

PERRIS
PUBLIC FINANCING AUTHORITY
FINANCIAL STATEMENTS
Year Ended June 30, 2007

Perris Public Financing Authority
Financial Statements
Year Ended June 30, 2007

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	i
Basic Component Unit Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet - Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	5
Notes to the Financial Statements	6 - 20

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Perris Public Financing Authority
Perris, California

We have audited the accompanying financial statements of the governmental activities and major fund of the Perris Public Financing Authority (the "Authority"), a component unit of the City of Perris, as of and for the year ended June 30, 2007, which collectively comprise the Authority's basic component unit financial statements, as listed in the table of contents. These basic component unit financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these basic component unit 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 basic component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1.A, the basic component unit financial statements present only the Authority and are not intended to present fairly the financial position and results of operations of the City of Perris, California in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Authority as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 5, 2007 on our consideration of the City of Perris's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Authority has not presented the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic component unit financial statements.

Teaman Ramirez & Smith

December 5, 2007

Perris Public Financing Authority
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 3,087
Restricted Cash and Investments	47,036,763
Interest Receivable	4,663
Deposits	226,775
Loans Receivable from Perris RDA	54,035,000
Interest Receivable from Perris RDA	706,332
Unamortized Bond Issuance Costs	<u>2,104,493</u>
Total Assets	<u>104,117,113</u>
LIABILITIES	
Accounts Payable	1,300
Deposits	3,752,655
Due to the City of Perris	44,325
Interest Payable	1,587,264
Unearned Revenues	782,429
Noncurrent Liabilities:	
Due Within One Year	1,810,000
Due in More Than One Year	<u>95,170,000</u>
Total Liabilities	<u>103,147,973</u>
NET ASSETS	
Unrestricted	<u>969,140</u>
Total Net Assets	<u><u>\$ 969,140</u></u>

The accompanying notes are an integral part of this statement.

Perris Public Financing Authority
Statement of Activities
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	(Expense) Revenue
Governmental Activities:					
General Government	\$ 508,382	\$	\$	\$	\$ (508,382)
Interest on Long-term Debt	5,454,009	2,661,071			(2,792,938)
Total Governmental Activities	\$ 5,962,391	\$ 2,661,071	\$ 0	\$ 0	(3,301,320)
General Revenues:					
Investment Earnings					3,506,303
Total General Revenues					3,506,303
Change in Net Assets					204,983
Total Net Assets - Beginning					764,157
Total Net Assets - Ending					\$ 969,140

The accompanying notes are an integral part of this statement.

Perris Public Financing Authority
Balance Sheet
Governmental Funds
June 30, 2007

	Debt Service	Total Governmental Funds
ASSETS		
Cash and Investments	\$ 3,087	\$ 3,087
Cash and Investments with Fiscal Agent	47,036,763	47,036,763
Interest Receivable	4,663	4,663
Deposits	226,775	226,775
Loans Receivable from Perris RDA	54,035,000	54,035,000
Total Assets	\$ 101,306,288	\$ 101,306,288
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	\$ 1,300	\$ 1,300
Deposits	3,752,655	3,752,655
Due to the City of Perris	44,325	44,325
Deferred Revenues	782,429	782,429
Total Liabilities	4,580,709	4,580,709
Fund Balances:		
Reserved:		
Debt Service	5,191,026	5,191,026
Loans Receivable	54,035,000	54,035,000
Long-term Investment in Bonds	37,499,553	37,499,553
Total Fund Balances	96,725,579	96,725,579
Total Liabilities and Fund Balances	\$ 101,306,288	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Some assets are not due and receivable in the current period and therefore are not reported in the governmental funds.	2,810,825
Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	(98,567,264)
Net Assets of Governmental Activities	\$ 969,140

The accompanying notes are an integral part of this statement.

