

CITY OF WEST HOLLYWOOD

Comprehensive Annual Financial Report

West Hollywood, California

► Fiscal Year Ending June 30, 2012





CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To The Honorable Mayor and Members of the City Council
The City of West Hollywood, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of West Hollywood, California, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City of West Hollywood'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 by the United States of America and the standards applicable to financial audits contained in the *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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of West Hollywood, California, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We would like to draw the reader's attention to Note 17 – "Successor Agency Trust for Assets of Former Redevelopment Agency". The note provides information on the dissolution of the Redevelopment Agency and the new formed Successor Agency.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2013, on our consideration of the City of West Hollywood'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.



To The Honorable Mayor and Members of the City Council
The City of West Hollywood, California

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules 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 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 financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Lance, Soll & Luyhard, LLP

Brea, California
January 8, 2013

Note 15: Fund Balances and Net Assets Restatements

Fund balances and net assets have been restated as follows:

Governmental Funds and Governmental Activities:

Major Governmental Funds:

General Fund:

To write off the advance to the West Hollywood Library Foundation since the Foundation did not meet its fundraising goal.	\$ (620,195)
Total General Fund	<u>(620,195)</u>

Nonmajor Governmental Funds:

Housing Trust Fund:

To accrue interest on a loan that was previously not recorded in prior years.	441,345
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West Hollywood Library Foundation Fund:

To write off the advance from the General Fund since the West Hollywood Library Foundation Fund did not meet its fund raising goal.	620,195
Total Nonmajor Governmental Funds	<u>1,061,540</u>
Total Fund Balances and Net Assets restatements	<u>\$ 441,345</u>

Note 16: California Redevelopment Agency Dissolution

On July 18, 2011, the California Redevelopment Association (“CRA”) and the League of California Cities (“League”) filed a petition for writ of mandate with the California Supreme Court, requesting the Court to declare unconstitutional two bills that were passed as part of the 2011-12 State Budget, AB 1X 26 and 27 (*California Redevelopment Association v. Matosantos*). AB 1X 26 would have dissolved redevelopment agencies effective October 1, 2011. AB 1X27 gave redevelopment agencies an option to avoid dissolution if it committed to making defined payments for the benefit of the State, school districts and certain special districts. In 2011-12, these payments amounted to a state-wide total of \$1.7 billion. In 2012-13 and subsequent years, the payments totaled \$400 million, annually. Each city or county’s share of these payments was determined based on its proportionate share of state-wide tax increment.

On August 17, 2011 the Supreme Court issued a stay of the implementation of AB 1X 26 and 27 which allowed a redevelopment agency to continue if it adopted an AB 1X 27 ordinance. However, because of the effect of the stay order, the authority for the Redevelopment Agency to engage in most activities was suspended.

The Supreme Court heard oral arguments on November 10, 2011 and on December 29, 2011 announced its decision in *California Redevelopment Association v. Matosantos*. The court upheld AB 1X 26 which dissolved redevelopment agencies, but invalidated in its entirety AB 1X 27 which would have allowed redevelopment agencies to continue as long as they made the required payments. AB 1X 26 established deadlines for the process of Redevelopment Agency dissolution and the handling of existing obligations. The full text of AB 1X 26 may be obtained from the California legislative information website maintained by the Legislative Counsel of the State of California at: <http://www.leginfo.ca.gov/bilinfo.html>.

As of January 31, 2012 the Redevelopment Agency has been dissolved and the City of West Hollywood has elected to become the Successor Agency. The Successor Agency will be responsible for winding down the remaining activities of the dissolved Redevelopment Agency.

Note 17: Successor Agency Trust For Assets of Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of West Hollywood that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On February 6, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 12-4266.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City’s position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City. However, loans may be reinstated under Assembly Bill 1484 following the completion of a due diligence process currently being undertaken by the Successor Agency.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss (or gain) in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary gain (or loss).

Note 17: Successor Agency Trust For Assets of Former Redevelopment Agency (Continued)

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the trust funds (*economic resources measurement focus*), the extraordinary loss (gain) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized in the fiduciary fund financial statements.

