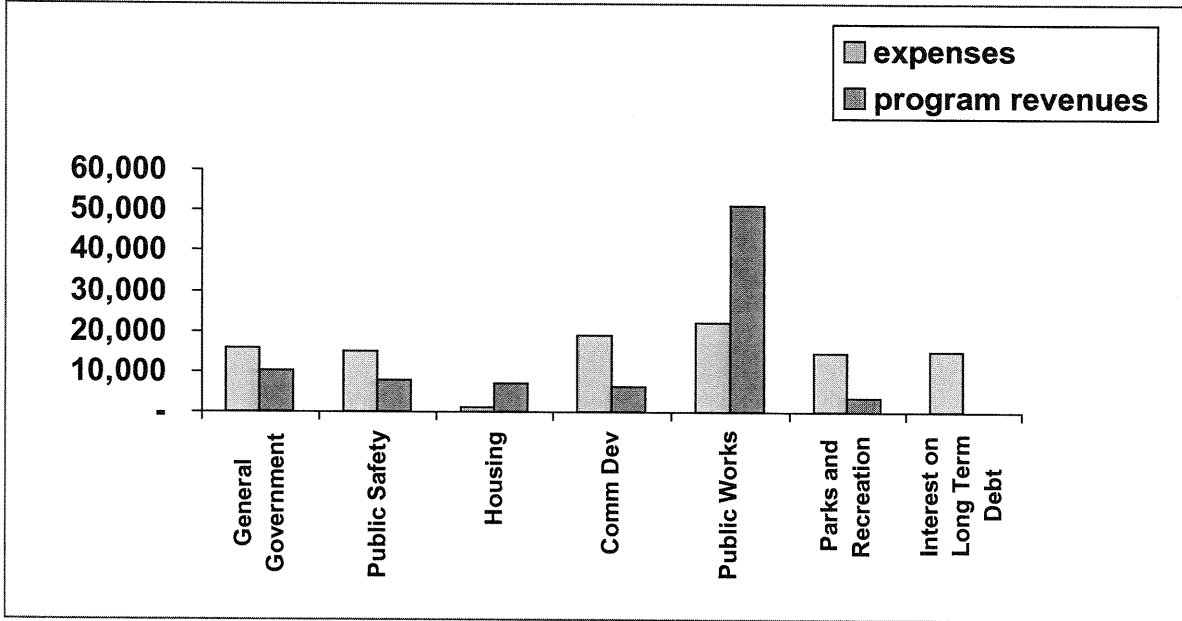
- The City of Lancaster uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.
- Long-term debt outstanding decreased due to the repayment of long-term bonded debt (\$4,101,163).
- Cash and Investments increased \$7,110,091 as a result of the increased building permit activity, sale of property, and grant funded reimbursements for major capital projects.

Governmental Activities. Governmental activities increased the City of Lancaster's net assets by \$62,169,251. The overall increase in Program revenues, General revenues and Expenditures reflect the continued robust growth of Lancaster in FY 2005-06. During the year over 2,000 residential housing permits were issued resulting in an increase in sales tax and property tax revenues, as well as demands for services. Recent legislation has resulted in a redistribution of property taxes, sales taxes and motor vehicle in lieu fees from the state; however, the net result of the redistribution is not material. The robust growth influencing the substantial increase in General revenues is the same factor affecting Program revenues. Key elements of the increase are as follows:

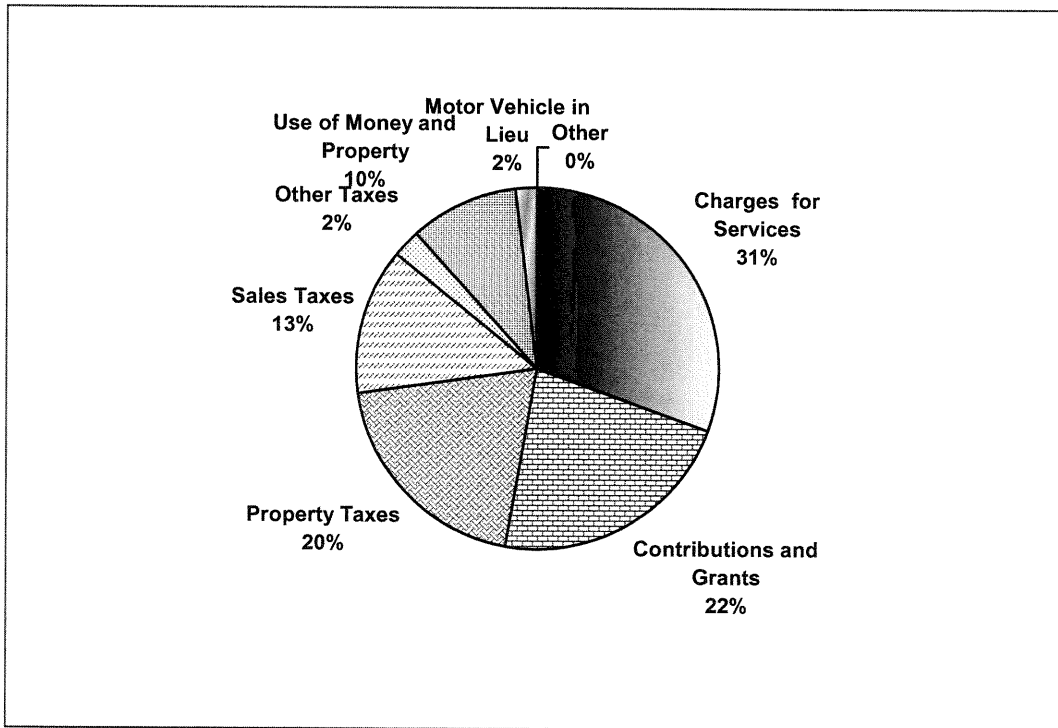
**City of Lancaster Changes in Net Assets
(in Thousands)**

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Revenues		
Program revenues:		
Charges for services	\$ 50,036	\$ 43,141
Operating contributions and grants	36,717	29,134
Capital contributions and grants	-	1,171
General revenues:		
Taxes:		
Property taxes	32,672	17,983
Sales taxes	21,377	17,471
Franchise taxes	2,844	2,431
Other taxes	2,274	2,006
Motor vehicle in lieu	3,130	8,949
Investment income	16,088	24,317
Other	84	1,531
Total revenues	<u>165,222</u>	<u>148,134</u>
Expenses		
General government	15,996	13,422
Public safety	15,058	13,625
Public works	22,088	16,503
Parks and recreation	14,715	11,285
Housing	1,232	3,116
Community Development	19,044	29,372
Interest on long-term debt	14,921	13,070
Total expenses	<u>103,054</u>	<u>100,393</u>
Increase in net assets	<u>\$ 62,168</u>	<u>\$ 47,741</u>

The City's total revenues are \$165,223,669 while the costs of all programs and services are \$103,054,418.



**City of Lancaster Government Activities
Revenue by Source**



**City of Lancaster Governmental Activities
(in Thousands)**

The following presents the cost of each of the City's five largest programs—general government, public safety, public works, parks and recreation and interest on long-term debt—as well as each program's *net* cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

- Public works includes expenditures for the City's Redevelopment Agency.

	Total Cost of Services 2006	Net Cost of Services 2006
General Government	\$ 15,997	\$ (5,498)
Public Safety	15,058	(7,253)
Public Works	22,088	29,299
Community Development	19,044	(12,549)
Interest on Long-term Debt	14,921	(14,921)
Totals	\$ 87,108	\$ (10,922)

The net cost of services indicates that the overall cost of government is more than the revenues generated to support it. The City is not fully recovering the cost of these services with program revenues from user fees and other contributions. See the Statement of Activities for further detail on program revenues and general revenues.

Financial Analysis of the City's Funds

The City of Lancaster uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Lancaster'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 Lancaster'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 Lancaster's governmental funds reported combined ending fund balances of \$177.9 million.

The general fund is the chief operating fund of the City of Lancaster. At the end of the current fiscal year, including operating transfers, the General Fund had expenditures in excess of revenues of \$1,856,938. The significant change in charges for services reflects the substantial growth in the City as indicated by the increases in both the general fund and in the developer related special revenue funds, included in other governmental funds. This growth has subsided in FY 2006-07 due to a substantial decline in the demand for residential building permits in FY 2006-07.

The change in fund balance for the Lancaster Redevelopment Agency Capital Projects Fund reflects 1) the expenditures of the bond proceeds from previous fiscal years for ongoing redevelopment projects

and 2) the disposition of land recently acquired at market value and disposed of at less than market value to reinvigorate deteriorating sections of the community.

General Fund Budgetary Highlights

The final appropriations for the General Fund at year-end were \$7,575,245 less than the final budget before transfers. The budget to actual variance in appropriations was principally due to close control by management. Actual revenues were only \$1,728,007 less than the final budget before transfers. Budget amendments were made during the year to decrease appropriations for reductions in State controlled local government revenue.

Capital Asset and Debt Administration

Capital Assets. At the end of FY 2006, the City had \$102.8 million invested in a broad range of capital assets, including land, buildings, infrastructure, and equipment.

The City’s Capital Improvement Plan projects spending \$31.0 million through fiscal 2006-07. Funding will come from current fund balances and projected revenues. The most significant projects include construction of storm drain improvements, reconstruction of streets and recreation facilities. In addition, the Agency will participate in affordable housing projects funded from the Redevelopment Agency Low and Moderate Housing Fund.

Note 6 provides a detailed analysis of the Capital Assets.

Long-term Debt. The City of Lancaster has not used the capital markets for financing the construction of its infrastructure. However, the Lancaster Redevelopment Agency, as with all redevelopment agencies in the State of California, must incur debt in order for it to receive the tax increment flow necessary for it to be viable. The Agency has made extensive use of its ability to issue tax allocation bonds and notes in the marketplace. These notes have been used to finance projects that will enhance the community's prospects for attracting new or expanding existing businesses. On June 30, 2006, the Lancaster Redevelopment Agency had \$220,420,000 in Tax Allocation Bonds and Notes outstanding, of which County entities and local School Districts account for \$46,195,000, Mobile Home Parks account for \$2,915,000 and the Agency is responsible for \$171,310,000. As of June 30, 2006, the City of Lancaster had accrued employee benefits outstanding of \$1,735,148.