Perris Public Financing Authority
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007

	Debt Service	Total Governmental Funds
REVENUES		
Investment Earnings	\$ 6,085,715	\$ 6,085,715
Total Revenues	6,085,715	6,085,715
EXPENDITURES		
Current:		
General Government	12,900	12,900
Debt Service:		
Principal Retirement	3,560,000	3,560,000
Interest and Fiscal Charges	5,436,117	5,436,117
Bond Issuance Costs	3,000	3,000
Total Expenditures	9,012,017	9,012,017
Excess (Deficiency) of Revenues over Expenditures	(2,926,302)	(2,926,302)
OTHER FINANCING SOURCES (USES)		
Contributions to Other Governments	(416,605)	(416,605)
Total Other Financing Sources (Uses)	(416,605)	(416,605)
Net Change in Fund Balances	(3,342,907)	(3,342,907)
Fund Balances, Beginning	100,068,486	100,068,486
Fund Balances, Ending	\$ 96,725,579	\$ 96,725,579

The accompanying notes are an integral part of this statement.

Perris Public Financing Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2007

Net change in fund balances-total governmental funds \$ (3,342,907)

Amounts reported for governmental activities in the Statement of Activities are different because:

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, government funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 3,563,000

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 governmental funds. (96,769)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. 81,659

Change in Net Assets of Governmental Activities \$ 204,983

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Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
1	Reporting Entity and Summary of Significant Accounting Policies	7 - 11
2	Cash and Investments	11 - 15
3	Loans Receivable	15
4	Long-term Liabilities	16 - 18
5	Defeased Obligations	18
6	Fund Balance Reserves and Designations	19
7	Risk Management	19 - 20
8	Subsequent Events	20

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The Perris Public Financing Authority (the "Authority") is a joint exercise of powers between the City of Perris (the "City") and the Perris Redevelopment Agency (the "Agency"), created by a joint powers agreement dated August 28, 1989. The purpose of the Authority is to provide financing for public capital improvements within the City.

The Authority's offices and records are located at City Hall, 101 North "D" Street, Perris, California, telephone (951) 943-2906.

The Authority is a component unit of the City of Perris and, accordingly, the financial statements of the Authority are included in the financial statements of the City of Perris. The Authority is an integral part of the reporting entity of the City of Perris. The funds of the Authority have been blended within the financial statements of the City because the City Council of the City of Perris is the governing board of the Authority and exercises control over the operations of the Authority. Only the funds of the Authority are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Perris.

B) Basis of Presentation

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies reflected in the financial statements are summarized as follows:

Government-wide Statements: The Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government (the Authority). For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All Authority activities are governmental; no business-type activities are reported in the statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are expenses that are clearly identifiable with a specific program, project, function or segment. Program revenues of the Authority include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items that are properly not included among program revenues are reported instead as general revenues.

Fund Financial Statements: Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Taxes, intergovernmental revenues, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and are therefore recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Authority.

The Authority reports the following major governmental fund:

The *Debt Service Fund* is used to account for the accumulation of resources for, and the repayment of, long-term debt principal, interest and related costs.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Direct expenses have not been eliminated from the functional categories; indirect expenses and internal payments have been eliminated.

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

D) Explanation of Differences Between Governmental Funds Balance Sheet and the Statement of Net Assets

"Total fund balances" of the Authority's governmental funds, \$96,725,579, differs from "total net assets" of governmental activities, \$969,140, reported in the Statement of Net Assets. This difference primarily results from the long-term economic focus of the Statement of Net Assets versus the current financial resources focus of the Governmental Funds Balance Sheet.

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D) Explanation of Differences Between Governmental Funds Balance Sheet and the Statement of Net Assets - Continued

All assets (both current and long-term) are reported in the Statement of Net Assets. Interest applicable to loans receivable is not collected or earned in the current period and accordingly is not reported as fund assets. Bond issuance costs are due and payable in the current period and accordingly reported as an expense for the full amount when paid in the governmental funds. However, the Statement of Net Assets reports an asset for the unamortized portion of these costs over the life of the bond.

Interest Receivable from Perris RDA	\$ 706,332
Unamortized Bond Issuance Costs (\$3,000 in Current Year)	2,349,791
Accumulated Amortization on Bond Issuance Costs	<u>(245,298)</u>
 Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities.	 <u>\$ 2,810,825</u>

All liabilities (both current and long-term) are reported in the Statement of Net Assets. Long-term liabilities and the interest payable on these 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. Premiums on long-term debt are reported in the Statement of Revenues, Expenditures and Changes in Fund Balances in the full amount as current financial resources. However, the Statement of Net Assets reports a deferred revenue for the premiums over the life of the bond.

