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**CITY OF LANCASTER, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**JUNE 30, 2007**

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CITY OF LANCASTER

JUNE 30, 2007

CITY COUNCIL MEMBERS

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

CITY OFFICIALS

Robert S. LaSala	City Manager
Mark V. Bozigian	Assistant City Manager
Michael P. Busch	Assistant City Manager
Barbara Boswell	Finance Director
Brian S. Ludicke	Planning 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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November 9, 2007

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, 2007. 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-one 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 services are

**Bishop Henry W. Hearn**  
Mayor

**Andrew D. Visokey**  
Vice Mayor

**Jim Jeffra**  
Council Member

**Ed Sileo**  
Council Member

**Ronald D. Smith**  
Council Member

**Robert S. LaSala**  
City Manager

jobs to the community. Construction of the National Guard Armory, a 40,000 square foot troop training facility is now complete and Regent Aerospace has pulled grading permits to begin construction of their Phase I building of approximately 75,000 square feet; future phases will include 300,000 square feet and over 300 jobs.

The Agency continued operations with the North Downtown Neighborhood Revitalization Transit Village Project. Construction was completed on the 72-unit affordable multi-family housing project, Laurel Crest Apartments and on a mixed use 150-unit affordable senior housing project with 8,500 square feet of commercial space that will feature shops, restaurants, and services. Construction has also begun on the new Mental Health Association and Poppyfield Estates, a 100-unit affordable multi-family housing project.

In the Northeast Gateway Corridor, site acquisition and demolition was completed to make way for the future Los Angeles County Medical Ambulatory Care Center. Arbor Gardens Senior Apartments is also located within this project area.

The City continues its efforts to address the demands being placed on infrastructure by completing a pavement condition survey using non-destructive measures to evaluate 590 lane miles of paved streets. In addition, the City is proactively addressing the critical water shortage situation with its construction of the first municipal reuse distribution system of recycled water in the Antelope Valley.

The Parks, Recreation and Arts department recently completed the Parks, Recreation and Arts Open Space and Cultural Master Plan which will provide the basis for future development of Parks and Open Space for the community.

### **III. Prospects for the Future**

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 and added a financial stability reserve.

Prior heavy reliance on the aerospace industry has been changing over the last decade to include some light manufacturing, retail and service industries in the community. The Greater Antelope Valley Economic Alliance continues to work with manufacturers to expand the opportunities for employment in the community. We expect to see continuing growth of the community. Some of the more significant short-term goals of the City are as follows:

1. Continue revitalization of commerce, including the effective utilization of the City's recent Branding Campaign and reinforcing the strategies that won the City the "Most Business Friendly City" award in Los Angeles County.
2. Continue the neighborhood revitalization efforts in the North Downtown Neighborhood Revitalization Transit Village Project, the Northeast Gateway Corridors Project and the Lowtree Neighborhood Vision Project.

