

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
(A COMPONENT UNIT OF CITY OF INDUSTRY)

June 30, 2012

Financial Statements

With

Independent Auditors' Report

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
(A COMPONENT UNIT OF CITY OF INDUSTRY)

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2012

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CERTIFIED
PUBLIC
ACCOUNTANTS
& BUSINESS
ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
City of Industry Public Facilities Authority
City of Industry, California

We have audited the accompanying financial statements of the governmental activities and the Debt Service Fund of the City of Industry Public Facilities Authority, a component unit of the City of Industry, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Industry Public Facilities Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 and the Debt Service Fund of the City of Industry Public Facilities Authority as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2013 on our consideration of the City of Industry Public Facilities Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Industry Public Facilities Authority's financial statements as a whole. The schedules of long-term debt on pages 27 through 29 are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules of long-term debt are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Eadie and Payne LLP

February 4, 2013
Redlands, California

Management's Discussion and Analysis

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
(A COMPONENT UNIT OF CITY OF INDUSTRY)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Industry Public Facilities Authority (the "PFA") is a component unit and an integral part of the City of Industry (the "City") and, accordingly, has also been included in the basic financial statements of the City issued as of June 30 of each year. The accompanying basic financial statements present only the activities of the PFA. The Management's Discussion and Analysis provides an overview of the PFA's activities for the year ended June 30, 2012. Please read this information in conjunction with the PFA's component unit basic financial statements.

Financial Highlights

As management of the PFA, we offer readers of the PFA's financial statements this narrative and analysis of the financial activities of the PFA for the fiscal year ended June 30, 2012.

- During the current year, interest income decreased to \$8,603,456, lease income increased to \$ 946,992, and expenses decreased to \$ 7,482,221, resulting in an increase in net assets of \$1,651,805 after net transfers out of \$416,422.
- Total liabilities exceeded assets by \$3,643,166.

General Overview of the Financial Statements

This annual report consists of three parts – *management's discussion and analysis*, the *component unit basic financial statements*, and other supplementary section that presents *schedules of long-term debt*. The basic financial statements consist of three components - 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements, the Statement of Net Assets and the Statement of Activities, provide information about the activities of the PFA as a whole and present a longer-term view of the PFA's finances. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the PFA's operations in more detail than the government-wide statements by providing information about the PFA's most significant funds.

Government-wide statements

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the PFA as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the PFA's net assets and changes thereto. Net assets, the difference between assets and liabilities, is one way to measure PFA's financial health or

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MANAGEMENT'S DISCUSSION AND ANALYSIS

These two statements report the PFA's net assets and changes thereto. Net assets, the difference between assets and liabilities, is one way to measure PFA's financial health or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating.

PFA's main funding sources are transfers from government funds and from proceeds from bonds.

Reporting the PFA's Most Significant Funds

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 PFA uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All funds of the PFA are governmental funds.

Governmental funds - The PFA's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the PFA's general government operations and the basic services it provides. Governmental fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the PFA's programs. We describe the relationships, or differences, between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds through a reconciliation following the fund financial statements.

The PFA maintains two governmental funds, which are the Debt Service and Capital Projects funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The Debt Service fund is considered to be a major fund.

The PFA as a Whole

Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the PFA's governmental activities.

Governmental activities

The governmental activities account for the administration and capital improvement for the PFA.

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 1
Net Assets

	Governmental Activities	
	2012	2011
Current assets		
Accrued interest receivable	\$ 2,060,427	\$ 2,188,605
Site lease prepayment, current	373,144	373,144
Investments with fiscal agent - restricted	1,302,228	1,304,728
Investments in IUDA and City bonds, current	10,965,000	10,510,000
Total current assets	<u>14,700,799</u>	<u>14,376,477</u>
Non-current assets		
Investments in IUDA and City bonds, noncurrent	132,115,000	143,080,000
Site lease prepayment, noncurrent	6,343,443	6,716,587
Bond issuance costs, net	1,135,284	1,322,935
Total assets	<u>154,294,526</u>	<u>165,495,999</u>
Liabilities		
Accrued interest payable	1,600,703	1,696,393
Long-term liabilities:		
Portion due or payable within one year	13,132,056	12,757,589
Portion due or payable after one year	143,204,933	156,336,988
Total liabilities	<u>157,937,692</u>	<u>170,790,970</u>
Net assets		
Unrestricted	(150,085,821)	(162,378,306)
Restricted for:		
Debt service	<u>146,442,655</u>	<u>157,083,335</u>
Total net assets	<u>\$ (3,643,166)</u>	<u>\$ (5,294,971)</u>

As noted above, net assets may serve over time as a useful indicator of a government's financial position. In the case of the PFA, liabilities exceeded assets by \$3,643,166 at June 30, 2012. The increase in net assets is a result of revenues exceeding expenditures and transfers during the current year by \$1,651,805.