	(in Thousands)	
	<u>2006</u>	<u>2005</u>
Tax Allocation Bonds	\$ 220,420	\$ 225,330
Accrued Employee Benefits	<u>1,735</u>	<u>1,501</u>
Totals	<u>\$ 222,155</u>	<u>\$ 226,831</u>

Standard & Poor's Corporation and Moody's Investors Service have assigned the tax allocation bonds ratings of "AAA" and "BBB-" upon their issuance.

Note 10 provides a detailed analysis of the Long Term Debt.

Economic Factors and Next Year's Budgets and Rates

On June 13, 2006, the City Council adopted the 2006-07 Program and Financial Plan and approved 2006-07 Budget, with total appropriations of \$106.6 million. Adequate resources are available to fund the proposed expenditures. Consistent with the City's policy, General Fund operating revenues fully cover operating expenses, and ending fund balance meets the City's policy minimum of 10% of operating expenditures.

Budgetary revenue estimates have been prepared using a variety of methods. Certain revenue sources, such as Federal and State grants and transportation funds are relatively fixed and known. Others, such as sales tax and development related revenues are more difficult to estimate. In those cases, a cautiously optimistic economic outlook has been assumed.

Current economic conditions allow the City to maintain core services, and in some areas such as public safety, to provide enhancements to existing service levels. However, prudent long-term fiscal planning dictates that we remain conservative, focus on the highest priorities, and fund only those enhancements we can sustain financially. For the first time, a Five Year Financial Forecast of General Fund revenues and expenditures was developed and presented along with the 2006-07 budget.

The largest single source of revenue for the City's General Fund is sales tax. Sales tax represents 38% of all General Fund revenues; for the upcoming fiscal year, a 7.7% increase in sales tax revenue has been projected. This increase is due to the increase in population and new retail establishments coming to Lancaster. The revenue and expenditure projections for development related activity are based upon local and regional economic forecasts and trends. Overall the budget is based on the information supplied by outside agencies, such as the State Department of Finance, State Board of Equalization, and the Los Angeles County Assessor's Office, to predict revenues. The revenue and expenditure projections are intended to serve as a guide in planning for the future.

The assumption used for forecasting expenditures includes increases of 2.5%-5.0% in labor costs due to a 2.5% rate adjustment that was effective June 28, 2006 and due to estimated merit increases of 2.5%. Budgeted expenditures relating to Operating Maintenance/Supplies have risen by 21.8%; this reflects the recent substantial growth in the community. Community Safety is a top priority of the city and as such the budget for 2006-07 reflects an 11.8% increase. The budget includes payment for services provided by the Los Angeles County Sheriff's Department.

While the recent accelerated residential growth rate has subsided, the City's operating budget reflects the impact of the recent growth on recurring maintenance and services, including road and drainage facilities maintenance.

A priority of the City is to maintain a high quality of services while adopting a balanced budget. Once again the proposed budget is balanced and conservative in a highly volatile fiscal environment.

Contacting The City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cindy Prothro, Assistant Finance Director, at the City of Lancaster, 44933 Fern Avenue, Lancaster, CA 93534, or by phone at (661)723-6038.

CITY OF LANCASTER

STATEMENT OF NET ASSETS
 JUNE 30, 2006

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$ 158,436,986
Receivables:	
Accounts	956,862
Taxes	5,528,721
Contract and notes	7,686,852
Accrued interest	914,285
Prepaid costs	465,632
Inventories	34,506
Unamortized debt issuance costs	6,808,344
Deposits	5,160
Due from other governments	12,470,541
Land held for resale	42,732,415
Prepaid Pension Obligations	4,500,000
Restricted assets:	
Cash and investments	4,981,737
Cash with fiscal agent	22,350,643
Capital assets not being depreciated	46,129,106
Capital assets, net of depreciation	<u>56,662,439</u>
 Total Assets	 <u>370,664,229</u>
 Liabilities:	
Accounts payable	9,662,846
Accrued liabilities	530,180
Accrued interest	3,878,129
Unearned revenue	260,364
Deposits payable	3,758,361
Due to other governments	10,923,650
Noncurrent liabilities:	
Due within one year	6,971,757
Due in more than one year	<u>231,619,481</u>
 Total Liabilities	 <u>267,604,768</u>
 Net Assets:	
Invested in capital assets, net of related debt	94,068,075
Restricted for:	
Community development projects	43,443,532
Capital projects	27,792,465
Debt service	16,333,018
Unrestricted	<u>(78,577,629)</u>
 Total Net Assets	 <u>\$ 103,059,461</u>

See Notes to Financial Statements

CITY OF LANCASTER

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Expenses	Program Revenues		Capital Contributions and Grants	Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Contributions and Grants		
Functions/Programs					
Primary Government:					
Governmental Activities:					Governmental Activities
General government	\$ 15,996,662	\$ 3,403,979	\$ 7,094,290	\$ -	\$ (5,498,393)
Public safety	15,057,609	7,371,936	432,706	-	(7,252,967)
Housing	1,232,174	1,789,277	5,218,628	-	5,775,731
Community development	19,043,934	4,838,078	1,657,140	-	(12,548,716)
Parks and recreation	14,715,042	3,628,130	26,919	-	(11,059,993)
Public works	22,087,634	29,098,965	22,287,409	-	29,298,740
Interest on long-term debt	14,921,363	-	-	-	(14,921,363)
Total Governmental Activities	103,054,418	50,130,365	36,717,092	-	(16,206,961)
General Revenues:					
Taxes:					
Property taxes, levied for general purpose					32,672,098
Transient occupancy taxes					1,257,943
Sales taxes					21,377,455
Franchise taxes					2,844,195
Business licenses taxes					493,197
Other taxes					522,999
Intergovernmental, unrestricted					
Motor Vehicle in lieu					5,267,126
Use of money and property					16,088,474
Other					83,925
Total General Revenues					80,607,412
Change in Net Assets					64,400,451
Net Assets at Beginning of Year					42,902,921
Restatement of Net Assets					(4,243,911)
Net Assets at End of Year					\$ 103,059,461

See Notes to Financial Statements

CITY OF LANCASTER
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	
		Capital Outlay	Lancaster Redevelopment Agency
Assets:			
Pooled cash and investments	\$ 34,418,994	\$ 1,411,572	\$ 44,806,010
Receivables:			
Accounts	87,261	1,167	254,822
Taxes	980,613	-	909,622
Contract and notes	-	-	3,405,685
Accrued interest	182,487	-	241,045
Prepaid costs	461,502	-	-
Deposits	-	-	-
Due from other governments	5,076,511	-	1,101,723
Due from other funds	4,275,576	-	-
Advances to other funds	98,650,360	-	1,746,009
Inventories	34,506	-	-
Land held for resale	-	-	41,580,751
Restricted assets:			
Cash and investments	-	-	37,629
Cash and investments with fiscal agents	-	-	3,194,032
Total Assets	\$ 144,167,810	\$ 1,412,739	\$ 97,277,328
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 6,554,525	\$ 921,882	\$ 1,783,370
Accrued liabilities	530,180	-	-
Due to other funds	-	77,564	615,594
Deferred revenues	42,103,911	-	-
Unearned revenues	260,364	-	-
Advances from other funds	-	-	98,650,360
Deposits payable	3,252,068	-	571,266
Due to other governments	-	-	72,011
Total Liabilities	52,701,048	999,446	101,692,601
Fund Balances:			
Reserved:			
Reserved for encumbrances	390,150	-	-
Reserved for inventories	34,506	-	-
Reserved for prepaid costs	461,502	-	-
Reserved for land held for resale	-	-	41,580,751
Reserved for loans	-	-	3,405,685
Reserved for advances to other funds	58,847,223	-	1,746,009
Unreserved:			
Unreserved, reported in nonmajor:			
Special revenue funds	-	-	-
Capital projects funds	-	-	-
Debt service funds	-	-	-
Designated for legal claims	315,963	-	-
Designated for employee benefits	2,384,885	-	-
Designated for emergency repairs	108,081	-	-
Designated for building replacement	563,813	-	-
Designated for City liabilities	100,000	-	-
Designated for energy cost	600,000	-	-
Designated for capital facilities	400,000	-	-
Designated for capital projects	2,600,000	-	-
Designated for non recurring events	250,000	-	-
Designated for debt service	-	-	-
Undesignated	24,410,639	413,293	(51,147,718)
Total Fund Balances	91,466,762	413,293	(4,415,273)
Total Liabilities and Fund Balances	\$ 144,167,810	\$ 1,412,739	\$ 97,277,328

See Notes to Financial Statement

CITY OF LANCASTER
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>Debt Service Lancaster Redevelopment Agency</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Pooled cash and investments	\$ 5,191,453	\$72,608,957	\$ 158,436,986
Receivables:			
Accounts	-	613,612	956,862
Taxes	3,638,486	-	5,528,721
Contract and notes	-	4,281,167	7,686,852
Accrued interest	-	490,753	914,285
Prepaid costs	-	4,130	465,632
Deposits	-	5,160	5,160
Due from other governments	-	4,154,807	10,333,041
Due from other funds	-	-	4,275,576
Advances to other funds	-	-	100,396,369
Inventories	-	-	34,506
Land held for resale	-	1,151,664	42,732,415
Restricted assets:			
Cash and investments	4,237,619	706,489	4,981,737
Cash and investments with fiscal agents	17,394,307	1,762,304	22,350,643
Total Assets	\$ 30,461,865	\$85,779,043	\$ 359,098,785
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 77,997	\$ 325,072	\$ 9,662,846
Accrued liabilities	-	-	530,180
Due to other funds	-	3,582,418	4,275,576
Deferred revenues	-	9,181,092	51,285,003
Unearned revenues	-	-	260,364
Advances from other funds	-	1,746,009	100,396,369
Deposits payable	-	28,727	3,852,061
Due to other governments	10,851,639	-	10,923,650
Total Liabilities	10,929,636	14,863,318	181,186,049
Fund Balances:			
Reserved:			
Reserved for encumbrances	-	-	390,150
Reserved for inventories	-	-	34,506
Reserved for prepaid costs	-	4,130	465,632
Reserved for land held for resale	-	1,151,664	42,732,415
Reserved for loans	-	-	3,405,685
Reserved for advances to other funds	-	-	60,593,232
Unreserved:			
Unreserved, reported in nonmajor:			
Special revenue funds	-	68,008,628	68,008,628
Capital projects funds	-	1,072,385	1,072,385
Debt service funds	-	678,918	678,918
Designated for legal claims	-	-	315,963
Designated for employee benefits	-	-	2,384,885
Designated for emergency repairs	-	-	108,081
Designated for building replacement	-	-	563,813
Designated for City liabilities	-	-	100,000
Designated for energy cost	-	-	600,000
Designated for capital facilities	-	-	400,000
Designated for capital projects	-	-	2,600,000
Designated for non recurring events	-	-	250,000
Designated for debt service	19,532,229	-	19,532,229
Undesignated	-	-	(26,323,786)
Total Fund Balances	19,532,229	70,915,725	177,912,736
Total Liabilities and Fund Balances	\$ 30,461,865	\$85,779,043	\$ 359,098,785