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,



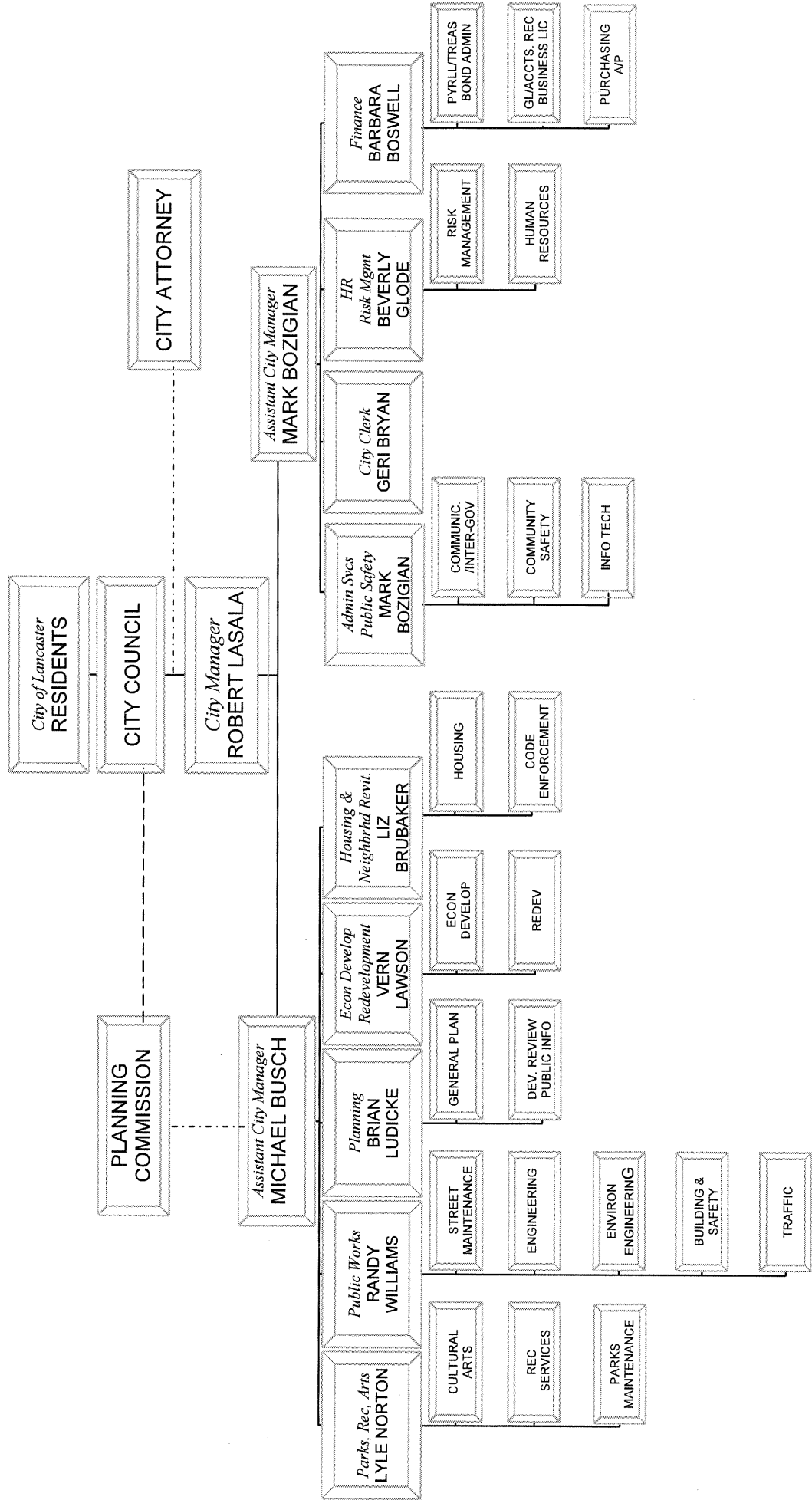
Mark V. Bozigian  
Interim City Manager



Barbara Boswell  
Finance Director



# CITY OF LANCASTER 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, 2006

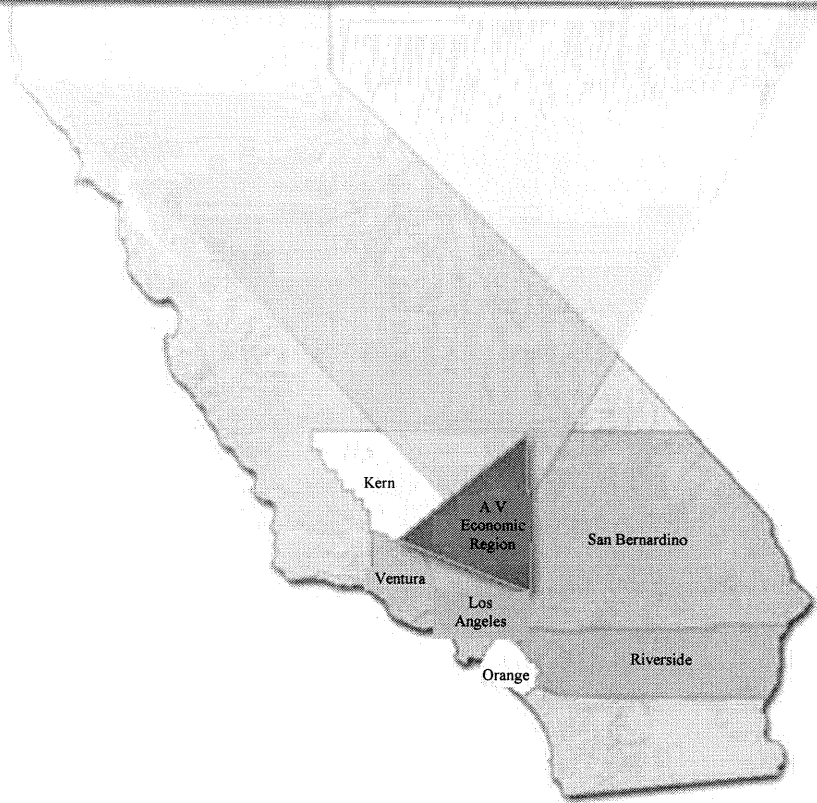
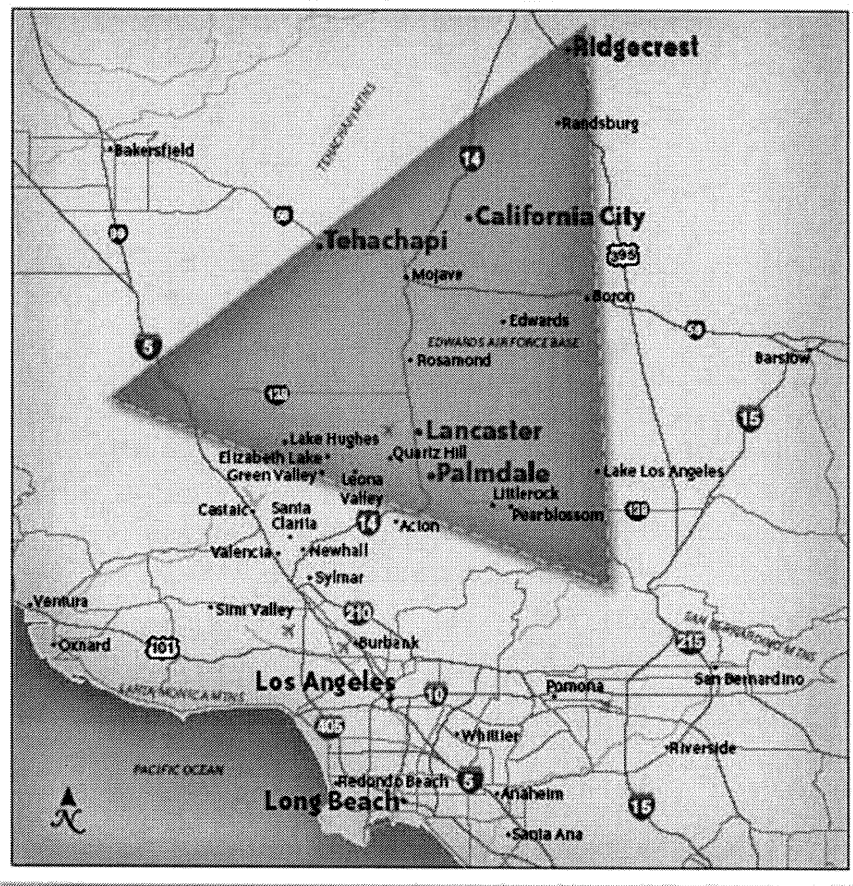
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

AV Economic Region



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## 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, 2007, 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, 2007, 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 December 26, 2007, 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*

December 26, 2007

## 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, 2007. 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 \$142,581,085
- The cost of governmental activities was \$141,269,030
- The General Fund reported excess revenues and transfers in over expenditures and transfers out of \$4,568,095
- For the General Fund, actual resources available for appropriation (revenue inflows and fund balance) was less than final budget by \$9,376,041 while actual appropriations (outflows) were less than final budget by \$20,002,550

### 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 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>2007</u>	<u>2006</u>
Current and other assets	\$ 304,413	\$ 267,872
Capital Assets	<u>830,425</u>	<u>102,792</u>
Total Assets	1,134,838	370,664
Long Term Liabilities Outstanding	267,762	238,591
Other Liabilities	<u>35,133</u>	<u>29,014</u>
Total Liabilities	302,895	267,605
Net Assets		
Invested in capital assets, net of related debt	822,650	94,068
Restricted	120,839	87,569
Unrestricted	<u>(111,546)</u>	<u>(78,578)</u>
Total Net Assets	<u>\$ 831,943</u>	<u>\$ 103,059</u>

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

Land	\$ 12,230
Buildings and Improvements	26,401
Furniture and Equipment	3,381
Infrastructure	750,301
Construction in Progress	<u>38,112</u>
Net Capital Assets	<u>\$ 830,425</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 increased \$30,914,784 due to the issuance of long-term bonded debt and the defeasance of debt..
- Cash and Investments decreased \$15,517,143 as a result of the decreased building permit activity and the expenditure of housing bond proceeds and a \$10.3 million increase in major capital project expenditures.

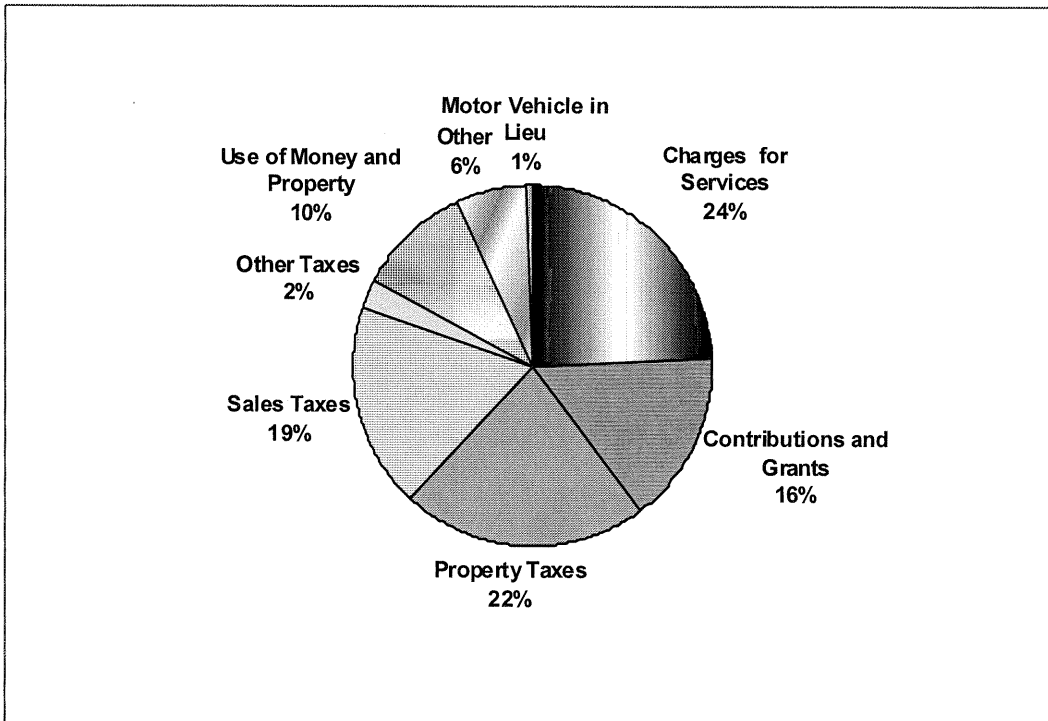
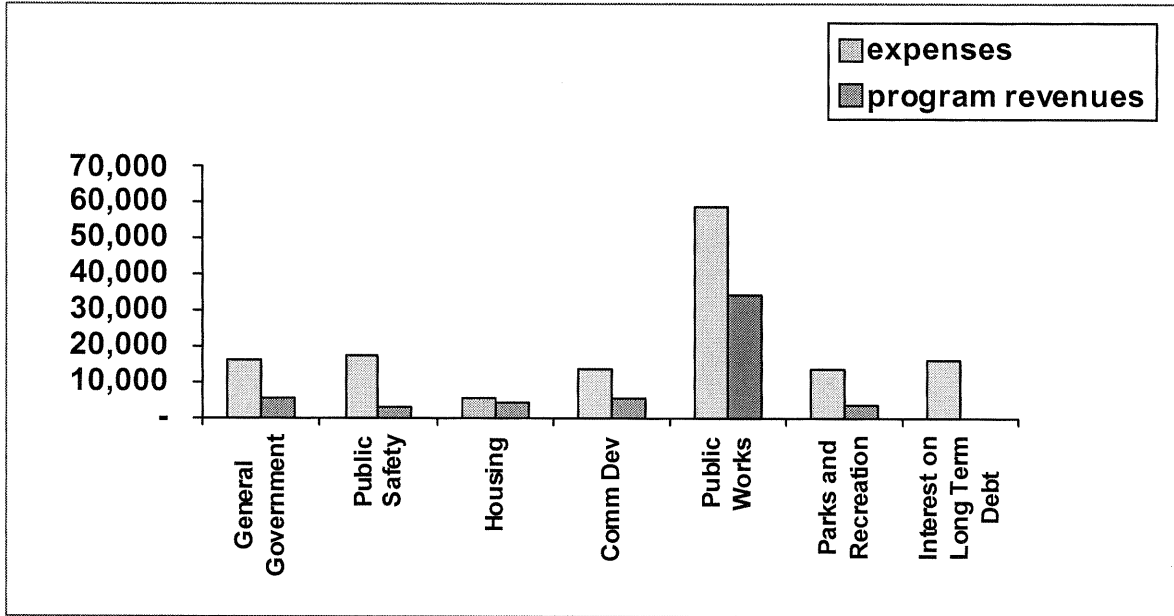
**Governmental Activities.** Governmental activities increased the City of Lancaster's net assets by \$728,883,350. GASB 34 adjustments to capital assets accounted for a net increase of \$729,623,844. The balance of the difference, a decrease of \$740,594, is a direct result of the slow down in building activity. The overall decrease in Program revenues, General revenues and expenses reflect the slowdown of the economy of Lancaster in FY 2006-07, with permitting activity declining 46%. The slowdown of the economy influencing the General revenues is the same factor affecting Program revenues. Key elements of the decrease are as follows:

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

	Governmental Activities	
	2007	2006
Revenues		
Program revenues:		
Charges for services	\$ 33,919	\$ 50,036
Operating contributions and grants	21,790	36,717
Capital contributions and grants		
General revenues:		
Taxes:		
Property taxes	30,773	32,672
Sales taxes	25,879	21,377
Franchise taxes	2,754	2,844
Other taxes	3,342	2,274
Motor vehicle in lieu	919	3,130
Investment income	14,238	16,088
Other	8,967	84
	142,581	165,222
Total revenues		
Expenses		
General government	16,301	15,996
Public safety	17,143	15,058
Public works	59,019	22,088
Parks and recreation	13,423	14,715
Housing	5,361	1,232
Community Development	13,670	19,044
Interest on long-term debt	16,352	14,921
	141,269	103,054
Total expenses		
Increase in net assets	\$ 1,312	\$ 62,168

The City's total revenues are \$142,581,085 while the costs of all programs and services are \$141,269,030.

**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, community development 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 expenses for the City's Redevelopment Agency.

	Total Cost of Services	Net Cost of Services
	2007	2007
General Government	\$ 16,301	\$ (10,682)
Public Safety	17,143	(14,393)
Public Works	59,019	(24,912)
Community Development	13,670	(8,487)
Interest on Long-term Debt	16,352	(16,352)
Totals	\$ 122,485	\$ (74,826)

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 \$213.8 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 revenues and transfers in excess of expenditures of \$4,459,095. The growth associated with FY 2005-06 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 housing bond proceeds from previous fiscal years for ongoing redevelopment projects and 2) the issuance of new non-housing bonds.

**General Fund Budgetary Highlights**

The final appropriations for the General Fund at year-end were \$3,234,306 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 \$2,744,619 greater than the final budget before transfers.

**Capital Asset and Debt Administration**

**Capital Assets.** At the end of FY 2007, the City had \$830.4 million invested in a broad range of capital assets, including land, buildings, infrastructure, and equipment.

The City’s Capital Improvement Plan projects spending \$22.9 million through fiscal 2007-08. 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, 2007, the Lancaster Redevelopment Agency had \$249,190,000 in Tax Allocation Bonds and Notes outstanding, of which County entities and local School Districts account for \$55,400,000, Mobile Home Parks account for \$2,850,000 and the Agency is responsible for \$171,310,000. As of June 30, 2007, the City of Lancaster had accrued employee benefits outstanding of \$1,766,334

	(in Thousands)	
	<u>2007</u>	<u>2006</u>
Tax Allocation Bonds	\$ 246,340	\$ 220,420
Accrued Employee Benefits	1,766	1,735
 Totals	 <u>\$ 248,106</u>	 <u>\$ 222,155</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 26, 2007, the City Council adopted the 2007-08 Program and Financial Plan and approved 2007-08 Budget, with total appropriations of \$104.9 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 meet's 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 Ten Year Financial Forecast of General Fund revenues and expenditures was developed and presented along with the 2007-08 budget.

The largest single source of revenue for the City's General Fund is sales tax. Sales tax represents 39% of all General Fund revenues; for the upcoming fiscal year, a 4.9% 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 2.0%-4.5% in labor costs due to a 2.0% rate adjustment that was effective July 08, 2007 and due to estimated merit increases of 2.5%. Budgeted expenditures relating to Operating Maintenance/Supplies have remained level with less than a 1% percent decline; this reflects the recent slowdown in growth in the community. Community Safety is a top priority of the city and as such the budget for 2007-08 reflects a 24.1% 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.

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CITY OF LANCASTER

STATEMENT OF NET ASSETS  
JUNE 30, 2007

	<b>Governmental Activities</b>
Cash and investments	<u>\$ 142,919,843</u>
Accounts	2,390,337
Taxes	4,905,811
Contract and notes	3,486,599
Accrued interest	1,656,276
Deferred loans	7,122,188
Prepaid costs	147,258
Inventories	25,832
Unamortized debt issuance costs	7,664,296
Deposits	393,326
Due from other governments	6,734,318
Land held for resale	45,668,226
Prepaid Pension Obligations	4,500,000
Cash and investments	3,305,981
Cash with fiscal agent	73,492,650
Capital assets not being depreciated	50,341,816
Capital assets, net of depreciation	<u>780,083,215</u>
<b>Total Assets</b>	<b><u>1,134,837,972</u></b>
<b>Liabilities:</b>	
Accounts payable	11,958,288
Accrued liabilities	1,219,787
Accrued interest	4,566,734
Unearned revenue	2,891,173
Deposits payable	3,256,628
Due to other governments	11,239,961
Noncurrent liabilities:	
Due within one year	6,388,146
Due in more than one year	<u>261,374,544</u>
<b>Total Liabilities</b>	<b><u>302,895,261</u></b>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	822,650,031
Restricted for:	
Community development projects	63,530,874
Capital projects	38,640,656
Debt service	18,667,028
Unrestricted	<u>(111,545,878)</u>
<b>Total Net Assets</b>	<b><u>\$ 831,942,711</u></b>

CITY OF LANCASTER

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Contributions and Grants</u>	<u>Net (Expenses) Revenues and Changes in Net Assets Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>		
<b>Functions/Programs</b>					
<b>Primary Government:</b>					
Governmental Activities:					
General government	\$ 16,300,790	\$ 406,451	\$ 5,211,856	\$ -	\$ (10,682,483)
Public safety	17,142,744	2,211,141	538,859	-	(14,392,744)
Housing	5,361,600	2,633,713	1,682,383	-	(1,045,504)
Community development	13,669,830	805,132	4,377,838	-	(8,486,860)
Parks and recreation	13,423,273	3,175,710	558,715	-	(9,688,848)
Public works	59,019,071	24,686,902	9,420,442	-	(24,911,727)
Interest on long-term debt	16,351,722	-	-	-	(16,351,722)
<b>Total Governmental Activities</b>	<b>141,269,030</b>	<b>33,919,049</b>	<b>21,790,093</b>	<b>-</b>	<b>(85,559,888)</b>
<b>Total Primary Government</b>	<b>\$ 141,269,030</b>	<b>\$33,919,049</b>	<b>\$ 21,790,093</b>	<b>\$ -</b>	<b>(85,559,888)</b>
<b>General Revenues:</b>					
Taxes:					
Property taxes, levied for general purpose					30,773,463
Transient occupancy taxes					1,452,827
Sales taxes					25,879,313
Franchise taxes					2,754,230
Business licenses taxes					886,625
Other taxes					1,002,095
Motor vehicle in lieu					918,534
Use of money and property					14,238,352
Other					557,331
Special Items - Sale of real estate					8,409,173
<b>Total General Revenues and Special Items</b>					<b>86,871,943</b>
Change in Net Assets					1,312,055
Net Assets at Beginning of Year					100,828,262
Restatement of Net Assets					729,802,394
<b>Net Assets at End of Year</b>					<b>\$ 831,942,711</b>