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 2
Change in Net Assets

	Governmental Activities	
	2012	2011
Revenues:		
Interest income	\$ 8,603,456	\$ 9,109,143
Lease income	946,992	914,319
Total revenues	<u>9,550,448</u>	<u>10,023,462</u>
Expenditures:		
General administration	410,417	394,744
Interest expense	6,826,741	7,386,601
Amortization of bond issuance costs	187,651	198,689
Amortization of bond premium and discount	57,412	63,492
Total expenses	<u>7,482,221</u>	<u>8,043,526</u>
Increase in net assets before transfers	2,068,227	1,979,936
Transfers, net	<u>(416,422)</u>	<u>(3,599,791)</u>
Change in net assets	<u>\$ 1,651,805</u>	<u>\$ (1,619,855)</u>

During the current year total revenues decreased to \$9,550,448 which was mainly due to the decrease in interest income to \$8,603,456. Interest income represents the interest paid to the PFA from the City 2002 Bonds and IUDA 2002 Bonds. The lease income from the City is due to the property that the City is leasing back from PFA.

Total expenses during the current year amounted to \$7,482,221 which mainly represents interest paid on the PFA bonds.

Transfers out decreased to \$416,422 from \$3,599,791 because during 2010-2011 fiscal year, proceeds from the 2010 Refunding Lease Revenue Bonds were transferred to the City to refund the 2000 Certificates of Participation.

Economic Factors and Next Year's Budget

The Budget for Fiscal Year 2012-13 primarily provides for the payment of bond principal and interest payments for the 2005 General Obligation Revenue Bonds, 2007 Tax Allocation Revenue Bonds and the 2010 Refunding Lease Revenue Bonds. The PFA has budgeted \$19,606,926 in debt service expenditures for the 2012-2013 year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Requests for Information

This financial report is designed to provide a general overview of the PFA's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department at the City of Industry, PO Box 3305, City of Industry, California 91744.

Basic Financial Statements

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
(A COMPONENT UNIT OF CITY OF INDUSTRY)
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
ASSETS	
Current assets:	
Accrued interest receivable	\$ 2,060,427
Site lease prepayment, current	373,144
Investments with fiscal agent - restricted	1,302,228
Investments in IUDA and City bonds, current	10,965,000
Total current assets	14,700,799
Non-current assets:	
Investments in IUDA and City bonds, noncurrent	132,115,000
Site lease prepayment, noncurrent	6,343,443
Bond issuance costs, net	1,135,284
Total assets	154,294,526
 LIABILITIES	
Accrued interest payable	1,600,703
Long-term liabilities:	
Portion due or payable within one year	13,132,056
Portion due or payable after one year	143,204,933
Total liabilities	157,937,692
 NET ASSETS	
Unrestricted	(150,085,821)
Restricted for:	
Debt service	146,442,655
Total net assets	\$ (3,643,166)

The accompanying notes are an integral part of this statement.

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF INDUSTRY)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Expenses	Net (Expense) Revenue and Changes in Net Assets
		Net Governmental Activities
GOVERNMENTAL ACTIVITIES		
General administration	\$ 410,417	\$ (410,417)
Amortization of bond premium and discount	57,412	(57,412)
Amortization of bond issuance costs	187,651	(187,651)
Interest expense	6,826,741	(6,826,741)
Total governmental activities	\$ 7,482,221	(7,482,221)
 General revenues and transfers:		
Interest income		8,603,456
Lease income		946,992
Transfers from City of Industry		37,060
Transfers to City of Industry		(453,482)
Total general revenues and transfers		9,134,026
Change in net assets		1,651,805
Net assets at beginning of year		(5,294,971)
Net assets at end of year		\$ (3,643,166)

The accompanying notes are an integral part of this statement.

