



CITY OF LA PALMA

**Comprehensive Annual Financial Report
Year Ended June 30, 2013**

CITY OF LA PALMA, CALIFORNIA

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

Prepared by

**Finance Department
Michael Solorza
Finance Director**

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CITY OF LA PALMA, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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CITY OF LA PALMA, CALIFORNIA

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January 9, 2014

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

State law requires that all general-purpose local governments publish following 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, 2013.

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 Vavrinek, Trine, Day & Co., LLP, 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, 2013, 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 unmodified (i.e., "clean") opinion that the City's financial statements for the fiscal year ended June 30, 2013, were fairly presented in conformity with GAAP. The independent auditors' 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 a single audit for the fiscal year ending June 30, 2013.

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 the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report from the independent auditors.

Profile of the Government

The City, incorporated in 1955, is located in the northwest corner of Orange County. The City currently occupies a land area of approximately two square miles and serves a population of 15,800. 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 council members. 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 department directors. The City 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 City 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; recreational and cultural activities; water and sewer services; and building and safety, land use planning, and zoning control services. In addition, there are the standard internal support services such as payroll, accounts payable, human resources, risk management, budget and financial reporting and general accounting which are essential to the success of the City's overall operations.

Budgeting and Financial Planning

The annual budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriations to the City Manager each year. The budget development process generally begins in January, guided by annual goals established by the City Council as well as the current and long-term fiscal prognosis of the City. Budget development proceeds through the spring with budget adoption in June.

The City Manager utilizes the City Council goals and the strategic planning process as the starting point for developing a proposed budget for the subsequent fiscal year. After a series of study sessions and public meetings with the community and the City Council, the City Manager formally presents the proposed budget to the City Council. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget by June 30, the close of the City's fiscal year.

The appropriated budget is prepared by fund (e.g., General Fund, Gas Tax Fund) and department (e.g., Police, Community Services), with further demarcation of appropriations by program (e.g., Code Enforcement, City Clerk). Department directors may make transfers of appropriations within a department, within the same fund. Transfers of appropriations between departments, however, require the approval of the City Manager. At no time can any budget adjustments increase total appropriations without prior City Council approval.

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 the Successor Housing Special Revenue Fund this comparison is presented as part of the required supplementary information section 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 the City's Financial Condition

The information presented in the financial statements is best understood when considered within the context of the specific financial and legal environment within which the City operates. The following discussion presents some of the major challenges La Palma faced in the last year, as well as issues which could impact the City in future fiscal years.

Fiscal Condition

The City has not been immune to the effects of the worst recession since the Great Depression. Even though the recession formally ended four and a half years ago (June, 2009), the depth of the economic retraction continues to effect all aspects of the local economy – from property values to retail activity (i.e., property and sales tax receipts).

In addition, the dissolution of redevelopment agencies in the State of California effective January 31, 2012 per AB1X26 and AB1484 continues to challenge the City as the wind down of the former Community Development Commission (CDC) is managed. Finally, it should be noted that a major sales tax producing retailer ceased operations in the City on December 31, 2012. While a similar type of retail entity began operations in June, 2013, the true impacts of these changes to the City's sales tax base are still being managed and analyzed and will impact upcoming fiscal years.

In response to declining revenues due to the recession, management undertook a cost containment effort beginning in FY 2009-10. Through these efforts, the City was able to weather the economic downturn while not impacting services to residents and maintaining one of the largest fund balances of any municipality in the State of California (as measured as a percentage of General Fund expenditures).

Fiscal Year 2012-13 saw the continuance of these cost cutting efforts in two separate, and distinct phases: 1) as part of the budget adoption process; and, 2) during the fiscal year as the impacts of the loss of the major sales tax producer were managed through two rounds of budget reductions (September and November, 2012).

As the economy continues to recover, property tax returns and retail activity will be important factors in the City's overall fiscal health since almost 60% of La Palma's General Fund revenue comes from these two sources. As noted above, the impact of a new sales tax producing retail operation is still being analyzed. Given the fact that only one month of sales tax was received in FY 2012-13 from this new retailer, it will take Management several additional fiscal quarters to completely understand and accurately forecast its annual, ongoing sales tax activity. It should be noted that forecasts of future sales tax will be complicated given the fact that this retailer deals in a highly volatile commodity.

Dissolution of Redevelopment: Continuing Effects

Another issue the City continues to manage relates to the dissolution of redevelopment. In December, 2011, the State Supreme Court upheld AB1X26, the law dissolving redevelopment in California. As of January 31, 2012, the City's Community Development Commission (CDC) ceased to exist as a separate, legal entity able to undertake redevelopment activities. A "Successor Agency" has taken the place of the CDC and the City's fund accounting and financial reporting was updated accordingly to reflect this new entity in FY 2011-12.

In addition to the myriad of State required auditing and reporting requirements of AB1X26 and AB1484, the City continues to deal with a new method of accounting for the former CDC as well as the newly created Successor Agency. The City and Successor Agency are now required to complete and submit, every six months, "Redevelopment Obligation Payment Schedules" (ROPS) to the State Department of Finance (DOF). These ROPS list "enforceable obligations" (i.e., expenditure requirements) of the Successor Agency, such as debt service payments, project specific expenses, and loan repayments from the former CDC to the City. The ROPS are then reviewed by the DOF and a decision is made as to which enforceable obligations the DOF determines are allowable. This approval process by the DOF subsequently determines the amount of former tax increment (now property taxes), La Palma receives from the County of Orange to pay the DOF approved enforceable obligations.

Needless to say, this process makes it difficult to responsibly plan and forecast expenditures with any semblance of stability or predictability. While the City will continue to meet its debt service obligations for its two outstanding tax allocation bond issuances, there are other required expenses that have been disallowed by the DOF.

The City did receive a "Finding of Completion" from the State Department of Finance in April, 2013. The process for obtaining a "Finding of Completion" is designed to allow the previously disallowed enforceable obligations – namely the two outstanding loans between the City and former CDC – to be approved and funded on subsequent ROPS. However, management is still working through the true impact of the "Finding of Completion" and how much former tax increment will actually be available to the City to pay down these loans in upcoming fiscal years.

The "Finding of Completion" was received after several financial and administrative requirements were met. Most notably, the City had to conduct two "due diligence reviews" (DDR) of the former Low and Moderate Income Housing Fund (LMIHF) and the Capital Projects and Debt Service Funds. The outcomes of the DDRs, as determined by the DOF, indicated the amount of fund balance the Successor Agency was allowed to retain. Even after two meet and confer sessions between City management and DOF staff, the City was required to remit more than \$6.9 million in fund balance of the former CDC's funds to the State as per the final DDR determinations in December, 2012 and May, 2013.

On an ongoing basis, the City will need to plan on how to effectively deal with the dissolution of redevelopment. Not only will management need to work closely with the DOF and other State agencies to protect its interests, but alternative methods of funding capital projects and economic development activities with which to combat blight will need to be found.

Long-term Fiscal Response and Planning

The loss – and subsequent replacement – of a major sales tax producer in the City complicated the FY 2012-13 and FY 2013-14 budget processes. As stated earlier, two rounds of budget reductions were conducted in FY 2012-13 due to the impending loss of sales tax by December, 2012. Appropriations were reduced by approximately \$500,000 in FY 2012-13 as City management reacted quickly and proactively to the loss of sales tax revenue. While this retailer has been replaced by a similar entity, the FY 2013-14 budget was built around very conservative assumptions of the revenue this new retailer might provide to the City. The uncertain nature of the revenue stream, due to the loss of a major sales tax generator, coupled with the loss of redevelopment funds, will continue to impact fiscal and budget planning for FY 2013-14 and beyond.

Management engaged the City Council in a strategic goal setting process in January, 2013 in order to set short and long-term financial and operational planning goals designed to guide budget development for FY 2013-14. This strategic goal process was intended to allow the City Council to provide clear direction to management in setting spending priorities in an effort to right-size the organization and align ongoing expenditures with ongoing revenues based on the forecasted financial conditions at the time.

In addition to the City Council goals, City management has begun implementing aspects of “priority based budgeting.” This is a long-term effort intended to develop a clear picture of La Palma’s fiscal health by focusing on balancing ongoing revenues with ongoing expenditures. The first stage of priority based budgeting is focusing on La Palma’s fiscal health. This process focuses on La Palma’s revenue to determine which sources are ongoing vs. one-time. Once a clear picture of the City’s true ongoing revenue stream is developed, then additional priority based budgeting steps will be taken. The fiscal health analysis will provide additional information useful to management, residents and the City Council in setting future budget priorities.

There were other accomplishments which positively impacted and improved the fiscal health, financial stability and resource stewardship of La Palma during the 2012-13 fiscal year:

- For the first time in its history, La Palma can be proud of having City Council adopted comprehensive General Fund and Internal Service Fund reserve policies. These policies, drafted utilizing best practice recommendations as well as incorporating Governmental Accounting Standards Board (GASB) statement number 54 requirements, were adopted by the City Council in February, 2013. The Internal Service Fund reserve policies set various minimum fund balance levels depending on the purpose and nature of the fund. Overall, in conjunction with the prudent and conservative actions of management to trim appropriations, these reserve policies increase the sophistication of the City’s overall financial management.

- The City Council directed management to establish an irrevocable trust to manage the City's unfunded liabilities related to its retiree health program (Other Post Employment Benefits [OPEB]). When the trust is established the city will deposit \$1.5 million to the fund. The establishment of this trust fund and the deposit to it will result in a dramatic reduction in the unfunded liability attributed to the retiree health program. For the first time, La Palma will be contributing more than the "pay as you go" amount and will be able to meet the annual required contribution on an ongoing basis. Establishing the trust is a fiscally responsible action that allows the City to meet the ongoing expenses of current retirees while simultaneously funding the projected expenses of future retirees.
- For the first time in seven years, the City's master fee schedule was updated to reflect increased and improved cost recovery. The impact of this action can be seen in additional planning and public works permit revenue as well as increased receipts from recreation programs and room rentals. This action improved the overall financial footing of the City by increasing General Fund revenues through improved cost recovery methods which charged users of specific services an amount closer to what those services cost to provide.
- There was a reduction in the number of full-time equivalent (FTE) employees over two fiscal years. As part of the two rounds of FY 2012-13 budget reductions, four (4.0) permanent positions were eliminated from the table of organization. An additional three (3.0) full-time positions were eliminated as part of the FY 2013-14 budget adoption process, bringing total regular FTE in the city to 57.0 from 64.0. These actions not only save money in the near-term, but decrease the City's long-term pension liability by reducing the total employee complement.

Management is committed, as part of the long-term fiscal response, to match ongoing expenditures with ongoing revenue as part of the priority based budgeting process. This will be a challenging undertaking, and a re-setting of spending priorities will need to be determined as future budget discussions are held. In conducting its fiscal review, every effort will be made to maintain the City's traditionally excellent level of services.

B. 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 year ended June 30, 2012. This was the fourteenth 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.

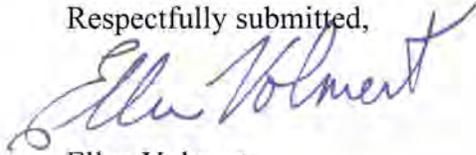
A Certificate of Achievement is valid for a period of only one year. We believe that our current comprehensive annual financial report (for the year ending June 30, 2013)

Members of the City Council and Residents of the City of La Palma
January 9, 2014

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 dedicated services of the City's entire management team, especially the staff of the Finance Department. Special thanks are due to Michael Solorza, Finance Director, Lori Rake, Accountant, Susan Baker, Senior Accounting Technician, and David Morgan, Account Clerk. Their dedicated efforts in the preparation of the final financial documents are reflected in the quality of this report.

Respectfully submitted,



Ellen Volmert
City Manager



Government Finance Officers Association

**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, 2012

Executive Director/CEO

City of La Palma

Directory of Officials

June 30, 2013

CITY COUNCIL

Steve S. Hwangbo, Mayor
Steve Shanahan, Mayor Pro-Tem
Peter L. Kim, Councilmember
Henry Charoen, Councilmember
Gerard Goedhart, Councilmember

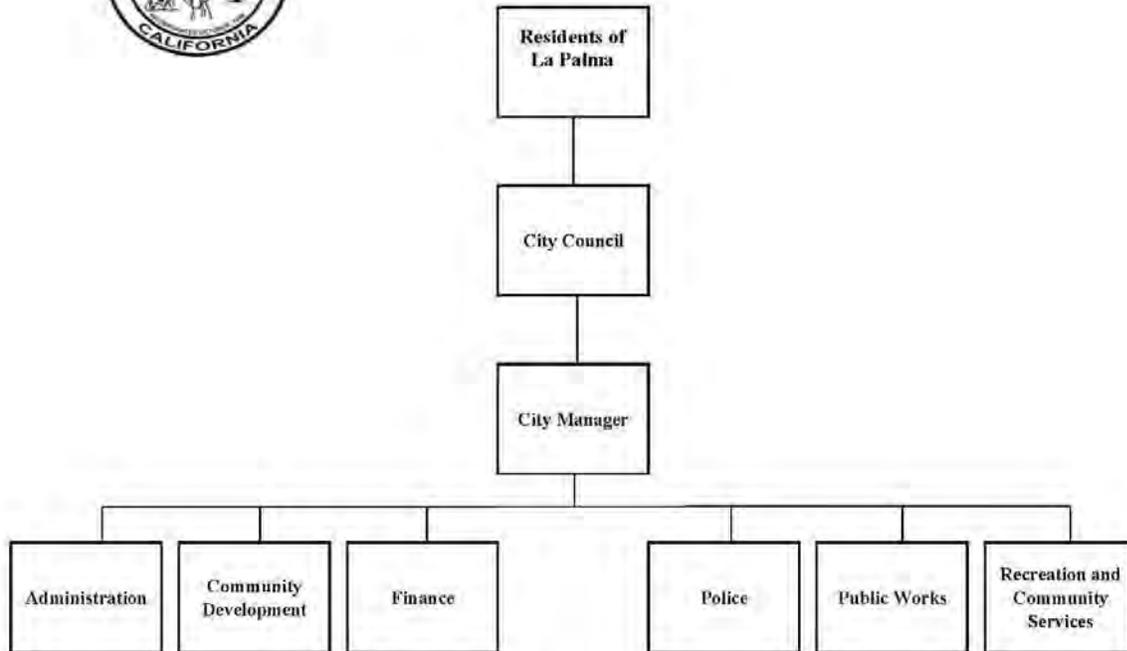
ADMINISTRATION

Ellen Volmert, City Manager
Michael Solorza, Finance Director

Michael S. Belknap, Recreation and Community Services Director
Douglas D. Dumhart, Community Development Director
Laurie A. Murray, Administrative Services Manager/City Clerk
Eric R. Nunez, Chief of Police



City of La Palma



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INDEPENDENT AUDITORS' REPORT

The Honorable City Council of
The City of La Palma
La Palma, California

Report on the Financial Statements

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 (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 *Governmental 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the City adopted Statement of Governmental Accounting Standard Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, schedule of funding progress, and budgetary comparison information on pages 3-14 and 63-66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

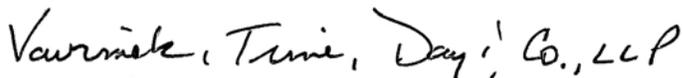
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, the Supplementary Schedules, Statistical Section, and the Other Information Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, statistical and other information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Rancho Cucamonga, California
January 9, 2014

CITY OF LA PALMA, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

The following discussion and analysis of the financial performance of the City of La Palma (the "City") provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. 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 Position 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 distinct sections: *Introductory Section*, *Financial Section*, *Statistical Section* and *Other Information Section*. The *Introductory Section* and *Financial Section* contain the City Manager transmittal letter, the independent auditors report, the Management Discussion and Analysis, the Basic Financial Statements and the Notes to Basic Financial Statements. 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 *short-term* and *long-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-term* and *long-term* financial information about the activities the government operates like businesses, such as the water and sewer system.
 - *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 *Notes to the Basic Financial Statements* further explain the information in the basic financial statements. The Notes are followed by a section of *Required Supplementary Information* that provides additional financial and budgetary information. The *Supplementary Schedules* present information regarding revenues and expenditures for the major governmental and proprietary funds. Following the Supplementary Information is the *Statistical Section*, a collection of tables that provides useful information about the financial health of the City as well as demographic information that helps round out the picture that is La Palma. Finally, there is the *Other Information Section* which includes Long-Term Debt Amortization Tables of the Successor Agency to the Dissolved Community Development Commission.

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.

CITY OF LA PALMA, CALIFORNIA

MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued

JUNE 30, 2013

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

	Government-wide <u>Statements</u>	<i>Fund Statements</i>		
		<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire City government (except fiduciary funds)	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 position • 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 position • Statement of revenues, expenses, and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
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

CITY OF LA PALMA, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

JUNE 30, 2013

Reporting the City as a Whole

The accompanying **governmental-wide financial statements** include two statements that present financial data for the City as a whole. One of the most important questions about the City's finances is, "How is the City as a whole doing financially when compared with the prior fiscal year?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that help 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 position and the changes in them. You can think of the City's net position – 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 position are one indicator of whether its *financial health* is improving or deteriorating. One should consider other nonfinancial factors, however, such as legislation passed by the State affecting the treatment of revenue and the City's ability to retain assets, changes in the City's property tax base, and the condition of the City's infrastructure, in order to truly assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, the City is divided into two 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.

It should be noted that there is no longer a "component unit" reported in the financial statements. The component unit was used in fiscal years prior to those ending June 30, 2012 to account for the activity of the former Community Development Commission. However, the California Legislature passed, and the Governor signed into law AB1X26 in June, 2011. This piece of legislation, which was upheld by the State Supreme Court in December, 2011, dissolved redevelopment agencies throughout the State effective January 31, 2012. Therefore, the financial position of the former Community Development Commission is reported in the Fiduciary Fund statements for the fiscal year 2012-13.

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 monies. 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 Position and the Statement of Activities) and *governmental funds* in a reconciliation on the page following the financial statements.

