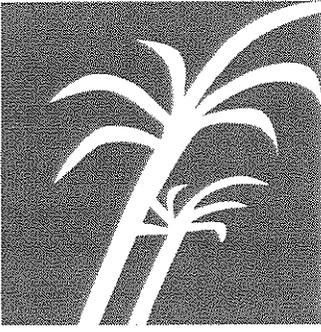


La Palma



1955
2005



of
Vision

CITY OF LA PALMA, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2006

**CITY OF LA PALMA
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

YEAR ENDED JUNE 30, 2006

**Prepared By
Finance Department**

**Deborah A. Moreno, CPA
Director of Finance**



CITY OF LA PALMA
Comprehensive Annual Financial Report
Year ended June 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTORY SECTION</u>	
Letter of Transmittal	i
Certificate of Award for Outstanding Financial Reporting (CSMFO)	vii
Certificate of Achievement for Excellence in Financial Reporting (GFOA)	viii
Directory of Officials	ix
Organizational Chart	x
<u>FINANCIAL SECTION</u>	
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	22
Reconciliation of the Balance Sheet to the Statement of Net Assets	24
Statement of Revenues, Expenditures and Changes in Fund Balances	26
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	28
Proprietary Funds:	
Statement of Fund Net Assets	30
Statement of Revenues, Expenses and Changes in Fund Net Assets	31
Statement of Cash Flows	32
Fiduciary Funds:	
Statement of Fiduciary Assets and Liabilities	34
Notes to the Basic Financial Statements	35

CITY OF LA PALMA
 Comprehensive Annual Financial Report
 Year ended June 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
Required Supplementary Information:	
Notes to Required Supplementary Information	73
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
General Fund	74
Low and Moderate Income Housing Fund	75
Supplementary Schedules:	
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	78
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	80
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
Asset Seizure Fund	82
Streets Fund	83
Measure M Fund	84
Traffic Congestion Fund	85
Park Development Fund	86
Air Quality Improvement Fund	87
Supplemental Law Enforcement Service Fund	88
Public Safety Augmentation Fund	89
Abandoned Vehicles Fund	90
Local Law Enforcement Block Grant Fund	91
California Law Enforcement Equipment Program Fund	92
Urban Park Grant Fund	93
Major Debt Service Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
CDC Debt Service Fund	96
Internal Service Funds:	
Combining Statement of Fund Net Assets	98
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	99
Combining Statement of Cash Flows	100
Agency Funds:	
Statement of Fiduciary Assets and Liabilities	102
Statement of Changes in Fiduciary Assets and Liabilities	103

CITY OF LA PALMA
Comprehensive Annual Financial Report
Year ended June 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
Capital Assets Used in the Operation of Governmental Funds:	
Schedule by Source	104
Schedule by Function and Activity	105
Schedule of Changes by Function	106
 <u>STATISTICAL SECTION (UNAUDITED)</u>	
Table of Contents	107
 Financial Trends:	
Net Assets by Component – Last Four Fiscal Years	109
Changes in Net Assets – Last Four Fiscal Years	110
Fund Balances of Governmental Funds – Last Four Fiscal Years	112
Changes in Fund Balances of Governmental Funds – Last Four Fiscal Years	113
 Revenue Capacity:	
Assessed Value and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years	114
Direct and Overlapping Property Tax Rates – Last Ten Fiscal Years	115
Principal Property Tax Payers – Current and Nine Years Ago	116
Property Tax Levies and Collections – Last Ten Fiscal Years	117
 Debt Capacity:	
Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	118
Estimated Direct and Overlapping Bonded Debt – As of June 30, 2006	119
Legal Debt Margin Information – Last Ten Fiscal Years	120
Pledged Revenue Coverage – Last Ten Fiscal Years	121
 Demographic and Economic Information:	
Demographic and Economic Statistics – Last Ten Calendar Years	122
 Operating Information:	
Full-Time Budgeted Positions by Function – Last Ten Fiscal Years	123
Operating Indicators by Function – Last Four Fiscal Years	124
Capital Assets Statistics by Function – Last Four Fiscal Years	125



Office of the City Manager

October 6, 2006

To the Members of the City Council and Citizens of the City of La Palma:

State law requires that all general-purpose local governments publish within six months of the close of the fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with generally accepted auditing standards by a firm of certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial statements of the City of La Palma (City) for the fiscal year ending June 30, 2006.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, the management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Mayer Hoffman McCann P.C., a firm of certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ending June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2006 were fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

As a recipient of Federal, State and County financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal

control structure is subject to periodic evaluation by management. Under Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, which was revised June 24, 1997, the City did not meet the criteria for periodic evaluation and, therefore, was not required to and did not have a single audit performed for fiscal year ending June 30, 2006.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City, incorporated in 1955, is located in north Orange County. The City currently occupies a land area of approximately 2 square miles and serves a population of 16,081. The City is empowered to levy a property tax on both real and personal properties located within its boundaries.

The City has operated under the council-manager form of government since 1955. Policy making and legislative authority are vested in a City Council consisting of the mayor and four other councilmembers. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The Council is elected on a non-partisan basis. Councilmembers serve four-year staggered terms. The mayor serves a one-year term and is selected for the position annually by the Council as a whole.

The City provides a full range of services, including police protection; the construction and maintenance of highways, streets and other infrastructure; and recreational and cultural activities. The City is financially accountable for the La Palma Community Development Commission, which is reported separately within the City's financial statements. Additional information regarding both of these legally separate entities can be found in the notes to the basic financial statements.

The annual budget serves as the foundation for the City's financial planning and control. All agencies of the City are required to submit requests for appropriation to the City Manager in March of each year. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the Council for review in May. The Council is required to hold public hearings on the proposed budget and to adopt a final budget on or around June 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of

appropriations within a department. Transfers of appropriations between departments, however, require the special approval of the City Manager. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund and major special revenue funds, this comparison is presented as part of the required supplementary information in the accompanying financial statements. For governmental funds that have appropriated annual budgets, other than the General Fund and major special revenue funds, this comparison is presented in the supplementary section of the accompanying financial statements.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local Economy

The impact on the City's budget due to the State's ongoing budget crisis has abated somewhat with the passing of the Local Taxpayers and Public Safety Protection Act, also known as Proposition 1A. With some exceptions, California cities are constitutionally protected from future State raids on local revenues. The economy continues to drive the increases in the City's main revenue source of property taxes. However, in prior years the City's largest revenue source was sales taxes. As a result of a change in reporting of sales taxes by certain businesses in the City, sales taxes are now the City's third largest revenue source, behind utility users taxes.

Long-term Financial Planning

The La Palma City Council has adopted a series of Financial Policy Statements over the years to guide budgetary decisions. These Financial Policy Statements are not cast in stone, and change as economic conditions, both internal and external to the La Palma organization, impact City finances.

Policy Statement Number 12 states: *The City should strive to budget for the "normal costs" of certain ongoing expenditures. When actual costs are less than normal costs, the City should reserve the difference to build up reserves. When actual costs exceed normal costs, the City should use reserves to bridge the gap.*

This financial policy is being applied to Vehicle Replacement and Employee Retirement costs, in addition to insurance. As an example, budgeting for the "normal cost" of vehicle replacement will prevent the General Fund from having to absorb a dramatic upswing in expenditures when a large number of vehicles must be replaced.

This planned “smoothing” of resources increases the City’s long-term resiliency to changing economic conditions - whether they are caused by State budgetary actions, the loss of a top sales tax-generating business, or other unpredictable factors. As of June 30, 2006, the General Fund unreserved, undesignated fund balance was \$8,323,938 or 98.6% of total General Fund expenditures.

Cash Management

Cash temporarily idle during the year was invested in the State Treasurer’s investment pool, U.S. agency securities, and money market mutual funds. Cash resources of the individual funds are combined to form a pool of cash and investments. Investment income includes the change in the fair value of investments. Changes in fair value do not necessarily represent trends that will continue; nor will such changes necessarily be realized, especially in the case of temporary changes in the fair value of investments that the City intends to hold to maturity.

Risk Management

The City is a member of the California Joint Powers Insurance Authority (Authority) to provide for the transfer of risk for general liability. The Authority is a pool of cities, which has formed an insurance group. Each member city pays an annual deposit into the pool. In addition, various risk control techniques, including annual safety audits and employee accident prevention training, have been implemented to minimize losses.

The limit of general liability insurance provided on June 30, 2006, was \$50 million, combined single limit occurrence. The City has all risk property insurance, as indicated on a list of scheduled property. The City purchases Special Event insurance on an as-needed basis for City-sponsored events.

The City is also enrolled in the Authority’s Workers’ Compensation Insurance Program. The coverage provides statutory benefits for all City employees and volunteers.

All claims are investigated, valued, reserved, defended, and/or settled in accordance with generally accepted insurance industry practices. There are no known existing claims that would exceed the City’s applicable coverage.

Pension and Other Post-Employment Benefits

The City contributes to the California Public Employees Retirement System, an agent multiple-employer public employee defined benefit pension plan for its employees. Each year, an independent actuary engaged by the pension plan calculates that amount of the annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year’s annual required contribution to the pension plan as determined by this funding policy. The unfunded actuarial liability

associated with employee services rendered to date is being systematically funded over 20 years as part of the annual required contribution calculated by the actuary.

The City also provides post-retirement health and dental care benefits for certain retirees. As of the end of the current fiscal year, there were 21 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. Currently, GAAP does not require and the City does not report a liability in the financial statements in connection with an employer's obligation to provide these benefits; however, in three years this will be a required disclosure in the City's financial statements.

Additional information regarding the City's pension arrangements and post-employment benefits can be found in the notes to the basic financial statements.

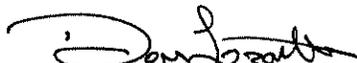
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the seventh consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the City's entire management team and staff of the Finance Division. We would like to express our appreciation to all members who assisted and contributed to the preparation of this report. Credit also must be given to the City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,


Dominic Lazzaretto
Interim City Manager


Deborah A. Moreno
Director of Finance



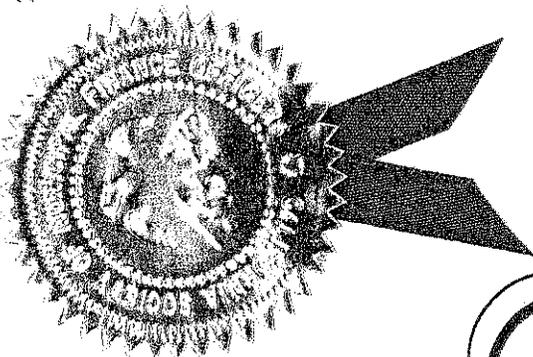
*California Society of
Municipal Finance Officers*

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

City of La Palma



*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 24, 2006

William A. Stand

*Bill Thomas, Chair
Professional & Technical Standards Committee*

Dedicated to Excellence in Municipal Financial Management

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of La Palma,
California

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

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



Carla E. Perry

President

Jeffrey R. Ennis

Executive Director

City of La Palma

Directory of Officials

June 30, 2006

CITY COUNCIL

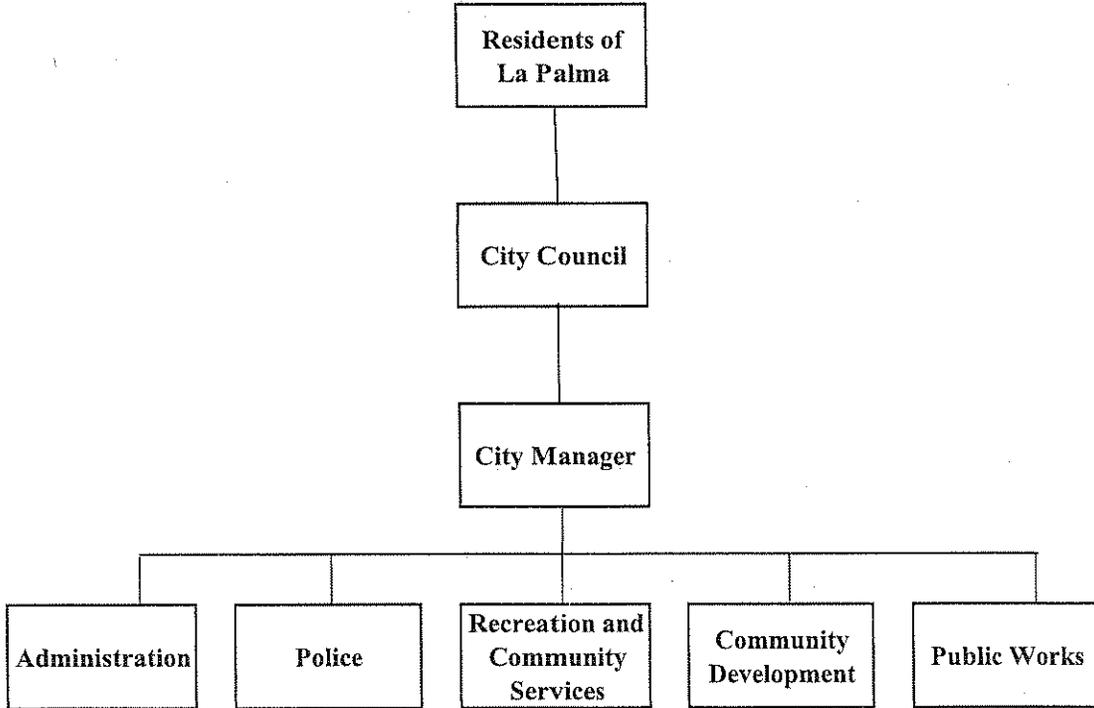
Christine M. Barnes, Mayor
Mark Waldman, Mayor Pro Tem
Kenneth A. Blake, Councilmember
Larry A. Herman, Councilmember
Ralph Rodriguez, Councilmember

ADMINISTRATION

Catherine Standiford, City Manager
Dominic Lazzaretto, Assistant City Manager/Director of Community Development
Laurie A. Murray, Administrative Services Manager/City Clerk
Edward O. Ethell, Chief of Police
Deborah A. Moreno, Director of Finance
Ismile H. Noorbaksh, P.E., Director of Public Works/City Engineer
Janice L. Hobson, Director of Recreation & Community Services



City of La Palma





Mayer Hoffman McCann P.C.

An Independent CPA Firm

Conrad Government Services Division

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Honorable Mayor and City Council
City of La Palma, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of La Palma, California, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of La Palma, California. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of La Palma, California, as of June 30, 2006, and the respective changes in the financial position and cash flows, where applicable, of the City of La Palma, California for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of La Palma's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and the statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financials and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Honorable Mayor and City Council
City of La Palma, California
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2006 on our consideration of the City of La Palma's internal control over financial reporting and on our tests of its compliance with certain provisions of 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.

Nayer Hoffman McCann P.C.

Irvine, California
August 21, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the City of La Palma (City) provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the basic financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an optional section that presents *supplementary schedules* in the form of combining statements for nonmajor governmental funds and internal service funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services like public safety were financed in the *short-term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short* and *long-term* financial information about the activities the government operates like businesses, such as the water and sewer systems.
 - *Fiduciary fund* statements provide information about the fiduciary relationships – like the agency funds of the City – in which the City acts solely as *agent* or *trustee* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes to the basic financial statements* that further explain the information in the basic financial statements. The statements are followed by a section of *required supplementary information* that provides additional financial and budgetary information.

The following table summarizes the major features of the City's basic financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of the City's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of fund net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets that are available to be used and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the City's fiduciary funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid.

Reporting the City as a Whole

The accompanying **government-wide financial statements** include two statements that present financial data for the City as a whole. One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases and decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

- Governmental activities – Most of the City's basic services are reported here. Sales taxes, property taxes, state subventions, and other revenues finance most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of the services accounted for in these funds.
- Component unit – The City includes one separate legal entity in its report – the City Community Development Commission (CDC). Although legally separate, the "component unit" is important because the City is financially accountable for it.

Reporting the City's Major Funds

The **fund financial statements** provide detailed information about the City's most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain taxes, grants, or other money. The City's funds – *governmental* and *proprietary* – use different accounting approaches.

- *Governmental funds* – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between *governmental activities* (reported in the Statement of Net Assets and the Statement of Activities) and *governmental funds* in a reconciliation at the bottom of the fund financial statements.
- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for the proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that primarily provide supplies and services for the City's other programs and activities.

Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Assets. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL HIGHLIGHTS

- The City's net assets increased as a result of this year's operations. Net assets of the City's governmental activities increased \$513,750 (1.6%) and business-type activities net assets increased by \$997,281 (6.1%).
- At the close of the current fiscal year, the City's governmental funds reported total ending fund balance of \$23,706,327, a decrease of \$41,283 (less than one percent).
- At the close of the current fiscal year, the unreserved - undesignated fund balance for the General Fund was \$8,323,938, or 98.6% of the total General Fund expenditures.
- The City's total long-term liabilities decreased by \$297,825 (3.1%) during the current fiscal year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A summary of the government-wide *statement of net assets* for the fiscal years ending June 30, 2006 and 2005 follows:

Condensed Statement of Net Assets (In Millions)

	June 30, 2006			June 30, 2005		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Current and other assets	\$ 30.5	11.2	41.7	27.9	10.0	37.9
Capital assets	14.7	6.9	21.6	14.6	7.0	21.6
Total assets	45.2	18.1	63.3	42.5	17.0	59.5
Long-term debt outstanding	9.2	-	9.2	9.5	-	9.5
Other liabilities	3.1	0.6	3.7	0.6	0.5	1.1
Total liabilities	12.3	0.6	12.9	10.1	0.5	10.6
Net assets:						
Invested in capital assets	14.7	6.9	21.6	14.6	7.0	21.6
Restricted	5.9	-	5.9	5.6	-	5.6
Unrestricted	12.3	10.6	22.9	12.2	9.5	21.7
Total net assets	\$ 32.9	17.5	50.4	32.4	16.5	48.9

A summary of the government-wide *statement of activities* for the fiscal years ending June 30, 2006 and 2005 follows:

Changes in Net Assets
(In Millions)

	Governmental			Business-type		
	Activities	Activities	Total	Activities	Activities	Total
	Year Ended June 30, 2006			Year Ended June 30, 2005		
Revenues						
Program revenues:						
Charges for services	\$ 0.8	2.9	3.7	0.9	2.3	3.2
Operating contributions and grants	0.9	0.0	0.9	0.8	-	0.8
Capital contributions and grants	-	0.1	0.1	-	-	-
General revenues:						
Property taxes	4.5	-	4.5	4.1	-	4.1
Sales taxes	0.8	-	0.8	4.4	-	4.4
Utility users tax	1.1	-	1.1	1.3	-	1.3
Other taxes	0.6	-	0.6	0.5	-	0.5
Other general revenues	1.4	0.3	1.7	1.0	0.3	1.3
Total revenues	10.1	3.3	13.4	13.0	2.6	15.6
Program expenses						
General government	1.5	-	1.5	1.4	-	1.4
Public safety	4.5	-	4.5	4.3	-	4.3
Public works	1.3	-	1.3	1.1	-	1.1
Recreation	1.2	-	1.2	1.2	-	1.2
Community development	0.8	-	0.8	0.8	-	0.8
Interest on long-term debt	0.6	-	0.6	0.6	-	0.6
Water	-	1.8	1.8	-	1.7	1.7
Sewer	-	0.2	0.2	-	0.3	0.3
Total program expenses	9.9	2.0	11.9	9.4	2.0	11.4
Excess before special items and transfers	0.2	1.3	1.5	3.6	0.6	4.2
Transfers	0.3	(0.3)	-	0.3	(0.3)	-
Increase in net assets	0.5	1.0	1.5	3.9	0.3	4.2
Beginning net assets, as restated	32.4	16.5	48.9	28.5	16.2	44.7
Ending net assets	\$ 32.9	17.5	50.4	32.4	16.5	48.9

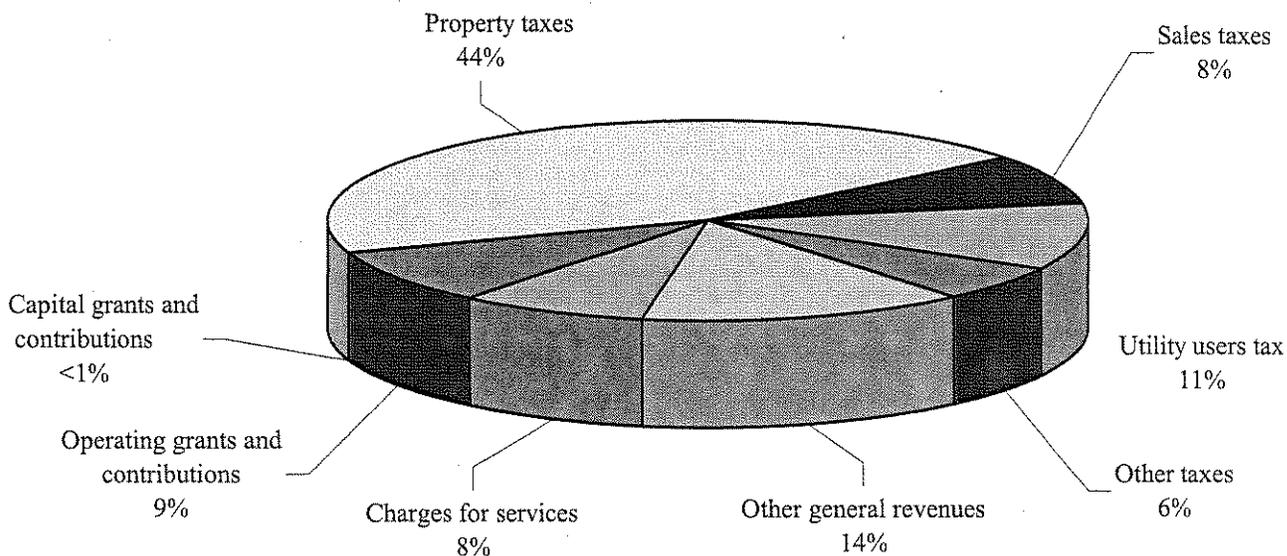
The City's total revenues, including transfers, for governmental and business-type activities were \$10,424,083 and \$3,075,589, respectively, while the total costs of all programs and services were \$9,910,333 and \$2,078,308, respectively. The result was an increase in net assets for governmental and business-type activities of \$513,750 (1.6%) and \$997,281 (6.1%), respectively.

Governmental Activities

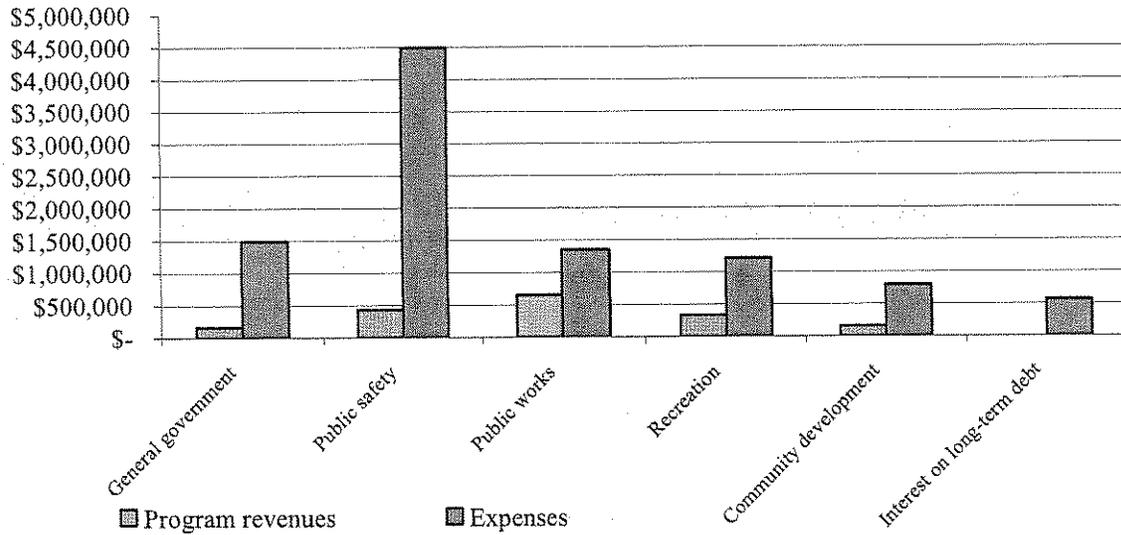
The reasons for significant changes in the revenues and expenses of the City's governmental activities are as follows:

- Revenues decreased by \$2.9 million (22.3%) when compared to the previous fiscal year. The decline is primarily related to a decrease in sales taxes of \$3.6 million as a result of a change in reporting of sales taxes by certain businesses in the City. This decrease is partially offset by increases in other revenues, mainly investment income of approximately \$600,000 primarily due to an increase in investments rates of the State investment pool.
- Expenses increased by approximately \$500,000 (5.3%) when compared to the previous fiscal year. There were various increases due to the timing of maintenance, such as the increase in residential slurry seal of \$109,228, and other non-significant increases primarily due to inflationary factors.

**Revenues by Source -
Governmental Activities**



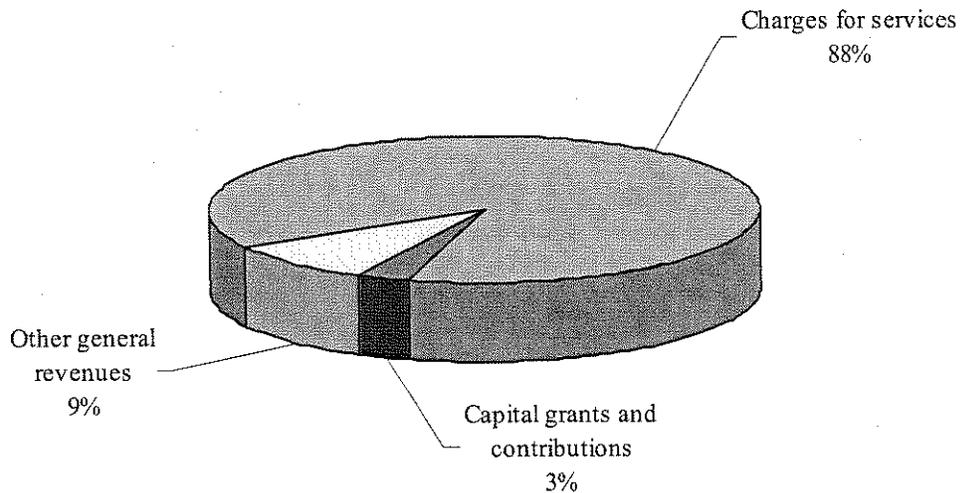
Expenses and Program Revenues - Governmental Activities



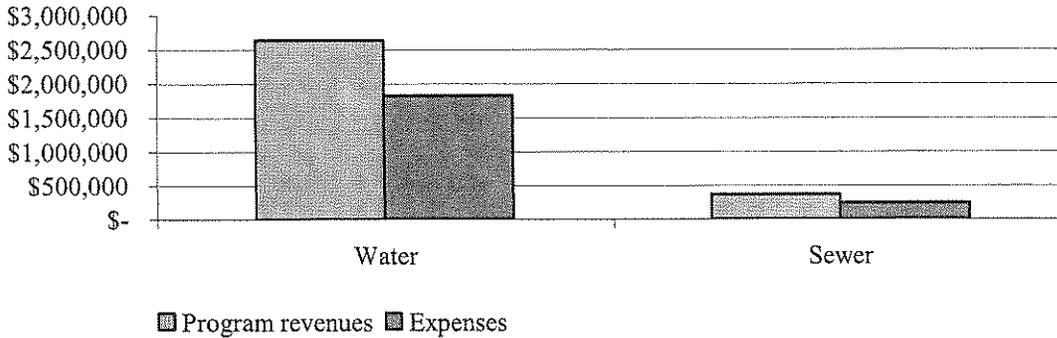
Business-type Activities

During the fiscal year ended June 30, 2006, program revenues increased by approximately \$700,000 (26.9%), primarily due to an increase in water rates during the current fiscal year. Expenses did not change significantly from the prior fiscal year. As a result, net assets increased by approximately \$1 million, primarily by maintaining the rate of expenses below revenues to accumulate resources for future replacement of capital assets.

Revenues by Source - Business-type Activities



Expenses and Program Revenues - Business-type Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to provide proper financial management of the City's resources and to demonstrate compliance with finance-related legal requirements.

Major Governmental Funds. The **General Fund** is the chief operating fund of the City. At the end of the current fiscal year, unreserved - undesignated fund balance of the General Fund was \$8,323,938, while total fund balance was \$13,550,563. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved - undesignated fund balance and total fund balance to total fund expenditures. Unreserved - undesignated fund balance represents 98.6% of total General Fund expenditures, while total fund balance represents 160.5% of that same amount.

The City's General Fund expenditures increased during the current fiscal year by \$473,976 (6.0%). This increase was primarily due to an increase in capital outlay of \$303,445 for various projects including the cost of computer system upgrades of approximately \$140,000 and additional vehicle purchases of approximately \$70,000. Other increases were primarily due to normal inflationary increases in supplies and services.

The **Low and Moderate Income Housing Fund** accounts for 20% of the tax increment received and is used to develop housing for citizens which meet the affordable housing criteria. This fund has a fund balance of \$2,484,600. The net increase in fund balance during the current year was \$397,033. Revenues increased by \$244,017 (35.7%) due to the increase in tax increment associated with an increase in assessed value of \$42,900 (9.9%), an increase in investment income of \$133,465 (52.9%) primarily due to the increased investment rates in the State investment pool, and an increase of \$67,652 in miscellaneous income from the repayment of affordable housing loans receivable in the current year. Expenditures increased by \$72,865 (15.9%) primarily due to increased interest costs on advances from other funds of \$70,298 (32.9%) that are tied to the investment rates in the State investment pool.

The **CDC Debt Service Fund** has a fund balance of \$944,512. The net increase in fund balance during the current year in the debt service fund was \$520,247 and was consistent with the increase in the prior year.

The **CDC Projects Fund** has a fund balance of \$1,160,946. The net decrease in fund balance during the year was \$203,563. The decrease was because revenues are limited to bond proceeds and interest income and during the current fiscal year and the Community Development Commission did not issue new debt. Expenditures were for various community development operating and project costs.

The **Capital Outlay Reserve Fund** has a fund balance of \$4,436,925. The net decrease in fund balance during the year was \$266,813. Expenditures of \$271,813 were made for various capital projects approved by the City Council as part of the current Capital Improvement Plan including median enhancements, street enhancements, storm drains and facility improvements.

Major Enterprise Funds. Unrestricted fund net assets of the **Water Fund** at the end of the year amounted to \$5,857,224 and those for the **Sewer Fund** amounted to \$4,608,732. The total increase in fund net assets for both funds was \$979,261, as previously addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year the original budget was amended to increase appropriations by \$103,776 (1.2%) to arrive at a final budget for General Fund expenditures of \$9,023,376. The additional appropriations were funded from reserves.

General Fund revenues of \$7,391,466 were less than budgeted revenues of \$9,381,900 by \$1,990,434 (21.2%). This deficit was primarily due to sales taxes that were less than budget by \$3,276,669 (79.9%), as previously addressed in the discussion of the City's governmental activities. This deficit was partially offset by property taxes that exceeded budget by \$483,809 (23.6%) due to the strength in real estate values, and investment income that exceeded budget by \$534,964 (115.9%) primarily due to increased investment rates in the State investment pool.

General Fund expenditures of \$8,441,866 were less than budgeted expenditures of \$9,023,376 by \$581,510 (6.4%). General government expenditures were \$144,703 (8.3%) less than budgeted due to personnel vacancies throughout the year and less than anticipated costs for technology upgrades. Recreation expenditures were \$92,910 (7.5%) less than budgeted due to personnel vacancies throughout the year and other operating cost savings. Additionally, capital outlay expenditures were \$257,021 (36.3%) less than budgeted primarily due to building improvements that were not completed during the year. There were no other significant variances.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets (Net of Accumulated Depreciation) (In Millions)

	June 30, 2006			June 30, 2005		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Land	\$ 6.7	0.7	7.4	6.7	0.7	7.4
Construction in progress	0.2	0.2	0.4	-	-	-
Buildings and improvements	2.1	2.5	4.6	2.1	2.7	4.8
Equipment	0.2	0.2	0.4	0.2	0.2	0.4
Vehicles	0.5	-	0.5	0.5	-	0.5
Furniture and fixtures	-	-	-	-	-	-
Infrastructure	5.0	3.3	8.3	5.1	3.4	8.5
Total capital assets	\$14.7	6.9	21.6	14.6	7.0	21.6

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounted to \$21,569,629 (net of accumulated depreciation). This investment in capital assets included land, construction in progress, buildings and improvements, equipment, vehicles, furniture and fixtures, and infrastructure. The total increase in the City's investment in capital assets during the year was \$32,041, or less than one percent.

Additional information on the City's capital assets can be found in note 6 of the notes to the basic financial statements.

Long-term Liabilities
(In Millions)

	June 30, 2006			June 30, 2005		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Tax allocation bonds	\$ 8.7	-	8.7	9.0	-	9.0
Compensated absences	0.5	-	0.5	0.5	-	0.5
Total long-term liabilities	\$ 9.2	-	9.2	9.5	-	9.5

The City's outstanding long-term liabilities, including tax allocation bonds and compensated absences, totaled \$9,193,948 as of June 30, 2006. The City's outstanding long-term liabilities decreased \$297,825 (3.1%) primarily due to the repayment of principal on tax allocation bonds.

Additional information on the City's long-term liabilities can be found in notes 7 and 8 of the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Due to the decline in sales taxes as a result of the change in reporting of sales taxes by certain businesses in the City, the City has implemented a 2.5% reduction in on-going expenditures by all departments in the General Fund budget for the fiscal year ending June 30, 2007. These changes necessitate the use of reserves in the amount of \$330,800, with an estimated unreserved fund balance of approximately \$9 million at June 30, 2007.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office, City of La Palma, 7822 Walker Street, La Palma, California 90623.

GOVERNMENT-WIDE FINANCIAL STATEMENTS



CITY OF LA PALMA
Statement of Net Assets
June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and investments	\$ 23,897,543	8,637,963	32,535,506
Cash and investments with fiscal agent	868,079	-	868,079
Receivables:			
Taxes	253,864	-	253,864
Accounts	5,756	1,202,654	1,208,410
Interest	282,255	117,725	399,980
Loans	5,093,708	-	5,093,708
Internal balances	(1,111,916)	1,111,916	-
Due from other governments	1,243,680	119,747	1,363,427
Prepaid items	12,231	-	12,231
Capital assets:			
Capital assets not being depreciated	6,922,944	943,585	7,866,529
Capital assets being depreciated, net of accumulated depreciation	7,766,089	5,937,011	13,703,100
Total assets	<u>45,234,233</u>	<u>18,070,601</u>	<u>63,304,834</u>
Liabilities:			
Accounts payable	637,921	588,931	1,226,852
Salaries payable	151,628	11,252	162,880
Retentions payable	16,577	11,950	28,527
Other accrued liabilities	4,867	-	4,867
Interest payable	40,373	-	40,373
Unearned revenue	2,276,176	-	2,276,176
Long-term liabilities:			
Portion due within one year:			
Compensated absences	523,948	-	523,948
Tax allocation bonds	380,000	-	380,000
Portion due beyond one year:			
Tax allocation bonds	8,290,000	-	8,290,000
Total liabilities	<u>12,321,490</u>	<u>612,133</u>	<u>12,933,623</u>
Net assets:			
Invested in capital assets	14,689,033	6,880,596	21,569,629
Restricted for:			
Low and moderate income housing	2,726,948	-	2,726,948
Debt service	866,447	-	866,447
Specific projects and programs	1,128,781	-	1,128,781
Capital projects	1,160,946	-	1,160,946
Unrestricted	12,340,588	10,577,872	22,918,460
Total net assets	<u>\$ 32,912,743</u>	<u>17,458,468</u>	<u>50,371,211</u>

See accompanying notes to the basic financial statements.