Interest Payable	\$ (1,587,264)
Long-term Liabilities	<u>(96,980,000)</u>
 Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities.	 <u>\$ (98,567,264)</u>

E) Explanation of Differences Between Governmental Funds Operating Statement and the Statement of Activities

The "net change in fund balances" for governmental funds, \$(3,342,907), differs from the "change in net assets" for governmental activities, \$204,983, reported in the Statement of Activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the governmental funds. The effect of the differences are illustrated as follows:

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation states that "the repayment of the principal of long-term debt consumes the current financial resources of governmental funds." This transaction, however, has no effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E) Explanation of Differences Between Governmental Funds Operating Statement and the Statement of Activities - Continued

The details of this \$3,563,000 differences are as follows:

Long-term Debt Principal Payments	\$ 3,560,000
Unamortized Bond Issuance Cost	<u>3,000</u>
Net adjustment to increase (decrease) net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$ 3,563,000</u>

Another element of that reconciliation states that “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 governmental funds.” The details of the \$(96,769) differences as follows:

Amortization of Bond Issuance Cost	\$ (78,877)
Accrued Interest	<u>(17,892)</u>
Net adjustment to increase (decrease) net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$ (96,769)</u>

Interest on Long-term Receivables

Interest on Long-term Receivables from Perris RDA is not collected or earned in the current period and accordingly is not reported as governmental fund revenues. However these revenues are reported in the Statement of Activities.

Investment Earnings	\$ <u>81,659</u>
---------------------	------------------

F) Investments

As a governmental entity other than an external investment pool in accordance with GASB 31, the Authority’s investments are stated at fair value except for interest-earning investment contracts (see Note 2).

In applying GASB 31, the Authority utilized the following methods and assumptions:

- 1) Fair value is based on quoted market prices as of the valuation date;
- 2) The portfolio did not hold investments in any of the following:
 - a) Items required to be reported at amortized cost,
 - b) Items in external pools that are not SEC-registered,
 - c) Items subject to involuntary participation in an external pool,
 - d) Items associated with a fund other than the fund to which the income is assigned;

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F) Investments - Continued

- 3) The gain/loss resulting from valuation will be reported within the revenue account "Investment Earnings" on the Statement of Activities and Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds.

G) Budgets and Budgetary Accounting

Formal budgets are not required for the Debt Service Funds; therefore, no combined statement of revenues, expenditures and changes in fund balance - budget and actual is presented.

H) Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions made by Management. Actual results could differ from those amounts.

2) CASH AND INVESTMENTS

Cash and Investments are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 3,087
Restricted Cash and Investments	<u>47,036,763</u>
Total Cash and Investments	<u>\$ 47,039,850</u>

Cash and investments consist of the following:

Deposits with Financial Institutions	\$ 3,087
Investments	<u>47,036,763</u>
Total Cash and Investments	<u>\$ 47,039,850</u>

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

2) CASH AND INVESTMENTS - Continued

Investments Authorized by the California Government Code and the Authority's Investment Policy

The table below identifies the investment types that are authorized for the Authority by the Authority's investment policy. The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity ⁽¹⁾	Maximum Percentage Of Portfolio ⁽²⁾	Maximum Investment In One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	80%	None
U.S. Agency Securities	5 years	80%	None
Banker's Acceptances	180 days	15%	5%
Commercial Paper	270 days	15% of market value	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	20%	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium - Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	80%	None
JPA Pools (Other Investment Pools)	N/A	None	None

⁽¹⁾No more than 50% of the portfolio shall have maturity dates in excess of 2 years at any given time.

⁽²⁾Excluding amounts held by bond trustee that are not subject to California Government Code Restrictions.

Investments Authorized by Debt Agreements

Investment 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 the Authority's investment policy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates 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 market interest rates. One of the ways that the Authority manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and 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.