CITY OF LA PALMA, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

JUNE 30, 2013

- *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 Position 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 reported in the government-wide statements but provide more detail and additional information, such as cash flows, for the proprietary funds. Internal service funds (the other component of proprietary funds) are used to report activities that primarily provide supplies and services for the City's other programs and activities (e.g., computer maintenance, facility maintenance, etc.).

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 Net Position. These activities are excluded 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 position decreased as a result of this year's operations due to accounting changes required by the dissolution of the City's Community Development Commission (CDC), as well as a property held for development no longer being recorded. Net position of the City's governmental activities decreased \$140,699 (-0.31%) and business-type activities net position decreased by \$450,054 (-2.5%), when compared to the prior fiscal year.
- At the close of the current fiscal year, the City's *governmental funds* reported a total ending fund balance of \$22,759,780, an increase of \$1,469,526 (6.9%) over the prior fiscal year. Again, due to changes in accounting related to the dissolution of redevelopment, none of the former CDC's assets and liabilities are shown on the Governmental Funds balance sheet.
- The City, in accordance with GASB 54 reporting requirements, reports fund balance as either "nonspendable" or "spendable." The portion of total general fund balance (\$15,747,226) which is "spendable" is further classified as Assigned or Unassigned. The City's financial policies dictate General Fund reserves should be at least 100% of General Fund expenditures. At the close of the current fiscal year, the combined Assigned and Unassigned portions of fund balance for the General Fund was \$14,844,923, or 162% of the total General Fund expenditures. The spendable portion of fund balance is what the City uses to measure its adherence to the 100% reserve policy. For the current fiscal year, that amount is \$14,844,923 or 162% of General Fund expenditures totaling \$9,159,937.

CITY OF LA PALMA, CALIFORNIA

MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued

JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A summary of the government-wide *Statement of Net Position* for the fiscal years ending June 30, 2013, and June 30, 2012 are as follows:

Condensed Statement of Net Position
(In Millions)

	Business-			Business-		
	Governmental	Type	Total	Governmental	Type	Total
	Activities	Activities		Activities	Activities	
	June 30, 2013			June 30, 2012		
Current and other assets	\$ 30.2	\$ 10.8	\$ 41.0	\$ 29.2	\$ 12.0	\$ 41.2
Capital assets	18.2	7.2	25.4	18.5	6.4	24.9
Total Assets	48.4	18.0	66.4	47.7	18.4	66.1
Long-term debt outstanding	1.4	-	1.4	1.3	-	1.3
Other liabilities	1.7	0.5	2.2	0.9	0.5	1.4
Total Liabilities	3.1	0.5	3.6	2.2	0.5	2.7
Net Assets:						
Net investment in capital assets	18.2	7.2	25.4	18.5	6.4	24.9
Restricted	1.4	-	1.4	1.4	-	1.4
Unrestricted	25.7	10.2	35.9	25.5	11.5	37.0
Total Net Assets	\$ 45.3	\$ 17.4	\$ 62.7	\$ 45.4	\$ 17.9	\$ 63.3

CITY OF LA PALMA, CALIFORNIA

MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued

JUNE 30, 2013

	Business-			Business-		
	Governmental	Type	Total	Governmental	Type	Total
	Activities	Activities		Activities	Activities	
	June 30, 2013			June 30, 2012		
Revenues						
Program revenues:						
Charges for services	\$ 0.9	\$ 3.1	\$ 4.0	\$ 0.9	\$ 3.0	\$ 3.9
Operating contributions and grants	0.9	-	0.9	0.9	-	0.9
Capital contributions and grants	0.3	-	0.3	0.3	-	0.3
General revenues:						
Property taxes	4.4	-	4.4	4.8	-	4.8
Sales Taxes	4.3	-	4.3	5.6	-	5.6
Utility user's taxes	1.0	-	1.0	0.9	-	0.9
Other taxes	0.6	-	0.6	0.6	-	0.6
Other general revenues	0.4	-	0.4	0.5	0.1	0.6
Total Revenues	<u>12.8</u>	<u>3.1</u>	<u>15.9</u>	<u>14.5</u>	<u>3.1</u>	<u>17.6</u>
Program expenses:						
General government	1.8	-	1.8	1.7	-	1.7
Public safety	6.1	-	6.1	5.6	-	5.6
Public works	2.9	-	2.9	3.5	-	3.5
Recreation	1.6	-	1.6	1.6	-	1.6
Community development	0.8	-	0.8	1.0	-	1.0
Interest on long-term debt	-	-	-	0.4	-	0.4
Water	-	2.7	2.7	-	2.6	2.6
Sewer	-	0.6	0.6	-	0.6	0.6
Total Governmental Activities	<u>13.2</u>	<u>3.3</u>	<u>16.5</u>	<u>13.8</u>	<u>3.2</u>	<u>17.0</u>
Excess before transfers	(0.4)	(0.2)	(0.6)	0.7	(0.1)	0.6
Transfers	0.3	(0.3)	-	0.3	(0.3)	-
Contributions from				0.5	-	0.5
Successor Agency	-	-	-			
Extraordinary Gain (Loss)	-	-	-	(4.0)	-	(4.0)
Increase in net position	<u>(0.1)</u>	<u>(0.5)</u>	<u>(0.6)</u>	<u>(2.5)</u>	<u>(0.4)</u>	<u>(2.9)</u>
Beginning net position	45.4	17.9	63.3	47.9	18.3	66.2
Ending net position	<u>\$ 45.3</u>	<u>\$ 17.4</u>	<u>\$ 62.7</u>	<u>\$ 45.4</u>	<u>\$ 17.9</u>	<u>\$ 63.3</u>

CITY OF LA PALMA, CALIFORNIA

MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued

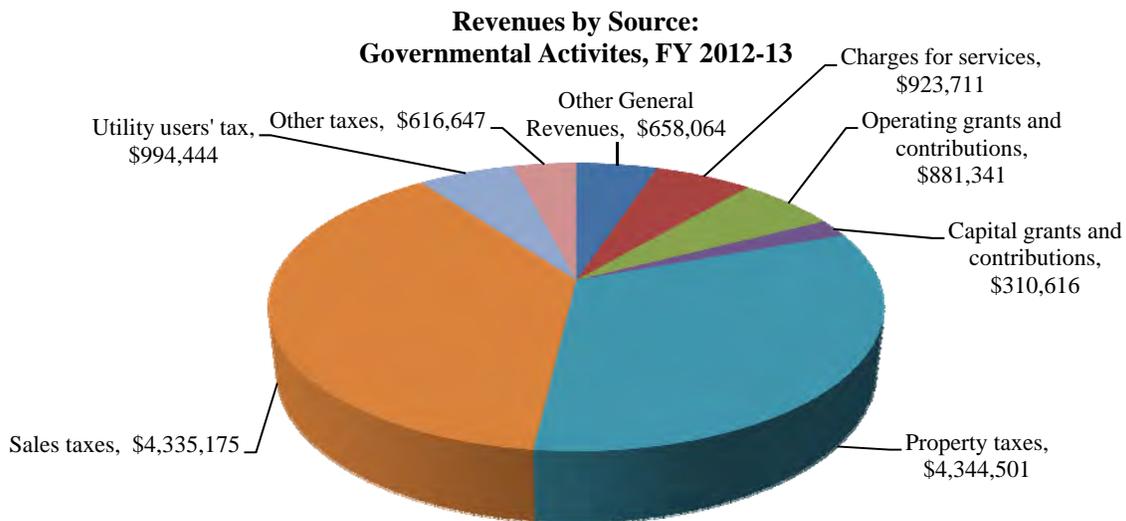
JUNE 30, 2013

The City's total revenues, including transfers, for governmental and business-type activities were \$13,064,499 and \$2,803,962 respectively, while the total cost of all programs and services were \$13,205,198 and \$3,254,016 respectively. The result was a decrease in net position for governmental activities of \$140,699 (-0.31%) and a decrease in business-type activities of \$450,054 (-2.5%).

Governmental Activities

The major reasons for significant changes in the revenues and expenses of the City's Governmental Activities are as follows:

- Revenues *decreased* by \$1,654,337 when compared to the previous fiscal year. The decrease is related to a significant decrease in sales tax. Sales taxes in fiscal year 2012-13 totaled \$4,335,175 a decrease of \$1,275,334 from the prior fiscal year.

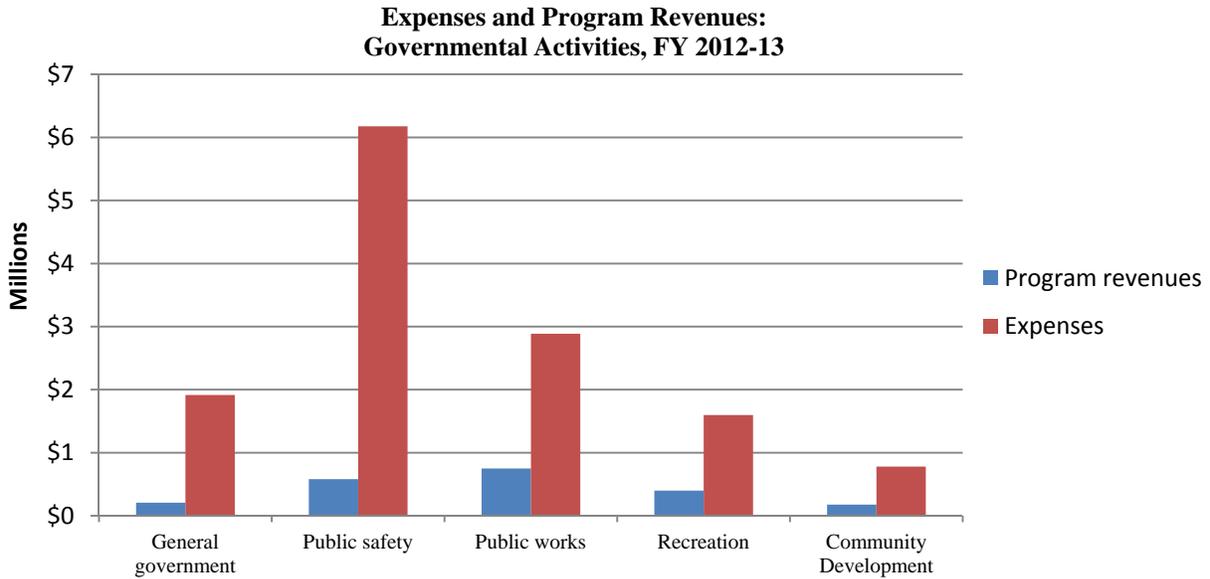


- Expenses decreased by \$634,087 when compared to the previous fiscal year. The decrease was due primarily to the completion of several large public works projects in the prior fiscal year.

CITY OF LA PALMA, CALIFORNIA

MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued

JUNE 30, 2013

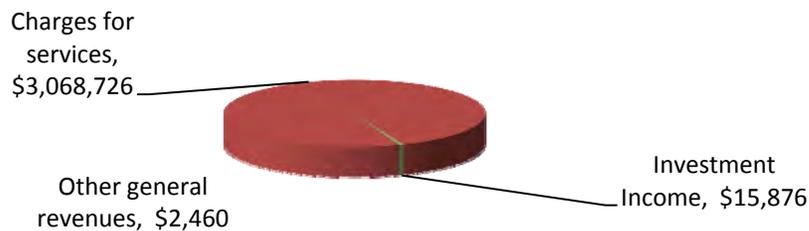


It should be noted that Governmental Activities statements include more than just the General Fund. For financial reporting purposes, revenue and expense activity of special funds such as Measure M2, Gas Tax, Capital Outlay Reserve (COR), Public Safety Augmentation (Proposition 172), and other restricted revenue funds are included in the *Governmental Activities* statements.

Business-type Activities

During the fiscal year ended June 30, 2013, program expenses exceeded program revenues by \$185,290 for *Business-type Activities*.

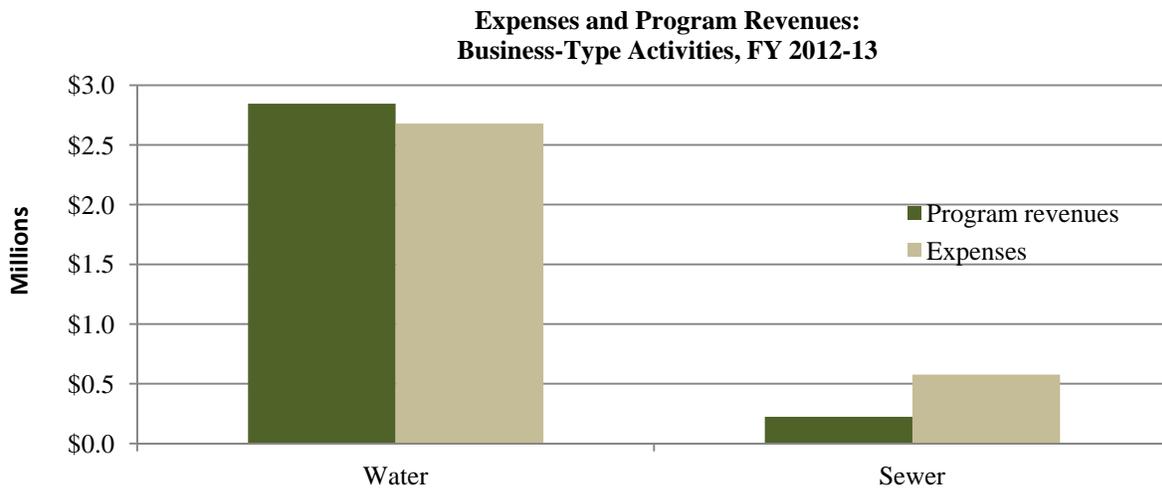
**Revenues by Source :
Business-type Activities, FY 2012-13**



CITY OF LA PALMA, CALIFORNIA

MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued

JUNE 30, 2013



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 (i.e., accounting for the receipt and expenditure of restricted funds).

Major Governmental Funds – The **General Fund** is the chief operating fund of the City. At the end of the current fiscal year, the “spendable” portion of fund balance of the General Fund was \$14,844,923, while the total fund balance was \$15,747,226. GASB Statement No. 54, implemented in FY 2010-11, classifies fund balance as “nonspendable” and “spendable.” The “spendable” category is further broken down, depending on the level of restrictions placed on the fund balance. The City of La Palma classifies its fund balance for FY 2012-13 using four GASB 54 categories *nonspendable*, *committed*, *assigned*, and *unassigned*. The adoption of new General Fund reserve policies in February, 2013 further demarcates how the *committed*, *assigned* and *unassigned* amounts are calculated.

The new General Fund reserve policies created an Economic Uncertainties commitment for the fiscal year ending June 30, 2013, the amount was equal to \$5,495,962. The fund balance policies also created an assignment for Capital Projects equal to 40% of General Fund expenditures. As of June 30, 2013, this amount of *assigned* fund balance equaled \$3,663,975. Finally, the remaining *spendable* fund balance amount in the General Fund net of the Economic Uncertainties *commitment* and Capital Projects *assignment* is classified as *unassigned*. The unassigned amount for the year ending June 30, 2013 was \$11,180,948 (including the Economic Uncertainties amount).

As a measure of the General Fund's liquidity, it may be useful to compare the spendable portion of fund balance (i.e., committed, assigned and unassigned) to total General Fund expenditures. Using this metric, total spendable fund balance represents 162% of total General Fund expenditures.

The City's General Fund expenditures decreased \$164,203 compared to the prior fiscal year. This decrease was due to the City's continued cost cutting efforts which began in FY 2009-10. All city departments with the exception of public safety saw decreases from the prior year. Management has continued to reduce expenditures in maintenance and operations (e.g., supplies) and overtime expenditures have been reduced significantly over the last several fiscal years. Finally, changes made to labor contracts in 2011 which required employees to pay the full employee share of retirement costs, along with the introduction of a less generous retirement formula for new hires (i.e., Tier 2), are producing significant, ongoing cost savings.

CITY OF LA PALMA, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

JUNE 30, 2013

The **Capital Outlay Reserve Fund** has a total assigned fund balance amount of \$5,644,379. The net increase in fund balance during the year was \$462,618. This was primarily due to the transfer of \$1.7 million from the General Fund as part of the adopted budget. Expenditures of \$1,334,457 were made for various capital projects approved by the City Council as part of the Capital Improvement Plan. These projects included arterial and residential pavement rehabilitation, various infrastructure improvements, and other major capital projects.

The **Successor Housing Entity Fund** was created as part of the dissolution of redevelopment during the 2011-12 fiscal year. This fund is used to record the non-cash assets formerly held by the former Community Development Commission's Low and Moderate Income Housing Fund as well as the proceeds from the operation of a senior apartment complex per a 1998 agreement. This fund ended the fiscal year with a fund balance of \$674,705.

Major Enterprise Funds. Unrestricted fund net position of the **Water Fund** at the end of the year amounted to \$5,611,019 and the **Sewer Fund** amounted to \$4,677,776. The total decrease in unrestricted fund net position for both funds was \$1,059,400, as previously addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund revenues were \$11,577,110, exceeding the amended (projected) budget by \$2,153,110. There was a significant amount of one-time revenue due to the redevelopment dissolution process. In addition to new "residual property tax" payments which La Palma will begin receiving regularly, there were one-time revenue deposits from the two required "due diligence reviews."

The General Fund also saw increased transient occupancy tax revenue as the economy improved and occupancy at the City's one hotel increased. The recent update of the master fee schedule to improve cost recovery also helped bring in additional revenue.

General Fund expenditures of \$9,159,937 were less than budgeted expenditures by \$233,243. All areas of operations had expenditures less than the amended budget amounts. As part of the City's continued cost cutting efforts, each department endeavored to stay within budget, and reduce expenditures where possible while not affecting services. In FY 2012-13, the most significant cost savings were due to the permanent elimination of four (4.0) budgeted, full-time positions. These personnel savings were coupled with additional reductions in Maintenance and Operations expenses in an effort to align the City's budget in light of the – then – loss of sales tax revenue.