CITY OF LA PALMA
Statement of Activities
Year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,489,396	156,524	6,128	-
Public safety	4,491,758	157,301	272,476	-
Public works	1,353,344	8,461	637,899	5,000
Recreation	1,215,837	333,045	-	-
Community development	798,299	112,704	15,200	31,043
Interest on long-term debt	561,699	-	-	-
Total governmental activities	<u>9,910,333</u>	<u>768,035</u>	<u>931,703</u>	<u>36,043</u>
Business-type activities:				
Water	1,831,349	2,523,032	-	119,747
Sewer	246,959	328,934	40,606	-
Total business-type activities	<u>2,078,308</u>	<u>2,851,966</u>	<u>40,606</u>	<u>119,747</u>
Total	<u>\$ 11,988,641</u>	<u>3,620,001</u>	<u>972,309</u>	<u>155,790</u>

General revenues:

Taxes:

Property taxes

Sales taxes

Utility users tax

Franchise taxes

Transient occupancy taxes

Intergovernmental - unrestricted

Investment income

Other

Transfers

Total general revenues and transfers

Change in net assets

Net assets at beginning of year, as restated

Net assets at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
(1,326,744)	-	(1,326,744)
(4,061,981)	-	(4,061,981)
(701,984)	-	(701,984)
(882,792)	-	(882,792)
(639,352)	-	(639,352)
(561,699)	-	(561,699)
<u>(8,174,552)</u>	<u>-</u>	<u>(8,174,552)</u>
-	811,430	811,430
-	122,581	122,581
-	934,011	934,011
<u>(8,174,552)</u>	<u>934,011</u>	<u>(7,240,541)</u>
4,501,460	-	4,501,460
826,331	-	826,331
1,138,789	-	1,138,789
318,679	-	318,679
244,976	-	244,976
104,895	-	104,895
1,137,651	397,845	1,535,496
80,621	325	80,946
334,900	(334,900)	-
<u>8,688,302</u>	<u>63,270</u>	<u>8,751,572</u>
513,750	997,281	1,511,031
<u>32,398,993</u>	<u>16,461,187</u>	<u>48,860,180</u>
<u>\$ 32,912,743</u>	<u>17,458,468</u>	<u>50,371,211</u>



FUND FINANCIAL STATEMENTS



GOVERNMENTAL FUNDS

GENERAL FUND

The General Fund has been classified as a major fund and is used to account for all of the general revenues of the City not specifically levied or collected for other City funds and for expenditures related to the rendering of general services by the City. The General Fund is generally used to account for all resources not required to be accounted for in another fund.

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes. The following has been classified as a major Special Revenue Fund:

Low and Moderate Income Housing – To account for revenues and expenditures related to the development of housing within the City for citizens of low or moderate means.

DEBT SERVICE FUND

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

The City maintains only one debt service fund, which is classified as a major fund as follows:

Community Development Commission (CDC) Debt Service – To account for that portion of the Community Development Commission's tax increment revenues required to be set aside for future debt service and related investment income. The fund is used to repay principal, interest and related costs on indebtedness of the CDC.

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for the purchase or construction of major capital facilities which are not financed by Proprietary Funds. Capital Projects Funds are ordinarily not used for the acquisition of furniture, fixtures, machinery, equipment and other relatively minor or comparatively short-lived general capital assets. The following have been classified as major Capital Projects Funds:

Community Development Commission (CDC) Projects – To account for financial resources segregated for the acquisition or construction of major capital facilities or for the rehabilitation of commercial and public property located within the Community Development Commission Project Area. The City has elected to treat this fund as a major governmental fund.

Capital Outlay Reserve – To account for financial resources segregated for City capital improvement projects.

NONMAJOR GOVERNMENTAL FUNDS

Nonmajor governmental funds include all Special Revenue Funds except for the Low/Moderate Income Housing Fund. Assets, liabilities, revenues or expenditures of these funds do not exceed 10% of total governmental funds and 5% of total governmental and enterprise funds, and thus, do not meet the criteria to be classified as major funds.

CITY OF LA PALMA
Governmental Funds
Balance Sheet
June 30, 2006

	General Fund	Special Revenue Low and Moderate Income Housing
<u>Assets</u>		
Cash and investments	\$ 12,916,686	2,152,794
Cash and investments with fiscal agent		-
Receivables:		
Taxes	253,864	-
Accounts	5,756	-
Interest	197,444	25,884
Loans	-	5,085,416
Due from other funds	3,735	-
Due from other governments	160,406	1,960
Prepaid items	12,231	-
Advances to other funds	2,780,430	-
	<u>\$ 16,330,552</u>	<u>7,266,054</u>
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts payable	\$ 377,934	1,000
Salaries payable	137,509	1,409
Retentions payable	-	-
Other accrued liabilities	3,370	-
Due to other funds	-	-
Deferred revenue	-	242,348
Unearned revenue	2,261,176	-
Advances from other funds	-	4,536,697
	<u>2,779,989</u>	<u>4,781,454</u>
Fund balances:		
Reserved for:		
Advances to other funds	2,780,430	-
Prepaid items	12,231	-
Loans receivable	-	4,843,068
Unreserved, reported in:		
General Fund	10,757,902	-
Special Revenue Funds	-	(2,358,468)
Debt Service Fund	-	-
Capital Projects Funds	-	-
	<u>13,550,563</u>	<u>2,484,600</u>
Total fund balances	<u>\$ 16,330,552</u>	<u>7,266,054</u>
Total liabilities and fund balances	<u>\$ 16,330,552</u>	<u>7,266,054</u>

See accompanying notes to the basic financial statements.

Debt Service	Capital Projects	Capital Outlay Reserve	Nonmajor Governmental Funds	Total
1,490,120	1,149,747	4,030,934	1,085,359	22,825,640
868,079	-	-	-	868,079
-	-	-	-	253,864
-	-	-	-	5,756
31,313	15,051	-	12,563	282,255
-	-	-	-	5,085,416
-	-	-	-	3,735
7,956	-	-	107,835	278,157
-	-	-	-	12,231
-	-	500,000	-	3,280,430
<u>2,397,468</u>	<u>1,164,798</u>	<u>4,530,934</u>	<u>1,205,757</u>	<u>32,895,563</u>
109,223	2,143	87,041	45,000	622,341
-	1,709	-	3,632	144,259
-	-	6,968	9,609	16,577
-	-	-	-	3,370
-	-	-	3,735	3,735
-	-	-	-	242,348
-	-	-	15,000	2,276,176
1,343,733	-	-	-	5,880,430
<u>1,452,956</u>	<u>3,852</u>	<u>94,009</u>	<u>76,976</u>	<u>9,189,236</u>
-	-	500,000	-	3,280,430
-	-	-	-	12,231
-	-	-	-	4,843,068
-	-	-	-	10,757,902
-	-	-	1,128,781	(1,229,687)
944,512	-	-	-	944,512
-	1,160,946	3,936,925	-	5,097,871
<u>944,512</u>	<u>1,160,946</u>	<u>4,436,925</u>	<u>1,128,781</u>	<u>23,706,327</u>
<u>2,397,468</u>	<u>1,164,798</u>	<u>4,530,934</u>	<u>1,205,757</u>	<u>32,895,563</u>

CITY OF LA PALMA
 Governmental Funds
 Reconciliation of the Balance Sheet to the Statement of Net Assets
 June 30, 2006

Fund balances of governmental funds	\$ 23,706,327
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>	
<p>Capital assets net of depreciation have not been included as financial resources in governmental fund activity.</p>	
Capital assets not being depreciated	6,922,944
Capital assets being depreciated	16,573,298
Accumulated depreciation	(8,807,209)
<p>Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Assets.</p>	
Compensated absences	(523,948)
Tax allocation bonds	(8,670,000)
<p>Accrued interest payable for the current portion of interest due on long-term liabilities has not been reported in the governmental funds.</p>	
Accrued interest - tax allocation bonds	(40,373)
<p>Deferred revenue balances relating to certain loans receivable are not reported as liabilities in the Statement of Net Assets since recognition is not based upon measurable and available criteria.</p>	
Deferred revenue - low and moderate income housing loans	242,348
<p>Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds must be added to the Statement of Net Assets since revenue recognition is not based upon measurable and available criteria.</p>	
Fund net assets of Internal Service Funds	3,509,356
Net assets of governmental activities	<u><u>\$ 32,912,743</u></u>

See accompanying notes to the basic financial statements.



CITY OF LA PALMA
Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2006

	General Fund	Special Revenue Low and Moderate Income Housing
Revenues:		
Taxes	\$ 5,061,884	474,482
Intergovernmental	113,239	-
Licenses and permits	218,911	-
Fines and forfeitures	139,338	-
Investment income	996,564	386,006
Charges for services	415,913	-
Rental income	150,225	-
Miscellaneous	295,392	67,652
Total revenues	7,391,466	928,140
Expenditures:		
Current:		
General government	1,592,297	-
Public safety	4,184,318	-
Public works	667,734	-
Recreation	1,149,790	-
Community development	396,172	246,834
Capital outlay	451,555	-
Debt service:		
Principal	-	-
Interest	-	284,273
Pass-through payments	-	-
Payment to state education fund	-	-
Total expenditures	8,441,866	531,107
Excess (deficiency) of revenues over (under) expenditures	(1,050,400)	397,033
Other financing sources (uses):		
Transfers in	364,700	-
Transfers out	-	-
Total other financing sources (uses)	364,700	-
Net change in fund balances	(685,700)	397,033
Fund balances at beginning of year, as restated	14,236,263	2,087,567
Fund balances at end of year	\$ 13,550,563	2,484,600

See accompanying notes to the basic financial statements.

Debt Service	Capital Projects	Capital Outlay Reserve	Nonmajor Governmental Funds	Total
1,897,928	-	-	-	7,434,294
-	-	-	866,583	979,822
-	-	-	-	218,911
-	-	-	-	139,338
61,075	56,678	-	40,490	1,540,813
-	-	-	-	415,913
-	-	-	-	150,225
-	15,200	5,000	-	383,244
<u>1,959,003</u>	<u>71,878</u>	<u>5,000</u>	<u>907,073</u>	<u>11,262,560</u>
-	-	-	-	1,592,297
-	-	-	257,816	4,442,134
-	-	-	219,295	887,029
-	-	-	-	1,149,790
33,189	223,858	-	-	900,053
-	51,583	271,813	202,649	977,600
360,000	-	-	-	360,000
641,509	-	-	-	925,782
227,054	-	-	-	227,054
177,004	-	-	-	177,004
<u>1,438,756</u>	<u>275,441</u>	<u>271,813</u>	<u>679,760</u>	<u>11,638,743</u>
<u>520,247</u>	<u>(203,563)</u>	<u>(266,813)</u>	<u>227,313</u>	<u>(376,183)</u>
-	-	-	-	364,700
-	-	-	(29,800)	(29,800)
-	-	-	(29,800)	334,900
520,247	(203,563)	(266,813)	197,513	(41,283)
424,265	1,364,509	4,703,738	931,268	23,747,610
<u>944,512</u>	<u>1,160,946</u>	<u>4,436,925</u>	<u>1,128,781</u>	<u>23,706,327</u>

CITY OF LA PALMA

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds	\$ (41,283)
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. As a result, fund balances decrease by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.	
Capital outlay	589,198
Depreciation expense	(468,182)
Governmental funds report the proceeds from sale of capital assets as revenue. However, in the Statement of Activities, those proceeds are offset by the net book value of the asset, resulting in a gain or loss on the sale. As a result, fund balances decrease by the amount of the net book value of capital assets sold during the year.	
Capital assets deleted	(141,058)
Accumulated depreciation on deleted capital assets	121,860
Capital contributions are reflected in the Statement of Activities for current year capital assets contributed which are not reflected in governmental funds.	26,000
Repayment of bond principal is an expenditure in the governmental funds and, thus, has the effect of reducing the fund balances because current financial resources have been used. As a whole, the principal payments reduce the liabilities in the Statement of Net Assets and do not result in an expense in the Statement of Activities.	
Debt service principal - tax allocation bonds	360,000
Accrued interest expense related to long-term liabilities. This amount is the difference between the amount of interest paid and the amount of interest incurred on long-term liabilities.	1,412
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.	
Compensated absences - current year accrual	(938,514)
Compensated absences - current year retirements	876,339
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds	(67,652)
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of the Internal Service Funds are reported with governmental activities.	
Changes in fund net assets of Internal Service Funds	195,630
	<hr/>
Changes in net assets of governmental activities	<u>\$ 513,750</u>

See accompanying notes to the basic financial statements

PROPRIETARY FUNDS

ENTERPRISE FUNDS

Enterprise Funds are used for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods or services to the general public be financed or recovered primarily through user charges. The following have been classified as major Enterprise Funds:

Water – To account for revenues and expenses of the operations for the City’s water utility. All activities necessary to provide this service are accounted for in this fund, including administration, operations, maintenance, billing collection and depreciation.

Sewer – To account for the revenues and expenses for the maintenance, repair and depreciation of the sewers within the City.

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency of the City to other departments or agencies on a cost reimbursement basis.

CITY OF LA PALMA
Proprietary Funds
Statement of Fund Net Assets
June 30, 2006

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
Assets:				
Current assets:				
Cash and investments	\$ 4,647,381	3,990,582	8,637,963	1,071,903
Receivables:				
Accounts	1,124,415	78,239	1,202,654	-
Interest	73,601	44,124	117,725	-
Loans	-	-	-	8,292
Due from other governments	119,747	-	119,747	304,530
Total current assets	<u>5,965,144</u>	<u>4,112,945</u>	<u>10,078,089</u>	<u>1,384,725</u>
Noncurrent assets:				
Capital assets:				
Capital assets not being depreciated	943,585	-	943,585	-
Capital assets being depreciated, net of accumulated depreciation	3,872,807	2,064,204	5,937,011	-
Due from other governments	-	-	-	660,993
Advances to other funds	500,000	500,000	1,000,000	1,600,000
Total noncurrent assets	<u>5,316,392</u>	<u>2,564,204</u>	<u>7,880,596</u>	<u>2,260,993</u>
Total assets	<u>11,281,536</u>	<u>6,677,149</u>	<u>17,958,685</u>	<u>3,645,718</u>
Liabilities:				
Current liabilities:				
Accounts payable	585,708	3,223	588,931	15,580
Salaries payable	10,262	990	11,252	7,369
Retentions payable	11,950	-	11,950	-
Other accrued liabilities	-	-	-	1,497
Total current liabilities	<u>607,920</u>	<u>4,213</u>	<u>612,133</u>	<u>24,446</u>
Total liabilities	<u>607,920</u>	<u>4,213</u>	<u>612,133</u>	<u>24,446</u>
Fund net assets:				
Invested in capital assets	4,816,392	2,064,204	6,880,596	-
Unrestricted	5,857,224	4,608,732	10,465,956	3,621,272
Total fund net assets	<u>\$ 10,673,616</u>	<u>6,672,936</u>	<u>17,346,552</u>	<u>3,621,272</u>

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

Adjustment to reflect the consolidation of Internal Service Fund
activities related to Enterprise Funds

	111,916
Net assets of business-type activities	\$17,458,468

See accompanying notes to the basic financial statements.

CITY OF LA PALMA
Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets
Year ended June 30, 2006

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
Operating revenues:				
Charges for services	\$ 2,523,032	328,934	2,851,966	2,768,400
Intergovernmental	-	40,606	40,606	-
Miscellaneous	325	-	325	-
Total operating revenues	<u>2,523,357</u>	<u>369,540</u>	<u>2,892,897</u>	<u>2,768,400</u>
Operating expenses:				
Personnel services	406,768	35,587	442,355	1,609,079
Maintenance and operations	1,076,983	81,891	1,158,874	47,437
Contractual services	93,977	28,544	122,521	24,463
Depreciation	185,238	91,212	276,450	-
Settlement, claims and insurance	74,300	11,500	85,800	873,771
Administration	10,328	-	10,328	-
Total operating expenses	<u>1,847,594</u>	<u>248,734</u>	<u>2,096,328</u>	<u>2,554,750</u>
Operating income	<u>675,763</u>	<u>120,806</u>	<u>796,569</u>	<u>213,650</u>
Nonoperating revenues:				
Investment income	219,945	177,900	397,845	-
Total nonoperating revenues	<u>219,945</u>	<u>177,900</u>	<u>397,845</u>	<u>-</u>
Income before contributions and transfers	895,708	298,706	1,194,414	213,650
Capital contributions	119,747	-	119,747	-
Transfers out	<u>(297,000)</u>	<u>(37,900)</u>	<u>(334,900)</u>	<u>-</u>
Change in fund net assets	718,455	260,806	979,261	213,650
Fund net assets at beginning of year, as restated	<u>9,955,161</u>	<u>6,412,130</u>		<u>3,407,622</u>
Fund net assets at end of year	<u>\$ 10,673,616</u>	<u>6,672,936</u>		<u>3,621,272</u>

Amounts reported in the Statement of Activities are different because:

Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds	<u>18,020</u>
Change in net assets of business-type activities	<u>\$ 997,281</u>

See accompanying notes to the basic financial statements.

CITY OF LA PALMA
Proprietary Funds
Statement of Cash Flows
Year ended June 30, 2006

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
Cash flows from operating activities:				
Cash received from customers	\$ 2,443,020	323,475	2,766,495	-
Cash received from internal users	-	-	-	2,768,400
Cash payments to suppliers for goods and services	(1,619,191)	(146,464)	(1,765,655)	(1,253,382)
Cash payments for employee services	(405,177)	(35,532)	(440,709)	(1,608,144)
Cash payments to internal providers	(74,300)	(11,500)	(85,800)	-
Cash received from other operating activities	325	64,350	64,675	866
Net cash provided by (used for) operating activities	<u>344,677</u>	<u>194,329</u>	<u>539,006</u>	<u>(92,260)</u>
Cash flows from noncapital financing activities:				
Cash payments to other funds	(297,000)	(37,900)	(334,900)	-
Net cash provided by (used for) noncapital noncapital financing activities	<u>(297,000)</u>	<u>(37,900)</u>	<u>(334,900)</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(60,926)	-	(60,926)	-
Net cash provided by (used for) capital and related financing activities	<u>(60,926)</u>	<u>-</u>	<u>(60,926)</u>	<u>-</u>
Cash flows from investing activities:				
Interest income received	189,907	169,498	359,405	-
Net cash provided by (used for) investing activities	<u>189,907</u>	<u>169,498</u>	<u>359,405</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	176,658	325,927	502,585	(92,260)
Cash and cash equivalents at beginning of year	4,470,723	3,664,655	8,135,378	1,164,163
Cash and cash equivalents at end of year	<u>\$ 4,647,381</u>	<u>3,990,582</u>	<u>8,637,963</u>	<u>1,071,903</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 675,763	120,806	796,569	213,650
Adjustments to reconcile operating income (loss) to net income provided by (used for) operating activities:				
Depreciation	185,238	91,212	276,450	-
(Increase) decrease in accounts receivable	(560,992)	(5,459)	(566,451)	-
(Increase) decrease in loans receivable	-	-	-	1,023
(Increase) decrease in due from other governments	-	23,744	23,744	(316,178)
Increase (decrease) in accounts payable	44,103	(32,082)	12,021	8,467
Increase (decrease) in salaries payable	1,591	55	1,646	935
Increase (decrease) in retentions payable	(1,026)	(3,947)	(4,973)	-
Increase (decrease) in deferred revenue	-	-	-	(157)
Total adjustments	<u>(331,086)</u>	<u>73,523</u>	<u>(257,563)</u>	<u>(305,910)</u>
Net cash provided by (used for) operating activities	<u>\$ 344,677</u>	<u>194,329</u>	<u>539,006</u>	<u>(92,260)</u>
Schedule of noncash financing, capital and investing activities:				
Capital contributions	<u>\$ 119,747</u>	<u>-</u>	<u>119,747</u>	<u>-</u>

See accompanying notes to the basic financial statements.