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary gain recognized in the fiduciary fund financial statements is reconciled as follows:

Total extraordinary loss reported in the governmental funds - increase to net assets of the Successory Agency Trust Fund	\$ (43,536,799)
Capital assets recorded in the government-wide financial statements - increase to net assets of the Successor Agency Trust Fund	(2,427,834)
Long-term debt reported in the government-wide financial statements - decrease to net assets of the Successor Agency Trust Fund	<u>46,150,316</u>
Net decrease to net assets of the Successor Agency Trust Fund as a result of initial transfers (equal to amount of extraordinary gain reported in the government-wide financial statements of the City)	<u><u>\$ 185,683</u></u>

a. Cash and investments

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments pooled with the City	\$ 13,327,710
Cash and investments with fiscal agent	<u>31,258,151</u>
	<u><u>\$ 44,585,861</u></u>

Note 17: Successor Agency Trust For Assets of Former Redevelopment Agency (Continued)**b. Capital Assets**

	Balance at July 1, 2011	Transfers from former Redevelopment Agency	Increases	Decreases	Balance at June 30, 2012
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ -	\$ 1,338,057	\$ -	\$ -	\$ 1,338,057
Construction-in-progress	-	576,058	-	-	576,058
Total Capital Assets, Not Being Depreciated	-	1,914,115	-	-	1,914,115
Capital assets, being depreciated:					
Land Improvements	-	575,077	-	-	575,077
Subtotal - Depreciable Assets	-	575,077	-	-	575,077
Total Capital Assets	-	2,489,192	-	-	2,489,192
Less accumulated depreciation:					
Land Improvements	-	61,358	5,375	-	66,733
Total Accumulated Depreciation	-	61,358	5,375	-	66,733
Total Capital Assets, Being Depreciated, Net	-	513,719	(5,375)	-	508,344
Governmental Activities Capital Assets, Net	\$ -	\$ 2,427,834	\$ (5,375)	\$ -	\$ 2,422,459

c. Long-Term Debt

The following debt was transferred from the Redevelopment Agency to the Successor Agency as of February 1, 2012 as a result of the dissolution. Prior to the dissolution, as reflected in Note 9, the Redevelopment Agency had paid \$2.2 million in principal payments.

	Balance at July 1, 2011	Transfer from former Redevelopment Agency	Additions	Deletions	Balance at June 30, 2012	Due Within One Year
Fiduciary Activities						
Successor Agency of the Former RDA						
Tax Allocation Bonds:						
2003	\$ -	\$ 9,770,000	\$ -	\$ -	\$ 9,770,000	\$ 245,000
2011 Series A	-	29,120,000	-	-	29,120,000	290,000
2011 Series B	-	8,895,000	-	-	8,895,000	60,000
Totals	\$ -	\$ 47,785,000	\$ -	\$ -	47,785,000	\$ 595,000
Less: unamortized original issue discount					(738,703)	
					\$ 47,046,297	

Note 17: Successor Agency Trust For Assets of Former Redevelopment Agency (Continued)

The City has pledged a portion of the tax increment revenue that it receives as security for tax allocation bonds it has issued. These bonds were to provide financing for various capital projects. Assembly Bill 1X 26 provided that upon dissolution of the Redevelopment Agency, property taxes allocated to redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency. Total principal and interest remaining on the debt is \$122,258,669 with annual debt service requirements as indicated below. For the current year, the total property tax revenue recognized by the City and Successor Agency for the payment of indebtedness incurred by the dissolved redevelopment agency was \$2,560,274 and the debt service obligation on the bonds was \$5,626,554.

A description of long-term debt outstanding (excluding defeased debt) of the Successor Agency as of June 30, 2012, follows:

2003 Tax Allocation Bonds

In September 2003, the West Hollywood Community Development Commission (Redevelopment Agency) issued \$11,500,000 Eastside Redevelopment Project 2003 Tax Allocation Bonds for the purpose of financing redevelopment activities. The bonds consist of \$5,650,000 serial bonds with annual maturity dates from September 1, 2004 through September 1, 2023, with interest rates ranging from 3.000% to 5.700%, and term bonds of \$2,520,000 with an interest rate of 5.625% maturing September 1, 2028, and term bonds of \$3,330,000 with an interest rate of 5.750% maturing September 1, 2033. Interest is payable semiannually beginning March 1, 2004. At June 30, 2012, the total principal outstanding was \$9,770,000.