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Interest Rate Risk - Continued

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

<u>Investment Type</u>	Remaining Maturity (in Months)			
	<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
Held By Bond Trustee:				
Money Market Fund	\$ 1,228,518	\$ 1,228,518	\$	\$
Federal Agency Securities	8,308,692	8,308,692		
Local Obligation Bonds	<u>37,499,553</u>	<u>924,467</u>	<u>1,061,967</u>	<u>1,542,694</u>
		<u>33,970,425</u>		
Total	<u>\$ 47,036,763</u>	<u>\$ 10,461,677</u>	<u>\$ 1,061,967</u>	<u>\$ 1,542,694</u>
			<u>\$ 33,970,425</u>	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the Authority's investment policy and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Not Rated</u>
Held By Bond Trustee:		
Money Market Fund	\$ 1,228,518	N/A
Federal Agency Securities	8,308,692	\$ 1,228,518
Local Obligation Bonds	<u>37,499,553</u>	8,308,692
		<u>37,499,553</u>
Total	<u>\$ 47,036,763</u>	<u>\$ 47,036,763</u>

Concentration of Credit Risk

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's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Community Facilities and Assessment Districts	Local Obligation Bonds	\$ 37,499,553
Federal Home Loan Mortgage Corp.	Federal Agency Securities	\$ 4,788,494
Federal National Mortgage Association	Federal Agency Securities	\$ 3,520,198

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

2) CASH AND INVESTMENTS - Continued

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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 the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2007, none of the Authority's deposits that are in excess of federal depository insurance limits were held in uncollateralized accounts, and none of the Authority's investments were held by the broker-dealer (counterparty) that was used by the Authority to buy the securities.

Investments in Community Facilities District and Assessment District Bonds

The Perris Public Financing Authority has purchased various Assessment District (AD) and Community Facilities District (CFD) Bonds from the proceeds of revenue bonds issued by the Authority to facilitate the respective bond issues of the Districts (see Note 4). Due to the long-term nature of these investments, a portion of fund balance has been reserved in the Governmental Funds Balance Sheet.

The CFD and AD Bonds are secured solely by assessments on property owners within the Districts. The repayment schedules of the bonds, and interest thereon, to the Authority are concurrent and sufficient to satisfy the debt service requirements of the respective Authority revenue bonds. The investments are summarized below:

Investment	Fair Value
CFD 93-2 Special Tax Bonds, 1995 Series A	\$ 4,858,697
CFD 88-1 Special Tax Bonds, 1996 Series A	5,938,052
CFD 88-3 Special Tax Bonds, 1996 Series A	4,311,431
CFD 90-1 Special Tax Bonds, 1996 Series A	2,818,919
AD 86-1 Improvement Refunding Bonds, 1993 Series A	850,109
CFD 2001-1 Improvement Refunding Bonds, 2003 Series A	10,910,548
CFD 2004-3 Improvement Refunding Bonds, 2005 Series A	7,811,797
Total	\$ 37,499,553

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

2) CASH AND INVESTMENTS - Continued

Cash with Fiscal Agent

Cash and investments held and invested by fiscal agents on behalf of the Authority are pledged for payment or security of certain long-term debt issuances. Fiscal agents are mandated by bond indentures as to the types of investments in which debt proceeds can be invested.

Included in cash and investments with fiscal agent are the debt securities issued by some of the City's Assessment Districts and Community Facilities Districts. These are special assessment obligations and, therefore, are not obligations of the Authority or the City.

3) LOANS RECEIVABLE

The Authority has entered into loan agreements with the Perris Redevelopment Agency (Agency) whereby the Authority loaned the proceeds of the 2001 Series A and B Revenue Bonds, the 2002 Series A, B and C Revenue Bonds and the 2006 Tax Allocation Bonds issued by the Authority to retire debt and provide funds for certain public improvements in Agency project areas.