CITY OF LANCASTER

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	Capital Projects		
	General	Capital Outlay	Lancaster Redevelopment Agency
<b>Assets:</b>			
Pooled cash and investments	\$ 39,624,850	\$ 1,934,242	\$ 19,002,104
Receivables:			
Accounts	488,965	-	844,894
Taxes	1,001,769	-	745,766
Contract and notes	-	-	-
Accrued interest	1,134,665	-	521,611
Deferred loans	-	-	7,122,188
Prepaid costs	147,258	-	-
Deposits	-	-	389,196
Due from other governments	4,324,725	-	260,350
Due from other funds	6,190,356	-	-
Advances to other funds	102,798,556	-	946,009
Inventories	25,832	-	-
Land held for resale	-	-	44,516,562
Restricted assets:			
Cash and investments	-	-	32,475
Cash and investments with fiscal agents	-	-	54,689,236
<b>Total Assets</b>	<b>\$ 155,736,976</b>	<b>\$ 1,934,242</b>	<b>\$ 129,070,391</b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 10,169,074	\$ 1,341,641	\$ 368,164
Accrued liabilities	1,207,800	-	-
Due to other funds	-	-	-
Deferred revenues	43,538,853	-	-
Unearned revenues	2,481,715	-	-
Advances from other funds	-	-	102,798,556
Deposits payable	2,333,250	179,306	720,203
Due to other governments	-	-	99,425
<b>Total Liabilities</b>	<b>59,730,692</b>	<b>1,520,947</b>	<b>103,986,348</b>
<b>Fund Balances:</b>			
Reserved:			
Reserved for encumbrances	4,586,753	-	4,501,894
Reserved for inventories	25,832	-	-
Reserved for prepaid costs	147,258	-	-
Reserved for land held for resale	-	-	44,516,562
Reserved for loans receivable	-	-	7,122,188
Reserved for advances to other funds	59,259,703	-	-
Unreserved:			
Unreserved, reported in nonmajor:			
Special revenue funds	-	-	-
Capital projects funds	-	-	-
Debt service funds	-	-	-
Designated for legal claims	315,963	-	-
Designated for general liabilities	100,000	-	-
Designated for employee benefits	2,384,885	-	-
Designated for non-recurring events	250,000	-	-
Designated for capital projects	2,600,000	-	-
Designated for emergency repairs	108,081	-	-
Designated for building replacement	563,813	-	-
Designated for capital facilities	400,000	-	-
Designated for debt service	-	-	-
Undesignated	25,263,996	413,295	(31,056,601)
<b>Total Fund Balances</b>	<b>96,006,284</b>	<b>413,295</b>	<b>25,084,043</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 155,736,976</b>	<b>\$ 1,934,242</b>	<b>\$ 129,070,391</b>

See Notes to Financial Statements

## CITY OF LANCASTER

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	<u>Debt Service Lancaster Redevelopment Agency</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Pooled cash and investments	\$ 10,146,048	\$ 72,212,599	\$ 142,919,843
Receivables:			
Accounts	-	1,056,478	2,390,337
Taxes	3,158,276	-	4,905,811
Contract and notes	-	3,486,599	3,486,599
Accrued interest	-	-	1,656,276
Deferred loans	-	-	7,122,188
Prepaid costs	-	-	147,258
Deposits	-	4,130	393,326
Due from other governments	-	2,149,243	6,734,318
Due from other funds	-	-	6,190,356
Advances to other funds	-	-	103,744,565
Inventories	-	-	25,832
Land held for resale	-	1,151,664	45,668,226
Restricted assets:			
Cash and investments	3,273,506	-	3,305,981
Cash and investments with fiscal agents	17,796,468	1,006,946	73,492,650
<b>Total Assets</b>	<b>\$ 34,374,298</b>	<b>\$ 81,067,659</b>	<b>\$ 402,183,566</b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ 79,409	\$ 11,958,288
Accrued liabilities	-	11,987	1,219,787
Due to other funds	-	6,190,356	6,190,356
Deferred revenues	-	4,369,257	47,908,110
Unearned revenues	-	361,305	2,843,020
Advances from other funds	-	946,009	103,744,565
Deposits payable	-	23,869	3,256,628
Due to other governments	11,140,536	-	11,239,961
<b>Total Liabilities</b>	<b>11,140,536</b>	<b>11,982,192</b>	<b>188,360,715</b>
<b>Fund Balances:</b>			
Reserved:			
Reserved for encumbrances	-	14,345,262	23,433,909
Reserved for inventories	-	-	25,832
Reserved for prepaid costs	-	-	147,258
Reserved for land held for resale	-	1,151,664	45,668,226
Reserved for loans receivable	-	-	7,122,188
Reserved for advances to other funds	-	-	59,259,703
Unreserved:			
Unreserved, reported in nonmajor:			
Special revenue funds	-	52,767,008	52,767,008
Capital projects funds	-	136,013	136,013
Debt service funds	-	685,520	685,520
Designated for legal claims	-	-	315,963
Designated for general liabilities	-	-	100,000
Designated for employee benefits	-	-	2,384,885
Designated for non-recurring events	-	-	250,000
Designated for capital projects	-	-	2,600,000
Designated for emergency repairs	-	-	108,081
Designated for building replacement	-	-	563,813
Designated for capital facilities	-	-	400,000
Designated for debt service	23,233,762	-	23,233,762
Undesignated	-	-	(5,379,310)
<b>Total Fund Balances</b>	<b>23,233,762</b>	<b>69,085,467</b>	<b>213,822,851</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 34,374,298</b>	<b>\$ 81,067,659</b>	<b>\$ 402,183,566</b>

See Notes to Financial Statements

CITY OF LANCASTER

GOVERNMENTAL FUNDS  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2007

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Fund balances of governmental funds	\$ 213,822,851
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	830,425,031
Long-term debt and compensated absences that have not been included in the governmental fund activity:	
Long-term debt payable	(257,408,808)
Compensated absences	(1,766,334)
Accrued interest payable for the current portion of interest due on Bonds has not been reported in the governmental funds	(4,566,734)
Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity.	47,859,957
Prepaid Pension Obligations and Claims and Judgment payable are assets and liabilities in the Statement of Net Assets but are expenditures in the governmental funds	<u>3,576,748</u>
<b>Net assets of governmental activities</b>	<b><u><u>\$ 831,942,711</u></u></b>

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## CITY OF LANCASTER

**STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007**

	<u>Capital Projects</u>		
	<u>General</u>	<u>Capital Outlay</u>	<u>Lancaster Redevelopment Agency</u>
<b>Revenues:</b>			
Taxes	\$ 43,911,607	\$ -	\$ -
Licenses and permits	1,311,804	-	-
Intergovernmental	1,979,699	-	248,000
Charges for services	3,200,425	-	-
Use of money and property	1,723,681	-	5,292,506
Fines and forfeitures	1,086,306	-	-
Miscellaneous	855,274	-	485,887
<b>Total Revenues</b>	<b>54,068,796</b>	<b>-</b>	<b>6,026,393</b>
<b>Expenditures:</b>			
Current:			
General government	9,911,642	-	2,680,151
Public safety	16,882,952	-	-
Housing	-	-	-
Community development	3,461,032	-	9,950,499
Parks and recreation	11,689,083	-	-
Public works	5,896,697	-	-
Capital outlay	-	32,307,545	5,498,770
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	5,142,839
Payment to refunded bond escrow agent	-	-	-
<b>Total Expenditures</b>	<b>47,841,406</b>	<b>32,307,545</b>	<b>23,272,259</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	6,227,390	(32,307,545)	(17,245,866)
<b>Other Financing Sources (Uses):</b>			
Transfers in	4,323,897	32,307,547	13,936,255
Transfers out	(5,983,192)	-	(16,478,673)
Refunding bonds issued	-	-	39,315,000
Bonds issuance premium	-	-	1,320,578
Payment to refunded bond escrow agent	-	-	-
Sale of real estate	-	-	8,409,173
<b>Total Other Financing Sources (Uses)</b>	<b>(1,659,295)</b>	<b>32,307,547</b>	<b>46,502,333</b>
Net Change in Fund Balances	4,568,095	2	29,256,467
Fund Balances, Beginning of Year, as previously reported	91,466,762	413,293	(4,415,273)
Restatements	(28,573)	-	242,849
Fund Balances, Beginning of Year, as restated	91,438,189	413,293	(4,172,424)
<b>Fund Balances, End of Year</b>	<b>\$ 96,006,284</b>	<b>\$ 413,295</b>	<b>\$ 25,084,043</b>