2011 Tax Allocation Bonds, Series A

In March 2011, the West Hollywood Community Development Commission issued \$30,560,000 Eastside Redevelopment Project 2011 Tax Allocation Bonds, Series A for the purpose of financing redevelopment activities. The bonds consist of \$4,625,000 serial bonds with annual maturity dates from September 1, 2011 through September 1, 2021, with interest rates ranging from 2.000% to 6.250%; term bonds of \$2,415,000 with an interest rate of 7.000% maturing September 1, 2026; term bonds of \$3,400,000 with an interest rate of 7.250% maturing September 1, 2031; and term bonds of \$20,120,000 with an interest rate of 7.500% maturing September 1, 2042. Interest is payable semiannually beginning September 1, 2011. At June 30, 2012, the total principal outstanding was \$29,120,000.

2011 Tax Allocation Bonds, Series B

In March 2011, the West Hollywood Community Development Commission issued \$9,420,000 Eastside Redevelopment Project 2011 Tax Allocation Bonds, Series B for the purpose of financing redevelopment activities. The bonds consist of \$1,125,000 serial bonds with annual maturity dates from September 1, 2011 through September 1, 2021, with interest rates ranging from 3.000% to 8.500%; term bonds of \$525,000 with an interest rate of 9.250% maturing September 1, 2026; term bonds of \$815,000 with an interest rate of 9.500% maturing September 1, 2031; and term bonds of \$6,955,000 with an interest rate of 9.500% maturing September 1, 2042. Interest is payable semiannually beginning September 1, 2011. At June 30, 2012, the total principal outstanding was \$8,895,000.

Note 17: Successor Agency Trust For Assets of Former Redevelopment Agency (Continued)

The following is a schedule, by years, of future debt service payments for all bonds as of June 30, 2012:

	2003 Tax Allocation Bonds		2011 Tax Allocation Bonds, Series A	
	Principal	Interest	Principal	Interest
2012-2013	\$ 245,000	\$ 532,808	\$ 290,000	\$ 2,079,400
2013-2014	260,000	521,120	265,000	2,072,194
2014-2015	270,000	508,533	275,000	2,062,388
2015-2016	285,000	495,138	285,000	2,049,762
2016-2017	295,000	480,633	305,000	2,035,013
2017-2022	1,735,000	2,145,960	1,765,000	9,899,669
2022-2027	2,260,000	1,596,240	2,415,000	9,222,875
2027-2032	2,980,000	860,544	3,400,000	8,195,687
2032-2037	1,440,000	83,950	6,605,000	6,495,937
2037-2042	-	-	10,835,000	3,153,938
2042-2047	-	-	2,680,000	100,497
Totals	\$ 9,770,000	\$ 7,224,926	\$ 29,120,000	\$ 47,367,360

	2011 Tax Allocation Bonds, Series B		Total	
	Principal	Interest	Principal	Interest
2012-2013	\$ 60,000	\$ 826,563	\$ 595,000	\$ 3,438,771
2013-2014	45,000	824,500	570,000	3,417,814
2014-2015	50,000	822,113	595,000	3,393,034
2015-2016	50,000	819,175	620,000	3,364,075
2016-2017	55,000	815,756	655,000	3,331,402
2017-2022	340,000	4,007,969	3,840,000	16,053,598
2022-2027	525,000	3,821,406	5,200,000	14,640,521
2027-2032	815,000	3,510,963	7,195,000	12,567,194
2032-2037	2,060,000	2,915,075	10,105,000	9,494,962
2037-2042	3,885,000	1,469,888	14,720,000	4,623,826
2042-2047	1,010,000	47,975	3,690,000	148,472
Totals	\$ 8,895,000	\$ 19,881,381	\$ 47,785,000	\$ 74,473,669

d. Subsequent Events**Assembly Bill 1484 Due Diligence Review**

On June 27, 2012, the Legislature passed Assembly Bill 1484 to establish a requirement for the successor agency to remit to the County auditor-controller three payments as determined by the auditor-controller which consist of a payment to be made in July 2012 for taxing entities' share of December 2011 property tax distribution to redevelopment agency/successor agency, a payment to be made in November 2012 related to Low-Moderate Income Housing Fund Due Diligence Review for unencumbered cash, and a payment to be made in April 2013 related to the other Redevelopment Funds Due Diligence Review for unencumbered cash. As of the date of the report the payment in July 2012 was made in the amount of \$2,067,487, the Low-Moderate Income Housing Due Diligence Review resulted in a payment of \$342,514 in December to the County, and the other Redevelopment Funds Due Diligence Review resulted in an amount due of \$1,243,997 to the County of which has not been confirmed by the Department of Finance.