See Notes to Financial Statement

CITY OF LANCASTER

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006**

Fund balances of governmental funds	\$ 180,143,936
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	102,791,545
Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the Statement of Net Assets	6,808,344
Prepaid Pension Obligations is an asset in the Statement of Net Assets but is an expenditure in the governmental funds	4,500,000
Long-term debt and compensated absences that have not been included in the governmental fund activity:	
Bonds and notes payable	(235,734,332)
Compensated absences	(1,735,149)
Claims and Judgments	(1,121,757)
Accrued interest payable for the current portion of interest due on notes and bonds has not been reported in the governmental funds.	(3,878,129)
Certain revenues are reported as deferred revenue in the governmental funds because the revenue recognition criteria have not been met, however, they are included as revenue in the governmental fund activity under accrual basis of accounting.	51,285,003
Net assets of governmental activities	<u><u>\$ 103,059,461</u></u>

See Notes to Financial Statements

CITY OF LANCASTER

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects Funds	
		Capital Outlay	Lancaster Redevelopment Agency
Revenues:			
Taxes	\$ 39,393,821	\$ -	\$ 11,757,421
Licenses and permits	2,389,316	-	-
Intergovernmental	4,166,598	-	-
Charges for services	3,610,787	-	-
Use of money and property	1,288,788	-	8,995,364
Fines and forfeitures	992,568	-	-
Miscellaneous	572,349	-	178,681
Total Revenues	52,414,227	-	20,931,466
Expenditures:			
Current:			
General government	14,323,741	-	3,110,639
Public safety	14,855,248	-	-
Housing	-	-	-
Community development	3,431,316	-	14,910,080
Parks and recreation	11,825,806	-	-
Public works	16,104,582	-	-
Capital outlay	10,670	22,037,982	-
Debt service:			
Principal retirement	36,252	-	-
Interest and fiscal charges	876	-	3,422,617
Total Expenditures	60,588,491	22,037,982	21,443,336
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,174,264)	(22,037,982)	(511,870)
Other Financing Sources (Uses):			
Transfers in	21,709,853	22,410,770	-
Transfers out	(11,678,651)	-	(8,752,493)
Total Other Financing Sources (Uses)	10,031,202	22,410,770	(8,752,493)
Net Change in Fund Balances	1,856,938	372,788	(9,264,363)
Fund Balances, Beginning of Year, as Originally Reported	88,975,170	40,505	8,779,667
Restatements	634,654	-	(3,930,577)
Fund Balances, Beginning of Year, as Restated	89,609,824	40,505	4,849,090
Fund Balances, End of Year	\$ 91,466,762	\$ 413,293	\$ (4,415,273)

CITY OF LANCASTER

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	Debt Service Fund		
	Lancaster Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 6,908,605	\$ -	\$ 58,059,847
Licenses and permits	-	37,190,808	39,580,124
Intergovernmental	3,331,654	15,430,231	22,928,483
Charges for services	-	10,473,163	14,083,950
Use of money and property	628,499	4,082,282	14,994,933
Fines and forfeitures	-	680,535	1,673,103
Miscellaneous	-	896,738	1,647,768
Total Revenues	10,868,758	68,753,757	152,968,208
Expenditures:			
Current:			
General government	579,824	1,461,086	19,475,290
Public safety	-	163,833	15,019,081
Housing	-	1,232,174	1,232,174
Community development	-	71,252	18,412,648
Parks and recreation	-	11,503	11,837,309
Public works	-	3,173,530	19,278,112
Capital outlay	-	-	22,048,652
Debt service:			
Principal retirement	4,910,000	520,000	5,466,252
Interest and fiscal charges	10,604,066	726,384	14,753,943
Total Expenditures	16,093,890	7,359,762	127,523,461
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,225,132)	61,393,995	25,444,747
Other Financing Sources (Uses):			
Transfers in	7,095,484	850,223	52,066,330
Transfers out	-	(31,635,186)	(52,066,330)
Total Other Financing Sources (Uses)	7,095,484	(30,784,963)	-
Net Change in Fund Balances	1,870,352	30,609,032	25,444,747
Fund Balances, Beginning of Year, as Originally Reported	17,661,877	40,799,047	156,256,266
Restatements	-	(492,354)	(3,788,277)
Fund Balances, Beginning of Year, as Restated	17,661,877	40,306,693	152,467,989
Fund Balances, End of Year	\$ 19,532,229	\$ 70,915,725	\$ 177,912,736

CITY OF LANCASTER

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds \$ 27,675,947

Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 15,570,146

Long-term debt transactions reported as expenditures and other financing sources and uses in the governmental funds are reported as changes to long-term debt. 5,273,826

Accrued interest for notes and bonds payable. This is the net change in accrued interest for the current period. 25,006

Prepaid Pension Obligations is an asset in the Statement of Net Assets but is an expenditure in the governmental funds 4,500,000

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (233,812)

Certain revenues are reported as deferred revenue in the governmental funds because the revenue recognition criteria have not been met, however, they are included as revenue in the governmental fund activity under accrual basis of accounting. 12,255,461

Claims and judgment expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (666,123)

Change in net assets of governmental activities \$ 64,400,451

CITY OF LANCASTER

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
YEAR ENDED JUNE 30, 2006**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 89,609,824	\$ 89,609,824	\$ 89,609,824	\$ -
Resources (Inflows):				
Taxes	33,049,750	38,107,970	39,393,821	1,285,851
Licenses and permits	2,507,650	2,636,500	2,389,316	(247,184)
Intergovernmental	2,275,799	4,828,989	6,304,098	1,475,109
Charges for services	3,135,595	2,834,715	3,610,787	776,072
Use of money and property	200,000	800,000	1,288,788	488,788
Fines and forfeitures	1,325,000	980,000	992,568	12,568
Other	2,628,500	3,954,060	666,049	(3,288,011)
Other financing sources	-	-	-	-
Transfers from other funds	16,103,221	14,312,016	21,709,853	7,397,837
Amounts Available for Appropriation	150,835,339	158,064,074	165,965,104	7,901,030
Charges to Appropriation (Outflow):				
General government	8,591,993	12,937,703	14,323,741	(1,386,038)
Public safety	16,032,698	16,282,940	14,855,248	1,427,692
Community development	6,633,938	6,902,886	3,431,316	3,471,570
Parks and recreation	14,569,752	10,976,583	11,825,806	(849,223)
Public works	21,713,345	21,060,624	16,104,582	4,956,042
Capital outlay	2,300,150	-	10,670	(10,670)
Debt service:				
Principal	-	-	36,252	(36,252)
Interest and fiscal charges	-	-	876	(876)
Transfers to other funds	1,252,750	898,428	11,678,651	(10,780,223)
Total Charges to Appropriations	71,094,626	69,059,164	72,267,142	(3,207,978)
Budgetary Fund Balance, June 30	\$ 79,740,713	\$ 89,004,910	\$ 93,697,962	\$ 4,693,052

See Notes to Financial Statement

CITY OF LANCASTER

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

Assets:

Cash and investments	\$ 4,896,429
Receivables (net of allowance for uncollectibles):	
Accounts	120
Interest	19,662
Due from other governments	370,214
Restricted assets:	
Cash with fiscal agent	<u>3,135,140</u>
Total Assets	<u><u>\$ 8,421,565</u></u>

Liabilities:

Liabilities:	
Accounts payable	\$ 13,400
Due to other governments	-
Deposits	806,944
Due to bond holders	<u>7,601,221</u>
Total Liabilities	<u><u>\$ 8,421,565</u></u>

See Notes to Financial Statements

CITY OF LANCASTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The City of Lancaster (the City) was incorporated on November 22, 1977, under the laws of the State of California and enjoys all the rights and privileges applicable to a general law City. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Lancaster (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City:

Component Units:

- Lancaster Redevelopment Agency
- Lancaster Housing Authority
- Lancaster Community Services Foundation

Blended Component Units

The Redevelopment Agency (the Agency) was established pursuant to the State of California Health and Safety Code, Section 33000. Its purpose is to prepare and carry out plans for the improvement, rehabilitation and development of blighted areas within the territorial limits of the City of Lancaster. Separate financial statements may be obtained for the Agency by contacting the City's finance department.

The Housing Authority (the Authority) was formed for the purpose of providing affordable, decent housing for lower income residents of the City of Lancaster. The Authority operates certain mobile home parks within the City. Separate financial statements are not available for the Authority.

The Lancaster Community Services Foundation (the Foundation) was formed to provide certain community services to the residents of the City. Separate financial statements are not available for the Foundation.

Although these component units are legally separate from the City of Lancaster, they are reported as if they were part of the primary government because the governing boards of these component units are the same as the primary government. Furthermore, the purpose of these component units is to provide a safe and more efficient service for the residents of Lancaster.

City of Lancaster
Notes to Financial Statements (Continued)

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

- General Fund - to account for all unrestricted resources except those required to be accounted for in another fund.

City of Lancaster
Notes to Financial Statements (Continued)

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

- Capital Outlay Fund - to account for the capital improvement projects of the City.
- Lancaster Redevelopment Agency - Capital Project Fund - to account for the general redevelopment operations of the City's Redevelopment Agency.
- Lancaster Redevelopment Agency - Debt Service Fund - to account for the accumulation of resources for, and the payment of, principal and interest on the Tax Allocation notes and bonds issued by the Redevelopment Agency.

The Agency Funds used to report resources held by the City in a purely custodial capacity, which involves only the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments. The City reports the following Agency Funds:

- Assessment District Funds - to account for the City, acting in the capacity as an agent, for various 1915 Act Assessment District Bonds.
- Community Facilities Districts - to account for collection of special assessments within the Mello-Roos District to provide public waterworks improvements and basic infrastructure within the Districts.
- Agency - to account for various performance and construction deposits.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed

d. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The City pools idle cash from all funds for the purpose of increasing income through investment activities.

Investments for the City, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means then due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period. The County of Los Angeles collects property taxes for the City. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. Taxes are levied on both real and personal property as it exists on that date. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent on August 31.