CITY OF LA PALMA, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

JUNE 30, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION

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

	Business-			Business-		
	Governmental Activities	Type Activities	Total	Governmental Activities	Type Activities	Total
	June 30, 2013			June 30, 2012		
Land	\$ 6.7	\$ 0.8	\$ 7.5	\$ 6.7	\$ 0.8	\$ 7.5
Construction in progress	0.4	0.1	0.5	0.4	0.1	0.5
Buildings and improvements	5.4	1.3	6.7	5.6	1.5	7.1
Equipment	0.3	2.2	2.5	0.3	1.2	1.5
Vehicles	0.4	-	0.4	0.3	-	0.3
Furniture and fixtures	-	-	-	-	-	-
Infrastructure	5.0	2.8	7.8	5.2	2.9	8.1
Total Capital Assets	<u>\$ 18.2</u>	<u>\$ 7.2</u>	<u>\$ 25.4</u>	<u>\$ 18.5</u>	<u>\$ 6.5</u>	<u>\$ 25.0</u>

The City's investment in capital assets for its *Governmental* and *Business-type Activities* as of June 30, 2013, amounted to \$25,394,948 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, equipment, vehicles, furniture and fixtures, and infrastructure.

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)

	Business-			Business-		
	Governmental Activities	Type Activities	Total	Governmental Activities	Type Activities	Total
	June 30, 2013			June 30, 2012		
Tax allocation bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net OPEB Obligation	0.8	-	0.8	0.7	-	0.7
Compensated absences	0.6	-	0.6	0.5	-	0.5
Total Long-term Liabilities	<u>\$ 1.4</u>	<u>\$ -</u>	<u>\$ 1.4</u>	<u>\$ 1.2</u>	<u>\$ -</u>	<u>\$ 1.2</u>

The City's outstanding long-term liabilities are now accounted for differently, post-redevelopment dissolution. This is due to the fact that the tax allocation bonds (1993 and 2001 Tax Allocation Bonds) are recorded in the *Fiduciary Fund* statements and not the *Governmental Activities* fund statements.

This is merely a change in accounting and reporting, due to the dissolution of redevelopment. The Successor Agency (the legal entity which assumed responsibility for the former CDC as of February 1, 2012) continues to

CITY OF LA PALMA, CALIFORNIA

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

JUNE 30, 2013

meet its debt service obligations. The expenditures related to the 1993 and 2001 Tax Allocation Bonds are recorded in the Successor Agency Debt Service fund. The State Department of Finance (DOF) has approved, through four rounds of Recognized Obligation Payment Schedules (ROPS) development, payments for the 1993 and 2001 Tax Allocation Bonds. To that end, DOF approval of these enforceable obligations means that the City and Successor Agency should continue to receive property tax sufficient to meet the annual debt service obligations. The City and Successor Agency are prepared to meet its debt service requirements and will work with the DOF should their opinions change on the nature of these enforceable obligations.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of La Palma has faced, and will continue to face, financial challenges in the coming years. A major sales tax producer moved out of the city effective December 31, 2012. While a new, and similar, retail operation has taken its place, the true economic impact is yet to be known since operations did not begin until June, 2013.

In addition, La Palma still continues to deal with the aftermath of the dissolution of redevelopment. The City no longer has access to redevelopment funds for capital projects or economic development efforts. Moreover, the City continues to navigate the ever-changing requirements of the DOF when it comes to seeking funding for enforceable obligations. The struggle to continue economic development and meet obligations legally entered into prior to the dissolution of redevelopment will be an ongoing issue for La Palma.

While the national and regional economies continue their slow recovery, events much closer to home will negatively impact La Palma for several years to come. The City is heavily reliant upon tax revenue (i.e., property, sales, utility users, etc.) for funding its daily operations, with over 70% of General Fund revenue coming from taxes. While the City is fortunate that a major retail operation has begun operating as of June, 2013, the overall impact on revenue is unknown. Furthermore, the City will be undertaking efforts to create policies which seek to minimize reliance on one single source of sales tax revenue. These efforts will continue as planning progresses for next fiscal year and beyond.

Management has already set the tone for cost containment, with several years of budget reductions and labor concessions designed to square ongoing expenditures with ongoing revenue. The Fiscal Year 2013-14 adopted budget represents an 11% decrease in General Fund appropriations compared with the adopted 2012-13 fiscal year budget. Several other significant accomplishments during the 2012-13 fiscal year will help improve the City's overall fiscal health: adoption of comprehensive General Fund and Internal Service Fund reserve policies; development of a ten-year capital improvement plan funding forecast; update of the City's master fee schedule for the first time in seven years; improvement of quarterly financial reports and incorporation of department performance measures; the beginning of the implementation of priority based budgeting principles; and numerous additional efforts aimed at increasing financial transparency and reporting.

REQUESTS FOR INFORMATION

This financial report is designed to provide the City's 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 Department, City of La Palma, 7822 Walker Street, La Palma, California 90623, 714-690-3323. This report can also be found on the City's website at <http://www.cityoflapalma.org/>.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF LA PALMA, CALIFORNIA

**STATEMENT OF NET POSITION
JUNE 30, 2013**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 25,143,978	\$ 8,988,475	\$ 34,132,453
Receivables:			
Accounts	256,444	846,027	1,102,471
Interest	14,356	5,229	19,585
Loans	4,285,182		4,285,182
Internal balances	(969,527)	969,527	
Due from other governments	504,589		504,589
Prepaid items	43,399		43,399
Due from the former CDC Successor Agency	858,904		858,904
Capital assets:			
Capital assets not being depreciated	7,097,574	888,988	7,986,562
Capital assets being depreciated, net of accumulated depreciation	11,136,006	6,272,380	17,408,386
Total Assets	<u>48,370,905</u>	<u>17,970,626</u>	<u>66,341,531</u>
LIABILITIES			
Accounts payable	840,408	540,337	1,380,745
Salaries payable	145,926	10,599	156,525
Retentions payable	27,408		27,408
Other accrued liabilities	5,516		5,516
Due to other governments	676,710		676,710
Long-term liabilities:			
Net OPEB obligation	780,092		780,092
Portion due within one year:			
Compensated absences	151,477		151,477
Portion due beyond one year:			
Compensated absences	454,431		454,431
Total Liabilities	<u>3,081,968</u>	<u>550,936</u>	<u>3,632,904</u>
NET POSITION			
Net investment in capital assets	18,233,580	7,161,368	25,394,948
Restricted for:			
Specific projects and programs	1,384,168		1,384,168
Unrestricted	25,671,189	10,258,322	35,929,511
Total Net Position	<u>\$ 45,288,937</u>	<u>\$ 17,419,690</u>	<u>\$ 62,708,627</u>

See accompanying notes to financial statements.

CITY OF LA PALMA, CALIFORNIA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental Activities:				
General government	\$ 1,762,118	\$ 169,574	\$ 38,790	
Public safety	6,176,953	149,371	397,208	\$ 35,000
Public works	2,887,444	28,382	445,343	275,553
Recreation	1,597,485	399,277		
Community development	781,198	177,107		63
Total Governmental Activities	13,205,198	923,711	881,341	310,616
Business-Type Activities:				
Water	2,678,114	2,844,706		
Sewer	575,902	224,020		
Total Business-Type Activities	3,254,016	3,068,726		
Total	\$ 16,459,214	\$ 3,992,437	\$ 881,341	\$ 310,616

General Revenues:

Taxes:

Property tax

Sales tax

Utility users tax

Franchise tax

Transient occupancy taxes

Intergovernmental - unrestricted

Investment income

Other

Transfers

Total General Revenues and Transfers

Changes in Net Position

Net Position, Beginning of Year

Net Position, End of Year

See accompanying notes to financial statements.

Net Revenue (Expense) and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (1,553,754)		\$ (1,553,754)
(5,595,374)		(5,595,374)
(2,138,166)		(2,138,166)
(1,198,208)		(1,198,208)
(604,028)		(604,028)
<u>(11,089,530)</u>		<u>(11,089,530)</u>
	\$ 166,592	166,592
	(351,882)	(351,882)
	(185,290)	(185,290)
<u>(11,089,530)</u>	<u>(185,290)</u>	<u>(11,274,820)</u>
4,344,501		4,344,501
4,335,175		4,335,175
994,444		994,444
358,672		358,672
257,975		257,975
218,858		218,858
156,106	15,876	171,982
	2,460	2,460
283,100	(283,100)	
<u>10,948,831</u>	<u>(264,764)</u>	<u>10,684,067</u>
(140,699)	(450,054)	(590,753)
<u>45,429,636</u>	<u>17,869,744</u>	<u>63,299,380</u>
<u>\$ 45,288,937</u>	<u>\$ 17,419,690</u>	<u>\$ 62,708,627</u>

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FUND FINANCIAL STATEMENTS

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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 and report the proceeds of specific revenues that are restricted or committed to expenditures for specified purposes. The following has been classified as a major Special Revenue Fund:

Successor Housing Fund - Used to account for the restricted housing assets of the former Community Development Commission (CDC) which were transferred to the Successor Agency Private Purpose Trust Fund and then transferred to the Successor Housing Fund upon acceptance of the Housing Successor role by the City.

CAPITAL PROJECT FUND

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Capital Outlay Reserve Fund -Used to account for the financial resources of the City, segregated for City capital improvement projects.

NON-MAJOR GOVERNMENTAL FUNDS

Non-major governmental funds include all Special Revenue Funds except for the Successor Housing Fund, and the Capital Outlay Fund – Capital Projects Fund. Assets, liabilities, revenues or expenditures of these funds do not exceed 10 percent of total governmental funds and 5 percent of total governmental and enterprise funds, and thus, do not meet the criteria to be classified as major funds.

CITY OF LA PALMA, CALIFORNIA

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013**

	General Fund	Special Revenue Successor Housing Fund	Capital Projects Capital Outlay Reserve
ASSETS			
Cash and investments	\$ 14,641,785	\$ 331,713	\$ 5,322,172
Receivables:			
Accounts	229,235	23,069	
Interest	8,665	108	2,804
Loans		4,284,488	
Due from other governments	378,210		19,128
Due from other funds	14,827		
Prepaid items	43,399		
Due from the former CDC Successor Agency	858,904		
Advances to other funds			396,668
Total Assets	<u>\$ 16,175,025</u>	<u>\$ 4,639,378</u>	<u>\$ 5,740,772</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 319,119	\$ 916	\$ 71,551
Salaries payable	99,934	2,803	
Retentions payable			24,842
Other accrued liabilities	5,516		
Due to other funds			
Deferred revenue	3,230	64,286	
Advances from other funds		3,896,668	
Total Liabilities	<u>427,799</u>	<u>3,964,673</u>	<u>96,393</u>
FUND BALANCES			
Nonspendable	902,303		
Restricted		674,705	
Assigned	3,663,975		5,644,379
Unassigned	11,180,948		
Total Fund Balances	<u>15,747,226</u>	<u>674,705</u>	<u>5,644,379</u>
Total Liabilities and Fund Balances	<u>\$ 16,175,025</u>	<u>\$ 4,639,378</u>	<u>\$ 5,740,772</u>

See accompanying notes to financial statements.

Non-major Governmental Funds	Total
\$ 614,885	\$ 20,910,555
4,140	256,444
359	11,936
	4,284,488
105,278	502,616
	14,827
	43,399
	858,904
	396,668
<u>\$ 724,662</u>	<u>\$ 27,279,837</u>

\$ 6,928	\$ 398,514
6,871	109,608
2,566	27,408
	5,516
14,827	14,827
	67,516
	3,896,668
<u>31,192</u>	<u>4,520,057</u>

	902,303
709,463	1,384,168
	9,308,354
(15,993)	11,164,955
<u>693,470</u>	<u>22,759,780</u>
<u>\$ 724,662</u>	<u>\$ 27,279,837</u>

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CITY OF LA PALMA, CALIFORNIA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Fund Balances of Governmental Funds	\$ 22,759,780
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	
Capital assets not being depreciated	7,097,574
Capital Assets being depreciated, net of accumulated depreciation	11,136,006
Post employment benefits are paid on a pay-as-you-go basis which differs from the actuarially determined Annual Required Contribution (ARC).	(780,092)
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 Position.	
Compensated absences	(605,908)
Deferred revenue balances relating to certain loans receivable are not reported as liabilities in the Statement of Net Position since recognition is not based upon measurable and available criteria.	
Deferred revenue-low and moderate income housing loans	67,516
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 Position.	
Net Position of Internal Service Funds	<u>5,614,061</u>
Net Position of Governmental Activities	<u><u>\$ 45,288,937</u></u>

See accompanying notes to financial statements.

CITY OF LA PALMA, CALIFORNIA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013**

	General Fund	Special Revenue Successor Housing Fund	Capital Projects Capital Outlay Reserve
REVENUES:			
Taxes	\$ 10,290,767		
Intergovernmental	49,445	\$ 210,500	\$ 84,708
Licenses and permits	281,145		
Fines and forfeitures	136,883		
Investment income	39,498	104,241	12,367
Charges for services	514,062		
Rental income	173,977		
Miscellaneous	91,333	30,478	
Total Revenues	11,577,110	345,219	97,075
EXPENDITURES:			
Current:			
General government	1,473,464		
Public safety	5,099,053		
Public works	738,179		
Recreation	1,301,345		
Community development	538,375	199,413	
Capital outlay	9,521		1,334,457
Total Expenditures	9,159,937	199,413	1,334,457
Excess (deficiency) of revenues over (under) expenditures	2,417,173	145,806	(1,237,382)
OTHER FINANCING SOURCES (USES):			
Transfers in	283,100		1,700,000
Transfers out	(1,700,000)		
Total Other Financing Sources (Uses)	(1,416,900)		1,700,000
Net Change in Fund Balances	1,000,273	145,806	462,618
Fund Balances at Beginning of Year	14,746,953	528,899	5,181,761
Fund Balances at End of Year	\$ 15,747,226	\$ 674,705	\$ 5,644,379

See accompanying notes to financial statements.

Non-major Governmental Funds	Total
	\$ 10,290,767
\$ 1,005,234	1,349,887
	281,145
	136,883
1,796	157,902
	514,062
	173,977
17,364	139,175
<u>1,024,394</u>	<u>13,043,798</u>
	1,473,464
292,941	5,391,994
265,906	1,004,085
	1,301,345
	737,788
604,718	1,948,696
<u>1,163,565</u>	<u>11,857,372</u>
(139,171)	1,186,426
	1,983,100
	<u>(1,700,000)</u>
	283,100
(139,171)	1,469,526
832,641	21,290,254
<u>\$ 693,470</u>	<u>\$ 22,759,780</u>

CITY OF LA PALMA, CALIFORNIA

**RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Net Change in Fund Balances - Total Governmental Funds	\$	1,469,526
<p>Amounts reported for the governmental activities in the Statement of Activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. As a result, fund balances decrease by the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year.</p>		
Capital outlay	\$	381,005
Depreciation expense		<u>(649,439)</u>
Post employment benefits are paid on a pay-as-you-go basis which differs from the actuarially determined Annual Required Contribution (ARC).		(268,434)
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 accruals		(671,218)
Compensated absences-current year retirements		644,261
Revenue is deferred in the governmental funds when it is not received soon enough after year-end to be considered available. The availability criteria does not apply to the government-wide financial statements, and therefore, the revenue is not deferred.		(314,814)
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 Position of Internal Service Funds		<u>(953,026)</u>
Change in Net Position of Governmental Activities	\$	<u><u>(140,699)</u></u>

See accompanying notes to 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 has 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, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
JUNE 30, 2013**

	Business-Type Activities Enterprise Fund			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
ASSETS				
Current assets:				
Cash and investments	\$ 4,821,780	\$ 4,166,695	\$ 8,988,475	\$ 4,233,423
Receivables:				
Accounts	780,243	65,784	846,027	
Interest	2,800	2,429	5,229	2,420
Loans				694
Due from other governments				1,973
Total Current Assets	<u>5,604,823</u>	<u>4,234,908</u>	<u>9,839,731</u>	<u>4,238,510</u>
Non-current assets:				
Capital assets				
Capital assets not being depreciated	888,988		888,988	
Capital assets being depreciated, net of accumulated depreciation	4,856,661	1,415,719	6,272,380	
Advances to other funds	500,000	500,000	1,000,000	2,500,000
Total Non-Current Assets	<u>6,245,649</u>	<u>1,915,719</u>	<u>8,161,368</u>	<u>2,500,000</u>
Total Assets	<u>11,850,472</u>	<u>6,150,627</u>	<u>18,001,099</u>	<u>6,738,510</u>
LIABILITIES				
Current liabilities:				
Accounts payable	484,681	55,656	540,337	441,894
Due to other governments				676,710
Salaries payable	9,123	1,476	10,599	36,318
Total Current Liabilities	<u>493,804</u>	<u>57,132</u>	<u>550,936</u>	<u>1,154,922</u>
Total Liabilities	<u>493,804</u>	<u>57,132</u>	<u>550,936</u>	<u>1,154,922</u>
NET POSITION				
Net investment in capital assets	5,745,649	1,415,719	7,161,368	
Unrestricted	5,611,019	4,677,776	10,288,795	5,583,588
Total Fund Net Position	<u>\$ 11,356,668</u>	<u>\$ 6,093,495</u>	<u>17,450,163</u>	<u>\$ 5,583,588</u>
Amounts reported in the Statement of Net Position are different because of the adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds			<u>(30,473)</u>	
Net Position of Business-Type Activities			<u>\$ 17,419,690</u>	

See accompanying notes to financial statements.