FIDUCIARY FUNDS

AGENCY FUNDS

Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

CITY OF LA PALMA
Fiduciary Funds

Statement of Fiduciary Assets and Liabilities

June 30, 2006

<u>Assets</u>	
Cash and investments	<u>\$ 16,639</u>
Total assets	<u><u>\$ 16,639</u></u>
<u>Liabilities</u>	
Deposits payable	<u>\$ 16,639</u>
Total liabilities	<u><u>\$ 16,639</u></u>

See accompanying notes to the basic financial statements.

CITY OF LA PALMA

Notes to the Basic Financial Statements

Year ended June 30, 2006

(1) Summary of Significant Accounting Policies

The financial statements of the City of La Palma, California (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant City accounting policies are described below.

(a) Reporting Entity

The City of La Palma, California was incorporated on October 26, 1955 under the general laws of the State of California. The City operates under an elected Council/City Manager form of government.

As required by GAAP, these financial statements present the City of La Palma and its component unit, an entity for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and the City is able to impose its will on that organization or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City's financial statements to be misleading or incomplete. A brief description of the City's component unit is as follows:

- The La Palma Community Development Commission (CDC) was established in April 1983, pursuant to the State of California Health and Safety Code Section 33000 entitled, "Community Redevelopment Law." Although it is a legally separate entity from the City, the CDC is reported as if it were part of the City because of its purpose to prepare and execute plans for the improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the City.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(a) Reporting Entity, (Continued)

Since the City Council serves as the governing board for this component unit, the City's component unit is considered to be a blended component unit. Blended component units, although legally separate entities, are in substance, part of the City's operations and so data from these units are reported with the interfund data of the primary government. The La Palma Community Development Commission issues separate component unit financial statements that may be obtained through written request to the City Department of Finance or the City Clerk's office at City Hall, 7822 Walker Street, La Palma, California 90623.

(b) Fund Accounting

The accounts of the City are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity wherein the operations of each fund are accounted for in a separate set of self-balancing accounts that records resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following is a summary of the fund types utilized by the City:

Governmental Fund Types

- The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Expenditures of this fund include the general operating expenses and capital improvement costs which are not paid through other funds.
- Special Revenue Funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds.
- Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal and interest.
- Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by Proprietary Fund Types.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Fund Accounting, (Continued)

The City reports the following major governmental funds:

General Fund – To account for all of the general revenues of the City not specifically levied or collected for other City funds and for expenditures related to the rendering of general services by the City.

Low and Moderate Income Housing – To account for revenues and expenditures related to the development of housing within the City for citizens of low and moderate means.

Community Development Commission (CDC) Debt Service – To account for that portion of the CDC's tax increment revenues and related investment income required to be set aside for future debt service. The fund is used to repay principal, interest and related costs on indebtedness of the CDC.

Community Development Commission (CDC) Projects – To account for financial resources segregated for the acquisition or construction of major capital facilities or for the rehabilitation of commercial and public property located within the CDC Project Area. The City has elected to treat this fund as a major governmental fund.

Capital Outlay Reserve – To account for financial resources segregated for City capital improvement projects.

Proprietary Fund Types

- Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The City reports the following major enterprise funds:

Water – To account for revenues and expenses of the operations for the City's water utility. All activities necessary to provide this service are accounted for in this fund, including administration, operations, maintenance, billing collection and depreciation.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Fund Accounting, (Continued)

Sewer – To account for the revenues and expenses for the maintenance, repair and depreciation of the sewers within the City.

The City's Fund structure also includes the following fund types:

Internal Service Funds are used to account for the financing of goods or services provided by one department of the City to other departments on a cost-reimbursement basis. The City's Internal Service Funds account for certain insurance activity and for costs of the City's employee benefit plan and workers' compensation insurance.

Agency Funds are used to account for assets held by the City as an agent for individuals or private organizations and other governmental units. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The City's Trust Agency Fund accounts for assets held for other governments and various deposits held for individuals or private organizations.

(c) Measurement Focus and Basis of Accounting

The *basic financial statements* of the City are composed of the following:

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

The City applies all applicable GASB pronouncements in accounting and reporting for its proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(c) Measurement Focus and Basis of Accounting, (Continued)

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component unit). Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transaction were recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services, special assessments, and payments made by parties outside the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(c) Measurement Focus and Basis of Accounting, (Continued)

Fund Financial Statements

This underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental, proprietary and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City considers all revenues available if they are collected within 60 days after year end. Significant revenues subject to accrual under the measurable and available criteria include property taxes, sales taxes and utility user taxes.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(c) Measurement Focus and Basis of Accounting, (Continued)

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived* tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources" since they do not represent net current assets. Recognition of governmental fund type revenue represented by noncurrent receivables are deferred until they become current receivables. Noncurrent portions of long-term receivables are offset by fund balance reserve accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

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

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(c) Measurement Focus and Basis of Accounting, (Continued)

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

Proprietary Funds

The City's Enterprise and Internal Service Funds are proprietary funds. In the fund financial statements, proprietary funds and agency funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses result from providing goods and services related to the fund's ongoing operations. The principal operating revenue of the City's proprietary funds is charges for service. Operating expenses include the cost of services provided, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Amounts paid to acquire capital assets are capitalized as assets in the proprietary funds financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the proprietary funds financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the proprietary funds are reported as a reduction of the related liability, rather than as an expenditure.

(d) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. The fair value of the investments is generally based on published market prices and quotations from major investment firms.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

(d) Cash and Investments, (Continued)

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The City pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance, except investment income for the Internal Service Funds and the Capital Outlay Reserve Capital Projects Fund is allocated to the General Fund.

(e) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of 3 months or less. Cash equivalents represent the proprietary funds' share in the cash and investment pool of the City.

(f) Capital Assets

Acquisitions of capital assets (including infrastructure) are recorded at historical cost at the time of purchase. Donated capital assets are recorded at their fair market value at the time received.

Generally, capital asset acquisitions in excess of \$5,000 (general capital assets) and \$25,000 (infrastructure) are capitalized if they have an expected useful life of one year or more. Capital assets include public domain (infrastructure) capital assets consisting of certain improvements, including streets (pavement, medians, curbs/gutters, sidewalks, traffic signals, monument signs and bridges), storm drains and water/sewer systems and improvements.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(f) Capital Assets, (Continued)

Capital assets used in operations are depreciated in the government-wide financial statements and in the fund financial statements of the proprietary funds. Depreciation of such assets is computed using the straight-line method over the estimated useful lives noted below and charged to operations:

Buildings and improvements	50 years
Machinery and equipment	5 to 10 years
Vehicles	5 years
Furniture and fixtures	5 years
Infrastructure – streets network:	
Pavement	80 years
Medians	50 years
Curbs and gutters	75 years
Sidewalks	75 years
Traffic signals	30 years
Monument signs	50 years
Bridges	75 years
Infrastructure – storm drains:	
Storm drain lines	75 years
Water system and other improvements:	
Water pipes	75 years
Water hydrants	75 years
Water services	75 years
Sewer system and other improvements:	
Sewer pipes	75 years
Sewer manholes	75 years
Sewer services	75 years

(g) Compensated Absences

In accordance with GASB Statement No. 16, a liability is recorded for compensated absences (unpaid vacation, sick leave and compensatory time) since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(g) Compensated Absences, (Continued)

Under GASB Statement No. 16 a liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. This is estimated by including in the liability the unused balances of employees currently entitled to receive termination payment, as well as those who are expected to become eligible to receive termination benefits as a result of continuing their employment with the City. Other amounts of unused sick leave are excluded from the liability since their payment is contingent solely upon the occurrence of a future event (illness) which is outside the control of the City and the employee.

(h) Deferred Revenue

Deferred revenue in the fund financial statements represents receivables at year-end that will not be collected soon enough to finance current year expenditures.

(i) Unearned Revenue

Unearned revenue represents resources that are received before the City has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures.

(j) Property Taxes

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities based on complex formulas.

Accordingly, the City accrues only those taxes which are received from the county within 60 days after year-end:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

The City participates in a program called the "Teeter Plan," whereby the County distributes 100% of the City's portion of the secured tax levy during each fiscal year. In exchange, the City waives the right to collect interest and penalties on any delinquent tax collections received by the County on the secured rolls in future years.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(k) Interfund Transfers

In the fund financial statements, transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as transfers out in the reimbursing fund and as transfers in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are also reported as transfers.

(l) Advances to Other Funds

Noncurrent portions of long-term interfund loan receivables are reported in the fund financial statements as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

(m) Claims and Judgments

The City records a liability for litigation, judgments, and claims when it is probable that an asset has been impaired or a liability (including incurred but not reported) has been incurred prior to year end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated. In the fund financial statements, these liabilities are recorded in the Internal Service Funds that account for the City's insurance activities.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

(n) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses, during the reporting period. Actual results could differ from those estimates.

(2) Cash and Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$32,535,506
Cash and investments with fiscal agent	868,079
Fiduciary Fund:	
Cash and investments	<u>16,639</u>
Total cash and investments	<u>\$33,420,224</u>

Cash and investments as of June 30, 2006 consist of the following:

Cash on hand	\$ 7,725
Deposits with financial institutions	218,067
Investments	<u>33,194,432</u>
Total cash and investments	<u>\$ 33,420,224</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments. (Continued)

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

The table below identifies the investment types that are authorized for the City by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

<u>Investment Types Authorized by State Law</u>	<u>Authorized by Investment Policy</u>	<u>Maximum Maturity*</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment In One Issuer*</u>
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Bankers' Acceptances	No	180 days	40%	40%
Commercial Paper	Yes	180 days	15%	5%
Negotiable Certificates of Deposit	No	5 years	30%	None
Repurchase Agreements	Yes	30 days	None	5%
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	\$40,000,000 per Agency	None
JPA Pools (other investment pools)	No	N/A	None	None
Certificates of Deposit	Yes	360 days	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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 City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	180 days	None	None
Money Market Mutual Funds	N/A	None	5%
Repurchase Agreements	30 days	None	None
Investment Contracts	30 years	None	None

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 City manages its exposure to interest rate 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.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk, (Continued)

For purposes of the schedule shown below, any callable securities are assumed to be held to maturity. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturing (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
LAIF	\$32,243,138	32,243,138	-	-	-
Money Market Mutual Funds	83,215	83,215	-	-	-
Held by bond trustee:					
Money Market Mutual Funds	54,531	54,531	-	-	-
U.S. Agency Securities:					
FHLB	<u>813,548</u>	<u>-</u>	<u>-</u>	<u>813,548</u>	<u>-</u>
Total	<u>\$33,194,432</u>	<u>32,380,884</u>	<u>-</u>	<u>813,548</u>	<u>-</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, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Totals</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
LAIF	\$ 32,243,138	N/A	-	-	32,243,138
Money Market Mutual Funds	83,215	Aa	-	83,215	-
Held by bond trustee:					
Money Market Mutual Funds	54,531	N/A	54,531	-	-
U.S. Agency Securities:					
FHLB	<u>813,548</u>	<u>N/A</u>	<u>813,548</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 33,194,432</u>		<u>868,079</u>	<u>83,215</u>	<u>32,243,138</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(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 City'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 governmental 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 City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2006, \$138,553 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

(3) Interfund Receivables and Payables

Current interfund receivables and payables as of June 30, 2006 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	<u>\$3,735</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(3) Interfund Receivables and Payables. (Continued)

All of the current interfund receivable and payable represents a short-term borrowing to manage cash flows and is expected to be repaid within one year. Generally, this balance resulted from an interfund borrowing to cover short-term operating deficit.

Long-term interfund receivables and payables at June 30, 2006 are as follows:

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Low and Moderate Income Housing	\$1,436,697 (a)
General Fund	CDC Debt Service	<u>1,343,733 (b)</u>
		2,780,430
Capital Outlay Reserve	Low and Moderate Income Housing	500,000 (a)
Water	Low and Moderate Income Housing	500,000 (a)
Sewer	Low and Moderate Income Housing	500,000 (a)
Internal service funds	Low and Moderate Income Housing	<u>1,600,000 (a)</u>
	Total advances	<u>\$5,880,430</u>

- (a) During the year ended June 30, 2001, the City Council authorized a \$4,933,000 advance to the CDC. The CDC then used the proceeds to make a loan to a developer for the construction of a senior citizens affordable rental housing project. Interest on the advance accrues at a rate equal to the rate of return on City investments in LAIF plus 2.375%. Annual principal and interest payments are due from the CDC over 30 years. The outstanding balance on the loan at June 30, 2006 is \$4,536,697 and is recorded as an advance from various City funds to the Low and Moderate Income Housing Special Revenue Fund.
- (b) In July 2002, the City loaned \$1,500,000 to the CDC for the purpose of assisting the CDC in meeting certain contractual obligations pertaining to the redevelopment of its project area. Interest accrues on the advance at a rate of 10% compounded annually. The loan plus accrued interest are repaid to the City out of the CDC's tax increment. All amounts must be repaid no later than June 30, 2018. The outstanding balance on the loan at June 30, 2006 is \$1,343,733 and is recorded as an advance from the City's General Fund to the CDC's Debt Service Fund.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(4) Interfund Transfers

Interfund transfers for the year ended June 30, 2006 are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 29,800 (a)
General Fund	Water	297,000 (b)
General Fund	Sewer	<u>37,900 (b)</u>
	Total interfund transfers	<u>\$364,700</u>

Purpose of Interfund Transfers

- (a) The General Fund charged various nonmajor governmental funds \$29,800 for building, vehicle and computer maintenance and replacement.
- (b) The General Fund charged the Water and Sewer Funds \$297,000 and \$37,900, respectively, for administrative costs.

(5) Loans Receivable

Loans receivable consists of the following at June 30, 2006:

	<u>Amount</u>
During the year ended June 30, 2001, the City loaned \$4,930,395 to a developer for the construction of a senior citizens affordable rental housing project. Interest on the loan accrued at a rate equal to the rate of return on City investments in LAIF plus 2.375%. The developer makes monthly payments to the City based on its operating income. The loan is not expected to be collected by the City within one year	\$4,843,068
Deferred low and moderate income housing loans	242,348
Other loans	<u>8,292</u>
Total	<u>\$5,093,708</u>

CITY OF LA PALMA
Notes to the Basic Financial Statements
(Continued)

(6) Capital Assets

A summary of capital asset activity for the year ended June 30, 2006 follows:

	Balance at July 1, 2005 (as Restated)	Additions	Deletions	Balance at June 30, 2006
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,602,281	-	-	1,602,281
Land rights related to streets	5,104,472	-	-	5,104,472
Construction in progress	<u>21,457</u>	<u>204,536</u>	<u>(9,802)</u>	<u>216,191</u>
Total capital assets not being depreciated	<u>6,728,210</u>	<u>204,536</u>	<u>(9,802)</u>	<u>6,922,944</u>
Capital assets being depreciated:				
Buildings and improvements	3,763,527	101,897	-	3,865,424
Equipment	815,247	66,065	(48,737)	832,575
Vehicles	1,513,754	190,700	(82,519)	1,621,935
Furniture and fixtures	68,888	-	-	68,888
Infrastructure – streets network	9,676,036	52,000	-	9,728,036
Infrastructure – storm drains	<u>456,440</u>	<u>-</u>	<u>-</u>	<u>456,440</u>
Total capital assets being depreciated	<u>16,293,892</u>	<u>410,662</u>	<u>(131,256)</u>	<u>16,573,298</u>
Less accumulated depreciation for:				
Buildings and improvements	\$(1,708,696)	(75,271)	-	(1,783,967)
Equipment	(612,764)	(46,740)	46,727	(612,777)
Vehicles	(1,021,468)	(168,379)	75,133	(1,114,714)
Furniture and fixtures	(62,000)	(6,888)	-	(68,888)
Infrastructure – streets network	(4,751,665)	(164,816)	-	(4,916,481)
Infrastructure – storm drains	<u>(304,294)</u>	<u>(6,088)</u>	<u>-</u>	<u>(310,382)</u>
Total accumulated depreciation	<u>(8,460,887)</u>	<u>(468,182)</u>	<u>121,860</u>	<u>(8,807,209)</u>
Total capital assets being depreciated, net	<u>7,833,005</u>	<u>(57,520)</u>	<u>(9,396)</u>	<u>7,766,089</u>
Governmental activities capital assets, net	<u>\$14,561,215</u>	<u>147,016</u>	<u>(19,198)</u>	<u>14,689,033</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(6) Capital Assets, (Continued)