3. Inventories and Prepaid Items

Inventories of materials and supplies are carried at cost on a moving average basis. The City uses the consumption method of accounting for inventories

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, funds have been restricted for future capital improvements by City resolution.

5. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In accordance with GASB Statement No. 34, the City has reported general infrastructure assets acquired in the current year. As the City is still in the process of compiling the

**City of Lancaster
Notes to Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

necessary data and, as permitted under GASB Statement No. 34, the City has not reported any prior year infrastructure assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	40
Machinery and equipment	7
Public domain infrastructure	50
Construction-in-progress	N/A

6. Land Held for Resale

The Lancaster Redevelopment Agency has acquired several parcels of land as part of its primary purpose to develop or redevelop blighted properties. The City records these parcels as land held for resale in its financial records. The property is being carried in the Lancaster Redevelopment Agency Capital Projects Fund at a net realizable value, which is equal to cost. At June 30, 2006, net realizable value for land held for resale totaled \$1,151,664 in the Housing and Community Development Fund and \$41,580,751 in the Lancaster Redevelopment Agency Capital Projects Fund, with this amount offset by a reservation of fund balance.

7. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay is payable to employees at the time a vacation is taken or upon termination of employment. Normally, an employee cannot accrue more than twice his regular annual entitlement.

Sick leave is payable when an employee is unable to work because of illness. Accrued sick leave may be accumulated without limit. Employees resigning in good standing from City service shall receive up to a maximum of 50% of unused sick leave.

All vacation and sick leave pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**City of Lancaster
Notes to Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

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 issuances 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.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2: Reconciliation of Government-Wide and Fund Financial Statements

- a. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

The governmental fund balance sheet includes reconciliation between fund balance - governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term debts and compensated absences have not been included in the governmental fund activity." The detail of the \$238,591,238 long-term debt difference is as follows:

Long-term debt:	
Tax allocation bonds payable	\$ 220,420,000
Revenue bonds payable	8,070,000
Loans payable	5,501,000
Unamortized bond premium	6,471,025
Unamortized bond defeasance loss	(4,727,693)
Compensated absences	1,735,149
Claims and Judgments	<u>1,121,757</u>
Net adjustment to reduce fund balance of total governmental funds to arrive at net assets of governmental activities	<u>\$ 238,591,238</u>

**City of Lancaster
Notes to Financial Statements (Continued)**

Note 2: Reconciliation of Government-Wide and Fund Financial Statements (Continued)

- b. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances - of total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$15,570,146 difference are as follows:

Capital outlay	\$ 18,641,215
Depreciation expense	<u>(3,071,069)</u>
Net adjustment to increase net changes in fund balances of total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 15,570,146</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds". Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this \$5,456,732 difference are as follows:

Principal Repayments:	
Tax allocation bonds	\$ 4,910,000
Revenue bonds	280,000
Loans payable	240,000
Capital leases payable	36,252
Amortization of bond premium	278,702
Amortization of bond defeasance loss	<u>(288,222)</u>
Net adjustment to decrease net changes in fund balance of total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 5,456,732</u>

II. STEWARDSHIP

Note 3: Stewardship, Compliance and Accountability

a. Budgetary Data

General Budget Policies

The City Council approves each year's budget submitted by the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Council. Supplemental appropriations, where required during the period, are also approved by the Council. Intradepartmental budget changes are approved by the City

**City of Lancaster
Notes to Financial Statements (Continued)**

Note 3: Stewardship, Compliance and Accountability (Continued)

Manager. Expenditures may not exceed appropriations at the function level. At fiscal year end, all unencumbered operating budget appropriations lapse. During the year, several supplementary appropriations were necessary.

Encumbrances

Encumbrances are estimations of costs related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes in the General, Special Revenue and similar governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in process at year-end are completed. They do not constitute expenditures or estimated liabilities.

Budget Basis of Accounting

Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

b. Excess of expenditures over appropriations by department in individual funds are as follows:

	Expenditures	Appropriations	Excess
General Fund			
General government	\$ 14,323,741	\$ 12,937,703	\$ 1,386,038

c. The following fund contained deficit fund balances as of June 30, 2006:

Major Fund	Deficit Amount
Lancaster Redevelopment Agency	
Capital Projects	\$ 4,415,273

III. DETAILED NOTES ON ALL FUNDS

Note 4: Deposits and Investments

As of June 30, 2006, cash and investments were reported in the accompanying financial statements as follows:

Governmental Activities	\$ 185,769,366
Fiduciary funds	<u>8,031,569</u>
Total Cash and Investments	<u>\$ 193,800,935</u>

The City of Lancaster maintains a cash and investment pool that is available for use for all funds. Each fund type's position in the pool is reported on the combined balance sheet as cash and investments. The City has adopted an investment policy, which authorizes it to invest in various investments.

City of Lancaster
Notes to Financial Statements (Continued)

Note 4: Deposits and Investments (Continued)

Deposits

At June 30, 2006, the carrying amount of the City's deposits was \$35,453,493 and the bank balance was \$32,694,805. The \$2,758,688 difference represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits. California law also follows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits. The City Treasurer may waive the collateral requirement for deposits which are fully insured up to \$100,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

Under provision of the City's investment policy, and in accordance with the California Government Code, the following investments are authorized:

- Demand Deposits
- Banker's Acceptances
- Local Agency Investment Fund (State Pool)
- Passbook Savings Accounts
- United States Treasury Securities

Investments Authorized by Debt Agreements

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy.

Investments in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

**City of Lancaster
Notes to Financial Statements (Continued)**

Note 4: Deposits and Investments (Continued)

GASB Statement No. 31

The City adopted GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

Credit Risk

At June 30, 2006, the City does not have any investments in securities that may be subject to credit risk. Amounts invested with fiscal agents are not considered to have credit risk because the City does not own the specific securities. Investments in U.S. government securities are not considered to have credit risk and, therefore, their credit quality is not disclosed. As of June 30, 2006, the City's investments in external investment pools are unrated. The City has amounts invested in investment agreements that are held with fiscal agents and invested under the direction of the City. As of June 30, 2006, the City's fiscal agent investments agreements consisted of investments with various corporations that were within acceptable investment grade ranges allowed by the City's investment policy.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of June 30, 2006, none of the City's deposits or investments were exposed to custodial credit risk.

Concentration of Credit Risk

The City's investment policy imposes restrictions on the maximum percentage it can invest in a single type of investment. These limitations are 25% of the City's invested funds for non-negotiable certificates of deposit, 15% of the City's invested funds for banker acceptances with no more than 2% in any one issuer, 25% of the City's invested funds for commercial paper with no more than 10% in any one issuer, 10% of the City's invested funds for medium term notes, and 20% of the City's invested funds for money market funds with no more than 10% in any one issuer.

Interest Rate Risk

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's investment policy states that investments in United States Treasury Securities and securities for which the full faith and credit of the United States is pledged should have a maturity no longer than five years. Reserve funds relating to the bonds issues may be invested in securities for more than five years if the

City of Lancaster
Notes to Financial Statements (Continued)

Note 4: Deposits and Investments (Continued)

maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk.

The City has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2006, the City had the following investments and original maturities:

	Investments Maturities				Fair Value
	1 year or less	1 year to 3 years	3 years to 5 years	5 years and more	
Investments					
Certificates of deposits	\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000
Investments agreements	-	38,825,406	-	-	38,825,406
California Local Agency Investment Fund	55,252,577	-	-	-	55,252,577
Treasury	8,907,860	4,901,260	-	-	13,809,120
Federal government agency	3,935,300	14,739,720	2,935,090	-	21,610,110
Corporate obligations	-	2,864,460	-	-	2,864,460
Investments with fiscal agents					
Money market mutual funds	15,817,153	-	-	-	15,817,153
Investment agreements	-	-	-	9,668,616	9,668,616
	<u>\$ 84,412,890</u>	<u>\$ 61,330,846</u>	<u>\$ 2,935,090</u>	<u>\$ 9,668,616</u>	<u>\$ 158,347,442</u>

Note 5: Rehabilitation Loans

During fiscal year 1991-1992, the City of Lancaster and the Redevelopment Agency initiated several rehabilitation loan programs. These loans are secured by a deed of trust on the property involved and are payable when the property is sold or otherwise changes ownership. No interest rate is present on these loans. As of June 30, 2006, \$7,686,852 of these loans had been made.

City of Lancaster
Notes to Financial Statements (Continued)

Note 6: Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Adjustments	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:						
Capital assets, not being depreciated:						
Land	\$ 12,230,176	\$ -	\$ 12,230,176	\$ -	\$ -	\$ 12,230,176
Construction-in-progress	25,267,419	-	25,267,419	16,932,366	8,300,855	33,898,930
Total Capital Assets, Not Being Depreciated	24,990,920	-	37,497,595	16,932,366	8,300,855	46,129,106
Capital assets, being depreciated:						
Structures and improvements	47,403,595	-	47,403,595	-	-	47,403,595
Furniture and equipment	8,727,306	(2,773,210)	5,954,096	1,078,197	100,079	6,932,214
Infrastructure	22,170,709	-	22,170,709	8,931,507	-	31,102,216
Total Capital Assets, Being Depreciated	67,697,464	(2,773,210)	75,528,400	10,009,704	100,079	85,438,025
Less accumulated depreciation:						
Structures and improvements	21,567,004	-	21,567,004	1,580,120	-	23,147,124
Furniture and equipment	6,567,388	(2,773,210)	3,794,178	612,544	100,079	4,306,643
Infrastructure	443,414	-	443,414	878,405	-	1,321,819
Total Accumulated Depreciation	25,553,806	(2,773,210)	25,804,596	3,071,069	100,079	28,775,586
Total Capital Assets, Being Depreciated, Net	42,143,658	-	49,723,804	6,938,635	-	56,662,439
Governmental Activities Capital Assets, Net	\$ 67,134,578	\$ -	\$ 87,221,399	\$ 23,871,001	\$ 8,300,855	\$ 102,791,545

Depreciation expense was charged to functions/programs of the government as follows:

Governmental activities:	
General government	\$ 340,919
Public safety	58,528
Public works	1,575,873
Community development	62,016
Parks and recreation	1,033,733
Total Depreciation Expense	\$ 3,071,069

Note 7: Interfund Receivable, Payable and Transfers

The composition of interfund balances as of June 30, 2006, is as follows:

Due To/From Other Funds

Funds	Due To Other Funds:			Total
	Capita Outlay	LRA Debt Service	Nonmajor Governmental Funds	
Due From Other Funds:				
General	\$ 77,564	\$ 615,594	\$ 3,582,418	\$ 4,275,576
Total	\$ 77,564	\$ 615,594	\$ 3,582,418	\$ 4,275,576

**City of Lancaster
Notes to Financial Statements (Continued)**

Note 7: Interfund Receivable, Payable and Transfers (Continued)

The due to General Fund of \$3,582,418 from various nonmajor funds was a result of temporary deficit cash balances in those funds.