See Notes to Financial Statements

CITY OF LANCASTER

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	<u>Debt Service</u>		
	<u>Lancaster</u>	<u>Other</u>	<u>Total</u>
	<u>Redevelopment</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Agency</u>	<u>Funds</u>	<u>Funds</u>
<b>Revenues:</b>			
Taxes	\$ 22,014,755	\$ -	\$ 65,926,362
Licenses and permits	-	17,094,551	18,406,355
Intergovernmental	3,701,432	21,259,908	27,189,039
Charges for services	-	5,701,381	8,901,806
Use of money and property	804,978	5,300,174	13,121,339
Fines and forfeitures	-	1,072,363	2,158,669
Miscellaneous	-	552,227	1,893,388
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Revenues</b>	<b>26,521,165</b>	<b>50,980,604</b>	<b>137,596,958</b>
<b>Expenditures:</b>			
Current:			
General government	812,739	2,651,715	16,056,247
Public safety	-	224,737	17,107,689
Housing	-	5,361,600	5,361,600
Community development	-	198,000	13,609,531
Parks and recreation	-	7,061	11,696,144
Public works	-	15,560,048	21,456,745
Capital outlay	-	-	37,806,315
Debt service:			
Principal retirement	4,700,000	540,000	5,240,000
Interest and fiscal charges	10,694,351	704,593	16,541,783
Payment to refunded bond escrow agent	853,689	-	853,689
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Expenditures</b>	<b>17,060,779</b>	<b>25,247,754</b>	<b>145,729,743</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>9,460,386</u>	<u>25,732,850</u>	<u>(8,132,785)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	13,357,805	4,214,228	68,139,732
Transfers out	(13,936,255)	(31,741,612)	(68,139,732)
Refunding bonds issued	-	-	39,315,000
Bonds issuance premium	-	-	1,320,578
Payment to refunded bond escrow agent	(5,180,403)	-	(5,180,403)
Sale of real estate	-	-	8,409,173
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Other Financing Sources (Uses)</b>	<b>(5,758,853)</b>	<b>(27,527,384)</b>	<b>43,864,348</b>
Net Change in Fund Balances	<u>3,701,533</u>	<u>(1,794,534)</u>	<u>35,731,563</u>
Fund Balances, Beginning of Year, as previously reported	19,532,229	70,915,726	177,912,737
Restatements	-	(35,725)	178,551
	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, Beginning of Year, as restated	19,532,229	70,880,001	178,091,288
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances, End of Year</b>	<b>\$ 23,233,762</b>	<b>\$ 69,085,467</b>	<b>\$ 213,822,851</b>

See Notes to Financial Statements

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, 2007**

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Net change in fund balances - total governmental funds	\$ 35,731,563
Amounts reported for governmental activities in the statement of activities are different 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	(1,990,357)
Repayment of bond principal is an expenditure in the governmental funds, and the issuance of new bonds is other financing sources in the governmental funds, but the changes are reflected in the long-term liabilities in the statement of net assets	(28,482,820)
Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period.	(688,605)
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	(31,185)
Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity.	(3,425,046)
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	<u>198,505</u>
<b>Change in net assets of governmental activities</b>	<b><u><u>\$ 1,312,055</u></u></b>

CITY OF LANCASTER

BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 YEAR ENDED JUNE 30, 2007

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 91,438,189	\$91,438,189	\$ 91,438,189	\$ -
<b>Resources (Inflows):</b>				
Taxes	41,846,840	42,409,840	43,911,607	1,501,767
Licenses and permits	1,531,250	1,192,250	1,311,804	119,554
Intergovernmental	2,453,455	2,583,455	1,979,699	(603,756)
Charges for services	2,067,315	2,305,415	3,200,425	895,010
Use of money and property	800,000	800,000	1,723,681	923,681
Fines and forfeitures	1,008,800	1,222,165	1,086,306	(135,859)
Other	6,879,750	850,250	855,274	5,024
Transfers from other funds	6,060,892	16,444,557	4,323,897	(12,120,660)
<b>Amounts Available for Appropriation</b>	<b>154,086,491</b>	<b>159,246,121</b>	<b>149,830,882</b>	<b>(9,415,239)</b>
<b>Charges to Appropriation (Outflow):</b>				
General government	9,103,680	9,765,375	9,911,642	(146,267)
Public safety	19,146,553	19,236,927	16,882,952	2,353,975
Community development	2,740,465	3,091,126	3,461,032	(369,906)
Parks and recreation	12,416,765	12,686,288	11,689,083	997,205
Public works	6,070,930	6,295,996	5,896,697	399,299
Transfers to other funds	18,512,976	22,751,436	5,983,192	16,768,244
<b>Total Charges to Appropriations</b>	<b>67,991,369</b>	<b>73,827,148</b>	<b>53,824,598</b>	<b>20,002,550</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 86,095,122</b>	<b>\$85,418,973</b>	<b>\$ 96,006,284</b>	<b>\$ 10,587,311</b>

CITY OF LANCASTER

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2007

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	<u>Agency Funds</u>
<b>Assets:</b>	
Cash and investments	\$ 5,535,315
Receivables (net of allowance for uncollectibles):	
Accounts	1,680
Due from other governments	106,381
Restricted assets:	
Cash with fiscal agent	<u>3,058,725</u>
<b>Total Assets</b>	<b><u><u>\$ 8,702,101</u></u></b>
<b>Liabilities:</b>	
Accounts payable	\$ 738
Deposits	732,884
Due to bondholders	7,967,888
Due to other agencies	<u>591</u>
<b>Total Liabilities</b>	<b><u><u>\$ 8,702,101</u></u></b>

**CITY OF LANCASTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**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 activities) 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. It is accounted for on the accrual basis. 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.

**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."



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

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

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.

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.

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

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

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:

Assets	Years
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, 2007, net realizable value for land held for resale totaled \$1,151,664 in the Housing and Community Development Fund and \$44,516,562 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. 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.

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

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

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 \$(257,408,808) long-term debt difference is as follows:

Long-term debt:	
Tax allocation bonds payable	\$ (249,190,000)
Revenue bonds payable	(7,775,000)
Loans payable	(5,256,000)
Unamortized bond premium	(7,475,105)
Unamortized bond defeasance loss	4,623,001
Unamortized debt issuance cost	<u>7,664,296</u>
Net adjustment to reduce fund balance of total governmental funds to arrive at net assets of governmental activities	<u><u>\$ (257,408,808)</u></u>

- 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 \$(1,990,357) difference are as follows:

Capital outlay	\$ 32,611,571
Depreciation expense	<u>(34,601,928)</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><u>\$ (1,990,357)</u></u>

Another element of that reconciliation states that "repayment of bond principal is an expenditure in the governmental funds, and the issuance of new bonds is another financing sources in governmental funds, but the changes are reflected in the long-term liabilities in the statement of net assets."

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

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

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 \$(28,482,820) difference are as follows:

Debt Issued or Incurred:	
Tax allocation bonds	\$ (39,315,000)
Bond issuance costs	1,158,934
Bond premiums	(1,320,578)
Principal Repayments:	
Tax allocation bonds	4,700,000
Revenue bonds	295,000
Loans payable	245,000
Bond defeasance	6,034,092
Amortization of bond premium	316,498
Amortization of bond defeasance loss	(293,784)
Amortization of bond issuance costs	<u>(302,982)</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>\$ (28,482,820)</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 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).

For the current fiscal year, the USP operations Impact Fund, the Vegetative Management Fund, the MTA Grant Fund, the USP Operations Fund and the Community Facilities District 91-1 Fund did not have adopted budget.

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

**Note 3: Stewardship, Compliance and Accountability (Continued)**

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

General Fund	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
General government	\$ 9,911,642	\$ 9,765,375	\$ 146,267
Community development	3,461,032	3,091,126	369,906

c. The following fund contained deficit fund balances as of June 30, 2007:

	<u>Deficit Amount</u>
Nonmajor funds	
Federal Grants	\$ (1,817,139)
State Grants	(1,939,752)
County and Other	(121,227)
Miscellaneous Grants	(1,004,643)
LA County Reimbursement Fund	(201,358)
MTA Grant	(443,555)

These fund balance deficits will be eliminated as grant reimbursements become available.

**III. DETAILED NOTES ON ALL FUNDS**

**Note 4: Deposits and Investments**

As of June 30, 2007, cash and investments were reported in the accompanying financial statements as follows:

Governmental Activities	\$ 219,708,474
Fiduciary funds	<u>8,594,040</u>
Total Cash and Investments	<u>\$ 228,302,514</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.

**Deposits**

At June 30, 2007, the carrying amount of the City's deposits was \$25,710,505 and the bank balance was \$26,303,244. The \$592,739 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

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

**Note 4: Deposits and Investments (Continued)**

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.

**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, 2007, 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, 2007, 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

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

**Note 4: Deposits and Investments (Continued)**

under the direction of the City. As of June 30, 2007, 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, 2007, 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. In accordance with GASB Statement No. 40, if the City has invested more than 5% of its total investments in any one issuer then it is exposed to credit risk. As of June 30, 2007, the City has 5.4% of its cash and investments invested in Federal Home Loan Banks.