CITY OF LA PALMA, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

	Business-type Activities- Enterprise Fund			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Operating revenues:				
Charges for services	\$ 2,844,706	\$ 224,020	\$ 3,068,726	\$ 3,484,531
Miscellaneous	2,206	254	2,460	39,311
Total Operating Revenues	<u>2,846,912</u>	<u>224,274</u>	<u>3,071,186</u>	<u>3,523,842</u>
Operating expenses:				
Personnel services	652,371	93,530	745,901	1,873,818
Maintenance and operations	1,379,578	340,553	1,720,131	797,959
Contractual services	125,759	32,874	158,633	11,350
Depreciation	334,217	91,212	425,429	
Settlement claims and insurance	54,000	1,500	55,500	1,935,664
Administration	13,422	1,373	14,795	
Total Operating Expenses	<u>2,559,347</u>	<u>561,042</u>	<u>3,120,389</u>	<u>4,618,791</u>
Operating Income (Loss)	<u>287,565</u>	<u>(336,768)</u>	<u>(49,203)</u>	<u>(1,094,949)</u>
NON-OPERATING REVENUES				
Investment income	8,712	7,164	15,876	8,296
Total Non-operating Revenues	<u>8,712</u>	<u>7,164</u>	<u>15,876</u>	<u>8,296</u>
Income before transfers	296,277	(329,604)	(33,327)	(1,086,653)
Transfers out	<u>(270,900)</u>	<u>(12,200)</u>	<u>(283,100)</u>	
Change in Fund Net Position	25,377	(341,804)	(316,427)	(1,086,653)
Fund Net Position at Beginning of Year	<u>11,331,291</u>	<u>6,435,299</u>		<u>6,670,241</u>
Fund Net Position at End of Year	<u>\$ 11,356,668</u>	<u>\$ 6,093,495</u>		<u>\$ 5,583,588</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>(133,627)</u>	
Change in Net Position of Business-Type Activities			<u>\$ (450,054)</u>	

See accompanying notes to financial statements.

CITY OF LA PALMA, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013**

	Business-type Activities- Enterprise Fund			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Cash flows from operating activities:				
Cash received from customers	\$ 2,814,311	\$ 232,786	\$ 3,047,097	
Cash received from internal users				\$ 3,777,742
Cash payments to suppliers for goods and services	(1,458,134)	(384,286)	(1,842,420)	(105,797)
Cash payments for employee services	(706,371)	(95,030)	(801,401)	(3,809,482)
Net Cash Provided By (Used By) Operating Activities	<u>649,806</u>	<u>(246,530)</u>	<u>403,276</u>	<u>(137,537)</u>
Cash flows from non-capital financing activities:				
Cash payments to other funds	(270,900)	(12,200)	(283,100)	
Net Cash (Used For) Non-Capital Financing Activities	<u>(270,900)</u>	<u>(12,200)</u>	<u>(283,100)</u>	
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(1,168,402)		(1,168,402)	
Net Cash (Used For) Capital and Related Financing Activities	<u>(1,168,402)</u>		<u>(1,168,402)</u>	
Cash flows from investing activities:				
Interest income received	10,703	8,573	19,276	9,570
Net Cash Provided By Investing Activities	<u>10,703</u>	<u>8,573</u>	<u>19,276</u>	<u>9,570</u>
Net (Decrease) in Cash and Cash Equivalents	<u>(778,793)</u>	<u>(250,157)</u>	<u>(1,028,950)</u>	<u>(127,967)</u>
Cash and cash equivalents at beginning of year	5,600,573	4,416,852	10,017,425	4,361,390
Cash and cash equivalents at end of year	<u>\$ 4,821,780</u>	<u>\$ 4,166,695</u>	<u>\$ 8,988,475</u>	<u>\$ 4,233,423</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss):	\$ 287,565	\$ (336,768)	\$ (49,203)	\$ (1,094,949)
Adjustments to reconcile operating income to net income provided by operating activities:				
Depreciation	334,217	91,212	425,429	
(Increase) decrease in accounts receivable	(32,601)	8,512	(24,089)	
(Increase) decrease in loans receivable				3,565
(Increase) decrease in due from other governments				250,335
Increase (decrease) in accounts payable	60,369	(10,406)	49,963	289,707
Increase (decrease) in salaries payable	256	920	1,176	34,049
Increase (decrease) in accrued liabilities				379,756
Total Adjustments	<u>362,241</u>	<u>90,238</u>	<u>452,479</u>	<u>957,412</u>
Net Cash Provided By (Used By) Operating Activities	<u>\$ 649,806</u>	<u>\$ (246,530)</u>	<u>\$ 403,276</u>	<u>\$ (137,537)</u>

See accompanying notes to financial statements.

FIDUCIARY FUNDS

REDEVELOPMENT SUCCESSOR AGENCY PRIVATE-PURPOSE TRUST FUND

This fund accounts for the assets, liabilities and activities of the former Community Development Commission (CDC) of the City in a trustee capacity to pay enforceable obligations of the former Commission. As more fully explained at Note 16, on February 1, 2012 in accordance with Assembly Bill (AB 1X 26 and 1484) all redevelopment agencies in the State of California were dissolved. All assets and liabilities were transferred to the Successor Agency Private Purpose Trust Fund which is used to account for assets held by the City of La Palma's former CDC.

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.

See accompanying notes to financial statements.

CITY OF LA PALMA, CALIFORNIA

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013**

	Redevelopment Successor Agency Private-Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and investments	\$ 675,894	\$ 12,406
Restricted cash and investments	865,810	
Interest receivable	1,631	
Land held for development	669,405	
Total Current Assets	<u>2,212,740</u>	<u>12,406</u>
Total Assets	<u>2,212,740</u>	<u>\$ 12,406</u>
 LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	2,250	\$ 29
Deposits payable		12,377
Interest payable	26,472	
Bonds payable - current portion	545,000	
Total Current Liabilities	<u>573,722</u>	<u>12,406</u>
Noncurrent liabilities:		
Advance payable to City of La Palma	858,904	
Bonds payable - long term portion	5,025,000	
Total Noncurrent Liabilities	<u>5,883,904</u>	
Total Liabilities	<u>6,457,626</u>	<u>\$ 12,406</u>
 Net Position:		
Held in trust for other governments	<u>\$ (4,244,886)</u>	

See accompanying notes to financial statements.

CITY OF LA PALMA, CALIFORNIA

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

	Redevelopment Successor Agency Private-Purpose Trust Fund
<p>Additions:</p> <p> Taxes</p> <p> Interest and use of property</p> <p> Total Additions</p>	<p>\$ 2,064,101</p> <p>5,840</p> <hr/> <p>2,069,941</p>
<p>Deductions:</p> <p> Program expenses</p> <p> Administrative expenses</p> <p> Pass-through payments</p> <p> Interest and fiscal expenses</p> <p> Total Deductions</p>	<p>155,240</p> <p>3,432,311</p> <p>3,775,711</p> <p>344,944</p> <hr/> <p>7,708,206</p>
<p>Change in net position</p> <p>Net Position - Beginning of year</p> <p>Net Position (Deficit) - End of year</p>	<p>(5,638,265)</p> <p>1,393,379</p> <hr/> <p>\$ (4,244,886)</p>

See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

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CITY OF LA PALMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of La Palma, California (the 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. The City has no component units for which it is financially accountable.

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, 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 restricted or committed to expenditure for specified purposes.
- 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.

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.

Successor Housing Fund – Used to account for the restricted housing assets of the former CDC which were transferred to the CDC Successor Agency Private Purpose Trust Fund and then transferred to the Successor Housing Fund upon acceptance of the Housing Successor role by the City.

Capital Outlay Reserve Fund - Used to account for the financial resources of the City, segregated for City capital improvement projects.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

B. Fund Accounting, (Continued)

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.

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

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 employees plan and workers' compensation insurance.

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

Agency Funds are used to account for assets held by the City as an agent for individuals or private organizations and other governmental units. These include Community Center deposits, water construction meter deposits, Orange County sanitation fees, and donations. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The City's Agency Fund accounts for assets held for other governments and various deposits held for individuals or private organizations.

Private Purpose Trust Fund – This fund accounts for the assets, liabilities and activities of the former Community Development Commission of the City in a trustee capacity to pay enforceable obligations of the former Commission. As more fully explained at Note 16, on February 1, 2012 in accordance with Assembly Bills (AB) 1X 26 and 1484, all redevelopment agencies in the State of California were dissolved. All assets and liabilities of the City of La Palma's former Community Development Commission (CDC) were transferred to the Successor Agency Private Purpose Trust Fund.

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

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 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. 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 non exchange transactions 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 expense. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expense.

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 non-major fund in the aggregate for governmental and enterprise funds. Fiduciary fund statements include financial information for fiduciary funds. Fiduciary funds of the City represent assets held by the City in a custodial capacity for other individuals or organizations, and the assets held by the Private-Purpose Trust Fund for the Successor Agency of the former CDC.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

C. Measurement Focus and Basis of Accounting, (Continued)

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.

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). Derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction 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, and the resources are available.

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.

Non-current 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 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 non-current receivables are deferred until they become current receivables. Non-current portions of long-term receivables are offset by nonspendable or restricted fund balance accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current 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, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

C. Measurement Focus and Basis of Accounting, (Continued)

Proprietary Funds and Fiduciary Funds

The City's Enterprise and Internal Service Funds are proprietary funds. In the fund financial statements, proprietary funds and fiduciary 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 and fiduciary funds are presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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 non-operating revenues and expenses.

Amounts paid to acquire capital assets are capitalized as assets in the proprietary funds financial statements, rather than reported as expenses. Proceeds of long-term debt are recorded as a liability in the proprietary funds financial statements, rather than as another 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 expense.

D. Cash and Investments

Investments are reported in the accompanying statements at fair value. The fair value of the investments is generally based on published market prices and quotations from major investment firms.

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 three months or less. Cash equivalents represent the proprietary funds' share in the cash and investment pool of the City.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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.

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:

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

G. Compensated Absences

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, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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. Property Taxes

Under California law, property taxes are assessed and collected by the counties up to one percent 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 percent 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.

J. 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 non-routine permanent transfers of equity are also reported as transfers.

K. Advances to Other Funds – Governmental Funds

Non-current portions of long-term interfund loan receivables are reported in the governmental fund financial statements as advances and are offset equally by amounts reported within a nonspendable category, which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

L. Designation of Unrestricted Net Position

The government-wide statements of net position reports \$10,258,322 of business-type unrestricted net position, of which \$5,298,445 has been designated, in accordance with City Code. The designation is for Emergency Replacement of Utility Fixed Assets within the Water Fund in the amount of \$2,682,494 and within the Sewer Fund in the amount of \$2,615,951 and is equal to 10 percent of the replacement value of certain fixed assets.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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.

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.

O. Use of Restricted Resources – Enterprise Funds and Government-wide

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

P. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The consumption method is used by the City to report prepaids.

Q. Land Held for Resale

Land Held for Resale is recorded at the lower of historical cost or fair market value.

R. Fund Balance

Fund balance is classified in defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following definitions and classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

The City's policy establishes the procedures for reporting, within the annual financial statements, unrestricted fund balance (comprised of Committed, Assigned, and Unassigned categories) within the City's governmental funds: General Fund, Special Revenue Funds, and Capital Projects Fund.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

R. Fund Balance (Continued)

Definitions

Fund balance is the difference between the assets and liabilities reported in the City's governmental funds. There are generally limitations on the purpose for which all or a portion of the resources of a governmental fund may be used. The force behind these limitations can vary significantly, depending upon their source. Consequently, the fund balance reported in the annual financial statements is categorized into five components whereby each component identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The five components of fund balance are as follows:

- **Nonspendable:** Resources that are 1) not in spendable form, such as inventories, prepaids, long-term receivables, or non-financial assets held for resale, or 2) required to be maintained intact such as an endowment.
- **Restricted:** Resources that are subject to externally enforceable legal restrictions; these restrictions would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** Resources that are constrained to specific purposes by a formal action of the City Council as an ordinance. The constraint remains binding unless removed in the same formal manner by the City Council. Council action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently.
- **Assigned:** Resources that are constrained by the City's intent to be used for specific purposes, but that are neither restricted nor committed. The City of La Palma has designated the Finance Director the authority to assign fund balance in the General Fund. The City has also assigned 40% of general fund expenditures for major emergency or unexpected repairs of the City's streets, hardscape, facilities, communication and technology systems, or other City-owned property.
- **Unassigned:** The unassigned classification is used by the General Fund, or in the other fund types when there are negative residual resources in excess of what can be properly classified as nonspendable, restricted, committed or assigned.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.

This policy delegates to the Finance Director the authority to assign unassigned fund balance amounts where the City's intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

R. Fund Balance (Continued)

The City has established an Economic Uncertainty Reserve that is calculated as 60% of the General Fund's annual operating expenditures. Appropriations from the reserves can only be made by formal City Council action. Generally, appropriations and access to these funds will be reserved for emergency situations such as: 1) reduction in revenue equal to or greater than 20% of adopted General Fund appropriations; 2) an unplanned, major, catastrophic event such as a natural disaster requiring expenditures over 10% of General Fund adopted appropriations; 3) unfunded and / or unprecipitable State or Federal legislative or judicial mandates; or, 4) any other unforeseen event that causes the City to expend funds in excess of 10% of General Fund adopted appropriations.

S. New GASB Pronouncements

Implemented during 2012-2013

GASB Statement No. 60 – In November 2010, GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, is effective for periods beginning in fiscal 2013. This statement address the issues related to service concession arrangements (SCAs), which, for the purposes of this statement, are arrangements between the transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The statement also provides guidance for governments that are operators in an SCA, and requires disclosures pertaining to an SCA. The provisions of the statement generally are required to be applied retroactively. The Statement was implemented as of July 1, 2012, and did not have a material impact to the financial statements.

GASB Statement No. 61 – In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity and modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement was implemented as of July 1, 2012, and did not have a material impact to the financial statements.

GASB Statement No. 62 – In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objection of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures that were issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Statement was implemented as of July 1, 2012, and did not have a material impact to the financial statements.

CITY OF LA PALMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

S. New GASB Pronouncements (Continued)

Implemented during 2012-2013 (Continued)

GASB Statement No. 63 – In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement was implemented as of July 1, 2012.

Effective in Future Years

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement is effective for periods beginning after December 15, 2012. The City has not determined the effect on the financial statements.

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement is effective for periods beginning after December 15, 2012. The City has not determined the effect on the financial statements

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of *Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and *No. 50, Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The Statement is effective for periods beginning after December 15, 2013. This Statement is specifically for pension plan providers.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

S. New GASB Pronouncements (Continued)

Effective in Future Years (Continued)

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014. The City has not determined the effect on the financial statements.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to establish reporting standards related to government combinations and disposals of government operations. The Statement is effective for period beginning after December 15, 2013. The City has not determined the effect on the financial statements.

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The Statement is effective for periods beginning after June 15, 2013, or the 2013-2014 fiscal year. The City has not determined the effect on the financial statements.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 70, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. The City has not determined the effect on the financial statements.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments \$ 34,132,453

Fiduciary funds:

Cash and investments 688,300

Restricted cash and investments 865,810

Total Cash and Investments \$ 35,686,563

Cash and investments as of June 30, 2013 consist of the following:

Cash on hand \$ 7,725

Deposits with financial institutions 672,894

Investments 35,005,944

Total Cash and Investments \$ 35,686,563

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

The table below identifies the investment types that are authorized of 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.

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer*
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
Banker's 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	None
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	No	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

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

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee is 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's 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

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.

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:

Investment Type	Totals	<i>Remaining Maturity (In Months)</i>		
		12 Months Or Less	13 to 24 Months	25 to 60 Months
LAIF	\$ 34,069,920	\$ 34,069,920		
Money Market Mutual Funds	69,591	69,591		
U.S. Agency Securities				
GNMA	623			\$ 623
Held by fiscal agent:				
U.S. Agency Securities				
FHLMC	845,639			845,639
Money Market Mutual Funds	20,171	20,171		
Total	<u>\$ 35,005,944</u>	<u>\$ 34,159,682</u>	<u>\$ -</u>	<u>\$ 846,262</u>

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

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.

Investment Type	Totals	Minimum Legal Rating	Rating as of Year End		
			AAA	AA+	Not Rated
LAIF	\$ 34,069,920	N/A			\$ 34,069,920
Money Market Mutual Funds	69,591	AAA	\$ 69,591		
U.S. Agency Securities					
GNMA	623	AA+		\$ 623	
Held by fiscal agent					
U.S. Agency Securities:					
FHLB	845,639	AA+	845,639		
Money Market Mutual Funds	20,171	N/A	20,171		
Total	\$ 35,005,944		\$ 935,401	\$ -	\$ 34,069,920

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 percent 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 percent of the secured public deposits.

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.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

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. The California Local Agency Investment Fund is not insured or collateralized.

NOTE 3 – INTERFUND RECEIVABLES, PAYABLES, AND DUE FROM SUCCESSOR AGENCY

A short-term interfund payable and receivable between the General Fund and the Supplemental Law Enforcement Fund resulted due to a negative cash balance as of year-end in the amount of \$14,827, which is expected to be repaid in fiscal year 2013-14. Long-term interfund receivables and payables at June 30, 2013 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Private-Purpose Trust Fund	\$ 858,904
		<u>858,904 (B)</u>
Major Fund Capital Outlay Reserve	Successor Housing Fund	396,668
Water	Successor Housing Fund	500,000
Sewer	Successor Housing Fund	500,000
Internal service funds	Successor Housing Fund	<u>2,500,000</u>
		<u>3,896,668 (A)</u>
	Total Advances	<u>\$ 4,755,572</u>

- A. During the year ended June 30, 2001, the City Council authorized a \$4,933,000 advance to the former 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 percent. Annual principal and interest payments are due from the CDC over 30 years. Additionally, as part of this transaction, a Ground Lease Agreement was entered into on November 17, 1998 whereby the City leased the property referred to as the construction site to the former CDC for a term of 55 years (with two additional option periods of five year each) for a sum of \$110,000 per year.