The other interfund balances were the results of routine interfund transactions not cleared prior to year-end.

Advances To/From Other Funds

Funds	Advances To Other Funds:		Total
	General Fund	LRA Capital Projects	
Advances From Other Funds:			
LRA Capital Projects	\$ 98,650,360	\$ -	\$ 98,650,360
Nonmajor governmental fund	-	1,746,009	1,746,009
Total	\$ 98,650,360	\$ 1,746,009	\$ 100,396,369

During the current and previous fiscal years, the City of Lancaster has made loans to the Agency. These loans bear interest at rates up to 12% per annum depending upon when the loan was initiated. The City may demand payment of all or a portion of the principal balance at any time as funds become available; however, such demands are not anticipated with the next fiscal year. As of June 30, 2006, loans to and accrued unpaid interest owed on those loans were \$98,650,360.

The Lancaster Redevelopment agency has advanced \$1,746,009 to the Traffic Impact Fee Fund to fund the Avenue L Overpass Project.

Interfund Transfers

	Transfers Out:			Total
	General Fund	Redevelopment Agency Capital Projects	Nonmajor Funds	
Transfers In:				
General	\$ -	\$ -	\$ 21,709,853	\$ 21,709,853
Capital outlay	11,678,651	1,657,009	9,075,110	22,410,770
Redevelopment Agency debt service		7,095,484		7,095,484
Nonmajor funds			850,223	850,223
Total	\$ 11,678,651	\$ 8,752,493	\$ 31,635,186	\$ 52,066,330

The City uses the Capital Outlay Fund to account for all of its capital projects. The funding sources for those projects were reported as transfers from various funds to the Capital Outlay fund. The total of the Capital Projects transfers for the year were \$22,410,770.

During the year, certain funds made payments to the General Fund for administrative costs incurred. These transfers to the General Fund for the year were \$21,709,853.

The Lancaster Redevelopment Agency Capital Projects Fund transferred \$7,095,484 to the Lancaster Redevelopment Agency Debt Service Fund for bond proceeds received in connection with the issuance of its Tax Allocation Refunding Bonds per the bond indenture.

City of Lancaster
Notes to Financial Statements (Continued)

Note 8: Due To Other Governments

County of Los Angeles, Schools and Community College Districts

Residential Project Tax Increment Fund	\$ 445,997
Central Business District Tax Increment Fund	144,923
Fox Field Tax Increment Fund	135,128
Fox Field Project Fund	67,443
Fox Field Low and Moderate Housing Fund	4,568
Amargosa Tax Increment Fund	1,566,118
Area No. 5 Tax Increment Fund	2,743,183
Area No. 6 Tax Increment Fund	4,736,900
Area No. 7 Tax Increment Fund	<u>1,079,390</u>
Total	<u>\$ 10,923,650</u>

The Lancaster Redevelopment Agency has various tax sharing agreements present in the Residential, Amargosa, Area No. 5 and Area No. 6 Project Areas. As a result of these agreements, the Agency has agreed to remit to schools, community college districts and other districts a portion of its tax increment collections. As of June 30, 2006, the previous amounts were owed to these entities.

Note 9: Loan to City of Lancaster - Avenue L Overpass Project

During fiscal year 1991-1992, the Lancaster Redevelopment Agency adopted Resolution 11-92 making a benefit finding relating to the expenditure of Agency funds and authorizing the lending of funds to the City of Lancaster for the implementation of the Avenue L Overpass Project. The City of Lancaster adopted Resolution 92-105 to accept this loan. This loan is to be repaid from future Traffic Impact Fees. No fixed date of repayment or interest rate has been specified. A reservation of fund balance has been established for this loan. The outstanding balance of this loan at June 30, 2006, totaled \$1,746,009.

Note 10: Long-Term Debt

a. Bonds and Notes

A description of individual issues of bonds and notes (excluding defeased issues) outstanding as of June 30, 2006, follows:

Lancaster Housing Authority

On February 4, 1999, the Authority issued \$10,040,000 of Lancaster Housing Authority Lease Revenue Refunding Bonds. These bonds were issued to defease a previous issue of 1994 Lease Revenue Bonds (Brierwood Mobile Home Park Project). Interest on these bonds is due semi-annually on April 1 and October 1 of each year commencing April 1, 1999. Interest rates vary from 3.05% to 5.00%. The principal portion of these bonds is payable from April 1, 1999 to April 1, 2024.

Lancaster Redevelopment Agency

Combined Tax Allocation Notes and Bonds

1. On December 15, 2004, the Agency issued \$10,200,000 of Combined Redevelopment Project Areas (Fire Protection Facilities Project), Tax Allocation Refunding Bonds, Issue of 2004. Interest on these bonds is payable semi-annually on June 1 and December 1 of each year, commencing June 1, 2006. Interest rates vary from 2.00% to 5.25%. Principal redemptions

City of Lancaster
Notes to Financial Statements (Continued)

Note 10: Long-Term Debt (Continued)

are payable starting December 1, 2006 through December 1, 2023. The proceeds of this bond issue were utilized to refund all of the Agency's outstanding Combined Redevelopment Project Areas (Fire Protection Facilities Project) Tax Allocation Bonds, Issue of 1993, pay costs of issuing the Bonds, and fund a debt service reserve account.

2. On December 15, 2004, the Agency issued \$21,540,000 of Combined Redevelopment Project Areas (Sheriff's Facility Project), Tax Allocation Refunding Bonds, Issue of 2004. Interest on these bonds is payable semi-annually on June 1 and December 1 of each year, commencing June 1, 2006. Interest rates vary from 2.00% to 5.25%. Principal redemptions are payable starting December 1, 2006 through December 1, 2019. The proceeds of this bond issue were utilized to refund all of the Agency's outstanding Combined Redevelopment Project Areas (Sheriff's Facility Project) Tax Allocation Bonds, Issue of 1993, pay costs of issuing the Bonds, and fund a debt service reserve account.
3. On December 15, 2004, the Agency issued \$5,135,000 of Combined Redevelopment Project Areas (Library Project), Tax Allocation Refunding Bonds, Issue of 2004. Interest on these bonds is payable semi-annually on June 1 and December 1 of each year, commencing June 1, 2006. Interest rates vary from 3.00% to 4.75%. Principal redemptions are payable starting December 1, 2006 through December 1, 2029. The proceeds of this bond issue were utilized to refund all of the Agency's outstanding Combined Redevelopment Project Areas (Library Project) Tax Allocation Bonds, Issue of 1993, and Combined Redevelopment Project Areas (Library Project) Subordinated Tax Allocation Refunding Bonds, Issue of 1999, pay costs of issuing the Bonds, and fund a debt service reserve account.
4. On September 9, 2004, the Agency issued \$7,830,000 of Lancaster Financing Authority, Tax Allocation Refunding Bonds (Lancaster Redevelopment Project No. 5 and Project No. 6 (School Districts), Issue of 2004. Interest on these bonds is payable semi-annually on February 1 and August 1 of each year, commencing February 1, 2006. Interest rates vary from 2.00% to 5.60%. Principal redemptions are payable starting February 1, 2006 through February 1, 2034. The proceeds of this bond issue were utilized to advance refund and defease all of the Agency's outstanding Lancaster Redevelopment Project No. 6, Tax Allocation Refunding Bonds (School District), Issue of 1996, finance school district projects pursuant to certain school district pass through agreements with respect to Redevelopment Project No. 5 and No. 6, pay costs of issuing the Bonds, and fund a debt service reserve account.
5. On November 9, 2004, the Agency issued \$13,575,000 of Combined Redevelopment Project Areas (Housing Programs), Subordinate Tax Allocation Bonds, Issue of 2004 (Taxable). This financing was undertaken to provide funding for certain low and moderate income housing projects of the Agency, fund a reserve account for the Bonds and to pay the costs of issuance. The principal portion of these bonds is payable from August 1, 2006 to 2035. Interest is payable semi-annually on February 1 and August 1 of each year commencing on February 1, 2006.

**City of Lancaster
Notes to Financial Statements (Continued)**

Note 10: Long-Term Debt (Continued)

6. On November 9, 2004, the Agency issued \$11,005,000 of Lancaster Financing Authority, Subordinate Tax Allocation Revenue Bonds (Lancaster Residential, Amargosa, Project No. 5 and Project No. 6 Redevelopment Projects), Issue of 2004B. Interest on these bonds is payable semi-annually on February 1 and August 1 of each year, commencing February 1, 2006. Interest rates vary from 2.35% to 5.00%. Principal redemptions are payable starting February 1, 2008 through February 1, 2035. The proceeds of this bond issue were utilized to finance redevelopment activities of the Agency with respect to four of its Project Areas, fund capitalized interest through August 1, 2007, pay costs of issuing the Bonds, and fund a debt service reserve account.

7. On June 11, 2003, the Agency issued \$101,575,000 of Series 2003 Bonds (\$60,980,000 Combined Housing Financing and \$40,595,000 of Combined Economic Development Financing). This financing was undertaken to refund \$75,065,000 in outstanding Agency debt and to provide the Agency with additional funds for projects. The principal portion of these bonds is payable from August 1, 2004 to 2034 on the Economic Development Financing (Combined Tax Allocation Bonds, Series 2003) and August 1, 2006 to 2033, on the Housing Financing (Combined Housing Bonds). Interest is payable semi-annually on February 1 and August 1, of each year commencing on August 1, 2004.