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
(A COMPONENT UNIT OF CITY OF INDUSTRY)
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2012

		Debt Service
ASSETS		
Accrued interest receivables	\$	2,060,427
Site lease prepayment		6,716,587
Investments with fiscal agent - restricted		1,302,228
Investments in IUDA and City bonds		143,080,000
Total assets	\$	<u>153,159,242</u>

FUND BALANCES

Fund balances:		
Nonspendable		
Reserved for debt service	\$	143,080,000
Prepaid lease payment		6,716,587
Restricted		
Reserved for debt service		3,362,655
Total fund balances	\$	<u>153,159,242</u>

The accompanying notes are an integral part of this statement.

CITY OF INDUSTRY
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RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total fund balance for the governmental fund \$ 153,159,242

Amounts reported for governmental activities
in the statement of net assets are different because:

Bond issuance costs represent costs associated with the issuance of long-term debt which are deferred and amortized over the period which the debt is outstanding. The costs are reported as expenditures in the governmental funds. 1,135,284

Accrued interest payable on outstanding bonds payable do not require the use of current financial resources and accordingly are not reported as expenditures in the governmental funds. (1,600,703)

Long-term liabilities applicable to the Authority's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.

These liabilities consist of:

General obligation bonds - current portion	(930,000)
General obligation bonds - long-term	(30,070,000)
Tax allocation revenue bonds - current portion	(11,570,000)
Tax allocation revenue bonds - long-term	(107,010,000)
Refunding lease revenue bonds - current portion	(685,000)
Refunding lease revenue bonds - long-term	(6,415,000)
Issuance discount - current portion	52,944
Issuance discount - long-term	290,067
	<u>(156,802,408)</u>

Net assets of governmental activities \$ (3,643,166)

The accompanying notes are an integral part of this statement.

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
(A COMPONENT UNIT OF CITY OF INDUSTRY)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

		<u>Debt Service</u>
REVENUES		
Interest income	\$	8,603,456
Lease income		946,992
Total revenues		<u>9,550,448</u>
 EXPENDITURES		
Current:		
General administration		410,417
Debt service:		
Interest payments		6,922,431
Bond principal payments		12,815,000
Total expenditures		<u>20,147,848</u>
 Excess of revenues over (under) expenditures		<u>(10,597,400)</u>
 OTHER FINANCING SOURCES (USES)		
Transfers from City of Industry		37,060
Transfers to City of Industry		(453,482)
Total transfers and other financing sources (uses)		<u>(416,422)</u>
 Net change in fund balance		(11,013,822)
 FUND BALANCE, July 1, 2011		<u>164,173,064</u>
 FUND BALANCE, June 30, 2012	\$	<u><u>153,159,242</u></u>

The accompanying notes are an integral part of this statement.

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
(A COMPONENT UNIT OF CITY OF INDUSTRY)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Net change in fund balance - governmental fund	\$	(11,013,822)
Amounts reported for governmental activities in the statement of activities are different because:		
Repayment of principal on long-term debt is an expenditure in the governmental funds but reduces the liability in the statement of net assets.		12,815,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Amortization of bond issuance costs		(187,651)
Change in accrued interest payable		95,690
Net change of bond premium/discount		(57,412)
Change in net assets of governmental activities	\$	1,651,805

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
(A COMPONENT UNIT OF CITY OF INDUSTRY)

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Description of the reporting entity

The City of Industry Public Facilities Authority (the "PFA") is a component unit and an integral part of the City of Industry (the "City") and accordingly has also been included in the basic financial statements of the City issued as of June 30 of each year. Financial statements for PFA and the City may be obtained from the Controller's office located at 15625 East Stafford Street, City of Industry.

Basis of accounting and measurement focus

The basic financial statements of PFA are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

The component unit financial statements of PFA have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB Pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

Government-wide financial statements

The Government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental activities for PFA.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources including capital assets, infrastructure assets and long term liabilities are included in the accompanying Statement of Net Assets.

Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to inter-fund activities, payables, and receivables. All internal balances in the Statement of Net Assets have been eliminated.

Fund financial statements

The accounts of PFA are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Fund financial statements for the primary government are presented after the government-wide financial statements.