	Balance at July 1, 2005 (as Restated)	<u>Additions</u>	<u>Deletions</u>	Balance at June 30, 2006
<u>Business-type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 754,000	-	-	754,000
Construction in progress	<u>25,702</u>	<u>163,883</u>	<u>-</u>	<u>189,585</u>
Total capital assets not being depreciated	<u>779,702</u>	<u>163,883</u>	<u>-</u>	<u>943,585</u>
Capital assets being depreciated:				
Buildings and improvements	7,839,661	-	-	7,839,661
Machinery and equipment	288,598	16,790	-	305,388
Water system and other improvements	2,867,808	-	-	2,867,808
Sewer system and other improvements	<u>3,211,542</u>	<u>-</u>	<u>-</u>	<u>3,211,542</u>
Total capital assets being depreciated	<u>14,207,609</u>	<u>16,790</u>	<u>-</u>	<u>14,224,399</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,144,622)	(169,372)	-	(5,313,994)
Machinery and equipment	(125,671)	(26,035)	-	(151,705)
Water system and other improvements	(1,287,237)	(38,242)	-	(1,325,479)
Sewer system and other improvements	<u>(1,453,408)</u>	<u>(42,802)</u>	<u>-</u>	<u>(1,496,210)</u>
Total accumulated depreciation	<u>(8,010,938)</u>	<u>(276,450)</u>	<u>-</u>	<u>(8,287,388)</u>
Total capital assets being depreciated, net	<u>6,196,671</u>	<u>(259,660)</u>	<u>-</u>	<u>5,937,011</u>
Business-type activities capital assets, net	<u>\$ 6,976,373</u>	<u>(95,777)</u>	<u>-</u>	<u>6,880,596</u>

Beginning capital assets being depreciated and accumulated depreciation for governmental and business-type activities were restated due to a change in accounting which increased the City's capitalization threshold from \$1,000 to \$5,000 for all capital assets, except infrastructure, as well as to correct amounts reported for certain capital assets from previous years. See note 18 for further discussion.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(6) Capital Assets, (Continued)

Depreciation expense was charged to functions for the year ended June 30, 2006 as follows:

Governmental activities:		
General government		\$ 14,001
Public safety		138,394
Public works		251,696
Recreation		57,698
Community development		<u>6,393</u>
Total governmental activities		<u>\$468,182</u>
Business-type activities:		
Water		\$185,238
Sewer		<u>91,212</u>
Total business-type activities		<u>\$276,450</u>

(7) Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance at <u>July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2006</u>	Portion Due Within <u>One Year</u>
<u>Governmental Activities:</u>					
1993 Tax Allocation Bonds	\$3,500,000	-	(165,000)	3,335,000	180,000
2001 Tax Allocation Bonds	<u>5,530,000</u>	<u>-</u>	<u>(195,000)</u>	<u>5,335,000</u>	<u>200,000</u>
Subtotal	<u>9,030,000</u>	<u>-</u>	<u>(360,000)</u>	<u>8,670,000</u>	<u>380,000</u>
Compensated absences	<u>461,773</u>	<u>938,514</u>	<u>(876,339)</u>	<u>523,948</u>	<u>523,948</u>
Total long-term liabilities	<u>\$9,491,773</u>	<u>938,514</u>	<u>(1,236,339)</u>	<u>9,193,948</u>	<u>903,948</u>

Compensated absences are generally liquidated by the General Fund.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(8) Bonds Payable

1993 Tax Allocation Bonds

On December 1, 1993, the CDC issued tax allocation bonds in the amount of \$5,100,000 to finance a portion of the cost of the redevelopment area known as the Community Development Commission Project Area. The bonds are in denominations of \$5,000 each and bear interest at rates ranging from 3.30% to 6.10%. Principal is payable annually on June 1. Interest is payable semiannually on June 1 and December 1. Bonds may be redeemed at par. As of June 30, 2006, \$3,335,000 of the bonds were outstanding.

Debt service requirements on the 1993 tax allocation bonds at June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 180,000	203,255
2008	185,000	192,455
2009	190,000	181,170
2010	205,000	169,580
2011	220,000	157,075
2012	230,000	143,655
2013	240,000	129,625
2014	255,000	114,985
2015	265,000	99,430
2016	285,000	83,265
2017	295,000	65,880
2018	325,000	47,885
2019	230,000	28,060
2020	30,000	14,030
2021	-	12,200
2022	<u>200,000</u>	<u>12,200</u>
Total	<u>\$3,335,000</u>	<u>1,654,750</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(8) Bonds Payable, (Continued)

2001 Refunding Tax Allocation Bonds

On December 1, 2001, the CDC issued tax allocation bonds in the amount of \$6,200,000 to refund \$5,760,000 of 1991 tax allocation bonds previously issued and outstanding by the CDC. The refunding bonds are in denominations of \$5,000 each and bear interest at rates ranging from 2.50% to 5.50%. Principal is payable annually on June 1. Interest is payable semiannually on June 1 and December 1. Bonds maturing on or before June 1, 2011 are not subject to call or redemption prior to maturity. Bonds maturing on or after June 1, 2012 may be redeemed at par plus a premium. As of June 30, 2006, \$5,335,000 of 2001 refunding tax allocation bonds were outstanding.

Debt service requirements on the 2001 refunding tax allocation bonds at June 30, 2006 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 200,000	281,217
2008	215,000	273,118
2009	225,000	263,980
2010	230,000	254,080
2011	245,000	243,615
2012	260,000	232,100
2013	275,000	217,800
2014	290,000	202,675
2015	310,000	186,725
2016	325,000	169,675
2017	350,000	151,800
2018	360,000	132,550
2019	495,000	112,750
2020	740,000	85,525
2021	815,000	44,825
Total	<u>\$5,335,000</u>	<u>2,852,435</u>

1993 and 2001 Tax Allocation Bonds Reserve Requirement

The required reserve for the 1993 and 2001 Tax Allocation Bonds is \$872,025. As of June 30, 2006, the reserve amount was \$906,366 at cost, with market value of \$866,447.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(9) Arbitrage Rebate

The Tax Reform Act instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not paid to the federal government at least every five years.

During the current year, the City performed calculations of excess investment earnings on various bonds and financings in accordance with arbitrage regulations. The City has determined that no arbitrage rebate liability exists as of June 30, 2006.

(10) Post Retirement Benefits

In addition to providing pension benefits, the City provides postemployment health care benefits, in accordance with State statute, to all safety employees who retire from the City on or after attaining age 50 with at least five years of service. Currently 21 retirees meet those eligibility requirements. These health care benefits are funded by insurance premiums paid by retirees enrolled in the health plans and by the City. The cost of retiree health care benefits is recognized as an expense as the insurance premiums are paid on a monthly basis, which were approximately \$65,232 for the year ended June 30, 2006.

(11) Liability, Property and Workers' Compensation Protection

Description of self-insurance pool pursuant to Joint Powers Agreement

The City is a member of the California Joint Powers Insurance Authority (CJPIA). The CJPIA is composed of California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500, et seq. The purpose of the CJPIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverages. The CJPIA's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(11) Liability, Property and Workers' Compensation Protection. (Continued)

Self-insurance programs of the CJPIA

General liability – All members of CJPIA are required to participate in the risk-sharing program for general liability coverage. Each member pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued and a retrospective deposit computation is then made for each open claims year. Costs of coverage for each member equals the sum of the following: the first \$30,000 of each non-police occurrence is charged directly to the member; costs from \$30,001 to \$750,000 of non-police losses are pooled and prorated to each member based on a member's share of total non-police losses under \$30,000; costs from \$750,001 to \$15,000,000 of non-police losses are pooled and prorated based on member's share of total non-police payroll; the first \$30,000 of each police occurrence is charged directly to the member; costs from \$30,001 to \$750,000 of police losses are pooled and prorated to each member based on a member's share of total police losses under \$30,000; costs from \$750,001 to \$15,000,000 of police losses are pooled and prorated based on member's share of total police payroll. Costs of all covered claims above \$15,000,000 are currently paid by reinsurance. The protection for each member is \$50,000,000 per occurrence and \$50,000,000 annual aggregate.

Workers' compensation – The City elected to participate in the risk-sharing program for workers' compensation coverage. Primary deposits and retrospective adjustments are valued in a manner similar to the general liability program. Costs of coverage for each member equals the sum of the following: the first \$50,000 of each non-public safety occurrence is charged directly to the member; costs from \$50,001 to \$100,000 of non-public safety losses are pooled and prorated to each member based on a member's share of total non-public safety losses under \$50,000; costs from \$100,001 to \$2,000,000 of non-public safety losses are pooled and prorated based on member's share of total non-public safety payroll; the first \$50,000 of each public safety occurrence is charged directly to the member; costs from \$50,001 to \$100,000 of public safety losses are pooled and prorated to each member based on a member's share of total public safety losses under \$50,000; costs from \$100,001 to \$2,000,000 of public safety losses are pooled and prorated based on member's share of total public safety payroll. Costs between \$2,000,000 and \$150,000,000 are paid by excess insurance purchased by the CJPIA. The excess insurance provides coverage to statutory limits.

Purchased insurance

Environmental insurance – The City participates in the pollution legal liability and remediation legal liability insurance which is available through CJPIA. This program covers sudden and gradual pollution of scheduled property, streets and storm drains owned by the City. Coverage is on a claims-made basis and has been underwritten by a private insurance company. There is a \$50,000 deductible. Each member of CJPIA has a \$10,000,000 limit.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(11) Liability, Property and Workers' Compensation Protection, (Continued)

Property insurance – The City participates in the all-risk property protection program of the CJPIA. This insurance protection is underwritten by several insurance companies. The City's property is currently insured according to a schedule of covered property submitted by the City to the CJPIA. There is a \$5,000 per loss deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Earthquake and flood insurance – The City purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the CJPIA which is underwritten by several insurance companies. There is a deductible of 5% of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Fidelity bonds – The City purchases blanket fidelity bond coverage in the amount of \$1,000,000 with a \$2,500 deductible. The fidelity coverage is provided through CJPIA. Premiums are paid annually and are not subject to retroactive adjustments.

Adequacy of protection

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

(12) Defined Benefit Pension Plan (PERS)

The City of La Palma contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Participants are required to contribute 8% (9% for safety) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and town contract with employee bargaining groups.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(12) Defined Benefit Pension Plan (PERS), (Continued)

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2005 to June 30, 2006 has been determined by an actuarial valuation of the plan as of June 30, 2003. The contribution rate indicated for the period is 38.616% of payroll for the safety plan and 11.582% of payroll for the miscellaneous plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2006, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2005 to June 30, 2006.

Effective for actuarial valuations as of June 30, 2003, PERS required all agencies with less than 100 members, including the City, to be placed in a pool with other agencies that have similar benefit provisions for both the safety and miscellaneous plans. With the implementation of risk pooling, individual stand-alone valuations are no longer prepared. Instead the plan's financial results are pooled with the plans of other agencies. The data shown beginning with the June 30, 2003 valuation date represents data for the pool, rather than the individual City.

A summary of principle assumptions and methods used to determine the most recent ARC are shown below.

	<u>Safety Plan</u>	<u>Miscellaneous Plan</u>
Valuation Date	June 30, 2003	June 30, 2003
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
Average Remaining Period	17 Years as of the Valuation Date	15 Years as of the Valuation Date
Asset Valuation Method	3 Year Smoothed Market	3 Year Smoothed Market
Actuarial Assumptions		
Investment Rate of Return	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 13.15% depending on Age, Service, and type of employment	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%	3.00%
Payroll Growth	3.25%	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.0% and an annual production growth of 0.25%.	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.0% and an annual production growth of 0.25%.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(12) Defined Benefit Pension Plan (PERS), (Continued)

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS Risk Pool. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment may not be lower than the payment calculated over a 30 year amortization period. The asset valuation method is 15 year smoothed market for valuations subsequent to June 30, 2003.

For the safety plan and miscellaneous plan, the unfunded actuarial liability is amortized over a period ending June 30, 2033.

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll.

Required Supplementary Information – Safety Employees

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Status	Annual Covered Payroll	*UAAL As a % of Payroll
6/30/03	\$4,270,573,982	3,577,742,166	692,831,816	83.8%	476,089,674	145.5%
6/30/04	5,383,921,942	4,424,586,846	959,335,096	82.2%	575,296,434	166.8%
6/30/05	6,367,049,264	5,295,150,375	1,071,898,889	83.2%	664,147,796	161.4%

Required Supplementary Information – Miscellaneous Employees

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Status	Annual Covered Payroll	*UAAL As a % of Payroll
6/30/03	\$515,421,442	456,062,164	59,359,278	88.5%	120,692,360	49.2%
6/30/04	681,517,006	580,960,891	100,556,115	85.2%	160,107,449	62.8%
6/30/05	872,346,612	729,556,809	142,789,803	83.6%	203,995,039	70.0%

The required supplementary information shown above was based upon information provided by PERS and the most recent PERS letter was not available. In addition, the data shown above beginning with the June 30, 2003 valuation date represents data for the CalPERS Risk Pool, rather than an individual valuation for the City.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(12) Defined Benefit Pension Plan (PERS), (Continued)

Three-Year Trend Information - Safety Employees

<u>Fiscal Year</u>	<u>Annual Pension Cost (Employer Contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$ 4,907	100%	-
6/30/05	616,936	100%	-
6/30/06	681,226	100%	-

Three-Year Trend Information - Miscellaneous Employees

<u>Fiscal Year</u>	<u>Annual Pension Cost (Employer Contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$ -	100%	-
6/30/05	150,517	100%	-
6/30/06	238,900	100%	-

(13) Defined Benefit Pension Plan (PARS)

On April 18, 2000, the City Council authorized the City to become a member of the Public Agency Retirement System (PARS) Trust, a governmental trust, effective July 1, 2000 for its eligible part-time, seasonal and temporary employees. This is an alternative retirement system for those not covered by a retirement plan other than social security. Under PARS, the City and the employee each contribute 3.75% of compensation for a total annual contribution of 7.5%. For the year ended June 30, 2006, the amount contributed by the City was \$5,439. Employees are fully vested at all times. The City has entered into an agreement with Phase II Systems to provide trust administrator services.

(14) Litigation

The City is presently involved in other matters of litigation that have arisen in the normal course of the City's business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to have a material adverse financial impact on the City. Additionally, City management believes that sufficient reserves are available to the City to cover any potential losses, should an unfavorable outcome materialize.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(15) Joint Venture – Orange County Fire Authority

The City entered into a joint powers agreement with 17 other cities and the County of Orange in January 1995, and subsequently amended on September 23, 1999, to create the Orange County Fire Authority (the Authority). Since 1995, other cities within the County have also joined the Authority to bring the total members in the Authority to 23. The purpose of the Authority is to provide for mutual fire protection, prevention and suppression services and related and incidental services including, but not limited to, emergency medical and transport services, hazardous materials regulation, as well as providing facilities and personnel for such services. The effective date of formation was March 1, 1995. The Authority's governing board consists of one representative from each city and two from the County. The operations of the Authority are funded with structural fire fees collected by the County through either the property tax roll or with cash contributions based on the Authority's annual budget. The County pays all structural fire fees it collects to the Authority.

No determination has been made as to each participant's proportionate share of fund equity as of June 30, 2006. Upon dissolution of the Authority, all surplus money and property of the Authority will be conveyed or distributed to each member in proportion to all funds provided to the Authority by that member or by the County on behalf of that member during its membership. Separate audited financial statements may be obtained from the Authority at 180 South Water Street, Orange, California 92866.

(16) Owner Participation Agreements

The City entered into an Owner Participation Agreement in March 1999 with a business enterprise for the purpose of relocating and consolidating the enterprise's business operations within the City. This agreement requires the City to remit property tax increment equal to 20% of the sales tax revenue generated each year by the business enterprise back to the enterprise. The agreement limits the amount of the increment that can be remitted to a maximum of \$600,000 for a period of ten years. The City did not make any remittances during the year ended June 30, 2006. The total amount to date remitted by the City under this agreement through June 30, 2006 was approximately \$124,520.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(16) Owner Participation Agreements, (Continued)

The City entered into an Owner Participation Agreement in May 2002 with a business enterprise whereby the City disbursed \$1,500,000 to the enterprise for the purpose of rehabilitating certain real property within the City. Under the terms of the agreement, the cost of the project is expected to be recovered by the City through increased sales tax revenues. At the end of the project's fifteenth operating year, the business enterprise must pay the City any portion of the cost not recovered. No amounts have been recovered by the City as of June 30, 2006.

(17) Fund Balances

The City establishes "reserves" of fund equity to segregate fund balances which are not appropriable for expenditure in future periods, or which are legally set aside for a specific future use. Fund "designations" are established to indicate tentative plans for financial resource utilization in a future period. Each of the City's reserves and designations is described below:

	General Fund	Special Revenue Low and Moderate Income Housing	Debt Service CDC Debt Service	Capital Projects CDC Projects	Capital Outlay Reserve	Nonmajor Governmental Funds	Total
Reserved for:							
Advances to other funds	\$2,780,430	-	-	-	500,000	-	3,280,430
Prepaid items	12,231	-	-	-	-	-	12,231
Loans receivable	-	4,843,068	-	-	-	-	4,843,068
	<u>2,792,661</u>	<u>4,843,068</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>8,135,729</u>
Unreserved, designated for:							
Maintenance and replacement of capital assets	2,433,964	-	-	-	-	-	2,433,964
Capital projects	-	-	-	1,160,946	3,936,925	-	5,097,871
	<u>2,433,964</u>	<u>-</u>	<u>-</u>	<u>1,160,946</u>	<u>3,936,925</u>	<u>-</u>	<u>7,531,835</u>
Unreserved, Undesignated	<u>8,323,938</u>	<u>(2,358,468)</u>	<u>944,512</u>	<u>-</u>	<u>-</u>	<u>1,128,781</u>	<u>8,038,763</u>
Total fund balances	<u>\$13,550,563</u>	<u>2,484,600</u>	<u>944,512</u>	<u>1,160,946</u>	<u>4,436,925</u>	<u>1,128,781</u>	<u>23,706,327</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(18) Restatements of Net Assets and Fund Balances/Fund Net Assets

The accompanying financial statements reflect restatements of beginning balances of Governmental and Business-type Activities, Water Enterprise Fund, Sewer Enterprise Fund and Low and Moderate Income Housing Special Revenue Fund. The following schedule summarizes the effects of the change in application of accounting principle and prior period adjustments to beginning net assets/fund balances/fund net assets as of July 1, 2005:

	<u>Government-wide Statements</u>	
	<u>Governmental Activities</u>	<u>Business- type Activities</u>
Beginning net assets, as previously reported	\$32,740,746	16,498,445
• To reflect change in application of accounting principle to increase capitalization threshold for certain capital assets	(346,876)	(25,635)
• To correct prior year overstatement of accounts receivable	(33,138)	
• To correct prior year capital assets and related accumulated depreciation amounts		2,894
• To correct prior year amount due from other governments		23,744
• To correct prior year internal balances	38,261	(38,261)
Beginning net assets, as restated	<u>\$32,398,993</u>	<u>16,461,187</u>

	<u>Fund Financial Statements</u>		
	<u>Special Revenue Low and Moderate Income Housing</u>	<u>Water</u>	<u>Enterprise Sewer</u>
Beginning fund balance/fund net assets, as previously reported	\$2,120,705	9,946,644	6,419,644
• To reflect change in application of accounting principle to increase capitalization threshold for certain capital assets		(25,635)	
• To correct prior year overstatement of accounts receivable	(33,138)		
• To correct prior year capital assets and related accumulated depreciation amounts		2,894	
• To correct prior year misapplication of Sewer Fund revenues to appropriate fund, Water Fund		31,258	(31,258)
• To correct prior year amount due from other governments			23,744
Beginning fund balance/fund net assets, as restated	<u>\$2,087,567</u>	<u>9,955,161</u>	<u>6,412,130</u>



REQUIRED SUPPLEMENTARY INFORMATION



GENERAL FUND

The General Fund has been classified as a major fund and is used to account for all of the general revenues of the City not specifically levied or collected for other City funds and for expenditures related to the rendering of the general services by the City. The General Fund is generally used to account for all the resources not required to be accounted for in another fund. The budget and actual comparison for this fund has been presented in the accompanying financial statements as *required supplementary information*.