The following table represents the balance of net proceeds loaned to the Agency at the end of the year:

	<u>Amount Issued</u>	<u>Loans Receivable End of Year</u>
2001 Series A Issue	\$ 10,745,000	\$ 9,670,000
2001 Series B Issue	1,280,000	1,280,000
2002 Series A Issue	6,335,000	5,840,000
2002 Series B Issue	3,505,000	3,235,000
2002 Series C Issue	3,235,000	3,005,000
2006 Tax Allocation Bonds	<u>31,005,000</u>	<u>31,005,000</u>
Total	<u>\$ 56,105,000</u>	<u>\$ 54,035,000</u>

The loans are recorded as a receivable offset by a reservation of fund balance in the Authority's Debt Service Fund.

The balance at June 30, 2007, of the accounts with retained funds is \$3,752,655 and is reflected as deposits in these financial statements.

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

4) LONG-TERM LIABILITIES

The following is a summary of the changes in long-term liabilities:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
1993 Revenue Bonds, Series C	\$ 1,235,000	\$	\$ 385,000	\$ 850,000	\$ 410,000
1995 Revenue Bonds, Series D	5,875,000		430,000 ⁽¹⁾	5,445,000	135,000
1996 Revenue Bonds, Series E	160,000		160,000	0	
1996 Revenue Bonds, Series F	17,445,000		2,100,000 ⁽²⁾	15,345,000	570,000
2001 Revenue Bonds, Series A	9,860,000		190,000	9,670,000	195,000
2001 Revenue Bonds, Series B	1,280,000			1,280,000	
2002 Revenue Bonds, Series A	5,970,000		130,000	5,840,000	135,000
2002 Revenue Bonds, Series B	3,310,000		75,000	3,235,000	75,000
2002 Revenue Bonds, Series C	3,065,000		60,000	3,005,000	65,000
2003 Revenue Bonds, Series A	12,380,000		30,000	12,350,000	45,000
2004 Revenue Bonds, Series A	8,955,000			8,955,000	5,000
2006 Tax Revenue Bonds	<u>31,005,000</u>			<u>31,005,000</u>	<u>175,000</u>
Total	<u>\$100,540,000</u>	<u>\$ 0</u>	<u>\$ 3,560,000</u>	<u>\$96,980,000</u>	<u>\$ 1,810,000</u>

⁽¹⁾ \$300,000 of this Bond has been called in the current year.

⁽²⁾ \$1,680,000 of this Bond has been called in the current year.

Revenue Bonds

On June 7, 1993, the Authority issued \$4,365,000 1993 Revenue Bonds, Series C, to acquire Assessment District (AD) 86-1 Improvement Refunding Bonds, 1993 Series A. The Authority purchased the Special Tax Bonds as an investment to provide funding to the District. Interest on the bonds is payable September 2 and March 2 of each year. Interest on the bonds accrues at rates varying from 4.00% to 6.85% per annum. Principal on serial bonds is payable in annual installments ranging from \$140,000 to \$440,000 commencing September 2, 1994, through September 2, 2008. At June 30, 2007 the Authority has a cash reserve balance for debt service of \$426,408 which is not sufficient to cover the Bond Indenture Reserve Requirement.

\$ 850,000

On March 23, 1995, the Authority issued \$6,795,000 1995 Revenue Bonds, Series D, to acquire CFD 93-2 Special Tax Bonds, 1995 Series A. The Authority purchased the Special Tax Bonds as an investment to provide funding to the District. Interest on the bonds is payable September 1 and March 1 of each year. Interest on the bonds accrues at rates varying from 6.00% to 7.20% per annum. Principal on serial bonds is payable in annual installments ranging from \$70,000 to \$120,000 commencing September 1, 1997, through September 1, 2006. Term bonds of \$5,875,000 mature September 1, 2025. At June 30, 2007 the Authority has a cash reserve balance for debt service of \$596,460 which is sufficient to cover the Bond Indenture Reserve Requirement.