Governmental funds

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Revenues are considered available if they are collected within 60 days after year-end. Expenditures are generally recognized when the related liability is incurred. Exceptions to this general rule include principal and interest on long-term debt which are recognized when due.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as other financing sources rather than a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources and committed, assigned, or unassigned amounts are considered to have been spent when expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

CITY OF INDUSTRY
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NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

Debt service fund

PFA's major fund type is the Debt Service Fund, which is used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest, and related costs.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

Cash and investments

Investments in inactive public deposits, securities and short-term obligations are stated at cost or amortized cost, which approximates market. The carrying amounts of investments approximate their fair values based on current rates of interest for instruments with similar characteristics. Investments in municipal bonds are stated at amortized cost. Cash deposits are reported at their carrying amount, which reasonably estimates fair value. Short-term investments are reported at cost, which approximates fair value. Investments that exceed more than one year in maturity and are traded on a national exchange are valued at their quoted market price.

Certain investments owned by PFA are restricted for the use of debt service.

Net Assets

- Net assets represent the difference between assets and liabilities in the government – wide financial statements. Net assets are classified as follows:
- Restricted Net Assets – this amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.
- Unrestricted Net Assets – this amount is all net assets which do not meet the definition of restricted net assets.

CITY OF INDUSTRY
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NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

Fund balance

In the governmental fund financial statements, fund balances are classified in the following categories:

- Nonspendable – items that cannot be spent because they are not in spendable form or items that are legally or contractually required to be maintained intact.
- Restricted – restricted fund balances are amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; (b) imposed by law by constitutional provisions or enabling legislation.
- Assigned – assigned fund balances are amounts that are constrained by PFA's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose. The Board of Directors are authorized for this purpose.
- Committed – committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that PFA imposes upon itself at its highest level of decision making authority (the Board of Directors) through board resolution and that remain binding unless removed in the same manner.
- Unassigned – this category represents fund balances that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes.

Bond issuance costs and premiums/discounts

In the government-wide financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Unamortized bond issuance costs are reported on the statement of net assets and amortized over the term of the related debt. These costs are being amortized using the effective interest method. The average effective interest rate applied for the fiscal year ended June 30, 2012 was 3.98%.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF INDUSTRY
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NOTES TO THE FINANCIAL STATEMENTS

2. Organization

PFA was created in 1990 by a joint exercise of power agreement between the City of Industry and the Industry Urban-Development Agency (referred as the "IUDA"). The agreement was made pursuant to the provisions of Article 1 through 4, Chapter 5, Division 7, Title 1 of the Government Code of the State of California, Sections 6500, et seq.

PFA exists and acts as a separate entity. The governing board of PFA consists of a commission of five members; all members of the City of Industry City Council.

PFA was established for the purpose of establishing a vehicle to reduce local borrowing costs, and accelerate construction, repair and maintenance of needed public capital improvements. PFA was also established to borrow money for the purpose of financing the acquisition and construction of public capital improvements. PFA has the power to issue bonds, notes or other evidences of indebtedness, and to expend their proceeds.

3. Cash and investments

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

	<u>Amount</u>
Investments with fiscal agent - restricted	\$ 1,302,228
Investments in IUDA and City bonds	143,080,000
Total cash and investments	\$ <u>144,382,228</u>

Cash, restricted cash and investments with fiscal agent

PFA may waive collateral requirements for deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2012, PFA's deposits did not exceed the federally insured limit.

Cash and investments with fiscal agents are restricted for future bond principal and interest payments. As of June 30, 2012, PFA's carrying value of these funds amounted to \$1,302,228.

State of California Local Agency Investment Fund

PFA is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of PFA's investment in the investment pool is approximately the same as the value of the pool shares. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government sponsored enterprises, and corporations.

PFA had no investments in LAIF at June 30, 2012.

CITY OF INDUSTRY
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NOTES TO THE FINANCIAL STATEMENTS

3. Cash and investments (continued)

Investments authorized by the Authority's investment policy

Under provision of PFA's Investment policy, and in accordance with Section 53601 and Section 53635 of the California Government Code, PFA may invest in the following types of investments:

- Securities of the U.S. Government, or its agencies
- Bankers Acceptance
- Commercial paper rated A-1 by Standard & Poor's Corporation or Moody's Investor Service
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Inactive public deposits; non-negotiable and/or non-transferable certificates of deposits
- Savings accounts

PFA's Investment policy does not contain any specific provisions intended to limit PFA's exposure to interest rate risk, credit risk, and concentration risk.