**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 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.

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

**Note 4: Deposits and Investments (Continued)**

The City has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2007, 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					
Money market mutual funds	\$ 367,467	\$ -	\$ -	\$ -	\$ 367,467
Certificates of deposits	500,000	-	-	-	500,000
Investments agreements	20,973,229	-	-	-	20,973,229
California Local Agency Investment Fund	79,997,662	-	-	-	79,997,662
US Treasury notes	5,979,760	4,970,300	-	-	10,950,060
Federal government agency	10,342,020	16,495,369	4,453,335	-	31,290,724
Corporate obligations	1,967,090	963,800	-	-	2,930,890
Investments with fiscal agents					
Money market mutual funds	14,869,280	-	-	-	14,869,280
Investment agreements	-	-	-	40,712,697	40,712,697
	<u>\$ 134,996,508</u>	<u>\$ 22,429,469</u>	<u>\$ 4,453,335</u>	<u>\$ 40,712,697</u>	<u>\$ 202,592,009</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, 2007, \$7,122,188 of these loans had been made.

**Note 6: Capital Assets**

Capital asset activity for the year ended June 30, 2007 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	33,898,930	-	33,898,930	23,217,040	19,004,330	38,111,640
Total Capital Assets, Not Being Depreciated	<u>46,129,106</u>	<u>-</u>	<u>46,129,106</u>	<u>23,217,040</u>	<u>19,004,330</u>	<u>50,341,816</u>
Capital assets, being depreciated:						
Structures and improvements	47,403,595	-	47,403,595	3,727,810	-	51,131,405
Furniture and equipment	6,932,214	(136,196)	6,796,018	1,668,645	732,333	7,732,330
Infrastructure	31,102,216	1,218,205,830	1,249,308,046	23,002,405	-	1,272,310,451
Total Capital Assets, Being Depreciated	<u>85,438,025</u>	<u>1,218,069,634</u>	<u>1,303,507,659</u>	<u>28,398,860</u>	<u>732,333</u>	<u>1,331,174,186</u>
Less accumulated depreciation:						
Structures and improvements	23,147,124	-	23,147,124	1,583,625	-	24,730,749
Furniture and equipment	4,306,643	88,480	4,395,123	687,942	732,333	4,350,732
Infrastructure	1,321,819	488,357,310	489,679,129	32,330,361	-	522,009,490
Total Accumulated Depreciation	<u>28,775,586</u>	<u>488,445,790</u>	<u>517,221,376</u>	<u>34,601,928</u>	<u>732,333</u>	<u>551,090,971</u>
Total Capital Assets, Being Depreciated, Net	<u>56,662,439</u>	<u>729,623,844</u>	<u>786,286,283</u>	<u>(6,203,068)</u>	<u>-</u>	<u>780,083,215</u>
Governmental Activities Capital Assets, Net	<u>\$ 102,791,545</u>	<u>\$ 729,623,844</u>	<u>\$ 832,415,389</u>	<u>\$ 17,013,972</u>	<u>\$ 19,004,330</u>	<u>\$ 830,425,031</u>



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

**Note 6: Capital Assets (Continued)**

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

Governmental activities:	
General government	\$ 476,023
Public safety	35,055
Public works	32,297,819
Community development	89,275
Parks and recreation	<u>1,703,756</u>
Total Depreciation Expense	<u>\$ 34,601,928</u>

**Note 7: Interfund Receivable, Payable and Transfers**

The composition of interfund balances as of June 30, 2007, is as follows:

**Due To/From Other Funds**

	<u>Due To Other Funds</u>
	Nonmajor
	Governmental
	Funds
<u>Funds</u>	
Due From Other Funds:	
General Fund	<u>\$ 6,190,356</u>

The due to General Fund of \$6,190,356 from various nonmajor funds was a result of temporary deficit cash balances in those funds.

**Advances To/From Other Funds**

	<u>Advances To Other Funds:</u>		
		Other	
	LRA	Governmental	
	Capital Projects	Funds	Total
<u>Funds</u>			
Advances to Other Funds:			
General Fund	\$ 102,798,556	\$ -	\$ 102,798,556
LRA Capital Projects Fund	-	946,009	946,009
Total	<u>\$ 102,798,556</u>	<u>\$ 946,009</u>	<u>\$ 103,744,565</u>

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, 2007, loans and accrued unpaid interest owed on those loans were \$102,798,556.

The Lancaster Redevelopment agency has advanced \$946,009 to the Traffic Impact Fee Fund to fund the Avenue L Overpass Project.

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

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

**Interfund Transfers**

	Transfers Out:				Total
	General Fund	Redevelopment Agency Capital Projects	Redevelopment Agency Debt Service	Nonmajor Funds	
<u>Transfers In:</u>					
General	\$ -	\$ -	\$ -	\$ 4,323,897	\$ 4,323,897
Capital outlay	5,983,192	3,120,868	-	23,203,487	32,307,547
Redevelopment Agency Capital Projects	-	-	13,936,255	-	13,936,255
Redevelopment Agency Debt Service	-	13,357,805	-	-	13,357,805
Nonmajor funds	-	-	-	4,214,228	4,214,228
<b>Total</b>	<u>\$ 5,983,192</u>	<u>\$ 16,478,673</u>	<u>\$ 13,936,255</u>	<u>\$ 31,741,612</u>	<u>\$ 68,139,732</u>

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 \$32,307,547.

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 \$4,323,897.

The Lancaster Redevelopment Agency Capital Projects Fund transferred \$13,357,805 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.

**Note 8: Due To Other Governments**

County of Los Angeles, Schools and Community College Districts

General Agency Fund	\$ 27,414
Combined Low and Moderate Housing Fund	4,568
Residential Project Tax Increment Fund	400,727
Central Business District Tax Increment Fund	142,242
Fox Field Tax Increment Fund	149,750
Fox Field Project Fund	67,443
Amargosa Tax Increment Fund	1,241,537
Area No. 5 Tax Increment Fund	2,410,827
Area No. 6 Tax Increment Fund	5,421,549
Area No. 7 Tax Increment Fund	1,373,904
<b>Total</b>	<u>\$ 11,239,961</u>

The Agency has various tax sharing agreements. As a result of these agreements, the Agency has agreed to remit to schools and community college districts a portion of its tax increment collections. Additionally, during the year, amounts were received from the County of Los Angeles in excess of transfers made on the Library issues.

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

**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 has been specified. Interest was set by resolution at LAIF rate. A reservation of fund balance has been established for this loan. The outstanding balance of this loan at June 30, 2007, totaled \$946,009.

**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, 2007, 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 7, 2006, the Agency issued \$25,660,000 of Tax Allocation Revenue Bonds, Issue of 2006. This financing was undertaken to refund \$5,845,000 in outstanding Agency bonds and to provide the Agency with additional funds for projects. The principal portion of these bonds is payable from February 1, 2008 to 2039. Interest is payable semi-annually on February 1 and August 1 of each year commencing on August 1, 2007. Interest rates vary from 3.80% to 5.00%. The principal portion of these bonds has been allocated to the following project areas:

Residential Area	\$ 305,000
Fox Field Area	2,505,000
Amargosa Area	5,080,000
Area Number 5	4,320,000
Area Number 6	13,450,000
Total	<u>\$ 25,660,000</u>

2. On November 8, 2006, the Agency issued \$13,655,000 of Tax Allocation Bonds (School District Projects), Series 2006. This financing was undertaken to 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. The principal portion of these bonds is payable from February 1, 2008 to 2037. Interest is payable semi-annually on February 1 and August 1 of each year commencing on February 1, 2007.

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

**Note 10: Long-Term Debt (Continued)**

Interest rates vary from 4.00% to 5.00%. Project Area Number 5 received \$4,895,000 of the principal portion of these bonds with the remaining amount of \$8,760,000 being allocated to Project Area Number 6.

3. 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 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.
4. 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.
5. 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.
6. 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.

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

**Note 10: Long-Term Debt (Continued)**

7. 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.
8. 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.
9. 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.
10. 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:

	Economic Development	Housing
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
	<hr/>	<hr/>
Total	<u>\$ 16,560,000</u>	<u>\$ 18,080,000</u>

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

**Note 10: Long-Term Debt (Continued)**

11. 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 netproceeds 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. These bonds were defeased during the current year by the Tax Allocation Revenue Bonds, Issue of 2006.

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

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

**Note 10: Long-Term Debt (Continued)**

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.

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. These bonds were defeased during the current year by the Tax Allocation Revenue Bonds, Issue of 2006.