As more fully explained at Note 16, on February 1, 2012 all redevelopment agencies in the State of California were dissolved. All assets and liabilities were transferred to the Successor Agency Private Purpose Trust Fund. Additionally, subsequent to February 1, 2012 and as allowable per the legislation, the City of La Palma accepted the role of "Housing Successor" and established the Successor Agency Housing Fund and as a result, certain housing assets and liabilities were transferred from the former CDC Successor Agency Private Purpose Trust Fund to the Successor Agency Housing Fund, including this Advance Payable. The outstanding balance at June 30, 2013 is \$3,896,668 and is recorded as an advance from various City funds at the Governmental Funds Balance Sheet. Per the terms of the agreement, the advance payable is to be paid back from the proceeds of the loan receivable discussed in Note 5 that is recorded in the Successor Housing Fund. The City expects the advance to be paid back by June 30, 2024.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 – INTERFUND RECEIVABLES, PAYABLES, AND DUE FROM SUCCESSOR AGENCY, (Continued)

B. In July 2002, the City loaned \$1,500,000 to the former CDC, for the purpose of assisting the CDC in meeting certain contractual obligations pertaining to the redevelopment of its project area. As more fully explained at Note 16, on February 1, 2012, all redevelopment agencies in the State of California were dissolved. All assets and liabilities were transferred to the Successor Agency Private Purpose Trust Fund. As a result, the outstanding balance of the advance was transferred to the former CDC Successor Agency Private Purpose Trust Fund. The outstanding balance of the loan as of June 30, 2013 is \$858,904 and is recorded as a Due from former CDC Successor Agency at the Governmental Fund Balance Sheet and Government-Wide Statement of Net Position of the City. Per the agreement, all amounts are to be repaid no later than June 30, 2018. During fiscal year 2012-2013, the Successor Agency received the Finding of Completion which allowed the Successor Agency to add the obligation to begin paying the advance to the Recognized Obligation Payment Schedule (ROPS) beginning in fiscal year 2014-2015. The amount to be paid back to the Successor Housing Fund is restricted to 50% of the residual earnings of the Successor Agency after all enforceable obligations and payments to affected taxing agencies have been deducted from the gross revenue. The receivable is expected to be paid by the Successor Agency with residual earnings by June 30, 2017.

NOTE 4 – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2013 are as follows:

Transfers In	Transfers Out	Amount
Major Fund -Capital Outlay Reserve	General Fund	\$ 1,700,000 (A)
General Fund	Water	270,900 (B)
General Fund	Sewer	12,200 (B)
	Total Interfund Transfers	\$ 1,983,100

Purpose of Interfund Transfers

- A. The General Fund transferred \$1,700,000 to the Capital Outlay – Capital Projects Fund for various Capital Projects.
- B. The General Fund charged the Water and Sewer Funds \$270,900 and \$12,200, respectively, for administrative costs.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 – LOANS RECEIVABLE

Loans receivable consists of the following at June 30, 2013:

Governmental Funds	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Loan Receivable - Rental Housing Project	\$ 4,398,857		\$ (178,655)	\$ 4,220,202
Loans Receivable - Housing Loans	94,722		(30,436)	64,286
Total Governmental Fund Loans	<u>\$ 4,493,579</u>	<u>\$ -</u>	<u>\$ (209,091)</u>	<u>\$ 4,284,488</u>
			Internal Service Fund	
			Computer Loans	\$ 694
			Total governmental activities	<u>\$ 4,285,182</u>

Rental Housing Project Loan

During the year ended June 30, 2001, the former CDC loaned \$4,933,000 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 percent. The senior housing operator (“Seasons”) makes monthly payments to the City based on its operating income. During the fiscal year the Successor Housing Fund received \$178,655 from the operator. The balance of this loan at June 30, 2013 was \$4,220,202. The funds generated from this loan from the Season is the basis for repayment of the Advance Payable noted in Note 3A.

Housing Loans

The former CDC provided \$5,000 second mortgages for the Denni Street Affordable Housing project. This mortgage had no payment for a period of ten years from the date of the original buyer’s purchase. The loans accrue a 3 percent simple interest until it is repaid in full. There were a total of 62 initial loans for the Denni Street Affordable Housing project. The former CDC accepted full payment of some loans on or after the ten year Anniversary Date. These loans were transferred from the Successor Agency to the Successor Housing Fund during the fiscal year 2011-12 as a result of the dissolution of the former CDC. As of June 30, 2013, there were 14 remaining loans outstanding with a total balance of \$64,286.

Computer Loans

Additionally, the City has a Computer loan program for its employees (related party transactions). No new loans were issued during 2012-13 and the outstanding loan balances as of June 30, 2013 totaled \$694. This amount is recorded in the Employee Benefits Internal Service Fund.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 – CAPITAL ASSETS

A summary of capital asset activity for the year ended June 30, 2013 follows:

Governmental Activities:	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
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	373,199	\$ 17,622		390,821
Total Capital Assets Not Being Depreciated	7,079,952	17,622		7,097,574
Capital Assets, Being Depreciated:				
Buildings and improvements	8,080,899			8,080,899
Equipment	1,049,179	97,668	\$ (114,941)	1,031,906
Vehicles	1,969,086	320,691	(303,160)	1,986,617
Furniture and fixtures	123,638			123,638
Infrastructure-streets network	10,852,683			10,852,683
Infrastructure-storm drains	676,184			676,184
Total Capital Assets Being Depreciated	22,751,669	418,359	(418,101)	22,751,927
Less Accumulated Depreciation for:				
Buildings and improvements	(2,529,264)	(177,649)		(2,706,913)
Equipment	(694,596)	(68,684)	73,112	(690,168)
Vehicles	(1,670,391)	(188,035)	290,013	(1,568,413)
Furniture and fixtures	(114,467)	(10,950)		(125,417)
Infrastructure-streets network	(5,962,267)	(195,105)		(6,157,372)
Infrastructure-storm drains	(358,622)	(9,016)		(367,638)
Total Accumulated Depreciation	(11,329,607)	(649,439)	363,125	(11,615,921)
Total Capital Assets, Being Depreciated, Net	11,422,062	(231,080)	(54,976)	11,136,006
Governmental Activities Capital Assets, Net	\$ 18,502,014	\$ (213,458)	\$ (54,976)	\$ 18,233,580

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 – CAPITAL ASSETS, (Continued)

Business-type Activities	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Capital Assets Not Being Depreciated:				
Land	\$ 754,000			\$ 754,000
Construction in progress	93,538	\$ 67,598	\$ (26,148)	134,988
Total Capital Assets Not Being Depreciated	847,538	67,598	(26,148)	888,988
Capital Assets, Being Depreciated:				
Buildings and improvements	7,839,661			7,839,661
Vehicles	15,118			15,118
Machinery and equipment	1,973,139	1,126,951	\$ (7,551)	3,092,539
Water system and other improvements	3,008,913			3,008,913
Sewer system and other improvements	3,211,542			3,211,542
Total Capital Assets Being Depreciated	16,048,373	1,126,951	(7,551)	17,167,773
Less Accumulated Depreciation for:				
Buildings and improvements	(6,330,225)	(169,372)		(6,499,597)
Vehicles	(3,023)	(3,023)		(6,046)
Machinery and equipment	(842,527)	(163,311)	755	(1,005,083)
Water system and other improvements	(1,548,720)	(40,124)		(1,588,844)
Sewer system and other improvements	(1,753,021)	(42,802)		(1,795,823)
Total Accumulated Depreciation	(10,477,516)	(418,632)	755	(10,895,393)
Total Capital Assets, Being Depreciated, Net	5,570,857	708,319	(6,796)	6,272,380
Business-type Activities Capital Assets, Net	\$ 6,418,395	\$ 775,917	\$ (32,944)	\$ 7,161,368

Depreciation expense was charged to functions for the year ended June 30, 2013 as follows:

Governmental Activities:	
General government	\$ 16,404
Public safety	154,584
Public works	293,953
Recreation	178,454
Community development	6,044
Total Depreciation Expense - Governmental Activities	\$ 649,439
Business-type Activities:	
Water	\$ 327,421
Sewer	91,211
Total Depreciation Expense - Business-type Activities	\$ 418,632

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

Governmental Activities	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013	Portion Due Within One Year
Compensated absences	\$ 578,951	\$ 671,218	\$ (644,261)	\$ 605,908	\$ 151,477
Total long-term liabilities	\$ 578,951	\$ 671,218	\$ (644,261)	\$ 605,908	\$ 151,477

Compensated absences are generally liquidated by the General Fund.

NOTE 8 – POST RETIREMENT BENEFITS

Plan description

The City provides post-employment benefits to retired employees in the form of a contribution towards their medical premiums under the CalPERS health plan which provides medical insurance benefits to eligible retirees in accordance with various labor agreements. The minimum required retiree contributions are established by CalPERS. Survivor benefits are not provided. Copies of the CalPERS’ annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Eligibility

Employees are eligible for retiree health benefits if they retire from the City on or after age 50 (unless disabled), with five years of service and are eligible for a PERS pension and are enrolled in a CalPERS retiree health plan. The benefits are available only to employees who retire from the City. Membership of the plan consisted of the following at June 30, 2013:

	General	Management	Police	Police Management	Professional	Total
Retirees Receiving Benefits	1	2	19	3	0	25
Eligible Active Employees	24	6	27	3	5	65

The above table does not reflect current retirees not enrolled in the CalPERS health plan that may be eligible to enroll in the plan at a later date.

Funding Policy

The City’s current contribution is based on pay-as-you-go. The City’s monthly contribution rate was \$115 for the Management, General, and Professional groups; \$416 for the Police and Safety Management groups. For the year ended June 30, 2013, the City paid \$18,299 directly to CalPERS towards their post-employment health care benefits. Current active employees are not required to contribute any portion towards these benefits.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 – POST RETIREMENT BENEFITS, (Continued)

Funding Policy, (Continued)

Annual OPEB Cost and Net OPEB Obligation. The City’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) not to exceed thirty years.

The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation:

	<u>June 30, 2013</u>
Annual required contribution	\$ 159,370
Interest on net OPEB Obligation	53,146
Adjustment to annual required contribution	<u>(57,223)</u>
Annual OPEB cost (expense)	155,293
Contributions made	<u>(108,299)</u>
Increase in net OPEB Obligation	46,994
Net OPEB Obligation, Beginning of Year	733,098
Net OPEB Obligation, End of Year	<u>\$ 780,092</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the preceding year, were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2011	\$296,680	55.0%	\$539,163
6/30/2012	303,649	41.4%	733,098
6/30/2013	155,293	69.7%	780,092

Funding Status and Progress

As of June 30, 2013, the most recent valuation date, the actuarial accrued liability for benefits was \$1,893,010 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,893,010 and a funded ratio (actuarial value of assets as a percentage of the actuarial accrued liability) of 0 percent. The covered payroll (annual payroll of active employees) was \$4,788,525 and the ratio of the UAAL to the covered payroll was 39.5 percent. The City is still using the “pay as you” and is evaluating its options in developing a funding policy for its OPEB obligations.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 8 – POST RETIREMENT BENEFITS, (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Cost Method. The actuarial assumptions included an annual healthcare cost trend rate of 4 percent annual and a 2.75 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll over 30 years with an open amortization period. It is assumed the City's payroll will increase 2.75 percent per year.

NOTE 9 – 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, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 9 – LIABILITY, PROPERTY, AND WORKERS COMPENSATION PROTECTION, (Continued)

Self-insurance programs of the CJPIA

General liability – Each member government 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. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between police and non-police. Costs are spread to members as follows: the first \$30,000 of each occurrence is charged directly to the member's primary deposit; costs from \$30,000 to \$750,000 and the loss development reserves associated with losses up to \$750,000 to \$5,000,000 and the associated loss development reserves are pooled based on payroll. Costs of covered claims from \$5,000,000 to \$50,000,000 are currently paid by excess insurance. Costs of covered claims from subsidence losses from \$15,000,000 to \$25,000,000 are paid by excess insurance. The protection for each member is \$50,000,000 per occurrence and \$50,000,000 annual aggregate. Administrative expenses are paid from the Authority's investment earnings.

Workers' compensation – The City also participates in the workers' compensation pool administered by the Authority. 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. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between public safety and non-public safety. Each member has a retention level of \$50,000 for each loss and this is charged directly to the member's primary deposit. Losses from \$50,000 to \$100,000 and the loss development reserve associated with losses up to \$100,000 are pooled based on the member's share of losses under \$50,000. Losses from \$100,000 to \$2,000,000 and employer's liability losses from \$5,000,000 to \$10,000,000 and loss development reserves associated with those losses are pooled based on payroll. Losses from \$2,000,000 to \$5,000,000 are pooled with California State Associate of Counties – Excess Insurance Authority members. Costs in excess of \$3,000,000 are pooled among the Members based on payroll. Protection is provided per statutory liability under California Workers' Compensation law. Administrative expenses are paid from the Authority's investment earnings.

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.

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 percent of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 – LIABILITY, PROPERTY, AND WORKERS COMPENSATION PROTECTION, (Continued)

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.

NOTE 10 – DEFINED BENEFIT PENSION PLAN (PERS)

A. Plan Description

The City of La Palma contributes to the California Public Employees Retirement System (PERS), a cost sharing, multiple employer public employee defined benefit pension plan. PERS acts as a common investment and administrative agent for participating public entities within the State of California. The City, based on the number of Miscellaneous and Safety employees, per PERS policy, belongs to a “Risk Pool” for the purposes of benefit plan valuation. Copies of PERS’ annual financial report may be obtained from its executive office at 400 P Street, Sacramento, California 95814.

B. Plan Changes, City of La Palma

The City of La Palma, as of July 1, 2011, has two defined benefit pension plan “tiers” for eligible employees. Tier 1 (established on July 1, 2003), provides a defined benefit plan formula for Miscellaneous employees of 2.7 percent at 55 and for Safety employees of 3.0 percent at 50. Tier 1 applies to all eligible employees hired on or before June 30, 2011.

As part of labor negotiations and in an effort to put in place long-term retirement cost savings, a Tier 2 defined benefit plan program was created. Effective for all eligible employees hired on or after July 1, 2011, Miscellaneous employees have a benefit formula of 2.0 percent at 60 and Safety employees have a benefit formula of 2.0 percent at 55.

In addition, all labor agreements in place in FY 2011-12 included provisions for increasing member (employee) contributions towards the employee share of retirement costs. Miscellaneous employees in Tier 1, in FY 2011-12, began contributing five percent (5.0 percent) of the eight percent (8.0 percent) member contribution amount. Safety employees in Tier 1, in FY 2011-12, began contributing four and three-quarters percent (4.75 percent) of the nine percent (9.0 percent) member contribution amount. Tier 2 employees, Miscellaneous and Safety, are required to pay the full member contribution amount (7 percent and 8 percent respectively) upon hire.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 10 – DEFINED BENEFIT PENSION PLAN (PERS), (Continued)

C. Funding Policy

As described in Section B above, all City employees in FY 2011-12, began paying a portion of the member contribution amount. The City is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members (the employer contribution). The contractually required employer contribution rates for fiscal year 2011-12 differ depending on whether the employee is a Tier 1 or a Tier 2 member. The table below provides this information, based on PERS valuation of the plan as of June 30, 2010 (Tier 1), with a special report done to provide the Tier 2 rates:

	Miscellaneous	Safety
Tier 1	15.178%	26.416%
Tier 2	7.846%	16.519%

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. Benefit provisions and all other requirements are established by State statute and City contract with employee bargaining groups.

D. Annual Pension Cost (All Tiers)

Safety

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (Employer- Contribution)</u>	<u>Percentage of APC Contributed</u>
6/30/2011	\$ 475,834	100%
6/30/2012	564,109	100%
6/30/2013	591,509	100%

Miscellaneous

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (Employer- Contribution)</u>	<u>Percentage of APC Contributed</u>
6/30/2011	\$ 326,260	100%
6/30/2012	377,484	100%
6/30/2013	382,106	100%

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 11 – PUBLIC AGENCY RETIREMENT SYSTEM (PARS)

PARS is a defined contribution pension plan. On April 18, 2000, the City Council authorized the City to become a member of the Public Agency Retirement Systems (PARS) Trust, a governmental trust, effective July 1, 2000 for its eligible part-time, seasonal and temporary employees. The City Manager is the Plan Administrator and has the authority for establishing or amending the plan's provision. 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 percent of compensation for a total annual contribution of 7.5 percent. For the year ended June 30, 2013, the amount contributed by the City was \$11,541. Employees are fully vested at all times. The City has entered into an agreement with Phase II Systems to provide trust administrator services.

NOTE 12 – 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.

NOTE 13 – JOINTLY GOVERNED ENTITIES – 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, 2013. 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.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 14 – FUND BALANCES

The details of the Fund Balance Classifications as of June 30, 2013 are presented below:

	Major Funds				Total
	General	Successor Housing Fund	Capital Outlay Reserve	Non-Major Governemntal Funds	
Nonspendable:					
Prepaid items	\$ 43,399				\$ 43,399
Advances from other Funds	858,904		\$ 396,668		1,255,572
Restricted for:					
Public Information				\$ 145,380	145,380
Capital Projects				461,493	461,493
Police				102,590	102,590
Affordable Housing		\$ 674,705			674,705
Assigned for:					
Capital projects	3,663,975		5,247,711		8,911,686
Unassigned:	11,180,948			(15,993)	11,164,955
Total Fund Balance	\$ 15,747,226	\$ 674,705	\$ 5,644,379	\$ 693,470	\$ 22,759,780

NOTE 15 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The following funds had expenditures in excess of budget in the following amounts for the year ended June 30, 2013:

Non-Major Fund:	
Special Revenue Fund:	
Assets Seizure Fund	\$ 57,019
Supplemental Law Enforcement	1,699
	<u>\$ 58,718</u>

Additionally, the Supplemental Law Enforcement, Special Revenue Fund had a deficit fund balance of \$15,993 at June 30, 2013. This is planned to be resolved through future receipts of grant proceeds.

The budget 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.

There are no legally adopted budgets for the Successor Housing Fund – Special Revenue Fund and the Park Development Fund – Special Revenue Fund.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 16 – SUCCESSOR AGENCY TRUST FOR ASSETS AND LIABILITIES OF FORMER REDEVELOPMENT AGENCY

A. General Discussion

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

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 17, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 2012-09.

Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

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

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

On April 18, 2013, the City received a Finding of Completion from the State of California Department of Finance (DOF). The Finding of Completion allows the Successor Agency Oversight Board to approve the interfund advances from the City to the former CDC on the Recognized Obligation Payment Schedule (ROPS) beginning on July 1, 2014. The Finding of Completion also allows the Successor Agency to utilize proceeds derived from bonds issued prior to January 1, 2011, in a manner consistent with the original bond covenants, per HSC Section 34191.4(c). The Oversight Board has approved the interfund advances on all ROPS submitted to the Department of Finance.