Investments authorized by debt agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or PFA's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity (in months)	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury obligations	None	None	None
Federal agency securities	None	None	None
Money market funds	None	None	None
Certificates of deposit	None	None	None
Commercial paper	None	None	None
Banker's acceptances	18	None	None
U.S. corporate bonds/notes	None	None	None
Municipal bonds	None	None	None
Non-investment grade bonds	None	10%	None
Exchange traded funds	None	None	None
Mortgage-backed securities	None	None	None
Investment contracts	None	None	None
LAIF deposits	None	None	None
Foreign government bonds	None	None	None
Foreign corporate bonds/notes	None	None	None

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NOTES TO THE FINANCIAL STATEMENTS

3. Cash and investments (continued)

Interest rate risk

Interest rate risk is the risk of changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in the market interest rates. The PFA manages its exposure to interest rate risk by purchasing short-term investments and/or by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time as necessary to provide the cash flow and liquidity needed for operations. PFA's long-term investments in IUDA and City bonds have set interest rates between 5.00% to 7.13% over the life of the bonds.

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average (in months)</u>
Investment in IUDA and City bonds	\$ 143,080,000	91.67
Held by bond trustee:		
U.S. Treasury obligations	456,053	N/A
Money market funds	<u>846,175</u>	N/A
Total investments	<u>\$ 144,382,228</u>	

Credit risk

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical organization. Money market funds, certificates of deposit and LAIF deposits do not have ratings provided by a nationally recognized statistical organization. The investments in IUDA and City bonds have ratings of AAA under Standard & Poor's Corporation, a nationally recognized statistical organization.

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NOTES TO THE FINANCIAL STATEMENTS

3. Cash and investments (continued)

Concentration of credit risk

The investment policy of PFA contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent 5% or more of total Authority investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>
City of Industry	Taxable General Obligation Bonds Issue of 2002	\$ 31,035,000
Industry Urban-Development Agency	Civic-Recreational-Industrial Redevelopment Project 1 Tax Allocation Bonds Series B Issue of 2002	<u>112,045,000</u>
Total		<u>\$ 143,080,000</u>

Custodial credit risk

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 its investment or collateral securities that are in the possession of another party. The California Government Code and PFA's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. PFA's investment in IUDA and City bonds are held by the trustee and are discussed in further detail under Note 4.

As of June 30, 2012, none of PFA's investments were exposed to custodial credit risk.

4. Bonds payable

Project Funding Agreement and City of Industry Public Facilities Authority Bonds

On August 1, 2005, the City, IUDA, and PFA entered into a Project Funding Agreement. In December 2001, the City had previously issued \$35 million Taxable General Obligation Bonds Issue of 2002 where the proceeds were deposited into the redevelopment revolving fund which constituted a loan to IUDA. The City and IUDA had determined in order to provide financing for the projects at more advantageous interest rates; it was in the best interest of the City and its property taxpayers for PFA to issue bonds in the amount of \$35,190,000 ("PFA Bonds") for the purpose of providing funds to finance the acquisition and construction of the Projects.

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

4. Bonds payable (continued)

On August 1, 2005, PFA issued \$35,190,000 of General Obligation Revenue Bonds. The net proceeds of \$33,095,000 were used to purchase the 2002 City Bonds from IUDA. The City has assigned to PFA the City's right to redeem its Taxable General Obligation Bonds Issue of 2002 ("2002 City Bonds"), PFA has transferred and assigned its rights, title and interest in the 2002 City Bonds to the Trustee as security for PFA Bonds. The 2002 City Bonds are registered in the name of the Trustee. In addition, PFA has agreed that all revenues received by it from the ownership of the 2002 City Bonds, to the extent not required to pay debt service on PFA bonds, shall be remitted to the City and applied to reimburse the City for payments of debt service made by the City on the 2002 City Bonds.