5,445,000

Interest for the \$19,850,000 1996 Revenue Bonds, Series F, is payable September 1 and March 1 of each year. Interest on the bonds accrues at varying rates from 3.85% to 5.60% per annum. Principal on serial bonds is payable in annual installments ranging from \$110,000 to \$730,000 commencing September 1, 1997, through September 1, 2009. Term bonds of \$1,630,000, \$5,275,000 and \$7,585,000 mature September 1, 2011, 2016, and 2024 respectively. The bonds are subject to mandatory redemption on any date on or after September 1, 1997, from prepayments of District Bonds, of all or a portion Special Taxes. The bonds are also subject to mandatory redemption commencing September 1, 2010, September 1, 2012, and September 2017, with respect to the bonds maturing September 1, 2011, September 1, 2016, and September 1, 2024, respectively from sinking fund payments made by the Authority. Further, the bonds are subject to special mandatory redemption on or after September 1, 2006, in whole or part from moneys representing the proceeds of sale or refunding of the District Bonds. On September 1, 2006 \$1,680,000 of the Bonds outstanding were redeemed on an optional call. At June 30, 2007 the Authority has a cash reserve balance for debt service of \$1,794,182 which is sufficient to cover the Bond Indenture Reserve Requirement.

15,345,000

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

4) LONG-TERM LIABILITIES - Continued

Revenue Bonds - Continued

On June 20, 2001, the Authority issued \$10,745,000 2001 Revenue (Tax Allocation) Bonds, Series A, to enable the Redevelopment Agency to refund its previously issued 1987 Tabs 91 Parity Bonds and 1992 Series D Revenue (Tax Allocation) Bonds. Interest on the bonds is payable October 1 and April 1 of each year. Interest on the bonds accrues at rates varying from 3.10% to 5.75% per annum. Principal on serial bonds is payable in annual installments ranging from \$165,000 to \$695,000 commencing October 1, 2001 through October 1, 2031. At June 30, 2007 the Authority has a cash reserve balance for debt service of \$739,804 which is sufficient to cover the Bond Indenture Reserve Requirement. 9,670,000

On June 20, 2001, the Authority issued \$1,280,000 2001 Revenue (Tax Allocation) Bonds, Series B, to enable the Redevelopment Agency to refund its previously issued 1996 Series A Parity Bonds. Interest on the bonds is payable October 1 and April 1 of each year. Interest on the bonds accrues at a rate of 6.50% per annum. Principal on serial bonds is payable in annual installments ranging from \$30,000 to \$105,000 commencing October 1, 2010 through October 1, 2031. At June 30, 2007 the Authority has a cash reserve balance for debt service of \$113,534 which is sufficient to cover the Bond Indenture Reserve Requirement. 1,280,000

On July 9, 2002, the Authority issued \$6,335,000 2002 Revenue (Tax Allocation) Bonds, Series A, to provide loans to the Redevelopment Agency. The proceeds of these new loans will be used to refund loans related to the 1992 Revenue (Tax Allocation) Bonds, Series B, which in turn will allow the Authority to refund those Bonds. Interest on the Bonds is payable October 1 and April 1 of each year. Interest on the Bonds accrues at rates varying from 3.00% to 5.25% per annum. Principal on Serial Bonds is payable in annual installments ranging from \$120,000 to \$390,000 commencing October 1, 2003 through October 1, 2031. The reserve requirement is covered by a Surety Bond. 5,840,000

On August 14, 2002, the Authority issued \$3,505,000 2002 Revenue (Tax Allocation) Bonds, Series B, to provide loans to the Redevelopment Agency. The proceeds of these loans will facilitate the refunding of the 1992 Revenue (Subordinate Tax Allocation) Bonds, Series C. Interest on the Bonds is payable October 1 and April 1 of each year. Interest on the Bonds accrues at rates varying from 2.00% to 4.875% per annum. Principal on Serial Bonds is payable in annual installments ranging from \$55,000 to \$215,000 commencing October 1, 2003 through October 1, 2031. The reserve requirement is covered by a Surety Bond. 3,235,000