8. On December 12, 2003, the Agency issued \$34,640,000 of Series 2003 B Bonds (\$18,080,000 Combined Housing Financing and \$16,560,000 of Subordinate Tax Allocation Revenue Bonds). This financing was undertaken to refund \$13,375,000 in outstanding Agency debt and to provide the Agency with additional funds for projects. The principal portion of these bonds is payable from August 1, 2004 to 2034, on the Subordinate Tax Allocation Revenue Bonds and February 1, 2004 to 2034, on the Housing Financing (Combined Housing Bonds). Interest is payable semi-annually on February 1 and August 1 of each year commencing on February 1, 2004. The principal portion of these bonds has been allocated to the following project areas:

	<u>Economic Development</u>	<u>Housing</u>
Residential Area	\$ 1,805,000	\$ 3,372,853
Central Business District Area	-	175,098
Fox Field Area	-	173,720
Amargosa Area	10,305,000	4,687,320
Area Number 5	1,625,000	4,396,360
Area Number 6	2,825,000	4,704,068
Area Number 7	-	570,581
	<u> </u>	<u> </u>
Total	<u>\$ 16,560,000</u>	<u>\$ 18,080,000</u>

9. On February 23, 1993, the Agency, City of Lancaster, Los Angeles County Public Library and the County of Los Angeles entered into a Memorandum of Understanding whereby the Agency will provide a contribution in the amount of \$1,500,000, and a loan to the Library in the approximate principal amount of \$5,870,000, for construction and development of the Library Project. The Agency contribution and loan amounts will be provided in addition to net

City of Lancaster
Notes to Financial Statements (Continued)

Note 10: Long-Term Debt (Continued)

proceeds from the Library Bonds and Subordinated Bonds for development and construction of the Library Project. The exact amount of the Agency loan will be determined by subtracting the amount of net bond proceeds, subordinated note proceeds and contributions proceeds from the total development and construction costs of the Library Project.

Central Business District Project Area

1. On January 1, 1994, the Agency issued \$3,065,000 of Lancaster Central Business District Redevelopment Project Area, Tax Allocation Refunding Bonds, Issue of 1994. The principal portion of these bonds is payable from August 1, 1994 to August 1, 2023. Interest is payable semi-annually on February 1 and August 1 each year commencing August 1, 1994, at rates of 3.00% to 6.125% per annum. The proceeds of these bonds was utilized to defease \$1,055,000 of the Tax Allocation Refunding Bonds, Issue of 1986, and \$1,900,000 of Subordinated Tax Allocation Refunding Notes, Issue of 1988.

Fox Field Redevelopment Project

1. On January 1, 1994, the Agency issued \$3,050,000 of Lancaster Fox Field Redevelopment Project, Tax Allocation Refunding Bonds, Issue of 1994. The principal portion of these bonds is payable from August 1, 1994 to August 1, 2022. Interest is payable semi-annually on February 1 and August 1 of each year at rates of 3.000% to 6.125% per annum, commencing August 1, 1994. These bonds defeased the \$1,600,000 Fox Field Subordinated Tax Allocation Refunding Notes, Issue of 1988.

Amargosa Redevelopment Project

1. On March 18, 1999, the Agency issued \$4,380,000 of Lancaster Redevelopment Agency, Amargosa Redevelopment Project, Tax Allocation Refunding Bonds, Issue of 1999. The purpose of these bonds was to defease a portion of the \$7,005,000 Tax Allocation Refunding Bonds, Issue of 1991. The principal portion of these bonds is payable from February 1, 2000 to February 1, 2024. Interest is payable semi-annually at rates of 3.0% to 5.0% per annum, commencing August 1, 1999.
2. On March 18, 1999, the Agency issued \$6,710,000 of Lancaster Redevelopment Agency, Lease Revenue Refunding Bonds (Lancaster Public Capital Improvement Projects), Issue of 1999. The purpose of these bonds was to defease \$7,475,000 of Lancaster Redevelopment Agency, Lease Revenue Notes (Lancaster Public Capital Improvement Projects), Issue of 1995. The principal portion of these bonds is payable from December 1, 1999 to December 1, 2028. Interest is payable semi-annually at rates of 2.9% to 5.0% per annum, commencing December 1, 1999. The Bonds are payable from Lease Payments to be made by the City of Lancaster to the Agency or its assignee. The property covered by the Lease consists of the Lancaster Performing Arts Center completed in November 1991, and developed by the Agency at a cost of \$8,024,000. Neither the Bonds nor the obligation of the City to make Lease Payments under the Lease Agreement constitutes an indebtedness of the City, the Agency, the State of California or any political subdivision thereof, within the meaning of the Constitution of the State of California or otherwise.

City of Lancaster
Notes to Financial Statements (Continued)

Note 10: Long-Term Debt (Continued)

Project Area Number 5

1. On December 1, 1997, the Agency issued \$6,480,000 of Lancaster Redevelopment Project No. 5, Tax Allocation Refunding Bonds, Issue of 1997. The principal portion of these bonds is payable from February 1, 1998 to February 1, 2014. Interest is payable semi-annually at rates of 3.75% to 5.00% per annum, commencing February 1, 1998. These bonds are issued on a parity basis with the previously issued \$10,750,000 of Lancaster Redevelopment Agency, Lancaster Redevelopment Project No. 5, Tax Allocation Refunding Bonds, Issue of 1996 and the \$13,755,000 of Lancaster Redevelopment Agency, Lancaster Redevelopment Project No. 5, Tax Allocation Refunding Bonds, Issue of 1991. A portion of the proceeds of these bonds was utilized to defease the Lancaster Redevelopment Project No. 5, Tax Allocation Refunding Bonds, Issue of 1988.

Project Area Number 6

1. On February 1, 2000, the Agency took over the operation of the Desert Sands Mobile Home Park Project. In connection with this, the agency is accomplishing the servicing of its previously issued Mobile Home Park Revenue Bonds (Desert Sands Mobile Home Park Project), Series 1997 A and B Bonds issued November 1, 1997. The bonds outstanding as of February 1, 2000, were \$3,280,000. The principal portion of these bonds is payable from May 1, 2000 to 2028. Interest is payable semi-annually on May 1 and November 1 of each year at rates of 4.0% to 7.5% per annum.

The annual requirements to amortize the outstanding bond indebtedness as of June 30, 2006, including interest, are as follows:

<u>Lancaster Housing Authority - Bonds</u>		
<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2006-2007	\$295,000	\$394,169
2007-2008	305,000	382,000
2008-2009	320,000	369,190
2009-2010	335,000	353,831
2010-2011	350,000	337,750
2011-2016	2,015,000	1,419,830
2016-2021	2,575,000	867,500
2021-2024	1,875,000	190,500
Total	<u>\$8,070,000</u>	<u>\$4,314,770</u>

City of Lancaster
Notes to Financial Statements (Continued)

Note 10: Long-Term Debt (Continued)

Lancaster Redevelopment Agency Bonds and Notes		
Fiscal Year	Principal	Interest
2006-2007	\$5,080,000	\$10,466,684
2007-2008	4,985,000	10,321,077
2008-2009	5,125,000	10,141,425
2009-2010	5,340,000	9,936,659
2010-2011	5,540,000	9,717,237
2011-2016	31,260,000	44,666,072
2016-2021	39,275,000	36,092,340
2021-2026	44,120,000	25,290,038
2026-2031	43,225,000	14,898,682
2031-2036	36,470,000	4,513,313
Total	<u>\$220,420,000</u>	<u>\$176,043,527</u>

b. U.S. Government Guaranteed Notes (Section 108 Notes)

On April 28, 1999, the City issued \$3,100,000 of U.S. Government Guaranteed Notes, Series 1999-A, guaranteed by the Secretary of Housing and Urban Development. The City has pledged as security for repayment of the notes the following:

1. Future entitlements that the City may become eligible for under Section 108 of Title I of the Housing and Community Development Act of 1974; and
2. Program income.

The notes mature from 2000 to 2018 and bear varying rates of interest. The principal balance outstanding as of June 30, 2006 was \$2,430,000.

On June 14, 2000, the City issued \$320,000 of U.S. Government Guaranteed Notes, Series 2000-A, guaranteed by the Secretary of Housing and Urban Development. The City has pledged as security for repayment of the notes the following:

1. Future entitlements that the City may become eligible for under Section 108 of Title I of the Housing and Community Development Act of 1974; and
2. Program income.

The notes mature from 2000-2019 and bear varying rates of interest. The principal balance outstanding as of June 30, 2006 was \$270,000.

On August 7, 2003, the City issued \$1,450,000 of U.S. Government Guaranteed Notes, Series 2003-A, guaranteed by the Secretary of Housing and Urban Development. This City has pledged as security for repayment of the notes the following:

1. Future entitlements that the City may become eligible for under Section 108 of Title I of the Housing and Community Development Act of 1974; and
2. Program income.

The notes mature from 2004-2023 and bear varying rates of interest. The principal balance outstanding as of June 30, 2006 was \$1,351,000.

City of Lancaster
Notes to Financial Statements (Continued)

Note 10: Long-Term Debt (Continued)

On June 30, 2004, the City issued \$1,500,000 of U.S. Government Guaranteed Notes, Series 2004-A, guaranteed by the Secretary of Housing and Urban Development. The City has pledged as security for repayment of the notes the following:

1. Future entitlements that the City may become eligible for under Section 108 of Title I of the Housing and Community Development Act of 1974; and
2. Program income.

The notes mature from 2006-2024 and bear varying rates of interest. The principal balance outstanding as of June 30, 2006, was \$1,450,000.

At June 30, 2006, the annual requirements to repay the outstanding indebtedness were as follows:

U.S. Government Guaranteed Notes		
Fiscal Year	Principal	Interest
2006-2007	\$ 245,000	\$ 310,424
2007-2008	264,000	298,506
2008-2009	279,000	285,070
2009-2010	293,000	270,307
2010-2011	297,000	254,531
2011-2016	1,746,000	991,335
2016-2021	1,678,000	417,275
2021-2025	699,000	74,789
Total	<u>\$ 5,501,000</u>	<u>\$ 2,902,237</u>

c. Capital Leases

During fiscal year 1995-1996, the City entered into a capital lease arrangement with USL Capital for the retrofit of lighting systems at various City properties. The lease consists of 40 consecutive quarterly payments. Each payment includes interest at the rate of 6.2% per year. At June 30, 2006, the capital lease were paid-off.