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes. The following has been classified as a major Special Revenue Fund and the budget and actual comparison for this fund has been presented in the accompanying financial statements as *required supplementary information*.

Low and Moderate Income Housing – To account for revenues and expenditures related to the development of housing within the City for citizens of low or moderate means.



CITY OF LA PALMA

Notes to Required Supplementary Information

Year ended June 30, 2006

(1) Budgetary Control and Accounting

The City adheres to the following general procedures in establishing its annual budget, which is reflected in the accompanying schedules:

- Budgets are legally adopted and formal budgetary integration is employed as a management control device during the year for the General, Special Revenue and Debt Service Funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various City departments.
- Reported budget amounts represent the original legally adopted budget as amended. Individual amendments were not material in relation to the original adopted budget amounts. The City Council may amend the budget to increase appropriations only by a duly adopted minute resolution during a regular meeting, providing that sufficient monies are available and that expenditures of proceeds of taxes will not be increased beyond the constitutional appropriation limit as imposed by Article XIII B of the State Constitution. Management can transfer, without City Council approval, budgeted amounts provided that they do not increase or decrease total fund appropriations adopted by City Council.
- Unexpended budgeted amounts lapse at the end of the budget year. Spending control for the funds is established by the amount of expenditures budgeted for the fund, but management control is exercised at budgetary line item levels.

Expenditures may not legally exceed overall budgeted appropriations. Reserves for encumbrances are not recorded by the City.

- The budgets of the City's capital projects are primarily "long-term" budgets which emphasize major programs and capital outlay plans extending over a number of fiscal periods. Therefore, no budget-to-actual schedules are presented for the Capital Projects Funds.

CITY OF LA PALMA
General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 7,648,000	7,648,000	5,061,884	(2,586,116)
Intergovernmental	82,700	82,700	113,239	30,539
Licenses and permits	222,200	222,200	218,911	(3,289)
Fines and forfeitures	101,000	101,000	139,338	38,338
Investment income	461,600	461,600	996,564	534,964
Charges for services	436,700	436,700	415,913	(20,787)
Rental income	148,600	148,600	150,225	1,625
Miscellaneous	281,100	281,100	295,392	14,292
Total revenues	<u>9,381,900</u>	<u>9,381,900</u>	<u>7,391,466</u>	<u>(1,990,434)</u>
Expenditures:				
Current:				
General government	1,729,000	1,737,000	1,592,297	144,703
Public safety	4,161,000	4,186,000	4,184,318	1,682
Public works	731,200	737,700	667,734	69,966
Recreation	1,240,700	1,242,700	1,149,790	92,910
Community development	411,400	411,400	396,172	15,228
Capital outlay	646,300	708,576	451,555	257,021
Total expenditures	<u>8,919,600</u>	<u>9,023,376</u>	<u>8,441,866</u>	<u>581,510</u>
Excess (deficiency) of revenues over (under) expenditures	<u>462,300</u>	<u>358,524</u>	<u>(1,050,400)</u>	<u>(1,408,924)</u>
Other financing sources:				
Transfers in	364,800	364,800	364,700	(100)
Total other financing sources	<u>364,800</u>	<u>364,800</u>	<u>364,700</u>	<u>(100)</u>
Net change in fund balance	827,100	723,324	(685,700)	(1,409,024)
Fund balance at beginning of year	<u>14,236,263</u>	<u>14,236,263</u>	<u>14,236,263</u>	<u>-</u>
Fund balance at end of year	<u>\$ 15,063,363</u>	<u>14,959,587</u>	<u>13,550,563</u>	<u>(1,409,024)</u>

CITY OF LA PALMA
Major Special Revenue Fund
Low and Moderate Income Housing Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 422,500	422,500	474,482	51,982
Investment income	232,000	232,000	386,006	154,006
Miscellaneous	-	-	67,652	67,652
Total revenues	<u>654,500</u>	<u>654,500</u>	<u>928,140</u>	<u>273,640</u>
Expenditures:				
Current:				
Community development	316,000	316,000	246,834	69,166
Debt service:				
Principal	56,700	56,700	-	56,700
Interest	312,500	312,500	284,273	28,227
Total expenditures	<u>685,200</u>	<u>685,200</u>	<u>531,107</u>	<u>154,093</u>
Net change in fund balance	(30,700)	(30,700)	397,033	427,733
Fund balance at beginning of year, as restated	<u>2,087,567</u>	<u>2,087,567</u>	<u>2,087,567</u>	-
Fund balance at end of year	<u><u>\$ 2,056,867</u></u>	<u><u>2,056,867</u></u>	<u><u>2,484,600</u></u>	<u><u>427,733</u></u>



NONMAJOR SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes. The City of La Palma has twelve Special Revenue Funds classified as nonmajor:

Asset Seizure – To account for the City's share of assets seized as a result of narcotics investigations. The monies are used for law enforcement purposes.

Streets – To account for receipts and expenditures of money apportioned under the Streets and Highways Code Sections 2105, 2106, 2107 and 2107.5 of the State of California. Expenditures are used for the maintenance, rehabilitation and improvements of public streets.

Measure M – To account for receipts and expenditures of money apportioned under Measure M of the County of Orange. Expenditures are used for maintaining and improving public transportation projects.

Traffic Congestion Relief – To account for revenues and expenditures of the City's share of specified funds allocated by the State of California for street or road maintenance or reconstruction.

Park Development – To account for revenues and expenditures relating to the development and renovation of City parks.

Air Quality Improvement – To account for receipts and expenditures of motor vehicle registration fees collected in accordance with California Assembly Bill 2766. This fee was levied to fund programs to reduce air pollution from mobile sources such as cars, trucks and buses.

Supplemental Law Enforcement Service – To account for state monies received in accordance with California Assembly Bill 3229 to be used as a supplement for law enforcement systems.

Public Safety Augmentation – To account for special tax augmentation funds generated by a ½ cent sales tax under Proposition 172 of the State of California. These funds are used for public safety programs.

Abandoned Vehicles – To account for monies received for vehicle abatement. The monies are used for public safety.

Local Law Enforcement Block Grant – To account for grants received from the United States Department of Justice. The monies are used for law enforcement services.

California (CA) Law Enforcement Equipment Program – To account for grant monies received from the State of California. The monies are used for capital outlay expenditures for law enforcement services.

Urban Park Grant – To account for grant monies received from the state of California. The monies are used for capital outlay expenditures for a parks and recreation facility.

CITY OF LA PALMA
Nonmajor Special Revenue Funds

Combining Balance Sheet

June 30, 2006

	Asset Seizure	Streets	Measure M	Traffic Congestion Relief	Park Development	Air Quality Improvement
<u>Assets</u>						
Cash and investments	\$ -	270,458	537,036	52,161	117,981	-
Receivables:						
Interest	-	2,837	5,833	579	1,310	-
Due from other governments	-	29,873	40,422	20,174	-	4,850
Total assets	\$ -	303,168	583,291	72,914	119,291	4,850
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ -	32,506	12,494	-	-	-
Salaries payable	-	2,712	-	-	-	-
Retentions payable	-	2,564	7,045	-	-	-
Due to other funds	-	-	-	-	-	3,735
Unearned revenue	-	-	-	-	-	-
Total liabilities	-	37,782	19,539	-	-	3,735
Fund balances:						
Unreserved, reported in Special Revenue Funds	-	265,386	563,752	72,914	119,291	1,115
Total fund balances	-	265,386	563,752	72,914	119,291	1,115
Total liabilities and fund balances	\$ -	303,168	583,291	72,914	119,291	4,850

Supplemental Law Enforcement Service	Public Safety Augmentation	Abandoned Vehicles	Local Law Enforcement Block Grant	California Law Enforcement Equipment Program	Urban Park Grant	Total
6,221	79,057	5,503	-	327	16,615	1,085,359
490	1,266	61	-	3	184	12,563
-	12,516	-	-	-	-	107,835
<u>6,711</u>	<u>92,839</u>	<u>5,564</u>	<u>-</u>	<u>330</u>	<u>16,799</u>	<u>1,205,757</u>
-	-	-	-	-	-	45,000
560	360	-	-	-	-	3,632
-	-	-	-	-	-	9,609
-	-	-	-	-	-	3,735
-	-	-	-	-	15,000	15,000
<u>560</u>	<u>360</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>76,976</u>
6,151	92,479	5,564	-	330	1,799	1,128,781
6,151	92,479	5,564	-	330	1,799	1,128,781
<u>6,711</u>	<u>92,839</u>	<u>5,564</u>	<u>-</u>	<u>330</u>	<u>16,799</u>	<u>1,205,757</u>

CITY OF LA PALMA
Nonmajor Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2006

	Asset Seizure	Streets	Measure M	Traffic Congestion Relief	Park Development	Air Quality Improvement
Revenues:						
Intergovernmental	\$ -	297,630	219,611	71,833	-	19,588
Investment income	104	8,551	18,422	1,081	4,420	1,183
Total revenues	<u>104</u>	<u>306,181</u>	<u>238,033</u>	<u>72,914</u>	<u>4,420</u>	<u>20,771</u>
Expenditures:						
Current:						
Public safety	4,126	-	-	-	-	-
Public works	-	197,707	18,757	-	-	2,831
Capital outlay	-	10,093	131,171	-	1,383	60,002
Total expenditures	<u>4,126</u>	<u>207,800</u>	<u>149,928</u>	<u>-</u>	<u>1,383</u>	<u>62,833</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,022)</u>	<u>98,381</u>	<u>88,105</u>	<u>72,914</u>	<u>3,037</u>	<u>(42,062)</u>
Other financing uses:						
Transfers out	-	(28,700)	(1,100)	-	-	-
Total other financing uses	<u>-</u>	<u>(28,700)</u>	<u>(1,100)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(4,022)</u>	<u>69,681</u>	<u>87,005</u>	<u>72,914</u>	<u>3,037</u>	<u>(42,062)</u>
Fund balances at beginning of year	<u>4,022</u>	<u>195,705</u>	<u>476,747</u>	<u>-</u>	<u>116,254</u>	<u>43,177</u>
Fund balances at end of year	<u>\$ -</u>	<u>265,386</u>	<u>563,752</u>	<u>72,914</u>	<u>119,291</u>	<u>1,115</u>

Supplemental Law Enforcement Service	Public Safety Augmentation	Abandoned Vehicles	Local Law Enforcement Block Grant	California Law Enforcement Equipment Program	Urban Park Grant	Total
100,244	157,677	-	-	-	-	866,583
1,944	3,789	320	40	13	623	40,490
102,188	161,466	320	40	13	623	907,073
98,796	144,162	10,692	40	-	-	257,816
-	-	-	-	-	-	219,295
-	-	-	-	-	-	202,649
98,796	144,162	10,692	40	-	-	679,760
3,392	17,304	(10,372)	-	13	623	227,313
-	-	-	-	-	-	(29,800)
-	-	-	-	-	-	(29,800)
3,392	17,304	(10,372)	-	13	623	197,513
2,759	75,175	15,936	-	317	1,176	931,268
6,151	92,479	5,564	-	330	1,799	1,128,781

CITY OF LA PALMA
Asset Seizure Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Investment income	\$ 100	100	104	4
Total revenues	<u>100</u>	<u>100</u>	<u>104</u>	<u>4</u>
Expenditures:				
Current:				
Public safety	4,000	4,200	4,126	74
Total expenditures	<u>4,000</u>	<u>4,200</u>	<u>4,126</u>	<u>74</u>
Net change in fund balance	(3,900)	(4,100)	(4,022)	78
Fund balance at beginning of year	<u>4,022</u>	<u>4,022</u>	<u>4,022</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ 122</u></u>	<u><u>(78)</u></u>	<u><u>-</u></u>	<u><u>78</u></u>

CITY OF LA PALMA
Streets Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ 297,300	297,300	297,630	330
Investment income	3,500	3,500	8,551	5,051
Total revenues	<u>300,800</u>	<u>300,800</u>	<u>306,181</u>	<u>5,381</u>
Expenditures:				
Current:				
Public works	214,300	254,300	197,707	56,593
Capital outlay	50,000	50,000	10,093	39,907
Total expenditures	<u>264,300</u>	<u>304,300</u>	<u>207,800</u>	<u>96,500</u>
Excess (deficiency) of revenues over (under) expenditures	<u>36,500</u>	<u>(3,500)</u>	<u>98,381</u>	<u>101,881</u>
Other financing uses:				
Transfers out	<u>(28,700)</u>	<u>(28,700)</u>	<u>(28,700)</u>	<u>-</u>
Total other financing sources uses	<u>(28,700)</u>	<u>(28,700)</u>	<u>(28,700)</u>	<u>-</u>
Net change in fund balance	7,800	(32,200)	69,681	101,881
Fund balance at beginning of year	<u>195,705</u>	<u>195,705</u>	<u>195,705</u>	<u>-</u>
Fund balance at end of year	<u>\$ 203,505</u>	<u>163,505</u>	<u>265,386</u>	<u>101,881</u>

CITY OF LA PALMA
Measure M Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ 200,000	200,000	219,611	19,611
Investment income	8,500	8,500	18,422	9,922
Total revenues	<u>208,500</u>	<u>208,500</u>	<u>238,033</u>	<u>29,533</u>
Expenditures:				
Current:				
Public works	36,500	36,500	18,757	17,743
Capital outlay	240,000	240,000	131,171	108,829
Total expenditures	<u>276,500</u>	<u>276,500</u>	<u>149,928</u>	<u>126,572</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(68,000)</u>	<u>(68,000)</u>	<u>88,105</u>	<u>156,105</u>
Other financing uses:				
Transfers out	<u>(1,100)</u>	<u>(1,100)</u>	<u>(1,100)</u>	<u>-</u>
Total other financing sources uses	<u>(1,100)</u>	<u>(1,100)</u>	<u>(1,100)</u>	<u>-</u>
Net change in fund balance	(69,100)	(69,100)	87,005	156,105
Fund balance at beginning of year	<u>476,747</u>	<u>476,747</u>	<u>476,747</u>	<u>-</u>
Fund balance at end of year	<u>\$ 407,647</u>	<u>407,647</u>	<u>563,752</u>	<u>156,105</u>

CITY OF LA PALMA
Traffic Congestion Relief Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ -	-	71,833	71,833
Investment income	-	-	1,081	1,081
Total revenues	-	-	72,914	72,914
Expenditures:				
Current:				
Public works	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Net change in fund balance	-	-	72,914	72,914
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	\$ -	-	72,914	72,914

CITY OF LA PALMA
Park Development Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Investment income	\$ 1,500	1,500	4,420	2,920
Charges for services	37,000	37,000	-	(37,000)
Total revenues	<u>38,500</u>	<u>38,500</u>	<u>4,420</u>	<u>(34,080)</u>
Expenditures:				
Capital outlay	75,000	115,300	1,383	113,917
Total expenditures	<u>75,000</u>	<u>115,300</u>	<u>1,383</u>	<u>113,917</u>
Net change in fund balance	(36,500)	(76,800)	3,037	79,837
Fund balance at beginning of year	<u>116,254</u>	<u>116,254</u>	<u>116,254</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ 79,754</u></u>	<u><u>39,454</u></u>	<u><u>119,291</u></u>	<u><u>79,837</u></u>

CITY OF LA PALMA
Air Quality Improvement Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ 19,000	19,000	19,588	588
Investment income	1,200	1,200	1,183	(17)
Total revenues	<u>20,200</u>	<u>20,200</u>	<u>20,771</u>	<u>571</u>
Expenditures:				
Current:				
Public works	3,100	3,100	2,831	269
Capital outlay	60,000	60,000	60,002	(2)
Total expenditures	<u>63,100</u>	<u>63,100</u>	<u>62,833</u>	<u>267</u>
Net change in fund balance	(42,900)	(42,900)	(42,062)	838
Fund balance at beginning of year	<u>43,177</u>	<u>43,177</u>	<u>43,177</u>	-
Fund balance at end of year	<u>\$ 277</u>	<u>277</u>	<u>1,115</u>	<u>838</u>

CITY OF LA PALMA
Supplemental Law Enforcement Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ 100,000	100,000	100,244	244
Investment income	100	100	1,944	1,844
Total revenues	<u>100,100</u>	<u>100,100</u>	<u>102,188</u>	<u>2,088</u>
Expenditures:				
Current:				
Public safety	99,800	99,800	98,796	1,004
Total expenditures	<u>99,800</u>	<u>99,800</u>	<u>98,796</u>	<u>1,004</u>
Net change in fund balance	300	300	3,392	3,092
Fund balance at beginning of year	<u>2,759</u>	<u>2,759</u>	<u>2,759</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ 3,059</u></u>	<u><u>3,059</u></u>	<u><u>6,151</u></u>	<u><u>3,092</u></u>