B. Successor Agency Long-term Debt

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Due Within One Year
1993 Tax Allocation Bonds	\$ 2,125,000		\$ (240,000)	\$ 1,885,000	\$ 255,000
2001 Tax Allocation Bonds	3,960,000		(275,000)	3,685,000	290,000
Advances from the City of La Palma	858,904			858,904	
	<u>\$ 6,943,904</u>	<u>\$ -</u>	<u>\$ (515,000)</u>	<u>\$ 6,428,904</u>	<u>\$ 545,000</u>

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 16 – SUCCESSOR AGENCY TRUST FOR ASSETS AND LIABILITIES OF FORMER REDEVELOPMENT AGENCY, (Continued)

B. Successor Agency Long-term Debt (Continued)

1993 Tax Allocation Bonds

On December 1, 1993, the former 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 Former CDC Project Area. The bonds are in denominations of \$5,000 each and bear interest at rates ranging from 3.30 percent to 6.10 percent. Principal is payable annually on June 1. Interest is payable semiannually on June 1 and December 1. The balance at June 30, 2013 was \$1,855,000.

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 2.5 percent to 5.50 percent. 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, 2013, \$3,685,000 of 2001 refunding tax allocation bonds were outstanding.

Advance from the City of La Palma

As disclosed at Note 3B, the former redevelopment agency (CDC) borrowed funds from the City for the purpose of assisting a third-party business operation rehabilitate its property, per the scope and guidelines of redevelopment law in force at the time of the loan (1999). As of June 30, 2013, the Successor Agency has received the Finding of Completion from the State of California Department of Finance which allows the Successor Agency to place the advance to the City back onto the Recognized Obligation Payment Schedule (ROPS) beginning with fiscal year 2014-2015. The annual payment to the City on the Advance is limited to 50% of the residual earnings of the Successor Agency after all other enforceable obligations and payments to affected taxing agencies have been paid. The balance due to the City consists of the unpaid principal portion as of February 1, 2012, and does not include any accrued interest. The amount of interest that can be charged to the Successor Agency on the Advance Payable is limited by AB 1X 26 and AB 1484 to the LAIF interest rate. As disclosed at Note 3B, the Successor Agency has projected sufficient cash flow from residual earnings to pay back the Advance by June 30, 2015.

C. Owner Participation Agreements

The former CDC entered into an Owner Participation Agreement in May 2002 with a business enterprise whereby the Commission 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 former CDC through increased sales tax revenues. At the end of the project's fifteenth year, the business enterprise must pay the former CDC any portion of the cost not recovered. During the current fiscal year ended June 30, 2013, \$179,055 was recovered, bringing the total recovered to date of \$1,137,859 and ending balance of \$362,141.

The Successor Agency has determined that this balance is not a receivable because the structure of the agreement reflects the form of an advance against future cash flow from a portion of the sales tax generated at the site. It will only become a receivable if an amount remains to be recovered at the end of the project's fifteenth operating year.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 16 – SUCCESSOR AGENCY TRUST FOR ASSETS AND LIABILITIES OF FORMER REDEVELOPMENT AGENCY, (Continued)

D. Developer Disposition Agreement

As part of a Developer Disposition Agreement entered into by the former CDC during fiscal year 2010-2011, property purchased by the former CDC was transferred to a developer on April 4, 2012, in exchange for a loan receivable in the amount of \$1.4 million (the value of the property). The loan receivable was to be forgiven by the former CDC upon completion of the 12-unit housing project with six units available at affordable rates (three low and three moderate income). The project was completed in June 2012. The Developer Disposition Agreement was approved by the former CDC's Board on June 21, 2011 through Resolution No. CDC 2011-18.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LA PALMA, CALIFORNIA

**OTHER POST EMPLOYMENT BENEFITS (OPEB)
YEAR ENDED JUNE 30, 2013**

The following schedule summarizes the City of La Palma’s funding progress for OPEB:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2008	\$ -	\$ 3,453,207	\$ 3,453,207	0%	\$ 4,399,575	78%
2/1/2012	-	3,312,376	3,312,376	0%	4,611,195	71%
6/30/2013	-	1,893,010	1,893,010	0%	4,788,525	39.5%

**CITY OF LA PALMA, CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION
MAJOR FUNDS – BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

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

Successor Housing Fund – This Fund was used to account for housing assets of the former CDC which were transferred to the CDC Successor Agency Private Trust Fund and then transferred to the Successor Housing Fund upon acceptance of the Housing Successor role by the City, also refer to Note 16. There was no formal budget adopted for the fiscal year.

CITY OF LA PALMA, CALIFORNIA

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 8,322,400	\$ 8,322,400	\$ 10,290,767	\$ 1,968,367
Intergovernmental	16,000	16,000	49,445	33,445
Licenses and permits	210,000	210,000	281,145	71,145
Fines and forfeitures	160,200	160,200	136,883	(23,317)
Investment income	50,000	50,000	39,498	(10,502)
Changes for services	426,600	426,600	514,062	87,462
Rental income	161,000	161,000	173,977	12,977
Miscellaneous	77,800	77,800	91,333	13,533
Total Revenues	9,424,000	9,424,000	11,577,110	2,153,110
EXPENDITURES				
Current:				
General government	1,563,600	1,505,190	1,473,464	31,726
Public safety	5,163,900	5,139,820	5,099,053	40,767
Public works	754,300	751,940	738,179	13,761
Recreation	1,474,400	1,328,380	1,301,345	27,035
Community development	668,600	652,450	538,375	114,075
Capital outlay	19,400	15,400	9,521	5,879
Total Expenditures	9,644,200	9,393,180	9,159,937	233,243
Excess (Deficiency) of Revenues Over (Under) Expenditures	(220,200)	30,820	2,417,173	2,386,353
OTHER FINANCING SOURCES (USES)				
Transfers in	283,100	283,100	283,100	
Transfers out	(1,700,000)	(1,700,000)	(1,700,000)	
Total Other Financing Sources (Uses)	(1,416,900)	(1,416,900)	(1,416,900)	
Net Change in Fund Balance	(1,637,100)	(1,386,080)	1,000,273	2,386,353
Fund Balance, Beginning of Year	14,746,953	14,746,953	14,746,953	
Fund Balance, End of Year	\$ 13,109,853	\$ 13,360,873	\$ 15,747,226	\$ 2,386,353

See accompanying note to required supplementary information.

CITY OF LA PALMA, CALIFORNIA

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013**

NOTE 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, and Special Revenue Funds, except a budget was not prepared and adopted for the Successor Housing Special Revenue Fund. 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.

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SUPPLEMENTARY SCHEDULES

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NON-MAJOR FUNDS

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CITY OF LA PALMA, CALIFORNIA

NON-MAJOR SPECIAL REVENUE YEAR ENDED JUNE 30, 2013

Special Revenue Funds are used to account for and report revenue proceeds of specific revenue resources that are restricted or committed to expenditure for specific purposes. The City of La Palma has eight Special Revenue Funds classified as non-major:

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. The funds are restricted for expenditures that 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. The funds are restricted for expenditures that are used for maintaining and improving public transportation projects.

Park Development – To account for revenues and expenditures relating to the development and renovation of City parks. No budget was adopted for fiscal year.

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 restricted for public safety programs.

Abandoned Vehicles – To account for monies received as vehicle abatement for abandoned vehicles. The monies are restricted for public safety.

Assets Seizure Fund – To account for monies received from the Regional Narcotics Suppression Program (RNSP) that are restricted to be used for law enforcement related expenditures.

PEG Fund – To account for public education and governmental fees which are restricted for use in providing information to the public through bulletins and public service announcements.

CITY OF LA PALMA, CALIFORNIA

**NON-MAJOR GOVERNMENT FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	Special Revenue Funds			
ASSETS	Streets	Measure M	Park Development	Air Quality Improvement
Cash and investments	\$ 287,837	\$ 18,031	\$ 22,119	\$ 55,927
Receivables:				
Accounts				
Interest	182	2	13	31
Due from other governments	34,518	49,196		4,959
Total Assets	<u>\$ 322,537</u>	<u>\$ 67,229</u>	<u>\$ 22,132</u>	<u>\$ 60,917</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 6,928			
Salaries payable	1,828			
Due to other funds				
Retentions payable	2,566			
Total Liabilities	<u>11,322</u>			
FUND BALANCES				
Restricted	311,215	\$ 67,229	\$ 22,132	\$ 60,917
Assigned				
Unassigned				
Total Fund Balances	<u>311,215</u>	<u>67,229</u>	<u>22,132</u>	<u>60,917</u>
Total Liabilities and Fund Balances	<u>\$ 322,537</u>	<u>\$ 67,229</u>	<u>\$ 22,132</u>	<u>\$ 60,917</u>

Special Revenue Funds

Supplemental Law Enforcement Service	Public Safety Augmentation	Abandoned Vehicles	Assets Seizure	PEG Funds	Total
	\$ 57,889	\$ 25,612	\$ 6,311	\$ 141,159	\$ 614,885
				4,140	4,140
	35	15		81	359
	12,044		4,561		105,278
\$ -	\$ 69,968	\$ 25,627	\$ 10,872	\$ 145,380	\$ 724,662
					\$ 6,928
\$ 1,166	\$ 3,030		\$ 847		6,871
14,827					14,827
					2,566
15,993	3,030		847		31,192
	66,938	\$ 25,627	10,025	\$ 145,380	709,463
(15,993)					(15,993)
(15,993)	66,938	25,627	10,025	145,380	693,470
\$ -	\$ 69,968	\$ 25,627	\$ 10,872	\$ 145,380	\$ 724,662

CITY OF LA PALMA, CALIFORNIA

**NON-MAJOR GOVERNMENT FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2013**

	Special Revenue Funds			
	Streets	Measure M	Park Development	Air Quality Improvement
REVENUES				
Intergovernmental	\$ 375,534	\$ 274,527		\$ 18,939
Investment income	978	49	\$ 63	135
Miscellaneous	1,026			
Total Revenues	<u>377,538</u>	<u>274,576</u>	<u>63</u>	<u>19,074</u>
EXPENDITURES				
Current:				
Public safety				
Public works	263,506	2,400		
Capital outlay	338,945	265,773		
Total Expenditures	<u>602,451</u>	<u>268,173</u>		
Net Change in Fund Balances	(224,913)	6,403	63	19,074
Fund Balances at Beginning of Year	<u>536,128</u>	<u>60,826</u>	<u>22,069</u>	<u>41,843</u>
Fund Balances at End of Year	<u>\$ 311,215</u>	<u>\$ 67,229</u>	<u>\$ 22,132</u>	<u>\$ 60,917</u>

CITY OF LA PALMA, CALIFORNIA

**NON-MAJOR GOVERNMENT FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2013**

Special Revenue Funds					
Supplemental Law Enforcement Service	Public Safety Augmentation	Abandoned Vehicles	Assets Seizure	PEG Funds	Total
\$ 100,000	\$ 155,467 119	\$ 1,723 73	\$ 79,044	\$ 379 16,338	\$ 1,005,234 1,796 17,364
<u>100,000</u>	<u>155,586</u>	<u>1,796</u>	<u>79,044</u>	<u>16,717</u>	<u>1,024,394</u>
104,999	118,923		69,019		292,941 265,906 604,718
<u>104,999</u>	<u>118,923</u>		<u>69,019</u>		<u>1,163,565</u>
(4,999)	36,663	1,796	10,025	16,717	(139,171)
<u>(10,994)</u>	<u>30,275</u>	<u>23,831</u>		<u>128,663</u>	<u>832,641</u>
<u>\$ (15,993)</u>	<u>\$ 66,938</u>	<u>\$ 25,627</u>	<u>\$ 10,025</u>	<u>\$ 145,380</u>	<u>693,470</u>

CITY OF LA PALMA, CALIFORNIA

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE –BUDGET AND ACTUAL
STREETS FUND – SPECIAL REVENUE FUND
FOR YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 430,400	\$ 430,400	\$ 375,534	\$ (54,866)
Investment income	1,500	1,500	978	(522)
Miscellaneous			1,026	1,026
Total Revenues	<u>431,900</u>	<u>431,900</u>	<u>377,538</u>	<u>(54,362)</u>
EXPENDITURES				
Current:				
Public works	268,100	268,100	263,506	4,594
Capital outlay	185,000	337,880	338,945	(1,065)
Total Expenditures	<u>453,100</u>	<u>605,980</u>	<u>602,451</u>	<u>3,529</u>
Net Change in Fund Balance	(21,200)	(174,080)	(224,913)	(50,833)
Fund Balance, Beginning of Year	536,128	536,128	536,128	
Fund Balance, End of Year	<u>\$ 514,928</u>	<u>\$ 362,048</u>	<u>\$ 311,215</u>	<u>\$ (50,833)</u>

CITY OF LA PALMA, CALIFORNIA

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE –BUDGET AND ACTUAL
MEASURE M FUND – SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 257,200	\$ 257,200	\$ 274,527	\$ 17,327
Investment income	1,000	1,000	49	(951)
Total Revenues	<u>258,200</u>	<u>258,200</u>	<u>274,576</u>	<u>16,376</u>
EXPENDITURES				
Current:				
Public works	20,700	20,700	2,400	18,300
Capital outlay	250,000	301,761	265,773	35,988
Total Expenditures	<u>270,700</u>	<u>322,461</u>	<u>268,173</u>	<u>54,288</u>
Net Change in Fund Balance	(12,500)	(64,261)	6,403	70,664
Fund Balance, Beginning of Year	60,826	60,826	60,826	
Fund Balance, End of Year	<u>\$ 48,326</u>	<u>\$ (3,435)</u>	<u>\$ 67,229</u>	<u>\$ 70,664</u>

CITY OF LA PALMA, CALIFORNIA

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE –BUDGET AND ACTUAL
AIR QUALITY IMPROVEMENT FUND – SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 19,800	\$ 19,800	\$ 18,939	\$ (861)
Investment income	100	100	135	35
Total Revenues	<u>19,900</u>	<u>19,900</u>	<u>19,074</u>	<u>(826)</u>
Net Change in Fund Balance	19,900	19,900	19,074	(826)
Fund Balance, Beginning of Year	<u>41,843</u>	<u>41,843</u>	<u>41,843</u>	
Fund Balance, End of Year	<u>\$ 61,743</u>	<u>\$ 61,743</u>	<u>\$ 60,917</u>	<u>\$ (826)</u>

CITY OF LA PALMA, CALIFORNIA

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE –BUDGET AND ACTUAL
SUPPLEMENTAL LAW ENFORCEMENT SERVICE FUND – SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Total Revenues	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
EXPENDITURES				
Current:				
Public safety	103,300	103,300	104,999	(1,699)
Total Expenditures	<u>103,300</u>	<u>103,300</u>	<u>104,999</u>	<u>(1,699)</u>
Net Change in Fund Balance	(3,300)	(3,300)	(4,999)	(1,699)
Fund Balance, Beginning of Year	<u>(10,994)</u>	<u>(10,994)</u>	<u>(10,994)</u>	
Fund Balance, End of Year	<u>\$ (14,294)</u>	<u>\$ (14,294)</u>	<u>\$ (15,993)</u>	<u>\$ (1,699)</u>

CITY OF LA PALMA, CALIFORNIA

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE –BUDGET AND ACTUAL
PUBLIC SAFETY AUGMENTATION FUND – SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 147,000	\$ 147,000	\$ 155,467	\$ 8,467
Investment income	100	100	119	19
Total Revenues	147,100	147,100	155,586	8,486
EXPENDITURES				
Current:				
Public safety	119,400	119,400	118,923	477
Total Expenditures	119,400	119,400	118,923	477
Net Change in Fund Balance	27,700	27,700	36,663	8,963
Fund Balance, Beginning of Year	30,275	30,275	30,275	
Fund Balance, End of Year	\$ 57,975	\$ 57,975	\$ 66,938	\$ 8,963

CITY OF LA PALMA, CALIFORNIA

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE –BUDGET AND ACTUAL
ABANDONED VEHICLES FUND – SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 5,900	\$ 5,900	\$ 1,723	\$ (4,177)
Investment income	100	100	73	(27)
Total Revenues	<u>6,000</u>	<u>6,000</u>	<u>1,796</u>	<u>(4,204)</u>
EXPENDITURES				
Current:				
Public safety		13,000		13,000
Total Expenditures		<u>13,000</u>		<u>13,000</u>
Net Change in Fund Balance	6,000	(7,000)	1,796	8,796
Fund Balance, Beginning of Year	<u>23,831</u>	<u>23,831</u>	<u>23,831</u>	
Fund Balance, End of Year	<u>\$ 29,831</u>	<u>\$ 16,831</u>	<u>\$ 25,627</u>	<u>\$ 8,796</u>

CITY OF LA PALMA, CALIFORNIA

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE –BUDGET AND ACTUAL
ASSETS SEIZURE – SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 25,000	\$ 25,000	\$ 79,044	\$ 54,044
Total Revenues	25,000	25,000	79,044	54,044
EXPENDITURES				
Current:				
Public safety		12,000	69,019	(57,019)
Total Expenditures		12,000	69,019	(57,019)
Net Change in Fund Balance	25,000	13,000	10,025	(2,975)
Fund Balance, Beginning of Year				
Fund Balance, End of Year	\$ 25,000	\$ 13,000	\$ 10,025	\$ (2,975)

CITY OF LA PALMA, CALIFORNIA

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE –BUDGET AND ACTUAL
PEG FUND – SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Investment income	\$ 400	\$ 400	\$ 379	\$ (21)
Miscellaneous	15,000	15,000	16,338	1,338
Total Revenues	15,400	15,400	16,717	1,317
EXPENDITURES				
Current:				
General government	17,200	17,200		17,200
Total Expenditures	17,200	17,200		17,200
Net Change in Fund Balance	(1,800)	(1,800)	16,717	18,517
Fund Balance, Beginning of Year	128,663	128,663	128,663	
Fund Balance, End of Year	\$ 126,863	\$ 126,863	\$ 145,380	\$ 18,517

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CITY OF LA PALMA, CALIFORNIA

**INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

Internal Service Funds are used to account for the financing of goods for 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 five 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 worker's compensation insurance costs and claims.