CITY OF WEST HOLLYWOOD

**BUDGETARY COMPARISON SCHEDULE
REDEVELOPMENT AGENCY LOW AND MODERATE HOUSING
YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 11,100,827	\$ 11,100,827	\$ 11,100,827	\$ -
Resources (Inflows):				
Taxes	1,640,000	1,640,000	-	(1,640,000)
Use of money and property	20,000	20,000	19,651	(349)
Amounts Available for Appropriations	12,760,827	12,760,827	11,120,478	(1,640,349)
Charges to Appropriations (Outflow):				
General government	100,000	100,000	23,385	76,615
Capital outlay	-	3,065,888	583,863	2,482,025
Debt service:				
Principal retirement	597,850	597,850	596,510	1,340
Interest and fiscal charges	577,895	577,895	491,140	86,755
Extraordinary loss on dissolution of redevelopment agency	-	-	9,425,580	(9,425,580)
Total Charges to Appropriations	1,275,745	4,341,633	11,120,478	(6,778,845)
Budgetary Fund Balance, June 30	\$ 11,485,082	\$ 8,419,194	\$ -	\$ (8,419,194)

CITY OF WEST HOLLYWOOD

**BUDGETARY COMPARISON SCHEDULE
 REDEVELOPMENT AGENCY CAPITAL PROJECTS
 YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (950,510)	\$ (950,510)	\$ (950,510)	\$ -
Resources (Inflows):				
Use of money and property	80,000	80,000	52,230	(27,770)
Transfers in	-	-	32,239,747	32,239,747
Amounts Available for Appropriations	(870,510)	(870,510)	31,341,467	32,211,977
Charges to Appropriations (Outflow):				
General government	1,064,743	1,204,979	607,105	597,874
Capital outlay	-	43,414,183	412,669	43,001,514
Debt service:				
Interest and fiscal charges	400,000	400,000	-	400,000
Extraordinary loss on dissolution of redevelopment agency	-	-	30,321,693	(30,321,693)
Total Charges to Appropriations	1,464,743	45,019,162	31,341,467	13,677,695
Budgetary Fund Balance, June 30	\$ (2,335,253)	\$ (45,889,672)	\$ -	\$ 45,889,672

CITY OF WEST HOLLYWOOD

**BUDGETARY COMPARISON SCHEDULE
 REDEVELOPMENT AGENCY DEBT SERVICE
 YEAR ENDED JUNE 30, 2012**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 4,144,943	\$ 4,144,943	\$ 4,144,943	\$ -
Resources (Inflows):				
Taxes	4,625,000	4,625,000	2,560,274	(2,064,726)
Use of money and property	10,000	10,000	(5,276)	(15,276)
Amounts Available for Appropriations	8,779,943	8,779,943	6,699,941	(2,080,002)
Charges to Appropriations (Outflow):				
General government	130,000	130,000	90,446	39,554
Debt service:				
Principal retirement	1,604,500	1,604,500	1,603,490	1,010
Interest and fiscal charges	1,403,390	1,403,390	1,216,479	186,911
Extraordinary loss on dissolution of redevelopment agency	-	-	3,789,526	(3,789,526)
Total Charges to Appropriations	3,137,890	3,137,890	6,699,941	(3,562,051)
Budgetary Fund Balance, June 30	\$ 5,642,053	\$ 5,642,053	\$ -	\$ (5,642,053)

CITY OF WEST HOLLYWOOD

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds \$ (42,739,993)

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.

Capital outlay	\$ 12,006,900	
Depreciation expense	<u>(3,660,949)</u>	8,345,951

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Long-term debt repayments	3,795,000	
Bond discount/premium amortization	37,190	
Bond issuance cost amortization	(57,823)	
CJPIA General Liability and Workers' Compensation Retrospective Payable	<u>(2,780,972)</u>	993,395

Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period. 1,137,919

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. 43,447

Governmental funds report all contributions in relation to the annual required contribution (ARC) for OPEB as expenditures, however in the statement of activities only the ARC is an expense. (293,000)

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. 228,622

Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities. 152,978

Extraordinary gains and losses relating to capital assets and long term liabilities transferred to the Successor Agency are reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.