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, 2007, including interest, are as follows:

Lancaster Housing Authority - Bonds		
Fiscal Year	Principal	Interest
2007-2008	\$ 305,000	\$ 382,000
2008-2009	320,000	369,190
2009-2010	335,000	353,831
2010-2011	350,000	168,875
2011-2012	365,000	320,950
2012-2017	2,115,000	1,321,380
2017-2022	2,705,000	738,750
2022-2024	1,280,000	96,750
Total	<u>\$ 7,775,000</u>	<u>\$ 3,751,726</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
2007-2008	\$ 5,280,000	\$ 11,991,106
2008-2009	5,425,000	11,672,296
2009-2010	5,635,000	11,461,746
2010-2011	5,845,000	11,237,145
2011-2012	6,090,000	10,996,018
2012-2017	35,645,000	50,516,119
2017-2022	45,150,000	40,623,805
2022-2027	48,665,000	28,872,529
2027-2032	49,820,000	17,140,104
2032-2037	37,875,000	5,315,171
2037-2042	3,760,000	284,500
Total	<u>\$ 249,190,000</u>	<u>\$ 200,110,539</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, 2007, was \$2,300,000.

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, 2007, was \$260,000.

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, 2007, was \$1,298,000.



**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, 2007, was \$1,398,000.

At June 30, 2007, the annual requirements to repay the outstanding indebtedness were as follows:

U.S. Government Guaranteed Notes		
Fiscal Year	Principal	Interest
2007-2008	\$ 264,000	\$ 298,504
2008-2009	279,000	285,069
2009-2010	293,000	270,306
2010-2011	297,000	254,531
2011-2012	312,000	237,738
2012-2017	1,844,000	885,037
2017-2022	1,458,000	320,929
2022-2026	509,000	39,576
Total	<u>\$ 5,256,000</u>	<u>\$ 2,591,690</u>

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

**Note 10: Long-Term Debt (Continued)**

c. The following is a schedule of changes in long-term debt of the City by bond types for fiscal year ended June 30, 2007:

	Balance July 1, 2006	Defeased	Additions	Repayments	Balance June 30, 2007	Due Within One Year
<b><u>Lancaster Housing Authority</u></b>						
Lease Revenue Refunding Bonds	\$ 8,070,000	\$ -	\$ -	\$ 295,000	\$ 7,775,000	\$ 305,000
<b><u>Redevelopment Agency</u></b>						
<b><u>Residential Project Area</u></b>						
2003 Development and Housing	11,177,531	-	-	149,196	11,028,335	145,968
2003B Development and Housing	4,863,372	-	-	199,234	4,664,138	148,044
2004B Development	1,075,000	-	-	-	1,075,000	18,071
2004 Housing	1,101,091	-	-	20,580	1,080,511	16,804
2004 Sheriff's Facilities	2,381,927	-	-	89,124	2,292,803	92,493
2004 Fire Facilities	1,250,480	-	-	49,764	1,200,716	51,040
2004 Library	247,160	-	-	6,681	240,479	6,928
2006 Development	-	-	305,000	-	305,000	6,954
<b>Total</b>	<b>\$ 22,096,561</b>	<b>\$ -</b>	<b>\$ 305,000</b>	<b>\$ 514,579</b>	<b>\$ 21,886,982</b>	<b>\$ 486,302</b>
<b><u>Central Business District Project Area</u></b>						
1994 Refunding	\$ 1,630,000	\$ -	\$ -	\$ 50,000	\$ 1,580,000	\$ 55,000
2003 Development and Housing	1,049,546	-	-	14,525	1,035,021	13,699
2003B Development and Housing	165,361	-	-	7,457	157,904	5,012
2004 Housing	234,384	-	-	4,384	230,000	3,577
2004 Sheriff's Facilities	607,449	-	-	22,708	584,741	23,589
2004 Fire Facilities	261,660	-	-	10,413	251,247	10,680
2004 Library	47,875	-	-	1,296	46,579	1,342
<b>Total</b>	<b>\$ 3,996,275</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 110,783</b>	<b>\$ 3,885,492</b>	<b>\$ 112,899</b>
<b><u>Fox Field Project Area</u></b>						
1994 Refunding	\$ 2,270,000	\$ 2,190,000	\$ -	\$ 80,000	\$ -	\$ -
2003 Development and Housing	1,752,596	-	-	24,153	1,728,443	22,877
2003B Development and Housing	164,066	-	-	7,398	156,668	4,973
2004 Housing	278,736	-	-	5,219	273,517	4,254
2004 Sheriff's Facilities	406,311	-	-	15,190	391,121	15,778
2004 Fire Facilities	252,840	-	-	10,062	242,778	10,320
2004 Library	42,709	-	-	1,148	41,561	1,197
2006 Development	-	-	2,505,000	-	2,505,000	57,109
<b>Total</b>	<b>\$ 5,167,258</b>	<b>\$ 2,190,000</b>	<b>\$ 2,505,000</b>	<b>\$ 143,170</b>	<b>\$ 5,339,088</b>	<b>\$ 116,508</b>

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

**Note 10: Long-Term Debt (Continued)**

	Balance July 1, 2006	Defeased	Additions	Repayments	Balance June 30, 2007	Due Within One Year
<b>Amargosa Project Area</b>						
1999 Refunding	\$ 4,065,000	\$ -	\$ -	\$ 85,000	\$ 3,980,000	\$ 90,000
1999 Lease Revenue	5,765,000	-	-	145,000	5,620,000	150,000
2003 Development and Housing	16,641,785	-	-	225,389	16,416,396	217,282
2003B Development and Housing	14,006,812	-	-	516,990	13,489,822	428,180
2004B Development	2,440,000	-	-	-	2,440,000	41,018
2004 Housing	2,133,117	-	-	39,886	2,093,231	32,554
2004 Sheriff's Facilities	3,980,126	-	-	148,800	3,831,326	154,559
2004 Fire Facilities	2,064,859	-	-	82,174	1,982,685	84,280
2004 Library	414,096	-	-	11,192	402,904	11,606
2006 Development	-	-	5,080,000	-	5,080,000	115,814
<b>Total</b>	<b>\$ 51,510,795</b>	<b>\$ -</b>	<b>\$ 5,080,000</b>	<b>\$ 1,254,431</b>	<b>\$ 55,336,364</b>	<b>\$ 1,325,293</b>
<b>Project Area No. 5</b>						
1997 Refunding	\$ 3,655,000	\$ 3,655,000	\$ -	\$ -	\$ -	\$ -
2003 Development and Housing	32,923,483	-	-	440,828	32,482,655	429,930
2003B Development and Housing	5,662,674	-	-	237,280	5,425,394	172,207
2004B Development	3,895,000	-	-	-	3,895,000	65,477
2004 School Refunding	2,087,004	-	-	27,140	2,059,864	28,496
2004 Housing	3,276,270	-	-	61,250	3,215,020	50,000
2004 Sheriff's Facilities	6,090,499	-	-	227,695	5,862,804	236,510
2004 Fire Facilities	3,014,481	-	-	119,963	2,894,518	123,040
2004 Library	647,027	-	-	17,483	629,544	18,135
2006 Development	-	-	4,320,000	-	4,320,000	98,488
2006 School	-	-	4,895,000	-	4,895,000	69,903
<b>Total</b>	<b>\$ 61,251,438</b>	<b>\$ 3,655,000</b>	<b>\$ 9,215,000</b>	<b>\$ 1,131,639</b>	<b>\$ 65,679,799</b>	<b>\$ 1,292,186</b>
<b>Project Area No. 6</b>						
1997 Mobile Home	\$ 2,915,000	\$ -	\$ -	\$ 65,000	\$ 2,850,000	\$ 70,000
2003 Development and Housing	35,773,772	-	-	482,048	35,291,724	467,109
2003B Development and Housing	7,068,861	-	-	287,341	6,781,520	215,252
2004B Development	3,595,000	-	-	-	3,595,000	60,434
2004 School Refunding	5,602,996	-	-	72,860	5,530,136	76,504
2004 Housing	5,621,125	-	-	105,081	5,516,044	85,786
2004 Sheriff's Facilities	6,896,839	-	-	257,843	6,638,996	267,822
2004 Fire Facilities	2,955,680	-	-	117,624	2,838,056	120,640
2004 Library	3,451,196	-	-	93,285	3,357,911	96,730
2006 Development	-	-	13,450,000	-	13,450,000	306,635
2006 School	-	-	8,760,000	-	8,760,000	125,097
<b>Total</b>	<b>\$ 73,880,469</b>	<b>\$ -</b>	<b>\$ 22,210,000</b>	<b>\$ 1,481,082</b>	<b>\$ 94,609,387</b>	<b>\$ 1,892,009</b>
<b>Project Area No. 7</b>						
2003 Development and Housing	\$ 1,006,287	\$ -	\$ -	\$ 13,861	\$ 992,426	\$ 13,135
2003B Development and Housing	538,854	-	-	24,300	514,554	16,332
2004 Housing	460,277	-	-	8,600	451,677	7,025
2004 Sheriff's Facilities	366,849	-	-	13,640	353,209	14,249
2004 Library	144,937	-	-	3,915	141,022	4,062
<b>Total</b>	<b>\$ 2,517,204</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 64,316</b>	<b>\$ 2,452,888</b>	<b>\$ 54,803</b>