On August 14, 2002, the Authority issued \$3,235,000 2002 Revenue (Tax Allocation) Bonds, Series C to provide loans to the Redevelopment Agency. The proceeds of these loans will be used to finance Capital Projects of the Redevelopment Agency. Interest on the Bonds is payable October 1 and April 1 of each year. Interest on the Bonds accrues at rates varying from 3.125% to 5.625% per annum. Principal on Serial Bonds is payable in annual installments ranging from \$55,000 to \$210,000 commencing October 1, 2003 through October 1, 2031. At June 30, 2007 the Authority has a cash reserve balance for debt service of \$234,588 which is sufficient to cover the Bond Indenture Reserve Requirement. 3,005,000

On September 30, 2003, the Authority issued \$12,380,000 2003 Revenue Bonds, Series A to acquire CFD 2001-1 (May Ranch) Improvement Area I, Improvement Area II, and Improvement Area III bonds. The Authority purchased the CFD bonds as an investment to provide funding to the districts. Interest on the Authority Bonds is payable September 1 and March 1 of each year. Interest on the Bonds accrues at rates varying from 3.00% to 6.25% per annum. Principal on the Bonds is payable in annual installments ranging from \$30,000 to \$1,050,000 commencing September 1, 2006 through September 1, 2033. At June 30, 2007, the Authority has a cash reserve balance for debt service of \$1,121,058 which is sufficient to cover the Bond Indenture Reserve Requirement. 12,350,000

On July 20, 2005, the Public Financing Authority issued \$8,955,000 2004 Revenue Bonds Series A to acquire CFD 2004-3 (Monument Ranch) Improvement Area 1 Bonds. The Authority purchased the CFD Bonds as an investment to provide funding to the District. Interest on the Authority Bonds is payable September 1 and March 1 of each year. Interest on the Bonds accrue at rates varying from 4.00% to 6.125% per annum. Principal on the Bonds is payable in annual installments ranging from \$5,000 to \$810,000 commencing September 1, 2007 through September 1, 2034. At June 30, 2007, the Authority has a cash reserve balance for debt service of \$861,153 which is sufficient to cover the Bond Indenture Reserve Requirement. 8,955,000

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

4) LONG-TERM LIABILITIES - Continued

Revenue Bonds - Continued

On April 19, 2006, the Public Financing Authority issued \$31,005,000 2006 Revenue (Tax Allocation) Bonds, to provide loans to the Redevelopment Agency. The proceeds of these loans will be used to finance capital projects and the low and moderate income housing program of the Redevelopment Agency. Interest on the bonds is payable October 1 and April 1 of each year. Interest on the bonds accrues at rates varying from 4.000% to 5.350% per annum. Principal on the serial bonds is payable in annual installments ranging from \$175,000 to \$3,355,000 commencing October 1, 2007 through October 1, 2036. At June 30, 2007, the Authority has a cash reserve balance for debt service of \$2,669,974 which is sufficient to cover the Bond Indenture Reserve Requirement.

31,005,000

Total Revenue Bonds

\$ 96,980,000

The future debt requirements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,810,000	\$ 5,416,852	\$ 7,226,852
2009	2,025,000	5,315,095	7,340,095
2010	1,810,000	5,215,708	7,025,708
2011	2,060,000	5,117,841	7,177,841
2012	2,225,000	5,007,483	7,232,483
2013-2017	14,010,000	22,978,771	36,988,771
2018-2022	17,830,000	18,325,986	36,155,986
2023-2027	18,985,000	12,947,630	31,932,630
2028-2032	20,705,000	7,410,736	28,115,736
2033-2037	<u>15,520,000</u>	<u>1,736,270</u>	<u>17,256,270</u>
Total	<u>\$ 96,980,000</u>	<u>\$ 89,472,372</u>	<u>\$ 186,452,372</u>

5) DEFEASED OBLIGATIONS

A) In July 2002, the Public Financing Authority issued \$6,335,000 in Tax Allocation Revenue Bonds, 2002 Series A, with interest rates varying between 1.70% and 5.25% to advance refund \$6,015,000 of 1992 Series B Revenue Bonds with interest rates between 3.00% and 6.35%. The net proceeds of \$6,225,783 (after payment of \$109,217 in underwriting fees and other issuance costs) plus an additional \$418,970 of prior funds were used to purchase U.S. government securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 Series B Revenue Bonds. As a result, the 1992 Series B Revenue Bonds are considered to be defeased and the liability of those bonds has been removed from long-term liabilities. The outstanding balance at June 30, 2007 is \$4,715,000.