**City of Lancaster
Notes to Financial Statements (Continued)**

Note 10: Long-Term Debt (Continued)

d. The following is a schedule of changes in long-term debt of the City by bond types for fiscal year ended June 30, 2006:

	Balance July 1, 2005	Adjustments	Adjusted Balance July 1, 2005	Additions	Repayments	Balance June 30, 2006	Due Within One Year
<u>Lancaster Housing Authority</u>							
Lease Revenue Refunding Bonds	\$ 8,350,000		\$ 8,350,000	\$ -	\$ 280,000	\$ 8,070,000	\$ 295,000
<u>Redevelopment Agency</u>							
<u>Residential Project Area</u>							
2003 Development and Housing	11,281,053	-	11,281,053	-	103,522	11,177,531	150,408
2003B Development and Housing	5,050,155	-	5,050,155	-	186,783	4,863,372	191,719
2004B Development	1,075,000	-	1,075,000	-	-	1,075,000	-
2004 Housing	1,140,571	-	1,140,571	-	39,480	1,101,091	20,585
2004 Sheriff's Facilities	2,474,946	-	2,474,946	-	93,019	2,381,927	89,049
2004 Fire Facilities	1,301,520	-	1,301,520	-	51,040	1,250,480	49,764
2004 Library	254,090	-	254,090	-	6,930	247,160	6,680
Total	22,577,335	-	22,577,335	-	480,774	22,096,561	508,205
<u>Central Business District Project Area</u>							
1994 Refunding	1,680,000	-	1,680,000	-	50,000	1,630,000	50,000
2003 Development and Housing	1,063,809	-	1,063,809	-	14,263	1,049,546	14,123
2003B Development and Housing	172,624	-	172,624	-	7,263	165,361	6,519
2004 Housing	242,797	-	242,797	-	8,413	234,384	4,382
2004 Sheriff's Facilities	631,122	-	631,122	-	23,673	607,449	22,710
2004 Fire Facilities	272,340	-	272,340	-	10,680	261,660	10,413
2004 Library	49,219	-	49,219	-	1,344	47,875	1,294
Total	4,111,911	-	4,111,911	-	115,636	3,996,275	109,441
<u>Fox Field Project Area</u>							
1994 Refunding	2,345,000	-	2,345,000	-	75,000	2,270,000	80,000
2003 Development and Housing	1,776,313	-	1,776,313	-	23,716	1,752,597	23,583
2003B Development and Housing	171,272	-	171,272	-	7,206	164,066	6,468
2004 Housing	288,747	-	288,747	-	10,011	278,736	5,211
2004 Sheriff's Facilities	422,184	-	422,184	-	15,873	406,311	15,190
2004 Fire Facilities	263,160	-	263,160	-	10,320	252,840	10,062
2004 Library	43,899	-	43,899	-	1,190	42,709	1,154
Total	5,310,575	-	5,310,575	-	143,316	5,167,259	141,668

**City of Lancaster
Notes to Financial Statements (Continued)**

Note 10: Long-Term Debt (Continued)

	Balance July 1, 2005	Adjustments	Adjusted Balance July 1, 2005	Additions	Repayments	Balance June 30, 2006	Due Within One Year
<u>Amargosa Project Area</u>							
1999 Refunding	4,150,000	-	4,150,000	-	85,000	4,065,000	85,000
1999 Lease Revenue	5,900,000	-	5,900,000	-	135,000	5,765,000	145,000
2003 Development and Housing	16,827,453	-	16,827,453	-	185,668	16,641,785	223,936
2003B Development and Housing	14,468,834	-	14,468,834	-	462,022	14,006,812	552,163
2004B Development	2,440,000	-	2,440,000	-	-	2,440,000	-
2004 Housing	2,209,633	-	2,209,633	-	76,516	2,133,117	39,879
2004 Sheriff's Facilities	4,135,680	-	4,135,680	-	155,554	3,980,126	148,799
2004 Fire Facilities	2,149,140	-	2,149,140	-	84,281	2,064,859	82,173
2004 Library	425,702	-	425,702	-	11,606	414,096	11,192
Total	52,706,442	-	52,706,442	-	1,195,647	51,510,795	1,288,142
<u>Project Area No. 5</u>							
1997 Refunding	4,020,000	-	4,020,000	-	365,000	3,655,000	380,000
2003 Development and Housing	33,241,998	-	33,241,998	-	318,515	32,923,483	443,027
2003B Development and Housing	5,887,240	-	5,887,240	-	224,566	5,662,674	223,228
2004B Development	3,895,000	-	3,895,000	-	-	3,895,000	-
2004 School Refunding	2,115,501	-	2,115,501	-	28,497	2,087,004	27,139
2004 Housing	3,393,770	-	3,393,770	-	117,500	3,276,270	61,250
2004 Sheriff's Facilities	6,328,452	-	6,328,452	-	237,953	6,090,499	227,696
2004 Fire Facilities	3,137,520	-	3,137,520	-	123,039	3,014,481	119,964
2004 Library	665,157	-	665,157	-	18,130	647,027	17,487
Total	62,684,638	-	62,684,638	-	1,433,200	61,251,438	1,499,791
<u>Project Area No. 6</u>							
1997 Mobile Home	2,975,000	-	2,975,000	-	60,000	2,915,000	65,000
2003 Development and Housing	36,149,476	-	36,149,476	-	375,704	35,773,772	481,382
2003B Development and Housing	7,337,352	-	7,337,352	-	268,491	7,068,861	278,661
2004B Development	3,595,000	-	3,595,000	-	-	3,595,000	-
2004 School Refunding	5,679,499	-	5,679,499	-	76,503	5,602,996	72,861
2004 Housing	5,822,708	-	5,822,708	-	201,583	5,621,125	105,088
2004 Sheriff's Facilities	7,166,358	-	7,166,358	-	269,519	6,896,839	257,841
2004 Fire Facilities	3,076,320	-	3,076,320	-	120,640	2,955,680	117,624
2004 Library	3,547,936	-	3,547,936	-	96,740	3,451,196	93,276
Total	75,349,649	-	75,349,649	-	1,469,180	73,880,469	1,471,733
<u>Project Area No. 7</u>							
2003 Development and Housing	1,019,898	-	1,019,898	-	13,611	1,006,287	13,541
2003B Development and Housing	562,523	-	562,523	-	23,669	538,854	21,242
2004 Housing	476,774	-	476,774	-	16,497	460,277	8,605
2004 Sheriff's Facilities	381,258	-	381,258	-	14,409	366,849	13,715
2004 Library	148,997	-	148,997	-	4,060	144,937	3,917
Total	2,589,450	-	2,589,450	-	72,246	2,517,204	61,020

**City of Lancaster
Notes to Financial Statements (Continued)**

Note 10: Long-Term Debt (Continued)

	Balance July 1, 2005	Adjustments	Adjusted Balance July 1, 2005	Additions	Repayments	Balance June 30, 2006	Due Within One Year
City							
Notes							
Series 1999-A	2,560,000		2,560,000	-	130,000	2,430,000	130,000
Series 2000-A	280,000		280,000	-	10,000	270,000	10,000
Series 2003-A	1,401,000		1,401,000	-	50,000	1,351,000	53,000
Series 2004-A	1,500,000		1,500,000	-	50,000	1,450,000	52,000
Capital Lease	36,252		36,252	-	36,252	-	-
Accrued Employee Benefits	1,501,337		1,501,337	428,500	194,688	1,735,149	230,000
Claims and Judgments	-	455,634	455,634	2,659,603	1,993,480	1,121,757	1,121,757
Total	\$ 240,958,589	\$ 455,634	\$ 241,414,223	\$ 3,088,103	\$ 7,654,419	236,847,907	\$ 6,971,757
Unamortized original issue discount or premium						6,471,025	
Unamortized bond defeasance loss						(4,727,693)	
Net Long-term Debt						\$ 238,591,239	

Defeasance of Debt

In prior years, the Agency defeased certain tax allocation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Agency's financial statements. At June 30, 2006, the following bond issues are considered defeased.

	Original Amount
<u>Combined Redevelopment Project Areas:</u>	
Subordinated Tax Allocation Notes	\$ 7,000,000
Tax Allocation Refunding Notes, Issue of 1988	25,990,000
Housing Programs, Tax Allocation Bonds, Issue of 1993	32,000,000
Library Project, Issue of 1993	3,860,000
Sheriff's Facility Project, Issue of 1993	27,380,000
Fire Protection Facility Project, Issue of 1993	14,020,000
Library Project, Issue of 1999	1,780,000
<u>Residential Project Area:</u>	
Tax Allocation Refunding Notes, Issue of 1992	13,800,000
Subordinated Tax Allocation Refunding Bonds, Issue of 1997	3,065,000
<u>Central Business District Project Area:</u>	
Tax Allocation Refunding Bonds, Issue of 1986	1,800,000
<u>Amargosa Redevelopment Project Area:</u>	
Tax Allocation Notes	5,400,000
Tax Allocation Refunding Notes, Issue of 1989	9,000,000
Subordinated Tax Allocation Refunding Notes, Issue of 1991	4,000,000
Tax Allocation Refunding Bonds, Issue of 1991	9,000,000
Tax Allocation Refunding Bonds	6,190,000
Tax Allocation Refunding Bonds (amount defeased)	2,590,000
Lease Revenue Notes, Issue of 1995	7,475,000
Tax Allocation Refunding Bonds, Issue of 1996	12,700,000

City of Lancaster
Notes to Financial Statements (Continued)

Note 10: Long-Term Debt (Continued)

	<u>Original Amount</u>
<u>Project Area Number 5:</u>	
Tax Allocation Notes	6,250,000
Subordinated Tax Allocation Refunding Notes, Issue of 1989	16,000,000
Subordinated Tax Allocation Refunding Notes, Issue of 1991	4,500,000
School District Tax Allocation Notes, Issue of 1991	4,250,000
Tax Allocation Refunding Bonds, Issue of 1991	13,755,000
Tax Allocation Refunding Bonds, Issue of 1996	10,750,000
<u>Project Area Number 6:</u>	
School District Tax Allocation Notes, Issue of 1991	3,250,000
Tax Allocation Refunding Bonds, Issue of 1993	14,100,000
School District Tax Allocation Refunding Bonds, Issue of 1996	3,650,000
Total	<u>\$ 263,555,000</u>

e. Non-Commitment Debt

The Agency has issued \$292,422,000 of Residential Mortgage Revenue Bonds that have not been reflected in Long-Term Debt because these bonds are special obligations payable solely from and secured by specific revenue sources described in the bond resolutions and official statements of the respective issues. Neither the faith and credit nor the taxing power of the City, the Redevelopment Agency, the State of California or any political subdivision thereof, is pledged for the payment of these bonds.

Note 11: Fund Equity

a. Reservation of Fund Balance

Special Purpose Reserves

Certain fund balance reserve accounts have been established in the following funds which represent available spendable resources restricted for a specified purpose:

**City of Lancaster
Notes to Financial Statements (Continued)**

Note 11: Fund Equity (Continued)

Reserved for advances to other funds in the General Fund above consisted of \$98,650,360 of interfund receivable less \$39,803,137 of deferred interest revenue.

b. Unreserved - Designation of Fund Balances

The City has established certain designations of fund balances to indicate tentative plans for financial resources utilization in the future fiscal years.