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

**Note 10: Long-Term Debt (Continued)**

	Balance July 1, 2006	Defeased	Additions	Repayments	Balance June 30, 2007	Due Within One Year
<b>City</b>						
<b>Notes</b>						
Series 1999-A	\$ 2,430,000	\$ -	\$ -	\$ 130,000	\$ 2,300,000	\$ 140,000
Series 2000-A	270,000	-	-	10,000	260,000	10,000
Series 2003-A	1,351,000	-	-	53,000	1,298,000	53,000
Series 2004-A	1,450,000	-	-	52,000	1,398,000	52,000
Accrued Employee Benefits	1,735,149	-	98,947	67,762	1,766,334	70,000
Claims and Judgments	1,121,757	-	413,543	612,048	923,252	478,146
Total	<u>\$ 236,847,906</u>	<u>\$ 5,845,000</u>	<u>\$ 39,827,490</u>	<u>\$ 5,919,810</u>	264,910,586	<u>\$ 6,388,146</u>
Unamortized original issue discount or premium					7,475,105	
Unamortized bond defeasance loss					(4,623,001)	
Net Long-term Debt					<u>\$ 267,762,690</u>	

**Defeasance of Debt**

During the current fiscal year, the Agency issued its Tax Allocation Revenue Bonds, Issue of 2006 to refund the Fox Field Project Area, Tax Allocation Refunding Bonds, Issue of 1994 and the Project Area No. 5, Tax Allocation Refunding Bonds, Issue of 1997.

Amounts received from the refunding were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the various bond issues noted above. As a result, the debt listed below are considered defeased in substance and the liability for these has been removed from the Agency's long-term debt.

The advance refunding resulted in an increase in total debt service payments of \$2,841,341.94 and created an economic gain (the difference between the present values of the debt service payments in the old and new debt) of \$252,197.86.

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, 2007, the following bond issues are considered defeased.

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

**Note 10: Long-Term Debt (Continued)**

	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>Fox Project Area:</u>	
Tax Allocation Refunding Bonds, Issue of 1984	3,050,000
<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
<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
Tax Allocation Refunding Bonds, Issue of 1997	6,480,000
<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>\$ 273,085,000</u>

**d. 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.

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

**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:

General Fund:	
Reserved for encumbrances	\$ 4,586,753
Reserved for advances to other funds	59,259,708
Reserved for inventory	25,832
Reserved for prepaid costs	<u>147,258</u>
Total	<u>\$ 64,019,551</u>
Lancaster Redevelopment Agency	
Capital Projects Fund:	
Reserved for encumbrances	\$ 4,501,894
Reserved for loans receivable	7,122,188
Reserved for land held for resale	<u>44,516,562</u>
Total	<u>\$ 56,140,644</u>
Other Governmental Funds:	
Reserved for encumbrances	\$ 14,345,262
Reserved for land held for resale	<u>1,151,664</u>
Total	<u>\$ 15,496,926</u>

Reserved for advances to other funds in the General Fund above consisted of \$102,798,556 of interfund receivable less \$43,538,853 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.

**c. Restatement of Net Assets and Fund Balances**

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

Restate certain prior year expenditures	
General Fund	\$ (28,573)
Nonmajor	(35,725)
To correct advances to other funds	
Lancaster Redevelopment Agency	
Capital Projects Fund	<u>242,849</u>
Total Fund Balance Restatements	<u>\$ 178,551</u>

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

**Note 11: Fund Equity (Continued)**

Net assets have been restated for the following reasons:

Restate certain prior year expenditures	\$ (64,298)
To correct advances to other funds	242,849
To capital prior years infrastructure	<u>729,623,843</u>
Total Net Asset Restatements	<u>\$ 729,802,394</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 8.322% 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 2007, the City's annual pension cost of \$2,474,123 for PERS was equal to the City's required and actual contributions. The required contributions were determined as part of the June 30, 2006, actuarial valuation using the entry age normal actuarial cost method.

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.

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

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

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

Valuation Date	June 30, 2006
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
6/30/2005	\$ 1,386,706	100%	\$ -
6/30/2006	2,242,125	100%	-
6/30/2007	2,474,123	100%	-

Schedule of Funding Progress for PERS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded Liability (Excess Assets) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
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 %
6/30/2006	48,151,617	48,853,608	701,991	98.6 %	14,038,505	5.0 %



**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 \$441,346 (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, 2007, was \$14,711,548. The total payroll for the year was \$17,332,205.

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 2006-2007 were \$96,295.26. There are currently 22 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, 2007, \$923,252.14 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, 2007, 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 2006 and 2007 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>
2005-2006	\$ 455,633	\$ 2,659,604	\$ (1,993,480)	\$ 1,121,757
2006-2007	1,121,757	413,543	(612,048)	923,252

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.

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CITY OF LANCASTER

COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2007

	Special Revenue Funds			
	Gas Tax	Community Services	Landscape Maintenance District	Housing and Community Development
<b>Assets:</b>				
Pooled cash and investments	\$ 177,145	\$ 185,264	\$ 1,839,801	\$ -
Receivables:				
Accounts	1,037	-	-	-
Notes	-	-	-	-
Deposits	-	-	-	-
Due from other governments	224,706	-	31,968	289,596
Land held for resale	-	-	-	1,151,664
Restricted assets:				
Cash and investments with fiscal agents	-	-	-	-
<b>Total Assets</b>	<b>\$ 402,888</b>	<b>\$ 185,264</b>	<b>\$ 1,871,769</b>	<b>\$ 1,441,260</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ (591)	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Due to other funds	-	-	-	27,398
Deferred revenues	-	-	-	-
Unearned revenue	-	-	-	-
Advances from other funds	-	-	-	-
Deposits payable	-	-	-	-
<b>Total Liabilities</b>	<b>(591)</b>	<b>-</b>	<b>-</b>	<b>27,398</b>
<b>Fund Balances:</b>				
Fund balances:				
Reserved:				
Reserved for encumbrances	183,101	-	101,261	-
Reserved for land held for resale	-	-	-	1,151,664
Unreserved:				
Designated for Antelope Valley Transit Authority	-	-	-	-
Undesignated	220,378	185,264	1,770,508	262,198
<b>Total Fund Balances</b>	<b>403,479</b>	<b>185,264</b>	<b>1,871,769</b>	<b>1,413,862</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 402,888</b>	<b>\$ 185,264</b>	<b>\$ 1,871,769</b>	<b>\$ 1,441,260</b>

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2007

	Special Revenue Funds			
	Transportation Development Authority	Proposition A	Bikeway Improvement	Proposition C
<b>Assets:</b>				
Pooled cash and investments	\$ 6,267,571	\$ 1,606,809	\$ 103,669	\$ 1,770,034
Receivables:				
Accounts	-	4,426	-	-
Notes	-	-	-	-
Deposits	-	-	-	-
Due from other governments	375,701	-	-	-
Land held for resale	-	-	-	-
Restricted assets:				
Cash and investments with fiscal agents	-	-	-	-
<b>Total Assets</b>	<b>\$ 6,643,272</b>	<b>\$ 1,611,235</b>	<b>\$ 103,669</b>	<b>\$ 1,770,034</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Due to other funds	-	-	-	-
Deferred revenues	-	-	-	-
Unearned revenue	-	-	-	-
Advances from other funds	-	-	-	-
Deposits payable	-	19,927	300	-
<b>Total Liabilities</b>	<b>-</b>	<b>19,927</b>	<b>300</b>	<b>-</b>
<b>Fund Balances:</b>				
Fund balances:				
Reserved:				
Reserved for encumbrances	1,542,913	51,232	-	252,748
Reserved for land held for resale	-	-	-	-
Unreserved:				
Designated for Antelope Valley Transit Authority	-	557,554	-	-
Undesignated	5,100,359	982,522	103,369	1,517,286
<b>Total Fund Balances</b>	<b>6,643,272</b>	<b>1,591,308</b>	<b>103,369</b>	<b>1,770,034</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,643,272</b>	<b>\$ 1,611,235</b>	<b>\$ 103,669</b>	<b>\$ 1,770,034</b>