Bond Purchase Agreement

On February 1, 2007, IUDA and PFA entered into a Bond Purchase Agreement. In April 2002, IUDA had previously issued \$197,000,000 of Industry Urban-Development Agency Civic-Recreational-Industrial Redevelopment Project No. 1 2002 Tax Allocation Bonds, Series B ("2002 IUDA TA Bonds"); IUDA used the proceeds to purchase U.S. government securities to advance refund the 1992 and 1997 Series Bonds. In order to purchase the 2002 IUDA TA Bonds and to fund the acquisition and construction of certain municipal improvements, PFA issued \$169,695,000 2007 Tax Allocation Bonds on February 1, 2007.

The net proceeds of \$166,028,203 were partially used to purchase the 2002 IUDA TA Bonds from IUDA. IUDA has assigned to PFA the IUDA's right to redeem its 2002 IUDA TA Bonds. PFA has then transferred and assigned its rights, title and interest in the 2002 IUDA TA Bonds to the Trustee as security for the 2007 Tax Allocation Revenue Bonds. The 2002 IUDA TA Bonds are registered in the name of the Trustee.

Lease Refunding

In order to assist the City in financing the construction of various projects, on August 1, 2000, IUDA and the City entered into a lease agreement for certain properties owned by the City for a one time site lease payment in the amount of \$11,000,000. IUDA agreed to lease back these properties to the City. In conjunction with the signing of these lease agreements on August 30, 2000, the City issued \$12,620,000 of Certificates of Participation Series 2000 bonds ("2000 Certificates") to fund IUDA's site lease payment. Under the lease agreement, the certificates represented direct, undivided fractional interests of the owners in lease payments to be made by the City to IUDA.

The term of both leases ceased on the date in which all the outstanding 2000 Certificates were paid in full as discussed below.

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NOTES TO THE FINANCIAL STATEMENTS

4. Bonds payable (continued)

In March 2010, the City leased certain properties owned by the City to PFA under a Site Lease Agreement. As consideration, PFA paid an upfront rental payment of approximately \$7,500,000 to the City for the lease of certain properties. The funds were then used by the City to prepay the 2000 Certificates. In order to prepay the Site Lease, PFA issued \$8,460,000 of 2010 Refunding Lease Revenue Bonds. In order to secure payments of the bond principal and interest, PFA then leased back the property to the City in which the City is then obligated to pay semi-annual lease payments as rental payments for the leased back properties. PFA has assigned its right to receive the lease payments to U.S. Bank Trust National Association as trustee for the holders of the Refunding Lease Revenue Bonds.

The term of both leases will cease on the date on which all the outstanding principal and interest payments of the 2010 Refunding Lease Revenue Bonds are paid in full or a provision has been made for such payment, but not later than August 1, 2030.

PFA will amortize the site lease prepayment over the term of the lease as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Lease Expense</u>
2013	\$ 373,144
2014	373,144
2015	373,144
2016	373,144
2017	373,144
Thereafter	4,850,867

The following is a schedule of future minimum lease payments to be received by PFA from the City:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2013	937,658
2014	937,658
2015	937,658
2016	937,658
2017	937,658
Thereafter	3,750,631

CITY OF INDUSTRY
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NOTES TO THE FINANCIAL STATEMENTS

4. Bonds payable (continued)

As of June 30, 2012, details of bonds payable are as follows:

<u>Description / Terms</u>	<u>INTEREST RATE</u>	<u>BALANCE JUNE 30, 2011</u>	<u>ADDITIONS (DECREASES)</u>	<u>BALANCE JUNE 30, 2012</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
Industry Public Facilities Authority					
\$35,190,000 2005 General Obligation					
Revenue Bonds, due in annual principal					
installments of \$930,000 to \$2,220,000	3.625% to				
through July 01, 2033	4.875%	\$ 31,895,000	\$ (895,000)	\$ 31,000,000	\$ 930,000
\$169,695,000 2007 Tax Allocation					
Revenue Bonds, due in annual principal					
installments of \$11,570,000 to	3.625% to				
\$15,085,000 through May 01, 2021	4.500%	129,825,000	(11,245,000)	118,580,000	11,570,000
\$8,460,000 2010 Refunding Lease					
Revenue Bonds, due in annual					
principal installments of \$685,000	3.000% to				
to \$915,000 through August 1, 2021	4.250%	<u>7,775,000</u>	<u>(675,000)</u>	<u>7,100,000</u>	<u>685,000</u>
Total		<u>\$ 169,495,000</u>	<u>\$ (12,815,000)</u>	<u>\$ 156,680,000</u>	<u>\$ 13,185,000</u>