Capital assets	(2,427,834)	
Long-term liabilities	47,785,000	
Unamortized bond discount/premium	(749,496)	
Unamortized bond issuance costs	<u>(885,188)</u>	<u>43,722,482</u>

Change in net assets of governmental activities \$ 11,591,801

Note 5: Changes in Governmental Activities Capital Assets

	Beginning Balance	Adjustments **	Adjusted Beginning Balance	Transfers to Successor Agency *	Increases	Decreases	Transfers	Balance
Governmental Activities:								
Capital assets, not being depreciated:								
Land	\$ 51,233,390	\$ 184,771	\$ 51,418,161	\$ (1,338,057)	\$ 5,670	\$ -	\$ -	\$ 50,085,774
Construction-in-progress	45,101,676	(2,537,789)	42,563,887	(576,058)	1,592,194	-	(39,322,103)	4,257,920
Total Capital Assets, Not Being Depreciated	96,335,066	(2,353,018)	93,982,048	(1,914,115)	1,597,864	-	(39,322,103)	54,343,694
Capital assets, being depreciated:								
Buildings	31,461,367	329,413	31,790,780	-	6,997,262	-	37,941,641	76,729,683
Improvements other than buildings	9,720,445	794,296	10,514,741	(575,077)	443,223	-	-	10,382,887
Machinery and equipment	6,321,054	-	6,321,054	-	1,444,709	-	-	7,765,763
Furniture and fixtures	80,590	-	80,590	-	899,596	-	779,427	1,759,613
Office equipment	1,239,472	-	1,239,472	-	327,951	-	-	1,567,423
Infrastructure	88,561,612	1,229,309	89,790,921	-	296,295	-	601,035	90,688,251
Subtotal - Depreciable Assets	137,384,540	2,353,018	139,737,558	(575,077)	10,409,036	-	39,322,103	188,893,620
Total Capital Assets	233,719,606	-	233,719,606	(2,489,192)	12,006,900	-	-	243,237,314
Less accumulated depreciation:								
Buildings	7,027,305	-	7,027,305	-	788,081	-	-	7,815,386
Improvements other than buildings	1,141,639	-	1,141,639	(61,358)	216,175	-	-	1,296,456
Machinery and equipment	4,180,052	-	4,180,052	-	516,605	-	-	4,696,657
Furniture and fixtures	76,894	-	76,894	-	217,968	-	-	294,862
Office equipment	1,238,325	-	1,238,325	-	22,919	-	-	1,261,244
Infrastructure	37,209,602	-	37,209,602	-	1,899,201	-	-	39,108,803
Total Accumulated Depreciation	50,873,817	-	50,873,817	(61,358)	3,660,949	-	-	54,473,408
Total Capital Assets, Being Depreciated, Net	86,510,723	2,353,018	88,863,741	(513,719)	6,748,087	-	39,322,103	134,420,212
Governmental Activities Capital Assets, Net	\$ 182,845,789	\$ -	\$ 182,845,789	\$ (2,427,834)	\$ 8,345,951	\$ -	\$ -	\$ 188,763,906

* As a result of the dissolution of the redevelopment agency, capital assets of the former redevelopment agency were transferred to the Successor Agency. See Note 17 for additional information.

** Adjustments were made to reclassify capital asset types.

Depreciation expense was charged to functions/programs of the primary government in the Governmental Activities as follows:

Governmental Activities:	
General government	\$ 298,248
Public safety	70,262
Public services	3,292,439
Total Depreciation Expense	\$ 3,660,949

Note 8: Other Post-Retirement Benefits (Continued)

The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was twenty-five years. The number of active plan participants is 204.