In August 2002, the Public Financing Authority issued \$3,505,000 in Tax Allocation Revenue Bonds, 2002 Series B, with interest rates varying between 2% and 4.875% to advance refund \$3,760,000 of 1992 Series C Revenue Bonds with interest rates between 4.00% and 7.10%. The net proceeds of \$3,232,569 (after payment of \$272,431 in underwriting fees and other issuance costs) plus an additional \$718,595 of prior funds were used to purchase U.S. government securities. Those securities were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 Series C Revenue Bonds. As a result, the 1992 Series C Revenue Bonds are considered to be defeased and the liability of those bonds has been removed from long-term liabilities. The outstanding balance at June 30, 2007 is \$2,985,000.

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

6) FUND BALANCE RESERVES AND DESIGNATIONS

The Authority's various reserves and designations in the governmental fund financial statements are as follows:

	Debt Service Funds
Reserved	
Debt Service	\$ 5,191,026
Loans Receivable	54,035,000
Long-term Investment in Bonds	37,499,553
Total	\$ 96,725,579

Reserved for Debt Service

This reserve is established for cash restrictions for future debt service.

Reserved for Loans Receivable

This reserve was established to reflect the non-current portion of loans receivable in such a manner that they will not be considered as current available funds.

Reserved for Long-term Investments in Bonds

This reserve was established to reflect the long-term portion of investments in such a manner that they will not be considered as current available funds.

7) RISK MANAGEMENT

To account for risks of loss and liability claims, the Authority participates in the City's self-insurance program. The City of Perris maintains a self-insurance program for workers' compensation. For workers' compensation claims, the City is at risk for up to \$250,000 per occurrence, amounts in excess of \$250,000 are covered through PERMA. The limits of the coverage are \$200,000 per accident for workers' compensation and \$5,000,000 each accident for employers' liability.

PERMA was created under a joint exercise of powers agreement for the purpose of providing insurance coverage for its members. The governing Board of Directors consists of one member from each participating agency.

PERMA also provides a non-risk sharing "deductible", or banking, pool for claims within the SIR level. Annual contributions are deposited with the PERMA from which claims are paid.

Under the liability programs risk-sharing pool, each member's share of total claims liabilities, including IBNR's, is determined by the application of risk factors to specific characteristics of each member which provides the relative share of each member in total losses of PERMA. These losses are paid from premiums charged to the members which are established at levels to fund all claims costs.

Perris Public Financing Authority
Notes to Financial Statements
Year Ended June 30, 2007

7) RISK MANAGEMENT - Continued

The workers' compensation insurance program is a non-risk sharing program. Therefore, each member is directly charged for any losses incurred. Each member's equity represents accumulated contributions held by PERMA on the member's behalf. Any deficits created for losses in excess of assets available for a given member is funded over a ten year period through an adjustment to required premiums.

During the past three fiscal years none of the above programs of protection have had settlements or judgements that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

The aforementioned information is not included in the accompanying financial statements. Separate financial statements of PERMA may be obtained at 77-670 Springfield Lane, Suite 1A, Palm Desert, California 92211.

8) SUBSEQUENT EVENTS

On September 1, 2007, the Authority issued \$11,895,000 in Revenue Refunding Bonds, 2007 Series A. Interest on the bonds is payable September 1 and March 1 of each year. Interest on the bonds accrues at rates varying from 4.000 to 5.000% per annum. Principal on the bonds is payable in annual installments ranging from \$395,000 to \$1,115,000 commencing September 1, 2008 through September 1, 2024.

On September 1, 2007, the Authority issued \$1,865,000 in Revenue Refunding Bonds, 2007 Series B. Interest on the bonds is payable September 1 and March 1 of each year. Interest on the bonds accrues at rates varying from 4.000 to 4.375% per annum. Principal on the bonds is payable in annual installments ranging from \$60,000 to \$180,000 commencing September 1, 2008 through September 1, 2024.