CITY OF LA PALMA
Public Safety Augmentation Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ 140,000	140,000	157,677	17,677
Investment income	2,000	2,000	3,789	1,789
Total revenues	<u>142,000</u>	<u>142,000</u>	<u>161,466</u>	<u>19,466</u>
Expenditures:				
Current:				
Public safety	<u>145,400</u>	<u>145,100</u>	<u>144,162</u>	<u>938</u>
Total expenditures	<u>145,400</u>	<u>145,100</u>	<u>144,162</u>	<u>938</u>
Net change in fund balance	(3,400)	(3,100)	17,304	20,404
Fund balance at beginning of year	<u>75,175</u>	<u>75,175</u>	<u>75,175</u>	-
Fund balance at end of year	<u><u>\$ 71,775</u></u>	<u><u>72,075</u></u>	<u><u>92,479</u></u>	<u><u>20,404</u></u>

CITY OF LA PALMA
Abandoned Vehicles Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ 8,000	8,000	-	(8,000)
Investment income	400	400	320	(80)
Total revenues	<u>8,400</u>	<u>8,400</u>	<u>320</u>	<u>(8,080)</u>
Expenditures:				
Current:				
Public safety	11,000	11,000	10,692	308
Total expenditures	<u>11,000</u>	<u>11,000</u>	<u>10,692</u>	<u>308</u>
Net change in fund balance	(2,600)	(2,600)	(10,372)	(7,772)
Fund balance at beginning of year	<u>15,936</u>	<u>15,936</u>	<u>15,936</u>	-
Fund balance at end of year	<u><u>\$ 13,336</u></u>	<u><u>13,336</u></u>	<u><u>5,564</u></u>	<u><u>(7,772)</u></u>

CITY OF LA PALMA
Local Law Enforcement Block Grant Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Investment income	\$ 400	400	40	(360)
Total revenues	400	400	40	(360)
Expenditures:				
Current:				
Public safety	-	100	40	60
Total expenditures	-	100	40	60
Net change in fund balance	400	300	-	(300)
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	\$ 400	300	-	(300)

CITY OF LA PALMA
California Law Enforcement Equipment Program Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual

Year ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:				
Investment income	\$ -	-	13	13
Total revenues	<u>-</u>	<u>-</u>	<u>13</u>	<u>13</u>
Expenditures:				
Current:				
Public safety	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	13	13
Fund balance at beginning of year	<u>317</u>	<u>317</u>	<u>317</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ 317</u></u>	<u><u>317</u></u>	<u><u>330</u></u>	<u><u>13</u></u>

CITY OF LA PALMA
Urban Park Grant Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Investment income	\$ 1,500	1,500	623	(877)
Total revenues	<u>1,500</u>	<u>1,500</u>	<u>623</u>	<u>(877)</u>
Expenditures:				
Capital outlay	140,400	140,400	-	140,400
Total expenditures	<u>140,400</u>	<u>140,400</u>	<u>-</u>	<u>140,400</u>
Net change in fund balance	(138,900)	(138,900)	623	139,523
Fund balance at beginning of year	<u>1,176</u>	<u>1,176</u>	<u>1,176</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ (137,724)</u>	<u>(137,724)</u>	<u>1,799</u>	<u>139,523</u>



MAJOR DEBT SERVICE FUND

To account for the accumulation of resources for, and the payment of, long-term debt principal and interest.

CITY OF LA PALMA
CDC Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 1,690,000	1,690,000	1,897,928	207,928
Investment income	14,000	14,000	61,075	47,075
Total revenues	<u>1,704,000</u>	<u>1,704,000</u>	<u>1,959,003</u>	<u>255,003</u>
Expenditures:				
Current:				
Community development	43,000	43,000	33,189	9,811
Debt service:				
Principal	360,000	420,000	360,000	60,000
Interest	641,600	641,600	641,509	91
Pass-through payments	165,100	195,100	227,054	(31,954)
Payment to state education fund	200,000	200,000	177,004	22,996
Total expenditures	<u>1,409,700</u>	<u>1,499,700</u>	<u>1,438,756</u>	<u>60,944</u>
Net change in fund balance	294,300	204,300	520,247	315,947
Fund balance at beginning of year	<u>424,265</u>	<u>424,265</u>	<u>424,265</u>	-
Fund balance at end of year	<u>\$ 718,565</u>	<u>628,565</u>	<u>944,512</u>	<u>315,947</u>

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency of the City to other departments or agencies on a cost reimbursement basis.

The City of La Palma has two Internal Service Funds:

Insurance – To account for certain insurance activity of the City including general liability claims, legal and other expenses.

Employee Benefits – To account for costs of the City's employee benefit plan, as well as workers' compensation insurance costs and claims.

CITY OF LA PALMA
Internal Service Funds

Combining Statement of Fund Net Assets

June 30, 2006

	Insurance	Employee Benefits	Total
Assets:			
Current assets:			
Cash and investments	\$ 444,995	626,908	1,071,903
Receivables:			
Loans	-	8,292	8,292
Due from other governments	171,189	133,341	304,530
Total current assets	616,184	768,541	1,384,725
Noncurrent assets:			
Due from other governments	452,944	208,049	660,993
Advances to other funds	600,000	1,000,000	1,600,000
Total noncurrent assets	1,052,944	1,208,049	2,260,993
Total assets	1,669,128	1,976,590	3,645,718
Liabilities:			
Current liabilities:			
Accounts payable	984	14,596	15,580
Salaries payable	-	7,369	7,369
Other accrued liabilities	-	1,497	1,497
Total current liabilities	984	23,462	24,446
Total liabilities	984	23,462	24,446
Fund net assets - unrestricted	\$ 1,668,144	1,953,128	3,621,272

CITY OF LA PALMA
Internal Service Funds

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets

Year ended June 30, 2006

	<u>Insurance</u>	<u>Employee Benefits</u>	<u>Total</u>
Operating revenues:			
Charges for services	<u>\$ 381,100</u>	<u>2,387,300</u>	<u>2,768,400</u>
Total operating revenues	<u>381,100</u>	<u>2,387,300</u>	<u>2,768,400</u>
Operating expenses:			
Personnel services	-	1,609,079	1,609,079
Maintenance and operations	-	47,437	47,437
Contractual services	-	24,463	24,463
Settlement, claims and insurance	<u>54,529</u>	<u>819,242</u>	<u>873,771</u>
Total operating expenses	<u>54,529</u>	<u>2,500,221</u>	<u>2,554,750</u>
Operating income (loss)	<u>326,571</u>	<u>(112,921)</u>	<u>213,650</u>
Change in fund net assets	326,571	(112,921)	213,650
Fund net assets at beginning of year	<u>1,341,573</u>	<u>2,066,049</u>	<u>3,407,622</u>
Fund net assets at end of year	<u><u>\$ 1,668,144</u></u>	<u><u>1,953,128</u></u>	<u><u>3,621,272</u></u>

CITY OF LA PALMA
Internal Service Funds
Combining Statement of Cash Flows
Year ended June 30, 2006

	Insurance	Employee Benefits	Total
Cash flows from operating activities:			
Cash received from internal users	\$ 381,100	2,387,300	2,768,400
Cash payments to suppliers for goods and services	(338,178)	(915,204)	(1,253,382)
Cash payments for employee services	-	(1,608,144)	(1,608,144)
Cash received from (used for) other operating activities	-	866	866
Net cash provided by (used for) operating activities	42,922	(135,182)	(92,260)
Net increase (decrease) in cash and cash equivalents	42,922	(135,182)	(92,260)
Cash and cash equivalents at beginning of year	402,073	762,090	1,164,163
Cash and cash equivalents at end of year	<u>\$ 444,995</u>	<u>626,908</u>	<u>1,071,903</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	<u>\$ 326,571</u>	<u>(112,921)</u>	<u>213,650</u>
Adjustments to reconcile operating income (loss) to net income provided by (used for) operating activities:			
(Increase) decrease in loans receivable	-	1,023	1,023
Increase (decrease) in due from other governments	(281,482)	(34,696)	(316,178)
Increase (decrease) in accounts payable	(2,167)	10,634	8,467
Increase (decrease) in salaries payable	-	935	935
Increase (decrease) in deferred revenue	-	(157)	(157)
Total adjustments	<u>(283,649)</u>	<u>(22,261)</u>	<u>(305,910)</u>
Net cash provided by (used for) operating activities	<u>\$ 42,922</u>	<u>(135,182)</u>	<u>(92,260)</u>

AGENCY FUNDS

Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds.

The City of La Palma has one Agency Fund as follows:

City Trust – To account for assets held by the City as an agent for other governments and/or other funds.

CITY OF LA PALMA
Agency Funds

Statement of Fiduciary Assets and Liabilities

June 30, 2006

	<u>City Trust</u>
<u>Assets</u>	
Cash and investments	<u>\$ 16,639</u>
Total assets	<u><u>\$ 16,639</u></u>
<u>Liabilities</u>	
Deposits payable	<u>\$ 16,639</u>
Total liabilities	<u><u>\$ 16,639</u></u>

CITY OF LA PALMA
Agency Funds

Statement of Changes in Fiduciary Assets and Liabilities

Year ended June 30, 2006

	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>
<u>City Trust</u>				
Assets:				
Cash and investments	<u>\$ 19,055</u>	<u>47,541</u>	<u>(49,957)</u>	<u>16,639</u>
Liabilities:				
Deposits payable	<u>\$ 19,055</u>	<u>47,541</u>	<u>(49,957)</u>	<u>16,639</u>

CITY OF LA PALMA
Capital Assets Used in the Operation of Governmental Funds

Schedule by Source

June 30, 2006

Governmental funds capital assets:	
Land	\$ 1,602,281
Land rights related to streets	5,104,472
Construction in progress	216,191
Building and improvements	3,865,424
Equipment	832,575
Vehicles	1,621,935
Furniture and fixtures	68,888
Infrastructure	<u>10,184,476</u>
Total governmental funds capital assets	<u>\$ 23,496,242</u>
Investments in governmental funds capital assets by source	
General fund and other sources	\$ 23,195,511
Federal and state grants	<u>300,731</u>
Total governmental funds capital assets	<u>\$ 23,496,242</u>

CITY OF LA PALMA
Capital Assets Used in the Operation of Governmental Funds

Schedule by Function and Activity

June 30, 2006

	Land	Construction in Progress	Buildings and Improvements	Equipment	Vehicles	Furniture and Fixtures	Total
General							
government	\$ 1,218,281	-	652,260	163,346	344,557	56,550	2,434,994
Public safety	-	28,770	867,910	315,482	755,735	12,338	1,980,235
Public works	79,000	168,358	93,512	160,651	324,097	-	825,618
Recreation	305,000	-	2,251,742	193,096	100,213	-	2,850,051
Community development	-	19,063	-	-	97,333	-	116,396
	<u>\$ 1,602,281</u>	<u>216,191</u>	<u>3,865,424</u>	<u>832,575</u>	<u>1,621,935</u>	<u>68,888</u>	<u>8,207,294</u>
Land rights related to streets							5,104,472
Infrastructure							<u>10,184,476</u>
Totals							<u>\$23,496,242</u>

CITY OF LA PALMA
Capital Assets Used in the Operation of Governmental Funds

Schedule of Changes by Function

Year ended June 30, 2006

	Balance at July 1, 2005, as Restated	Additions	Deletions	Balance at June 30, 2006
General government	\$ 2,400,048	57,686	(22,740)	2,434,994
Public safety	2,058,091	-	(77,856)	1,980,235
Public works	364,663	470,757	(9,802)	825,618
Recreation	2,851,063	15,692	(16,704)	2,850,051
Community development	111,289	19,063	(13,956)	116,396
	<u>7,785,154</u>	<u>563,198</u>	<u>(141,058)</u>	<u>8,207,294</u>
Land rights related to streets	5,104,472	-	-	5,104,472
Infrastructure	<u>10,132,476</u>	<u>52,000</u>	<u>-</u>	<u>10,184,476</u>
Totals	<u><u>\$ 23,022,102</u></u>	<u><u>615,198</u></u>	<u><u>(141,058)</u></u>	<u><u>23,496,242</u></u>

Statistical Section

This part of the City of La Palma's comprehensive annual financial report presents detailed information as a context for understanding what the information says about the government's overall financial health.

Contents	Page
Financial Trends	
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	109
Revenue Capacity	
These schedules contain information to help the reader assess the City's most significant local revenue source of property taxes.	114
Debt Capacity	
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	118
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	122
Operating Information	
These schedules contain service and infrastructure data to help the reader understand how the information in the City's basic financial statements relates to the services the City provides and the activities it performs.	123



CITY OF LA PALMA^{*}
Net Assets by Component
Last Four Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2006	2005	2004	2003
Governmental activities				
Invested in capital assets	\$ 14,689,033	\$ 14,120,989	\$ 15,228,957	\$ 15,228,957
Restricted	5,883,122	5,602,615	5,509,202	5,799,782
Unrestricted	12,340,588	12,675,389	7,841,233	4,387,686
Total governmental activities	<u>\$ 32,912,743</u>	<u>\$ 32,398,993</u>	<u>\$ 28,579,392</u>	<u>\$ 25,416,425</u>
Business-type activities				
Invested in capital assets	\$ 6,880,596	\$ 6,976,373	\$ 7,116,944	\$ 7,271,330
Unrestricted	10,577,872	9,484,814	9,053,719	8,523,609
Total business-type activities	<u>\$ 17,458,468</u>	<u>\$ 16,461,187</u>	<u>\$ 16,170,663</u>	<u>\$ 15,794,939</u>
Primary government				
Invested in capital assets	\$ 21,569,629	\$ 21,097,362	\$ 22,345,901	\$ 22,500,287
Restricted	5,883,122	5,602,615	5,509,202	5,799,782
Unrestricted	22,918,460	22,160,203	16,894,952	12,911,295
Total primary government	<u>\$ 50,371,211</u>	<u>\$ 48,860,180</u>	<u>\$ 44,750,055</u>	<u>\$ 41,211,364</u>

The City of La Palma implemented Governmental Accounting Standards Board (GASB) Statement No. 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB Statement No. 34 is not available.

Source: City of La Palma Finance Department

CITY OF LA PALMA
Changes in Net Assets
Last Four Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2006	2005	2004	2003
Expenses:				
Governmental activities:				
General government	\$ 1,489,396	\$ 1,430,933	\$ 1,570,183	\$ 1,349,364
Public safety	4,491,758	4,332,350	3,742,786	4,052,154
Public works	1,353,344	1,079,258	1,618,280	1,663,734
Recreation	1,215,837	1,256,861	1,145,119	1,223,252
Community development	798,299	744,627	772,864	2,292,314
Interest on long-term debt	561,699	561,503	568,863	588,396
Total governmental activities	<u>9,910,333</u>	<u>9,405,532</u>	<u>9,418,095</u>	<u>11,169,214</u>
Business-type activities:				
Water	1,831,349	1,764,673	1,614,319	1,757,144
Sewer	246,959	237,912	162,447	170,907
Total business-type activities	<u>2,078,308</u>	<u>2,002,585</u>	<u>1,776,766</u>	<u>1,928,051</u>
Total primary government expenses	<u>11,988,641</u>	<u>11,408,117</u>	<u>11,194,861</u>	<u>13,097,265</u>
Program revenues:				
Governmental activities:				
Charges for services:				
General government	156,524	146,628	156,835	154,620
Public safety	157,301	150,439	162,169	184,865
Public works	8,461	9,256	6,682	14,299
Recreation	333,045	356,075	394,778	341,865
Community development	112,704	203,138	154,418	179,913
Operating grants and contributions	931,703	808,942	764,447	823,999
Capital grants and contributions	36,043	11,789	86,722	312,831
Total governmental activities	<u>1,735,781</u>	<u>1,686,267</u>	<u>1,726,051</u>	<u>2,012,392</u>
Business-type activities:				
Charges for services:				
Water	2,523,032	1,947,296	2,103,529	1,687,091
Sewer	328,934	361,915	331,976	203,680
Operating grants and contributions	40,606	23,744	-	-
Capital grants and contributions	119,747	-	-	-
Total business-type activities	<u>3,012,319</u>	<u>2,332,955</u>	<u>2,435,505</u>	<u>1,890,771</u>
Total primary government program revenues	<u>4,748,100</u>	<u>4,019,222</u>	<u>4,161,556</u>	<u>3,903,163</u>
Net revenues (expenses):				
Governmental activities	(8,174,552)	(7,719,265)	(7,692,044)	(9,156,822)
Business-type activities	934,011	330,370	658,739	(37,280)
Total primary government net revenues (expenses)	<u>(7,240,541)</u>	<u>(7,388,895)</u>	<u>(7,033,305)</u>	<u>(9,194,102)</u>

CITY OF LA PALMA
Changes in Net Assets
Last Four Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2006	2005	2004	2003
General revenues and other changes in net assets:				
Governmental activities:				
Taxes:				
Property taxes	\$ 4,501,460	\$ 3,129,238	\$ 3,127,876	\$ 3,049,918
Utility users tax	1,138,789	1,266,727	1,212,829	1,165,104
Sales taxes	826,331	4,398,978	4,453,950	2,857,987
Franchise taxes	318,679	306,192	306,413	296,180
Transient occupancy taxes	244,976	212,624	164,178	143,148
Intergovernmental - unrestricted	104,895	1,291,482	730,327	914,383
Investment income	1,137,651	520,348	333,835	474,346
Other general revenues	80,621	88,577	82,603	101,188
Transfers	334,900	324,700	443,000	445,000
Total governmental activities	<u>8,688,302</u>	<u>11,538,866</u>	<u>10,855,011</u>	<u>9,447,254</u>
Business-type activities:				
Investment income	397,845	281,972	158,033	261,945
Other general revenues	325	2,882	1,952	4,039
Transfers	(334,900)	(324,700)	(443,000)	(445,000)
Total business-type activities	<u>63,270</u>	<u>(39,846)</u>	<u>(283,015)</u>	<u>(179,016)</u>
Total primary government general revenues and other changes in net assets	<u>8,751,572</u>	<u>11,499,020</u>	<u>10,571,996</u>	<u>9,268,238</u>
Changes in net assets:				
Governmental activities	513,750	3,819,601	3,162,967	290,432
Business-type activities	997,281	290,524	375,724	(216,296)
Total primary government changes in net assets	<u>\$ 1,511,031</u>	<u>\$ 4,110,125</u>	<u>\$ 3,538,691</u>	<u>\$ 74,136</u>

The City of La Palma implemented Governmental Accounting Standards Board (GASB) Statement No. 34 for the fiscal year ended June 30, 2003. Information prior to the implementation of GASB Statement No. 34 is not available.