Note 9: Long-Term Debt

a. The following is a schedule of changes in long-term debt of the entity for the current fiscal year:

	Outstanding July 1, 2011	Additions	Deletions	Transfers to Successor Agency *	Outstanding June 30, 2012	Due Within One Year
Lease Revenue Bonds						
2009 Series A	\$ 19,235,000	\$ -	\$ 1,595,000	\$ -	\$ 17,640,000	\$ 1,645,000
2009 Series B	34,780,000	-	-	-	34,780,000	-
Tax Allocation Bonds						
2003	10,005,000	-	235,000	(9,770,000)	-	-
2011 Series A	30,560,000	-	1,440,000	(29,120,000)	-	-
2011 Series B	9,420,000	-	525,000	(8,895,000)	-	-
CJPIA General Liability Retrospective						
Deposit Payable	-	2,502,354	-	-	2,502,354	-
CJPIA Workers' Comp. Retrospective						
Deposit Payable	-	278,618	-	-	278,618	-
Accrued employee benefits	3,090,754	3,151,922	3,195,369	-	3,047,307	3,047,307
OPEB Obligation	1,099,541	293,000	-	-	1,392,541	-
Totals	\$ 108,190,295	\$ 6,225,894	\$ 6,990,369	\$ (47,785,000)	59,640,820	\$ 4,692,307
					504,361	
					(86,513)	
					\$ 60,058,668	

* As a result of the dissolution of the Redevelopment Agency, indebtedness of the former Redevelopment Agency was transferred to the Successor Agency. See Note 17 for disclosures for indebtedness.

b. Lease Revenue Bonds

2009 Lease Revenue Bonds, Series A

On July 15, 2009, the West Hollywood Public Financing Authority issued \$22,160,000 2009 Lease Revenue Bonds, Series A to currently refund the outstanding principal balance of the 1998 Refunding Certificates of Participation in the amount of \$20,420,000, finance the acquisition and construction of certain public capital improvements, provide for a debt service reserve fund for the 2009 Bonds, and pay the costs of issuing the Series A 2009 Bonds.

Interest will be payable semiannually. Interest rates range from 2.0% to 5.0%, with maturity dates starting February 2010 and ending February 2021. Principal payments range from \$1,390,000 to \$2,310,000. At June 30, 2012, the total principal outstanding was \$17,640,000.

Note 9: Long-Term Debt (Continued)

2009 Lease Revenue Bonds, Series B

On July 15, 2009, the West Hollywood Public Financing Authority issued \$34,780,000 2009 Lease Revenue Bonds, Series B to finance the acquisition and construction of certain public capital improvements, fund a debt service reserve fund for the 2009 Bonds, and pay the costs of issuing the Series B 2009 Bonds.

The Series B Bonds are term bonds of \$8,570,000 with interest rate of 7.125% maturing on February 1, 2024, term bonds of \$8,020,000 with an interest rate of 8.000% maturing on February 1, 2029, and term bonds of \$18,190,000 with an interest rate of 8.250% maturing on February 1, 2039. Interest is payable semiannually beginning February 2010. At June 30, 2012, the total principal outstanding was \$34,780,000.

The following is a schedule, by years, of future debt service payments for both bonds as of June 30, 2012:

	2009 Lease Revenue Bonds, Series A		2009 Lease Revenue Bonds, Series B		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012-2013	\$ 1,645,000	\$ 807,700	\$ -	\$ 1,789,377	\$ 1,645,000	\$ 2,597,077
2013-2014	1,730,000	725,450	-	1,789,377	1,730,000	2,514,827
2014-2015	1,815,000	656,250	-	1,789,377	1,815,000	2,445,627
2015-2016	1,900,000	583,650	-	1,789,377	1,900,000	2,373,027
2016-2017	1,985,000	507,650	-	1,789,377	1,985,000	2,297,027
2017-2022	8,565,000	1,068,500	3,010,000	8,926,738	11,575,000	9,995,238
2022-2027	-	-	10,945,000	6,979,273	10,945,000	6,979,273
2027-2032	-	-	7,135,000	4,851,681	7,135,000	4,851,681
2032-2037	-	-	9,255,000	2,729,781	9,255,000	2,729,781
2037-2042	-	-	4,435,000	359,824	4,435,000	359,824
Totals	\$ 17,640,000	\$ 4,349,200	\$ 34,780,000	\$ 32,794,182	\$ 52,420,000	\$ 37,143,382

c. Tax Allocation Bonds

The Redevelopment Agency Tax Allocation Bonds totaling \$47,785,000 have been transferred to the Successor Agency. Please refer to Note 17 for disclosure information.

d. CJPIA General Liability and Workers' Compensation Retrospective Deposit Payable