The changes in long-term obligations for the year ended June 30, 2012, are as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance June 30, 2012</u>	<u>Amounts due within one year</u>
Governmental activities:					
Bonds payable:					
General Obligation					
Revenue bonds	\$ 31,895,000	\$	\$ (895,000)	\$ 31,000,000	\$ 930,000
Tax Allocation					
Revenue bonds	129,825,000		(11,245,000)	118,580,000	11,570,000
Refunding Lease					
Revenue bonds	7,775,000		(675,000)	7,100,000	685,000
Deferred amounts:					
Unamortized premiums					
(discounts) on refunding	(400,422)		57,411	(343,011)	(52,944)
Totals	<u>\$ 169,094,578</u>	<u>\$ -</u>	<u>\$ (12,757,589)</u>	<u>\$ 156,336,989</u>	<u>\$ 13,132,056</u>

CITY OF INDUSTRY
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(A COMPONENT UNIT OF CITY OF INDUSTRY)

NOTES TO THE FINANCIAL STATEMENTS

4. Bonds payable (continued)

The annual debt service requirements on PFA's general obligation revenue bonds and tax allocation revenue bonds as of June 30, 2012 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>TOTAL</u>
2013	\$ 6,421,925	\$ 13,185,000	\$ 19,606,925
2014	5,902,764	13,590,000	19,492,764
2015	5,408,523	13,965,000	19,373,523
2016	4,875,166	14,385,000	19,260,166
2017	4,288,804	14,865,000	19,153,804
2018-2022	11,559,509	66,970,000	78,529,509
2023-2027	3,638,894	7,780,000	11,418,894
2028-2032	1,659,670	9,720,000	11,379,670
2033	51,060	2,220,000	2,271,060
Totals	<u>\$ 43,806,315</u>	<u>\$ 156,680,000</u>	<u>\$ 200,486,315</u>

For the year ended June 30, 2012, total interest expense amounted \$6,922,431 at the fund financial statement level and \$6,826,741 at the government-wide level. The difference relates to the change in accrued interest payable.

5. Investment in City and IUDA bonds

The following schedule represents the future payments to be paid by the City of Industry on the 2002 bonds and IUDA on the 2002 IUDA TA Bonds.

<u>YEAR ENDED JUNE 30,</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>TOTAL</u>
2013	\$ 8,161,352	\$ 10,965,000	\$ 19,126,352
2014	7,566,409	11,460,000	19,026,409
2015	6,930,611	11,985,000	18,915,611
2016	6,264,733	12,555,000	18,819,733
2017	5,564,426	13,165,000	18,729,426
2018-2022	16,565,778	60,880,000	77,445,778
2023-2027	6,563,017	7,775,000	14,338,017
2028-2032	3,181,313	11,430,000	14,611,313
2033-2037	102,066	2,865,000	2,967,066
Totals	<u>\$ 60,899,705</u>	<u>\$ 143,080,000</u>	<u>\$ 203,979,705</u>

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

6. Self-insurance plan

The City of Industry has established a Self-Insurance Plan (the "Plan") to pay for liability claims against the City and PFA. The Plan is administered by an insurance committee which is responsible for approving all claims of \$25,000 or less and for making a provision for having sufficient funds available to pay approved claims and legal and investigative expenses. The insurance committee has given this authority to the City Manager. Potential liabilities of claims in excess of \$250,000, up to \$10,000,000, are covered by excess liability insurance policies. As of June 30, 2012, there are no pending liability claims outstanding against PFA.

7. Transfers to/from other funds

During the year ending June 30, 2012, PFA transferred \$416,422 net, to the City of Industry for the purpose funding various street and road projects for the City of Industry.