Facilities Maintenance – To account for and manage costs associated with the City's facilities maintenance program.

Vehicle Maintenance – To account for and manage costs associated with maintenance of vehicles owned and utilized by the City.

Computer Maintenance – To account for and manage costs associated with maintenance of computers owned and utilized by the City.

CITY OF LA PALMA, CALIFORNIA

**COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2013**

	<u>Insurance</u>	<u>Employee Benefits</u>	<u>Facilities Maintenance</u>
ASSETS			
Current assets:			
Cash and investments	\$ 1,047,872	\$ 691,033	\$ 1,025,465
Receivables:			
Interest	600	352	601
Loans		694	
Due from other governments		1,973	
Total Current Assets	<u>1,048,472</u>	<u>694,052</u>	<u>1,026,066</u>
NONCURRENT ASSETS			
Advances to other funds	<u>600,000</u>	<u>1,000,000</u>	<u>500,000</u>
Total Noncurrent Assets	<u>600,000</u>	<u>1,000,000</u>	<u>500,000</u>
Total Assets	<u>1,648,472</u>	<u>1,694,052</u>	<u>1,526,066</u>
LIABILITIES			
Current liabilities:			
Accounts payable	226,841	49,972	34,491
Due to other governments	676,710		
Salaries payable		35,462	856
Total Liabilities	<u>903,551</u>	<u>85,434</u>	<u>35,347</u>
Total Net Position - Unrestricted	<u>\$ 744,921</u>	<u>\$ 1,608,618</u>	<u>\$ 1,490,719</u>

Vehicle Maintenance	Computer Maintenance	Total
\$ 816,674	\$ 652,379	\$ 4,233,423
486	381	2,420
		694
		1,973
817,160	652,760	4,238,510
400,000		2,500,000
400,000		2,500,000
1,217,160	652,760	6,738,510
86,239	44,351	441,894
		676,710
		36,318
86,239	44,351	1,154,922
\$ 1,130,921	\$ 608,409	\$ 5,583,588

CITY OF LA PALMA, CALIFORNIA

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Insurance</u>	<u>Employee Benefits</u>	<u>Facilities Maintenance</u>
OPERATING REVENUES			
Charges for services	\$ 210,920	\$ 2,434,211	\$ 284,600
Miscellaneous			
Total Operating Revenues	<u>210,920</u>	<u>2,434,211</u>	<u>284,600</u>
OPERATING EXPENSES			
Personnel services		1,505,679	179,337
Maintenance and operations		23,031	153,430
Contractual services		11,350	
Settlement, claims and insurance	873,328	1,062,336	
Total Operating Expenses	<u>873,328</u>	<u>2,602,396</u>	<u>332,767</u>
Operating Income (Loss)	<u>(662,408)</u>	<u>(168,185)</u>	<u>(48,167)</u>
NON OPERATING REVENUES			
Investment income	2,707	1,208	1,781
Total Non Operating Revenues	<u>2,707</u>	<u>1,208</u>	<u>1,781</u>
Change in net position	(659,701)	(166,977)	(46,386)
Net Position at Beginning of Year	<u>1,404,622</u>	<u>1,775,595</u>	<u>1,537,105</u>
Net Position at End of Year	<u>\$ 744,921</u>	<u>\$ 1,608,618</u>	<u>\$ 1,490,719</u>

Vehicle Maintenance	Computer Maintenance	Total
\$ 319,700	\$ 235,100	\$ 3,484,531
38,985	326	39,311
<u>358,685</u>	<u>235,426</u>	<u>3,523,842</u>
	188,802	1,873,818
507,369	114,129	797,959
		11,350
		<u>1,935,664</u>
<u>507,369</u>	<u>302,931</u>	<u>4,618,791</u>
<u>(148,684)</u>	<u>(67,505)</u>	<u>(1,094,949)</u>
<u>1,486</u>	<u>1,114</u>	<u>8,296</u>
<u>1,486</u>	<u>1,114</u>	<u>8,296</u>
(147,198)	(66,391)	(1,086,653)
<u>1,278,119</u>	<u>674,800</u>	<u>6,670,241</u>
<u>\$ 1,130,921</u>	<u>\$ 608,409</u>	<u>\$ 5,583,588</u>

CITY OF LA PALMA, CALIFORNIA

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Insurance</u>	<u>Employee Benefits</u>	<u>Facilities Maintenance</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from internal users	\$ 210,920	\$ 2,688,111	\$ 284,600
Cash payments to suppliers for goods and services	604,146	(9,918)	(151,929)
Cash payments for employee services	<u>(873,328)</u>	<u>(2,568,015)</u>	<u>(179,337)</u>
Net Cash Provided By (Used For) Operating Activities	<u>(58,262)</u>	<u>110,178</u>	<u>(46,666)</u>
Cash flows from investing activities:			
Interest income received	<u>3,037</u>	<u>1,304</u>	<u>2,109</u>
Net Cash Provided By Investing Activities	<u>3,037</u>	<u>1,304</u>	<u>2,109</u>
 Net Increase (Decrease)In Cash and Cash Equivalents	 (55,225)	 111,482	 (44,557)
 Cash and Cash Equivalents at Beginning of Year	 <u>1,103,097</u>	 <u>579,551</u>	 <u>1,070,022</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,047,872</u>	<u>\$ 691,033</u>	<u>\$ 1,025,465</u>
 RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED FOR) OPERATING ACTIVITIES			
Operating income (loss)	<u>\$ (662,408)</u>	<u>\$ (168,185)</u>	<u>\$ (48,167)</u>
Adjustments to reconcile operating income (loss) to net income provided by (used for) operating activities:			
(Increase) decrease in loans receivable		3,565	
(Increase) decrease in due from other governments		250,335	
Increase (decrease) in accounts payable	224,390	(9,306)	1,221
Increase (decrease) in other accrued liabilities	379,756		
Increase (decrease) in salaries payable		33,769	280
Total adjustments	<u>604,146</u>	<u>278,363</u>	<u>1,501</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ (58,262)</u>	<u>\$ 110,178</u>	<u>\$ (46,666)</u>

<u>Vehicle Maintenance</u>	<u>Computer Maintenance</u>	<u>Total</u>
\$ 358,685	\$ 235,426	\$ 3,777,742
(446,298)	(101,798)	(105,797)
	(188,802)	(3,809,482)
<u>(87,613)</u>	<u>(55,174)</u>	<u>(137,537)</u>
1,771	1,349	9,570
<u>1,771</u>	<u>1,349</u>	<u>9,570</u>
(85,842)	(53,825)	(127,967)
902,516	706,204	4,361,390
<u>\$ 816,674</u>	<u>\$ 652,379</u>	<u>\$ 4,233,423</u>

<u>\$ (148,684)</u>	<u>\$ (67,505)</u>	<u>\$ (1,094,949)</u>
---------------------	--------------------	-----------------------

		3,565
		250,335
61,071	12,331	289,707
		379,756
		34,049
<u>61,071</u>	<u>12,331</u>	<u>957,412</u>
<u>\$ (87,613)</u>	<u>\$ (55,174)</u>	<u>\$ (137,537)</u>

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CITY OF LA PALMA, CALIFORNIA

**AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

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 Agency – To account for assets held by the City as an agent for other governments.

CITY OF LA PALMA, CALIFORNIA

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2013**

	<u>City Agency</u>
ASSETS	
Cash and investments	\$ 12,406
Total Assets	<u>\$ 12,406</u>
LIABILITIES	
Accounts payable	\$ 29
Deposits payable	12,377
Total Liabilities	<u>\$ 12,406</u>

CITY OF LA PALMA, CALIFORNIA

**STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 FOR THE YEAR ENDED JUNE 30, 2013**

<u>City Agency</u>	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>
ASSETS				
Cash and investments	\$ 17,658	\$ 12,406	\$ (17,658)	\$ 12,406
LIABILITIES				
Account payable		\$ 29		\$ 29
Deposits payable	\$ 17,658	12,377	\$ (17,658)	12,377
	<u>\$ 17,658</u>	<u>\$ 12,406</u>	<u>\$ (17,658)</u>	<u>\$ 12,406</u>

CITY OF LA PALMA, CALIFORNIA

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL ACTIVITIES
SCHEDULE BY SOURCE
JUNE 30, 2013**

GOVERNMENTAL ACTIVITIES CAPITAL ASSETS:

Land	\$ 1,602,281
Land rights related to streets	5,104,472
Construction in progress	390,821
Building and improvements	8,080,899
Equipment	1,031,906
Vehicles	1,986,617
Furniture and fixtures	123,638
Infrastructure	<u>11,528,867</u>
Total Governmental Funds Capital Assets	<u><u>\$ 29,849,501</u></u>

Investments in governmental funds capital assets by source

General fund and other sources	\$ 29,282,465
Federal and state grants	<u>567,036</u>
Total Governmental Funds Capital Assets	<u><u>\$ 29,849,501</u></u>

CITY OF LA PALMA, CALIFORNIA

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL ACTIVITIES
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2013**

	<u>Land</u>	<u>Construction in Progress</u>	<u>Buildings and Improvements</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
General government	\$ 1,218,281		\$ 239,553	\$ 276,597		\$ 56,550	\$ 1,790,981
Public safety			1,046,390	410,982	\$ 889,478	12,338	2,359,188
Public works	79,000	\$ 99,291	269,741	164,942	978,736		1,591,710
Recreation	305,000	291,530	6,525,215	163,380	88,181	54,750	7,428,056
Community development				16,005	30,222		46,227
	<u>\$ 1,602,281</u>	<u>\$ 390,821</u>	<u>\$ 8,080,899</u>	<u>\$ 1,031,906</u>	<u>\$ 1,986,617</u>	<u>\$ 123,638</u>	<u>13,216,162</u>
Land rights related to streets							5,104,472
Infrastructure							11,528,867
Totals							<u>\$ 29,849,501</u>

CITY OF LA PALMA, CALIFORNIA

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE OF CHANGES BY FUNCTION
 YEAR ENDED JUNE 30, 2013**

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013
General government	\$ 1,775,466	\$ 58,066	\$ 42,551	\$ 1,790,981
Public safety	2,426,635	171,749	239,196	2,359,188
Public works	1,464,911	199,307	72,508	1,591,710
Recreation	7,429,194	6,859	7,997	7,428,056
Community development	102,076		55,849	46,227
	<u>13,198,282</u>	<u>435,981</u>	<u>418,101</u>	<u>13,216,162</u>
Land rights related to streets	5,104,472			5,104,472
Infrastructure	11,528,867			11,528,867
Totals	<u>\$ 29,831,621</u>	<u>\$ 435,981</u>	<u>\$ 418,101</u>	<u>\$ 29,849,501</u>

STATISTICAL SECTION

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City of La Palma

Overview of the Statistical Section

The Statistical Section provides a context for understanding information in the financial statements, note disclosures and required supplementary information and how that information relates to the City of La Palma's overall financial health. The detailed schedules presented in the Statistical Section are grouped into five sections pertaining to financial trends, revenue capacity, debt capacity, demographic, and economic information and operating information.

Contents

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.

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source of property taxes.

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.

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.

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.

CITY OF LA PALMA, CALIFORNIA

**NET POSITION BY COMPONENT
(ACCRUAL BASIS OF ACCOUNTING)**

LAST TEN FISCAL YEARS

	Fiscal year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Governmental activities										
Net investment in capital assets	\$ 18,233,580	\$ 18,502,014	\$ 12,510,162	\$ 12,316,357	\$ 12,168,122	\$ 10,292,969	\$ 15,445,604	\$ 14,689,033	\$ 14,120,989	\$ 15,224,957
Restricted	1,384,168	1,361,540	9,076,512	8,673,207	9,767,164	8,660,967	7,031,682	5,883,122	5,602,615	5,509,202
Unrestricted	25,671,189	25,566,082	26,295,429	26,819,021	27,421,074	30,268,838	13,114,541	12,340,588	12,675,389	7,841,233
Total governmental activities	<u>\$ 45,288,937</u>	<u>\$ 45,429,636</u>	<u>\$ 47,882,103</u>	<u>\$ 47,808,585</u>	<u>\$ 49,356,360</u>	<u>\$ 49,222,774</u>	<u>\$ 35,591,827</u>	<u>\$ 32,912,743</u>	<u>\$ 32,398,993</u>	<u>\$ 28,575,392</u>
Business-type activities										
Net investment in capital assets	\$ 7,161,368	\$ 6,418,395	\$ 6,626,571	\$ 7,001,855	\$ 7,256,816	\$ 7,494,712	\$ 6,731,548	\$ 6,880,596	\$ 6,976,373	\$ 7,116,944
Restricted				6,200,398	6,135,261	5,699,473	5,699,473			9,053,719
Unrestricted	10,258,322	11,451,349	11,637,541	5,492,988	5,897,506	6,003,835	6,010,671	10,577,872	9,484,814	
Total business-type activities	<u>\$ 17,419,690</u>	<u>\$ 17,869,744</u>	<u>\$ 18,264,112</u>	<u>\$ 18,695,241</u>	<u>\$ 19,289,583</u>	<u>\$ 19,198,020</u>	<u>\$ 18,441,692</u>	<u>\$ 17,458,468</u>	<u>\$ 16,461,187</u>	<u>\$ 16,170,663</u>
Primary government										
Net investment in capital assets	\$ 25,394,948	\$ 24,920,409	\$ 19,136,733	\$ 19,318,212	\$ 19,424,938	\$ 17,787,681	\$ 22,177,152	\$ 21,569,629	\$ 21,097,362	\$ 22,345,901
Restricted	1,384,168	1,361,540	9,076,512	14,873,605	15,902,425	14,360,440	12,731,155	5,883,122	5,602,615	5,509,202
Unrestricted	35,929,511	37,017,431	37,932,970	32,312,009	33,318,580	36,272,673	19,125,212	22,918,460	22,160,203	16,894,952
Total primary government	<u>\$ 62,708,627</u>	<u>\$ 63,299,380</u>	<u>\$ 66,146,215</u>	<u>\$ 66,503,826</u>	<u>\$ 68,645,943</u>	<u>\$ 68,420,794</u>	<u>\$ 54,033,519</u>	<u>\$ 50,371,211</u>	<u>\$ 48,860,180</u>	<u>\$ 44,750,055</u>

Source: City of La Palma Finance Department

CITY OF LA PALMA, CALIFORNIA

**CHANGES IN NET ASSETS
(ACCRUAL BASIS OF ACCOUNTING)**

LAST TEN FISCAL YEARS

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Expenses:										
Governmental activities:										
General government	\$ 1,762,118	\$ 1,693,494	\$ 1,712,427	\$ 2,335,966	\$ 6,056,130	\$ 1,738,607	\$ 1,620,494	\$ 1,489,396	\$ 1,430,933	\$ 1,570,183
Public safety	6,176,953	5,632,979	5,648,922	5,236,026	5,555,994	4,892,593	4,577,283	4,491,758	4,332,350	3,742,786
Public works	2,887,444	3,497,911	2,544,289	3,175,821	2,616,566	1,233,230	1,618,354	1,353,344	1,079,258	1,618,280
Recreation	1,597,485	1,599,499	1,706,989	1,621,696	1,427,599	1,269,199	1,192,648	1,215,837	1,256,861	1,145,119
Community development	781,198	1,035,990	1,133,634	1,034,199	1,014,666	883,184	881,167	798,299	744,627	772,864
Interest on long-term debt	-	379,412	621,207	673,477	769,850	890,561	956,237	561,699	561,503	568,863
Total governmental activities	13,205,198	13,839,285	13,367,468	14,077,185	17,440,805	10,907,374	10,846,183	9,910,333	9,405,532	9,418,095
Business-type activities:										
Water	2,678,114	2,602,286	2,483,487	2,374,000	2,038,531	1,992,491	1,869,033	1,831,349	1,764,673	1,614,319
Sewer	575,902	582,362	631,394	495,149	454,780	156,265	173,746	246,959	237,912	162,447
Total business-type activities	3,254,016	3,184,648	3,114,881	2,869,149	2,493,311	2,148,756	2,042,779	2,078,308	2,002,585	1,776,766
Total primary government expenses	16,459,214	17,023,933	16,482,349	16,946,334	19,934,116	13,056,130	12,888,962	11,988,641	11,408,117	11,194,861
Program revenues:										
Governmental activities:										
Charges for services:										
General government	169,574	144,219	143,992	165,290	177,829	175,399	162,811	156,524	146,628	156,835
Public safety	149,371	164,139	175,503	181,453	185,561	14,351	17,144	157,301	150,439	162,169
Public works	28,382	15,780	11,591	13,469	10,254	20,171	12,917	8,461	9,256	6,682
Recreation	399,277	373,732	365,006	339,012	317,082	473,574	542,008	333,045	356,075	394,778
Community development	177,107	199,880	115,540	53,111	108,927	132,257	114,422	112,704	203,138	154,418
Operating grants and contributions	881,341	915,410	987,325	1,093,013	955,223	940,219	1,123,017	931,703	808,942	764,447
Capital grants and contributions	310,616	292,116	261,883	431,415	764,518	934,216	11,273	36,043	11,789	86,722
Total governmental activities	2,115,668	2,105,276	2,060,840	2,276,763	2,519,394	2,690,187	1,983,592	1,735,781	1,686,267	1,726,051
Business-type activities:										
Charges for services:										
Water	2,844,706	2,758,256	2,639,346	2,258,779	2,370,708	2,437,494	2,424,453	2,523,032	1,947,296	2,103,529
Sewer	224,020	242,414	223,648	277,921	299,729	315,548	317,785	328,934	361,915	331,976
Operating grants and contributions							65,253	40,606	23,744	
Capital grants and contributions								119,747	-	
Total business-type activities	3,068,726	3,000,670	2,862,994	2,536,700	2,670,437	2,753,042	2,807,491	3,012,319	2,332,955	2,435,505
Total primary government program revenues	5,184,394	5,105,946	4,923,834	4,813,463	5,189,831	5,443,229	4,791,083	4,748,100	4,019,222	4,161,556

(Continued on next page)