Retrospective deposits and refunds are cost allocation adjustments to prior coverage periods. Some claims take many years to resolve and over time their estimated value changes. The retrospective adjustments are calculated annually and take into consideration all the changes in claim values that occurred during the most recent year. The formula is designed to adequately cover the cost of claims brought against members and to ensure the overall financial strength and security of the Authority. The formula was developed to be as equitable as possible by taking into consideration both risk exposure and claims experience of individual members. CJPIA has temporarily deferred the payment on retrospective deposits owed to the Authority by members. The payment deferral period extends until July 1, 2013 for the Liability program and July 1, 2015 for the Workers' Compensation program. Retrospective deposit payments are scheduled to resume on these dates. The October 2011 annual retrospective adjustment is included in

Note 9: Long-Term Debt (Continued)

these balances. The City at June 30, 2012 had a retrospective deposit due of \$2,780,972. This amount is comprised of \$2,502,354 for General Liability and \$278,618 for workers' compensation.

Optional Payment Plans

When retrospective deposit payments resume as indicated above, members will have the opportunity to select from a variety of optional payment plans. Discounts under the incentive plan are available to members choosing to voluntarily accelerate payment during the deferral period. The City has chosen not to voluntarily accelerate payment at this time.

After the deferral period, members choosing from among the optional payment plans will be subject to a moderate annual fee. The fee is intended to provide a means for the Authority to recover otherwise foregone investment earnings and to serve as a minor disincentive for the selection of longer financing terms.

Retrospective Balances will Change Annually

Retrospective balances will change with each annual computation during the payment deferral period. Member balances may increase or decrease as a result of the most recent year's claim development. Accordingly, some members who chose to pay off their balance in full may be required to pay additional retrospective deposits in the future based on the outcome of actual claim development reflected in subsequent retrospective deposit computations. Conversely, if claim development is favorable then subsequent retrospective adjustments could potentially result in refunds to the member.

More information on the CJPIA retrospective balances can be found on the CJPIA website at CJPIA.org.

e. Accrued employee benefits

The City's policies relating to compensated absences are described in Note 1 of the Notes to Financial Statements. The accrued employee benefits are normally liquidated by the General Fund. The outstanding balance at June 30, 2012 was \$3,047,307.

f. Other post-employment benefits obligation

The City's policies relating to other post-employment benefits are described in Note 8 of the Notes to Financial Statements. The outstanding balance at June 30, 2012 was \$1,392,541.

CITY OF WEST HOLLYWOOD

**TABLE 13
EAST SIDE PROJECT AREA BONDS COVERAGE
LAST EIGHT FISCAL YEARS**

Fiscal Year	Gross Revenue	Less: Operating Expenses	Net Revenue Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2005	2,187,395	353,917	1,833,478	195,000	591,070	786,070	2.33
2006	4,394,355	641,987	3,752,368	200,000	585,220	785,220	4.78
2007	4,065,668	467,600	3,598,068	205,080	579,220	784,300	4.59
2008	5,460,803	591,958	4,868,845	215,000	572,045	787,045	6.19
2009	6,443,020	679,740	5,763,280	220,000	565,595	785,595	7.34
2010	6,144,778	584,778	5,560,000	220,000	561,745	781,745	7.11
2011	6,118,409	653,896	5,464,514	225,000	553,395	778,395	7.02
2012	3,458,062	125,000	3,333,062	2,200,000	1,771,598	3,971,598	0.84

- Note:
- (1) East Side Redevelopment Agency issued Tax Allocation Bonds of \$11,500,000 in fiscal year 2003-04 and \$39,980,000.00 in fiscal year 2010-11.
 - (2) The State of California dissolved all redevelopment agencies as part of the 2011-12 State budget. Successor Agencies are responsible for paying the enforceable obligations of the redevelopment agency at the time of dissolution until all enforceable obligations have been paid in full.
 - (3) Fiscal Year 2011-12 bond payments were made by using undesignated reserves in the RDA Fund.

Source: City of West Hollywood.