Source: City of La Palma Finance Department

CITY OF LA PALMA
Fund Balances of Governmental Funds
Last Four Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year			
	2006	2005	2004	2003
General Fund:				
Reserved	\$ 2,792,661	\$ 2,925,199	\$ 3,068,541	\$ 3,570,307
Unreserved	10,757,902	11,311,064	8,159,673	5,562,220
Total General Fund	<u>\$ 13,550,563</u>	<u>\$ 14,236,263</u>	<u>\$ 11,228,214</u>	<u>\$ 9,132,527</u>
All other governmental funds:				
Reserved	\$ 5,343,068	\$ 5,345,437	\$ 5,474,469	\$ 5,455,078
Unreserved, reported in:				
Special Revenue Funds	(1,229,687)	(1,826,602)	(2,401,009)	(2,498,726)
Debt Service Funds	944,512	424,265	(116,609)	(470,951)
Capital Projects Funds	5,097,871	5,568,247	5,994,452	6,151,542
Total all other governmental funds	<u>\$ 10,155,764</u>	<u>\$ 9,511,347</u>	<u>\$ 8,951,303</u>	<u>\$ 8,636,943</u>

The City of La Palma has elected to show only four years of data for this schedule.

Source: City of La Palma Finance Department

CITY OF LA PALMA
Changes in Fund Balances of Governmental Funds
Last Four Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year			
	2006	2005	2004	2003
Revenues:				
Taxes	\$ 7,434,294	\$ 9,678,212	\$ 9,603,741	\$ 7,766,905
Intergovernmental	979,822	2,083,781	1,489,853	1,747,794
Licenses and permits	218,911	251,721	247,974	268,441
Fines and forfeitures	139,338	136,056	146,619	164,329
Investment income	1,540,813	870,677	721,190	688,933
Charges for services	415,913	477,759	480,289	447,673
Rental income	150,225	149,427	145,556	148,219
Miscellaneous	383,244	298,675	370,319	592,006
Total revenues	<u>11,262,560</u>	<u>13,946,308</u>	<u>13,205,541</u>	<u>11,824,300</u>
Expenditures:				
Current:				
General government	1,592,297	1,598,803	1,909,436	1,500,769
Public safety	4,442,134	4,365,839	4,002,515	3,915,915
Public works	887,029	861,020	811,906	1,085,032
Recreation	1,149,790	1,164,230	1,131,298	1,137,569
Community development	900,053	846,348	837,729	2,339,821
Capital outlay	977,600	275,710	973,863	1,214,791
Debt service:				
Principal	360,000	350,000	330,000	320,000
Interest	925,782	876,512	903,252	801,984
Pass-through payments	227,054	176,597	229,722	178,101
Payment to State education fund	177,004	187,856	108,773	76,467
Total expenditures	<u>11,638,743</u>	<u>10,702,915</u>	<u>11,238,494</u>	<u>12,570,449</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(376,183)</u>	<u>3,243,393</u>	<u>1,967,047</u>	<u>(746,149)</u>
Other financing sources (uses):				
Transfers in	364,700	356,100	470,200	1,997,000
Transfers out	(29,800)	(31,400)	(27,200)	(1,552,000)
Total other financing sources (uses)	<u>334,900</u>	<u>324,700</u>	<u>443,000</u>	<u>445,000</u>
Net change in fund balances	<u>\$ (41,283)</u>	<u>\$ 3,568,093</u>	<u>\$ 2,410,047</u>	<u>\$ (301,149)</u>
Debt service as a percentage of noncapital expenditures	18.8%	18.0%	18.1%	13.8%

The City of La Palma has elected to show only four years of data for this schedule.

Source: City of La Palma Finance Department

CITY OF LA PALMA
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Secured Value	Public Utility	Unsecured Value	Total Assessed Value	Direct Rate
1997	\$ 812,214,126	\$ 58,505	\$ 54,820,879	\$ 867,093,510	0.24194%
1998	826,506,630	82,230	63,058,188	889,647,048	0.22495%
1999	880,835,784	100,784	56,142,832	937,079,400	0.26264%
2000	931,096,721	68,858	61,650,338	992,815,917	0.27856%
2001	991,205,259	63,654	81,876,472	1,073,145,385	0.29486%
2002	1,059,594,685	69,689	66,839,950	1,126,504,324	0.27427%
2003	1,095,014,297	67,095	61,121,959	1,156,203,351	0.27216%
2004	1,159,356,062	76,623	63,317,352	1,222,750,037	0.27058%
2005	1,240,404,682	95,611	64,092,753	1,304,593,046	0.26630%
2006	1,326,709,985	80,315	70,423,025	1,397,213,325	0.26822%

In 1978, the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: County of Orange Assessor's Office

CITY OF LA PALMA
 Direct and Overlapping Property Tax Rates
 (Per \$100 of Assessed Valuation)
 Last Ten Fiscal Years

Fiscal Year	City Direct Rate	Overlapping Rates					Total
		Anaheim Union High School District Bonds	Centralia School District Bonds	North Orange County Joint Community College District Bonds	Orange County Bonds	Metropolitan Water District Bonds	
1997	1.00000	0.00000	0.00000	0.00000	0.00012	0.00890	1.00902
1998	1.00000	0.00000	0.00000	0.00000	0.00000	0.00890	1.00890
1999	1.00000	0.00000	0.00000	0.00000	0.00000	0.00890	1.00890
2000	1.00000	0.00000	0.00000	0.00000	0.00000	0.00890	1.00890
2001	1.00000	0.00000	0.00000	0.00000	0.00000	0.00880	1.00880
2002	1.00000	0.00000	0.00000	0.00000	0.00000	0.00770	1.00770
2003	1.00000	0.02567	0.00000	0.01573	0.00000	0.00670	1.04810
2004	1.00000	0.02370	0.02053	0.01597	0.00000	0.00610	1.06630
2005	1.00000	0.02770	0.02490	0.01441	0.00000	0.00580	1.07281
2006	1.00000	0.02444	0.01895	0.01666	0.00000	0.00520	1.06525

In 1978, the voters of the State of California passed Proposition 13 which set the property tax rate at a 1% fixed amount. This 1% is shared by all taxing agencies for which the subject property resides within. In addition to the 1% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter approved bonds.

Source: County of Orange Tax Rate, Tax Rate Area 16-020

CITY OF LA PALMA
Principal Property Tax Payers
Current Year and Nine Years Ago

Property Owner's Name	2006		1997	
	Estimated Revenue	Percentage of Total Estimated Revenue	Estimated Revenue	Percentage of Total Estimated Revenue
Arden Realty Finance IV LLC	\$ 844,442	22.54%	\$ 515,478	24.58%
Forms Engineering Company	-	0.00%	88,391	4.21%
ADP Inc.	133,486	3.56%	59,876	2.85%
La Palma Paper	109,076	2.91%	-	0.00%
Moore Wallace North America	88,224	2.35%	-	0.00%
BRE of LQ Properties LLC	86,566	2.31%	-	0.00%
Fresca Industrial Park Limited Partnership	80,787	2.16%	-	0.00%
La Quinta Development Partners	-	0.00%	41,159	1.96%
KB Carson	-	0.00%	35,749	1.70%
Shamrock Properties II	71,379	1.90%	32,942	1.57%
Performance Machine Inc.	59,334	1.58%	-	0.00%
Komatsu Forklift USA Inc.	-	0.00%	30,785	1.47%
183rd La Palma Investors	57,290	1.53%	29,831	1.42%
Yong Suk Yoo	44,459	1.19%	-	0.00%
El Camino Resources Limited	-	0.00%	27,015	1.29%
Kelly Springfield Tire Company	-	0.00%	18,205	0.87%
	<u>\$ 1,575,042</u>	<u>42.03%</u>	<u>\$ 879,432</u>	<u>41.92%</u>

The amounts shown above include assessed value data for both the City of La Palma and the La Palma Community Development Commission.

Source: County of Orange Assessor's Office

CITY OF LA PALMA
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Tax Levy	Amount Collected ⁽¹⁾
1997	\$ 2,097,846	\$ 2,097,846
1998	2,001,261	2,001,261
1999	2,461,145	2,461,145
2000	2,765,588	2,765,588
2001	3,164,276	3,164,276
2002	3,089,663	3,089,663
2003	3,146,723	3,146,723
2004	3,308,517	3,308,517
2005	3,474,131	3,474,131
2006	3,747,606	3,747,606

The amounts presented include the City of La Palma property taxes and the La Palma Community Development Commission's tax increment. This schedule also includes amounts collected and passed-through to other agencies.

⁽¹⁾ Through an agreement with the County of Orange, effective for fiscal years beginning in 1994, the City of La Palma will receive 100% of its property tax levy in the current fiscal year.

Source: County of Orange Auditor-Controller

CITY OF LA PALMA
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities		Total Primary Government	Population	Debt Per Capita	Bonded Debt Per Capita	Bonded Debt as a Percentage of Assessed Value ⁽¹⁾
	Tax Allocation Bonds	Note Payable					
1997	\$ 10,720,000	\$ 317,062	\$ 11,037,062	15,761	\$ 700.28	\$ 680.16	1.24
1998	10,520,000	139,939	10,659,939	15,987	666.79	658.03	1.18
1999	10,310,000	-	10,310,000	15,967	645.71	645.71	1.10
2000	10,085,000	-	10,085,000	15,515	650.02	650.02	1.02
2001	9,850,000	-	9,850,000	15,485	636.10	636.10	0.92
2002	10,030,000	-	10,030,000	15,803	634.69	634.69	0.89
2003	9,710,000	-	9,710,000	15,945	608.97	608.97	0.84
2004	9,380,000	-	9,380,000	16,054	584.28	584.28	0.77
2005	9,030,000	-	9,030,000	16,056	562.41	562.41	0.69
2006	8,670,000	-	8,670,000	16,081	539.15	539.15	0.62

⁽¹⁾ Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

Sources: State of California Finance Department and City of La Palma Finance Department

CITY OF LA PALMA
 Estimated Direct and Overlapping Bonded Debt
 As of June 30, 2006

2005-06 Assessed Valuation: \$1,160,078,444 (after deducting \$237,134,881 redevelopment incremental valuation)

<u>Direct and Overlapping Tax and Assessment Debt:</u>	<u>% Applicable</u>	<u>6/30/06 Debt</u>
Orange County Teeter Plan Obligations	0.377	\$ 466,443
Metropolitan Water District	0.079	307,756
North Orange County Joint Community College District	1.766	4,278,029
Anaheim Union High School District	3.681	4,723,053
Fullerton Joint Union High School District	1.494	944,700
Buena Park School District	8.989	1,120,477
Centralia School District	20.132	3,482,764
City of La Palma	100.000	-
Total Direct and Overlapping Tax and Assessment Debt		<u>\$ 15,323,222</u>
<u>Overlapping General Fund Obligation Debt:</u>		
Orange County General Fund Obligations	0.377	\$ 3,112,670
Orange County Pension Obligations	0.377	375,930
Orange County Board of Education Certificates of Participation	0.377	74,721
Orange County Transit District Authority	0.377	9,312
Municipal Water District of Orange County Water Facilities Corporation	0.449	126,640
Orange County Sanitation District Certificates of Participation	0.556	724,857
Anaheim Union High School District Certificates of Participation	3.681	1,480,866
Fullerton Joint Union High School District Certificates of Participation	1.494	40,413
Centralia School District Certificates of Participation	20.132	638,184
Orange County Fire Authority General Fund Obligations	0.738	123,025
Total Gross Overlapping General Fund Obligation Debt		<u>6,706,618</u>
Less: Orange County Transit Authority (80% self-supporting)		7,450
MWDOC Water Facilities Corporation		<u>126,640</u>
Total Net Overlapping General Fund Obligation Debt		<u>\$ 6,572,528</u>
Gross Combined Total Debt		\$ 22,029,840 ⁽¹⁾
Net Combined Total Debt		\$ 21,895,750

⁽¹⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2005-06 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	1.10%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	1.90%
Net Combined Total Debt	1.89%

State School Building Aid Repayable as of 6/30/06: \$0

Source: California Municipal Statistics, Inc.

CITY OF LA PALMA
 Legal Debt Margin Information
 Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Assessed Value</u>	<u>Debt Limit Percentage</u>	<u>Debt Limit</u>	<u>Total Debt Applicable to Debt Limit</u>	<u>Legal Debt Margin</u>
1997	\$ 867,093,510	15	\$ 130,064,027	-	\$ 130,064,027
1998	889,647,048	15	133,447,057	-	133,447,057
1999	937,079,400	15	140,561,910	-	140,561,910
2000	992,815,917	15	148,922,388	-	148,922,388
2001	1,073,145,385	15	160,971,808	-	160,971,808
2002	1,126,504,324	15	168,975,649	-	168,975,649
2003	1,156,203,351	15	173,430,503	-	173,430,503
2004	1,222,750,037	15	183,412,506	-	183,412,506
2005	1,304,593,046	15	195,688,957	-	195,688,957
2006	1,397,213,325	15	209,581,999	-	209,581,999

Sources: County of Orange Tax Assessor's Office and City of La Palma Finance Department

CITY OF LA PALMA
Pledged Revenue Coverage
Last Ten Fiscal Years

Fiscal Year	Tax Allocation Bonds				Total Debt Service	Coverage
	Tax Increment	Principal	Interest			
1997	\$ 1,166,022	\$ 190,000	\$ 496,443	\$ 686,443	1.70	
1998	1,306,407	200,000	706,420	906,420	1.44	
1999	1,796,675	210,000	695,035	905,035	1.99	
2000	1,872,692	225,000	682,730	907,730	2.06	
2001	2,092,899	235,000	669,330	904,330	2.31	
2002	1,912,815	260,000	400,617	660,617	2.90	
2003	1,995,301	320,000	544,320	864,320	2.31	
2004	2,071,959	330,000	531,387	861,387	2.41	
2005	2,157,912	350,000	517,258	867,258	2.49	
2006	2,372,410	360,000	501,423	861,423	2.75	

Source: City of La Palma Finance Department

CITY OF LA PALMA
Demographic and Economic Statistics
Last Ten Calendar Years

Calendar Year	Population	Orange County Per Capita Personal Income	Orange County Unemployment Rate
1997	15,761	\$ 30,870	3.3%
1998	15,987	32,663	2.9%
1999	15,967	34,194	2.7%
2000	15,515	37,103	3.5%
2001	15,485	37,651	4.0%
2002	15,803	38,169	5.0%
2003	15,945	39,536	4.8%
2004	16,054	41,868	4.3%
2005	16,056	*	3.8%
2006	16,081	*	3.1% **

* Information not currently available.

** Information represents data for October 2006 only.

Sources: State of California Department of Finance, U.S.
Department of Commerce - Bureau of Economic
Analysis, State of California Employment Development
Department

CITY OF LA PALMA
 Full-time Budgeted Positions by Function
 Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Recreation</u>	<u>Community Development</u>	<u>Water</u>	<u>Total</u>
1997	9.0	30.0	9.0	6.0	2.0	5.0	61.0
1998	8.0	29.0	9.0	6.0	2.0	5.0	59.0
1999	10.0	30.5	9.0	10.0	2.5	4.0	66.0
2000	11.0	31.0	8.0	10.0	2.0	4.0	66.0
2001	11.0	34.0	8.0	10.0	2.0	4.0	69.0
2002	11.0	34.0	8.0	10.0	2.0	4.0	69.0
2003	9.0	34.0	8.0	10.0	5.0	4.0	70.0
2004	9.0	33.0	7.0	10.0	4.0	3.0	66.0
2005	9.0	32.0	7.0	10.0	4.0	3.0	65.0
2006	9.0	33.0	7.0	9.0	4.0	4.0	66.0

Source: City of La Palma Finance Department

CITY OF LA PALMA
Operating Indicators by Function
Last Four Fiscal Years

Function:	Fiscal Year			
	2006	2005	2004	2003
Public safety:				
Calls for service	15,564	13,455	14,209	13,909
Crime reports	2,023	1,845	1,912	1,804
Arrests	859	698	759	596
Traffic citations	1,840	2,105	2,071	2,496
Parking citations	1,901	1,874	1,781	1,469
Other citations	75	145	118	85
Public works:				
Traffic signals maintained	18	*	*	*
Infrastructure improvement projects administered	4	*	*	*
Private development plans reviewed	5	*	*	*
Graffiti removal (square feet)	200,000	*	*	*
Street sweeping (miles)	62	*	*	*
Trees pruned	2,200	*	*	*
Recreation:				
Recreation classes	878	727	613	*
Recreation classes enrollment	4,094	4,343	4,556	*
Indoor facility rentals	382	325	316	*
Indoor facility rental hours	1,187	1,239	1,356	*
Outdoor facility rentals	381	339	464	*
Outdoor facility rental hours	1,154	1,022	1,409	*
Community development:				
Planning entitlements processed	10	13	11	16
Building permits issued	324	442	486	428
Estimated valuation of building permits	\$ 2,255,459	\$ 6,216,964	\$ 3,014,475	\$ 10,932,140
Code enforcement cases	450	583	683	*
Water:				
Average monthly consumption per household (cubic feet)	2,000	1,600	1,600	1,600
Customer accounts	4,323	*	*	*
Water samples taken	508	*	*	*

The City of La Palma has elected to show only four years of data for this schedule.

* Information not available.

Source: City of La Palma

CITY OF LA PALMA
Capital Assets Statistics by Function
Last Four Fiscal Years

Function:	Fiscal Year			
	2006	2005	2004	2003
Public safety:				
Police stations	1	1	1	1
Public works:				
Streets (miles)	31	*	*	*
Streetlights	972	*	*	*
Traffic signals	18	*	*	*
Recreation:				
Community centers	1	1	1	1
Parks	2	2	2	2
Water:				
Water mains (miles)	38	38	38	38
Maximum daily capacity (millions of gallons)	2.65	2.65	2.65	2.65
Fire hydrants	343	343	343	343
Water wells	2	2	2	2
Storage capacity (millions of gallons)	4.50	4.50	4.50	4.50
Reservoirs	2	2	2	2
Wastewater:				
Sanitary sewers (miles)	28	28	28	28
Storm drains (miles)	5	5	5	5
Manholes	631	631	631	631

The City of La Palma has elected to show only four years of data for this schedule.

* Information not available.

Source: City of La Palma