Other Supplementary Information

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF INDUSTRY)
SCHEDULE OF LONG-TERM DEBT
\$35,190,000 PUBLIC FACILITIES AUTHORITY 2005 GENERAL OBLIGATION REVENUE BONDS
AS OF JUNE 30, 2012

YEAR ENDING JUNE 30,	INTEREST RATE ON BONDS MATURING	INTEREST JULY 1,	PRINCIPAL JULY 1,	INTEREST JANUARY 1,	TOTAL DEBT SERVICE
2013	3.875%	\$ 695,922	\$ 930,000	\$ 677,903	\$ 2,303,825
2014	3.625%	677,903	965,000	660,413	2,303,316
2015	4.625%	660,413	1,000,000	637,287	2,297,700
2016	4.875%	637,288	1,045,000	611,816	2,294,104
2017	4.875%	611,816	1,095,000	585,125	2,291,941
2018	4.000%	585,125	1,150,000	562,125	2,297,250
2019	4.100%	562,125	1,195,000	537,628	2,294,753
2020	4.200%	537,628	1,245,000	511,483	2,294,111
2021	4.250%	511,483	1,300,000	483,858	2,295,341
2022	4.750%	483,858	1,355,000	451,676	2,290,534
2023	4.750%	451,676	1,415,000	418,070	2,284,746
2024	4.875%	418,070	1,485,000	381,873	2,284,943
2025	4.400%	381,873	1,555,000	347,663	2,284,536
2026	4.625%	347,663	1,625,000	310,085	2,282,748
2027	4.500%	310,085	1,700,000	271,835	2,281,920
2028	4.500%	271,835	1,775,000	231,898	2,278,733
2029	4.500%	231,898	1,855,000	190,160	2,277,058
2030	4.500%	190,160	1,940,000	146,510	2,276,670
2031	4.600%	146,510	2,030,000	99,820	2,276,330
2032	4.600%	99,820	2,120,000	51,060	2,270,880
2033	4.600%	51,060	2,220,000	-	2,271,060
		<u>\$ 8,864,208</u>	<u>\$ 31,000,000</u>	<u>\$ 8,168,288</u>	<u>\$ 48,032,496</u>

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF INDUSTRY)
SCHEDULE OF LONG-TERM DEBT
\$169,695,000 2007 TAX ALLOCATION REVENUE BONDS
AS OF JUNE 30, 2012

YEAR ENDING JUNE 30,	INTEREST RATE ON BONDS MATURING	INTEREST NOVEMBER 1,	PRINCIPAL MAY 1,	INTEREST MAY 1,	TOTAL DEBT SERVICE
2013	4.000%	2,396,094	11,570,000	2,396,093	16,362,187
2014	3.625%	2,164,694	11,920,000	2,164,693	16,249,387
2015	3.750%	1,948,643	12,235,000	1,948,644	16,132,287
2016	4.000%	1,719,237	12,590,000	1,719,237	16,028,474
2017	4.500%	1,467,437	12,990,000	1,467,438	15,924,875
2018	4.000%	1,175,163	13,550,000	1,175,162	15,900,325
2019	4.100%	904,162	14,070,000	904,163	15,878,325
2020	4.000%	615,728	14,570,000	615,728	15,801,456
2021	4.300%	324,328	15,085,000	324,328	15,733,656
		\$ 12,715,486	\$ 118,580,000	\$ 12,715,486	\$ 144,010,972

CITY OF INDUSTRY
PUBLIC FACILITIES AUTHORITY
(A COMPONENT UNIT OF THE CITY OF INDUSTRY)
SCHEDULE OF LONG-TERM DEBT
\$8,460,000 2010 REFUNDING LEASE REVENUE BONDS
AS OF JUNE 30, 2012

YEAR ENDING JUNE 30,	INTEREST RATE ON BONDS MATURING	INTEREST AUGUST 1,	PRINCIPAL AUGUST 1,	INTEREST FEBRUARY 1,	TOTAL DEBT SERVICE
2013	3.000%	\$ 133,094	\$ 685,000	\$ 122,819	\$ 940,913
2014	3.000%	122,819	705,000	112,243	940,062
2015	3.000%	112,243	730,000	101,294	943,537
2016	4.000%	101,294	750,000	86,294	937,588
2017	4.000%	86,294	780,000	70,694	936,988
2018	4.000%	70,694	810,000	54,494	935,188
2019	4.000%	54,494	845,000	37,595	937,089
2020	4.125%	37,594	880,000	19,444	937,038
2021	4.250%	19,444	915,000	-	934,444
		<u>\$ 737,970</u>	<u>\$ 7,100,000</u>	<u>\$ 604,877</u>	<u>\$ 8,442,847</u>