CITY OF WEST HOLLYWOOD

**TABLE 24
EAST SIDE PROJECT AREA
PROJECTED TAX REVENUES AND ESTIMATED DEBT SERVICE COVERAGE
FISCAL YEAR 2004-2043**

Fiscal Year Ending June 30th	2003 Bonds Principal and Interest	2011 A Bonds Principal and Interest	2011 B Bonds Principal and Interest	Total Debt Service	(1) (2) Net Tax Increment	(3) RPTTF Revenue	Coverage
2004	250,878	-	-	250,878	1,547,391	-	517%
2005	829,595	-	-	829,595	2,147,395	-	259%
2006	783,145	-	-	783,145	4,311,022	-	550%
2007	782,220	-	-	782,220	3,985,668	-	510%
2008	780,633	-	-	780,633	4,781,122	-	612%
2009	783,820	-	-	783,820	5,856,461	-	747%
2010	781,745	-	-	781,745	3,948,945	-	505%
2011	778,395	-	-	778,395	5,180,371	-	666%
2012	778,608	2,460,365	932,625	4,171,598	3,220,004	951,594	100%
2013	777,808	2,372,300	887,613	4,037,720	-	4,037,720	100%
2014	781,120	2,341,500	870,513	3,993,133	-	3,993,133	100%
2015	778,533	2,342,888	873,488	3,994,908	-	3,994,908	100%
2016	780,138	2,341,888	870,738	3,992,763	-	3,992,763	100%
2017	775,633	2,347,638	872,613	3,995,883	-	3,995,883	100%
2018	775,050	2,347,388	873,900	3,996,338	-	3,996,338	100%
2019	778,328	2,340,588	869,550	3,988,465	-	3,988,465	100%
2020	775,523	2,342,438	869,900	3,987,860	-	3,987,860	100%
2021	776,343	2,341,438	874,700	3,992,480	-	3,992,480	100%
2022	775,718	2,344,238	873,513	3,993,468	-	3,993,468	100%
2023	773,790	2,344,550	871,713	3,990,053	-	3,990,053	100%
2024	770,338	2,345,150	873,850	3,989,338	-	3,989,338	100%
2025	770,569	2,343,650	875,063	3,989,281	-	3,989,281	100%
2026	769,553	2,345,050	875,350	3,989,953	-	3,989,953	100%
2027	771,991	2,344,000	874,713	3,990,703	-	3,990,703	100%
2028	767,881	2,345,500	873,150	3,986,531	-	3,986,531	100%
2029	767,225	2,342,725	875,325	3,985,275	-	3,985,275	100%
2030	769,369	2,342,050	871,075	3,982,494	-	3,982,494	100%
2031	769,150	2,343,113	870,875	3,983,138	-	3,983,138	100%
2032	766,919	2,345,550	874,250	3,986,719	-	3,986,719	100%
2033	762,675	2,344,000	870,725	3,977,400	-	3,977,400	100%
2034	761,275	2,346,375	870,775	3,978,425	-	3,978,425	100%
2035	-	2,888,875	1,113,925	4,002,800	-	4,002,800	100%
2036	-	2,890,625	1,111,900	4,002,525	-	4,002,525	100%
2037	-	2,878,750	1,105,600	3,984,350	-	3,984,350	100%
2038	-	2,878,625	1,105,025	3,983,650	-	3,983,650	100%
2039	-	2,878,750	1,109,225	3,987,975	-	3,987,975	100%
2040	-	2,878,375	1,107,250	3,985,625	-	3,985,625	100%
2041	-	2,881,750	1,109,100	3,990,850	-	3,990,850	100%
2042	-	2,877,750	1,108,825	3,986,575	-	3,986,575	100%
2043	-	2,881,000	1,105,950	3,986,950	-	3,986,950	100%
Totals:	23,543,962	79,988,878	30,122,813	133,655,652	34,978,378	124,665,217	119%

(1) From Fiscal Year 2003-04 to 2010-11, tax increment was the source of revenues. Net tax increment revenues increased through fiscal year 2008-09. In fiscal years 2009-10, 2010-11 and the first half of 2011-12, ERAF takeaways reduced the amount of tax increment received by the Agency. Note net tax increment revenues for 2005-06 included \$1.4 million in prior year revenues.

(2) In 2010-11, the Agency issued new bonds; This schedule has been adjusted to show that debt service of the bonds that were issued.

(3) The California State Legislature dissolved all redevelopment agencies effective January 31, 2012. On February 1, 2012, a Successor Agency was formed with the purpose of paying off all enforceable obligations of the former redevelopment agency from County's Redevelopment Property Tax Trust Fund (RPTTF). The debt shown has been approved as enforceable obligations by the State Department of Finance and the Successor Agency's Oversight Board. In 2011-12, the payment was made from redevelopment fund reserves.

Source: West Hollywood Community Development Commission.