General Fund:

Designated for legal claims	\$ 315,963
Designated for employee benefits	2,384,885
Designated for emergency repairs	108,081
Designated for building replacement	563,813
Designated for City liabilities	100,000
Designated for energy cost	600,000
Designated for capital facilities	400,000
Designated for capital projects	2,600,000
Designated for non recurring events	250,000
Total	<u>\$ 7,322,742</u>

Special Revenue Fund:

Designated for Antelope Valley Transit Authority - Proposition A Fund	<u>\$ 706,489</u>
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Debt Service Funds:

Designated for debt service - Lancaster Redevelopment Agency	<u>\$ 19,532,229</u>
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c. Restatement of Net Assets and Fund Balances

Fund balances in the following funds had been restated for the following reasons:

General Fund:

Prior year GASB 31 adjustments	\$ (90,098)
Claims and Judgment liabilities moved to long- term liabilities	508,572
Recycled Water Fund included in the General Fund in prior year	95,227
Miscellaneous Grant Fund included in the General Fund in prior year	<u>120,953</u>
Total	<u>634,654</u>

Lancaster Redevelopment Agency Capital Projects

Prior year revenue adjustments	(90,052)
Remove land held for resale sold in prior years	<u>(3,840,525)</u>

Total	<u>(3,930,577)</u>
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Nonmajor Funds:

Housing and Community Development Adjust deferred loans receivable	(111,079)
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**City of Lancaster
Notes to Financial Statements (Continued)**

Note 11: Fund Equity (Continued)

TEA 21	
Write off grants receivable	(165,095)
Recycled Water	
Report separately from the General Fund	\$ (95,227)
Miscellaneous Grant Fund	
Report separately from the General Fund	<u>(120,953)</u>
Total Nonmajor Funds	<u>(492,354)</u>
Total Fund balance restatements	<u>\$ 3,788,277</u>

Net Assets in the Government-Wide Statement had been restated for the following reasons:

Fund balance restatements	\$ (3,788,277)
Adjustment long term claims and judgments	<u>(455,634)</u>
Total Net Assets Restatements	<u>\$ (4,243,911)</u>

IV. OTHER INFORMATION

Note 12: Public Employees Retirement System (Defined Benefit Pension Plan)

Plan Description

The City of Lancaster contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

Participants are required to contribute 7.000% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 10.216% for miscellaneous employees of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2006, the City's annual pension cost of \$2,242,125 for PERS was equal to the City's required and actual contributions. . The required contributions were determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method.

**City of Lancaster
Notes to Financial Statements (Continued)**

Note 12: Public Employees Retirement System (Defined Benefit Pension Plan) (Continued)

Prepaid Pension Obligation

In fiscal year 2005-2006, the City made an additional contribution to PERS in the amount of \$4,500,000. The contribution was made to reduce the unfunded pension obligation liabilities of the City.

A summary of principle assumptions and methods used to determine the APC is shown below:

Valuation Date	June 30, 2005
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	32 years as of the Valuation Date
Asset Valuation Method	15-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on age, service and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the Plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the Plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Three-Year Trend Information for PERS

Fiscal Year	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	\$ 853,557	100%	\$ -
6/30/2005	1,386,706	100%	-
6/30/2006	2,242,125	100%	-

Schedule of Funding Progress for PERS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Unfunded Liability (Excess Assets) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6/30/2003	\$ 32,662,930	\$ 34,612,748	\$ 1,949,818	94.4 %	\$ 11,051,178	17.6 %
6/30/2004	35,459,044	39,258,819	3,799,775	90.3 %	11,824,262	32.1 %
6/30/2005	38,838,568	43,710,708	4,872,140	88.9 %	11,896,614	41.0 %

City of Lancaster
Notes to Financial Statements (Continued)

Note 13: Public Agency Retirement System (Defined Contribution Retirement Plan)

The City contributes to the Public Agency Retirement System (PARS), which is a defined contribution retirement plan. A defined contribution retirement plan provides retirement benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive.

Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

As established by the plan, all eligible employees of the City will become a participant in the plan from the date they are hired. An eligible employee is any employee who, at any time during which the employer maintains this plan, is not accruing a benefit under the Public Employees Retirement System (see Note 12).

Contributions made by an employee and the employer vest immediately. As determined by the plan, each employee contributes 0% of gross earnings to the plan. The City contributes an additional 3% of gross earnings.

During the year, the City contributed \$355,372 (3% of current year covered payroll) and employees contributed \$0 (0% of current year covered payroll). The total covered payroll of employees participating in the plan for the year ended June 30, 2006 was \$11,845,746. The total payroll for the year was \$14,827,643.

No changes in plan provisions occurred during the year. The plan held no securities of the City or other related parties during or at the close of the fiscal year.

Note 14: Other Post-Employment Employee Benefits

The City provides certain post-employment health care benefits. Specifically, the City provides health insurance for its retired employees according to the Personnel Rules and Regulations. The expenditure is accounted for within the general government funds and is funded on a "pay-as-you-go" (cash) basis. The total post-employment health insurance expenditures for the fiscal year 2005-2006 were \$69,563. There are currently 19 participants receiving benefits.

Note 15: Stadium Operating Lease

The City of Lancaster leases the Lancaster Municipal Stadium to Clutch Play Baseball for the Jethawks, a California "A" League professional baseball team. This facility is leased from March 1 through September 1 at which time the operation returns to the City for City recreational functions.

Note 16: Joint Ventures

Antelope Valley Transit Authority

The City is a member of the Antelope Valley Transit Authority, a joint powers authority of the County of Los Angeles and the cities of Palmdale and Lancaster. The Authority was formed to provide public transit service to Palmdale and Lancaster. The governing board consists of one person from each member agency. Each member has one vote.

**City of Lancaster
Notes to Financial Statements (Continued)**

Note 16: Joint Ventures (Continued)

Description of Debt

On October 1, 1991, the California Special Districts Association Finance Corporation, on behalf of the Los Angeles County Transportation Commission, issued Certificate of Participation Notes in the amount of \$19,340,000. This issue was for the benefit of several different transit authorities. The Certificates of Participation were issued prior to the formation of the Antelope Valley Transit Authority. Los Angeles County participated in this issuance on behalf of the Authority to provide financing of \$7,690,000 for the purchase of transportation equipment.

Subsequent to the Certificate of Participation issue, the Authority entered into a "Reimbursement Agreement" with the County of Los Angeles to repay the obligation incurred by the County on their behalf.

As of June 30, 2005, (latest information available), Antelope Valley Transit Authority's financial position was as follows:

Assets	<u>\$ 44,607,399</u>
Liabilities	\$ 1,391,941
Fund Equity	<u>43,215,458</u>
Total Liabilities and Fund Equity	<u>\$ 44,607,399</u>
Revenues	\$ 14,841,155
Expenses	<u>(15,361,453)</u>
Changes in Fund Equity	<u>\$ (520,298)</u>

The Authority is funded, in part, by revenues allocated to the City and redirected to the Authority and, in part, by a shared formula based on the level of service provided to the jurisdiction. The City of Lancaster is the primary recipient of local services from the Authority.

Separate financial statements of the Authority are available from the Authority office located at 1031 W. Avenue L-12, Lancaster, California 93534.

Note 17: Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City handled those risks with the purchase of commercial insurance. The City maintained liability insurance coverage up to a limit of \$10,000,000 with \$100,000 self-insurance retention for its general liabilities. Workers' compensation insurance is provided by Southern California Risk Management Associates, with statutory limit coverage. The City also maintained property coverage including earthquake and flood.

At June 30, 2006, \$1,121,757 has been accrued for general liability claims. This amount represents an estimate of amounts to be paid for reported claims and incurred but not yet reported claims based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2006 is dependent on future developments, based upon information from the City Attorney, the City's claims administrators and others involved with the administration of the programs, City management believes the accrual is adequate to cover such losses.

City of Lancaster
Notes to Financial Statements (Continued)

Note 17: Risk Management (Continued)

Changes in the claims liability amount in fiscal years 2005 and 2006, were as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
2004-2005	\$ 508,572	\$ 215,368	\$ (268,307)	\$ 455,633
2005-2006	455,633	2,659,604	(1,993,480)	1,121,757

For worker's compensation insurance, the City has transferred all risk of loss with the purchase of commercial insurance policies and has not reported any estimated loss in the financial statements. There were no significant reductions in insurance coverage from the previous year. In addition, insurance coverage exceeded the amount of settlements for each of the past three fiscal years.

Note 18: Contingent Liabilities

Various claims and lawsuits are pending against the City. Although the outcome of these claims and lawsuits is not presently determinable, in the opinion of the City's management, on advice of legal counsel, it is unlikely that they will have a material adverse effect on the accompanying financial statements.

CITY OF LANCASTER

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds			
	Gas Tax	Roberti Zberg	Parks Development	Housing and Community Development
Assets:				
Pooled cash and investments	\$ 689,308	\$ -	\$ 3,206,162	\$ 262,329
Receivables:				
Accounts	-	-	-	-
Notes	-	-	-	-
Accrued interest	6,837	-	21,516	-
Prepaid costs	-	-	-	-
Deposits	-	-	-	-
Due from other governments	390,379	333,337	-	-
Land held for resale	-	-	-	1,151,664
Restricted assets:				
Cash and investments	-	-	-	-
Cash and investments with fiscal agents	-	-	-	-
Total Assets	\$ 1,086,524	\$ 333,337	\$ 3,227,678	\$ 1,413,993
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 125	\$ -	\$ -	\$ 131
Due to other funds	-	718,127	-	-
Deferred revenues	-	333,337	-	-
Advances from other funds	-	-	-	-
Deposits payable	-	-	-	-
Total Liabilities	125	1,051,464	-	131
Fund Balances:				
Reserved:				
Reserved for prepaid costs	-	-	-	-
Reserved for land held for resale	-	-	-	1,151,664
Unreserved:				
Designated for Antelope Valley Transit Authority	-	-	-	-
Undesignated	1,086,399	(718,127)	3,227,678	262,198
Total Fund Balances	1,086,399	(718,127)	3,227,678	1,413,862
Total Liabilities and Fund Balances	\$ 1,086,524	\$ 333,337	\$ 3,227,678	\$ 1,413,993