CITY OF LA PALMA, CALIFORNIA

**CHANGES IN NET ASSETS, (CONTINUED)
(ACCRUAL BASIS OF ACCOUNTING)**

LAST TEN FISCAL YEARS

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Net revenues (expenses):										
Governmental activities	\$ (11,089,530)	\$ (11,734,009)	\$ (11,306,628)	\$ (11,800,422)	\$ (14,921,411)	\$ (8,217,187)	\$ (8,862,591)	\$ (8,174,552)	\$ (7,719,265)	\$ (7,692,044)
Business-type activities	(185,290)	(183,978)	(251,887)	(332,449)	177,126	604,286	764,712	934,011	330,370	658,739
Total primary government net revenues (expenses)	<u>(11,274,820)</u>	<u>(11,917,987)</u>	<u>(11,558,515)</u>	<u>(12,132,871)</u>	<u>(14,744,285)</u>	<u>(7,612,901)</u>	<u>(8,097,879)</u>	<u>(7,240,541)</u>	<u>(7,388,895)</u>	<u>(7,033,305)</u>
General revenues and other changes in net assets:										
Governmental activities:										
Taxes:										
Property taxes	\$ 4,344,501	\$ 4,772,136	\$ 5,574,354	\$ 4,843,089	\$ 5,840,076	\$ 5,150,143	\$ 4,501,460	\$ 3,129,238	\$ 3,129,238	\$ 3,127,876
Sales Taxes	4,335,175	5,610,509	3,221,887	2,603,346	11,493,446	1,493,439	1,138,789	1,266,727	1,266,727	1,212,829
Utility users tax	994,444	893,605	943,146	995,062	1,332,177	1,383,922	826,331	4,398,978	4,398,978	4,453,950
Franchise taxes	358,672	357,553	353,974	347,316	345,924	370,960	318,679	306,192	306,192	306,413
Transient occupancy taxes	257,975	227,539	216,387	198,230	291,340	279,406	244,976	212,624	212,624	164,178
Intergovernmental - unrestricted	218,858	8,066	74,446	47,601	71,636	94,819	104,895	1,291,482	1,291,482	730,327
Investment income	156,106	202,128	360,544	484,854	1,757,446	1,808,537	1,137,651	520,348	520,348	333,835
Other general revenues	-	259,924	350,384	365,373	353,089	598,549	80,621	88,577	88,577	82,603
Transfers	283,100	283,100	283,100	369,700	363,000	361,900	334,900	324,700	324,700	443,000
Extraordinary Gain (Loss)	-	(3,333,018)								
Total governmental activities	<u>10,948,831</u>	<u>9,281,542</u>	<u>11,378,222</u>	<u>10,254,571</u>	<u>21,848,134</u>	<u>11,541,675</u>	<u>8,688,302</u>	<u>11,538,866</u>	<u>11,538,866</u>	<u>10,855,011</u>
Business-type activities:										
Investment income	15,876	59,209	74,123	103,091	515,042	569,759	397,845	281,972	281,972	158,033
Other general revenues	2,460	13,501	29,735	4,716		10,653	325	2,882	2,882	1,952
Transfers	(283,100)	(283,100)	(283,100)	(369,700)	(363,000)	(361,900)	(334,900)	(324,700)	(324,700)	(443,000)
Total business-type activities	<u>(264,764)</u>	<u>(210,390)</u>	<u>(179,242)</u>	<u>(261,893)</u>	<u>152,042</u>	<u>218,512</u>	<u>63,270</u>	<u>(39,846)</u>	<u>(39,846)</u>	<u>(283,015)</u>
Total primary government general revenues and other changes in net assets	<u>10,684,067</u>	<u>9,071,152</u>	<u>11,198,980</u>	<u>9,992,678</u>	<u>22,000,176</u>	<u>11,760,187</u>	<u>8,751,572</u>	<u>11,499,020</u>	<u>11,499,020</u>	<u>10,571,996</u>
Changes in net position:										
Governmental activities	(140,699)	(2,452,467)	71,594	(1,545,851)	6,926,723	3,324,488	(174,289)	3,364,314	3,819,601	3,162,967
Business-type activities	<u>(450,054)</u>	<u>(394,368)</u>	<u>(431,129)</u>	<u>(594,342)</u>	<u>329,168</u>	<u>822,798</u>	<u>827,982</u>	<u>894,165</u>	<u>290,524</u>	<u>375,724</u>
Total primary government changes in net position	<u>\$ (590,753)</u>	<u>\$ (2,846,835)</u>	<u>\$ (359,535)</u>	<u>\$ (2,140,193)</u>	<u>\$ 7,255,891</u>	<u>\$ 4,147,286</u>	<u>\$ 653,693</u>	<u>\$ 4,258,479</u>	<u>\$ 4,110,125</u>	<u>\$ 3,538,691</u>

Source: City of La Palma Finance Department

CITY OF LA PALMA, CALIFORNIA

**FUND BALANCES OF GOVERNMENTAL FUNDS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

LAST TEN FISCAL YEARS

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General Fund:										
Reserved*				\$ 2,140,684	\$ 2,354,906	\$ 2,527,584	\$ 2,674,702	\$ 2,792,661	\$ 2,925,199	\$ 3,068,541
Unreserved				18,032,721	18,839,746	21,735,394	11,342,958	10,757,902	11,311,064	8,159,673
Nonspendable	\$ 902,303	\$ 915,758	\$ 1,021,205							
Assigned	3,663,975	4,541,983	5,180,159							
Unassigned	11,180,948	9,289,212	9,466,500							
Total General Fund	<u>\$ 15,747,226</u>	<u>\$ 14,746,953</u>	<u>\$ 15,667,864</u>	<u>\$ 20,173,405</u>	<u>\$ 21,194,652</u>	<u>\$ 24,262,978</u>	<u>\$ 14,017,660</u>	<u>\$ 13,550,563</u>	<u>\$ 14,236,263</u>	<u>\$ 11,228,214</u>
All other governmental funds:										
Reserved*				\$ 5,884,851	\$ 5,404,370	\$ 5,419,100	\$ 5,527,395	\$ 5,343,068	\$ 5,345,437	\$ 5,474,469
Unreserved, reported in:										
Special Revenue Funds				454,353	561,069	410,434	(880,054)	(1,229,687)	(1,826,602)	(2,401,009)
Debt Service Funds				3,503,408	4,301,725	3,331,433	1,925,285	944,512	424,265	(116,609)
Non-major Governmental Funds				2,097,396	2,603,625	1,983,038	4,315,537	5,097,871	5,568,247	5,994,452
Nonspendable	\$ -	\$ 396,668	\$ 2,637,750							
Restricted	1,384,168	4,493,579	5,541,769							
Assigned	5,644,379	5,628,728	6,605,377							
Unassigned	(15,993)	(3,975,674)	(1,239,989)							
Total all other governmental funds	<u>\$ 7,012,554</u>	<u>\$ 6,543,301</u>	<u>\$ 13,544,907</u>	<u>\$ 11,940,008</u>	<u>\$ 12,870,789</u>	<u>\$ 11,144,005</u>	<u>\$ 10,888,163</u>	<u>\$ 10,155,764</u>	<u>\$ 9,511,347</u>	<u>\$ 8,951,303</u>

Source: City of La Palma Finance Department

* During 2010-11, the City of La Palma implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which changed the fund balance classifications. This is further explained at Note #1R to the financial statements. The City has chosen not to restate all prior years as noted above.

CITY OF LA PALMA, CALIFORNIA

**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

LAST EIGHT FISCAL YEARS

	Fiscal Year							
	2013	2012	2011	2010	2009	2008	2007	2006
Revenues:								
Taxes	\$ 10,290,767	\$ 11,861,342	\$ 10,895,511	\$ 10,124,640	\$ 13,594,506	\$ 19,667,879	\$ 8,907,178	\$ 7,434,294
Intergovernmental	1,349,887	1,134,452	1,580,840	1,092,490	1,640,127	1,787,334	1,043,558	979,822
Licenses and permits	281,145	268,847	210,224	194,070	253,277	257,525	229,219	218,911
Fines and forfeitures	136,883	153,549	161,914	166,408	171,489	188,171	219,283	139,338
Investment income	157,902	210,835	392,338	581,268	1,284,478	1,939,278	1,999,787	1,540,813
Charges for services	514,062	504,934	448,325	391,932	392,681	376,921	435,390	415,913
Rental income	173,977	160,182	161,683	156,533	155,806	155,099	156,464	150,225
Miscellaneous	139,175	165,955	227,322	274,015	183,373	250,132	401,797	383,244
Total revenues	<u>13,043,798</u>	<u>14,460,096</u>	<u>14,078,157</u>	<u>12,981,356</u>	<u>17,675,737</u>	<u>24,622,339</u>	<u>13,392,676</u>	<u>11,262,560</u>
Expenditures:								
Current:								
General government	1,473,464	1,463,766	1,666,071	2,076,802	1,991,818	1,716,544	1,647,011	1,592,297
Public safety	5,391,994	5,254,814	5,452,896	4,940,895	5,209,488	4,833,254	4,681,761	4,442,134
Public works	1,004,085	1,210,218	1,112,072	1,037,332	960,353	907,617	885,951	887,029
Recreation	1,301,345	1,368,146	1,561,531	1,494,922	1,297,689	1,197,766	1,168,805	1,149,790
Community development	737,788	968,804	1,119,008	1,019,794	973,365	869,581	882,759	900,053
Capital outlay	1,948,696	2,081,222	1,565,420	2,213,700	3,484,660	3,300,662	1,723,247	977,600
Debt service:								
Principal			465,000	435,000	415,000	400,000	380,000	360,000
Interest		348,099	623,285	675,391	771,640	893,839	956,237	925,782
Intergovernmental:								
Pass-through payments			379,837	409,038	475,596	364,916	229,309	227,054
Payment to State education fund			205,926	1,000,210				177,004
Total expenditures	<u>11,857,372</u>	<u>12,695,069</u>	<u>14,151,046</u>	<u>15,303,084</u>	<u>15,579,609</u>	<u>14,484,179</u>	<u>12,555,080</u>	<u>11,638,743</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,186,426</u>	<u>1,765,027</u>	<u>(72,889)</u>	<u>(2,321,728)</u>	<u>2,096,128</u>	<u>10,138,160</u>	<u>837,596</u>	<u>(376,183)</u>
Other financing sources (uses):								
Transfers in	1,983,100	3,783,100	2,527,126	1,495,870	2,624,290	402,400	394,800	364,700
Transfers out	(1,700,000)	(3,500,000)	(5,354,879)	(1,126,170)	(6,061,960)	(39,400)	(32,900)	(29,800)
Total other financing sources (uses)	<u>283,100</u>	<u>283,100</u>	<u>(2,827,753)</u>	<u>369,700</u>	<u>(3,437,670)</u>	<u>363,000</u>	<u>361,900</u>	<u>334,900</u>
Extraordinary items:								
Dissolution of Redevelopment Agency		(9,970,644)						
Net change in fund balances	<u>\$ 1,469,526</u>	<u>\$ (7,922,517)</u>	<u>\$ (2,900,642)</u>	<u>\$ (1,952,028)</u>	<u>\$ (1,341,542)</u>	<u>\$ 10,501,160</u>	<u>\$ 1,199,496</u>	<u>\$ (41,283)</u>
Debt service as a percentage of noncapital expenditures	0.0%	2.8%	9.0%	10.5%	11.4%	13.6%	13.7%	13.8%

Source: City of La Palma Finance Department

CITY OF LA PALMA, CALIFORNIA

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Secured Value</u>	<u>Public Utility</u>	<u>Unsecured Value</u>	<u>Total Assessed Value</u>	<u>Direct Rate</u>
2004	1,159,356,062	76,623	59,856,009	1,219,288,694	0.26593%
2005	1,240,404,682	95,611	64,155,753	1,304,656,046	0.26161%
2006	1,326,706,875	80,315	70,476,731	1,397,263,921	0.26354%
2007	1,437,911,603	66,032	71,465,702	1,509,443,337	0.26430%
2008	1,567,502,830		68,704,370	1,636,207,200	0.28561%
2009	1,589,872,220		84,098,046	1,673,970,266	0.28575%
2010	1,610,058,636		84,996,407	1,695,055,043	0.29886%
2011	1,614,113,578		84,627,363	1,698,740,941	0.28777%
2012	1,625,801,819		72,364,591	1,698,166,410	0.27953%
2013	1,657,735,378		60,358,441	1,718,093,819	0.27931%

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, Combined Tax Roll, as reported in the "HDL 2012-13 CAFR Statistical Reports," Assessed Value of Taxable Property tables.

CITY OF LA PALMA, CALIFORNIA

**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	Buena Park School District Bonds	Centralia School District Bonds	Cypress School District Bonds	Fullerton High School District Bonds	Metropolitan Water District Bonds	North Orange County Joint Community College District Bonds	
2004	1.00000	0.02370	0.02015	0.02053	0.00000	0.01750	0.00610	0.01597	1.10395
2005	1.00000	0.02770	0.01778	0.02490	0.00000	0.01554	0.00580	0.01441	1.10613
2006	1.00000	0.02444	0.01751	0.01895	0.00000	0.01503	0.00520	0.01666	1.09779
2007	1.00000	0.02355	0.01495	0.01763	0.00000	0.01540	0.00470	0.01444	1.09067
2008	1.00000	0.02516	0.01743	0.02090	0.00000	0.01346	0.00450	0.01502	1.09647
2009	1.00000	0.02363	0.01444	0.02190	0.00000	0.01431	0.00430	0.01493	1.09351
2010	1.00000	0.02617	0.01768	0.02531	0.02195	0.01529	0.00430	0.01662	1.12732
2011	1.00000	0.02745	0.01851	0.02569	0.02615	0.01588	0.00370	0.01758	1.13496
2012	1.00000	0.02678	0.01851	0.02682	0.01505	0.01300	0.00370	0.01742	1.12128
2013	1.00000	0.02858	0.01809	0.02593	0.02549	0.01579	0.00350	0.01902	1.13640

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 Assessor's Office, Tax Rate Table, as reported in "HDL 2012-13 CAFR Statistical Reports," Direct and Overlapping Property Tax Rates table.

CITY OF LA PALMA, CALIFORNIA

PRINCIPAL PROPERTY TAX PAYERS

CURRENT YEAR AND TEN YEARS AGO

Property Owner's Name	2013			2004		
	Assessed Value	Rank	Percentage of Net AV	Assessed Value	Rank	Percentage of Net AV
Realty Associates Fund IX LP	\$ 84,225,461	1	4.90%			
Kaiser Foundation Health Plan Inc.	30,377,093	2	1.77%			
La Palma Paper	20,568,464	3	1.20%			
MPT of La Palma LP	20,319,959	4	1.18%			
ADP Inc.	19,444,306	5	1.13%	\$ 19,581,736	2	1.61%
Bre LQ Properties LLC	18,962,073	6	1.10%			
Dexus Socal LLC	18,306,560	7	1.07%			
Huntington-Humboldt	14,002,858	8	0.82%	12,143,806	5	1.00%
Casa La Veta Associates	13,226,682	9	0.77%	11,470,678	6	0.94%
Al United States La Palma Sr. Housing	12,444,000	10	0.72%			
Arden Realty Finance IV				89,227,330	1	7.32%
6565 Valley View Street				17,486,882	3	1.43%
Fresca Industrial Park LP				12,946,737	4	1.06%
La Quinta Development				10,340,715	7	0.85%
Wallace Computer Services				10,150,790	8	0.83%
VHS of Orange OC				9,295,913	9	0.76%
183rd La Palma Investors				9,184,627	10	0.75%
	<u>\$ 251,877,456</u>		<u>14.66%</u>	<u>\$ 201,829,214</u>		<u>16.55%</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, Combined Tax Rolls and the SBE Non-Unitary Tax Roll, as reported in the "HDL 2012-13 CAFR Statistical Reports," Top Ten Property Tax Payers table.

CITY OF LA PALMA, CALIFORNIA

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Tax Levy</u>	<u>Amount Collected ⁽¹⁾</u>
2004	3,242,454	3,242,454
2005	3,413,111	3,413,111
2006	3,682,349	3,682,349
2007	3,989,459	3,989,459
2008	4,673,171	4,673,171
2009	4,783,370	4,783,370
2010	5,065,842	5,065,842
2011	4,888,467	4,888,467
2012	4,746,885	4,746,885
2013	4,798,808	4,798,808

The amounts presented include City property taxes and the Community Development Commissions 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. This is known as being on the "Teeter Plan" for property tax apportionments.

CITY OF LA PALMA, CALIFORNIA

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 Personal Income
	Tax Allocation Bonds*	Note Payable					
2004	9,710,000		9,710,000	15,954	608.62	608.62	0.2779%
2005	9,380,000		9,380,000	16,028	585.23	585.23	0.3043%
2006	9,030,000		9,030,000	16,034	563.18	563.18	0.3329%
2007	8,670,000		8,670,000	16,028	540.93	540.93	0.3726%
2008	8,290,000		8,290,000	16,028	517.22	517.22	0.4077%
2009	7,890,000		7,890,000	16,091	490.34	490.34	0.4327%
2010	7,475,000		7,475,000	16,187	461.79	461.79	0.4423%
2011	7,040,000		7,040,000	16,304	431.80	431.80	0.4464%
2012	6,575,000		6,575,000	15,700	418.79	418.79	0.5025%
2013	6,085,000		6,085,000	15,818	384.69	384.69	0.5565%

**The total principal amount represents the outstanding debt on the 1993 and 2001 Tax Allocation Bonds - As discussed in Note 16 of the CAFR, this is no longer debt of the City of La Palma, but is now debt of the Successory Agency.*

Sources: State of California Finance Department (population information) and City of La Palma Finance Department (long-term amortization table, outstanding debt)

CITY OF LA PALMA, CALIFORNIA

ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT

AS OF JUNE 30, 2013

2012-13 Assessed Valuation: \$1,718,006,977

<u>Direct and Overlapping Tax and Assessment Debt:</u>	<u>% Applicable</u>	<u>City's Share of Debt 06/30/13</u>
Metropolitan Water District	0.082	135,370
North Orange County Joint Community College District	1.733	3,698,118
Anaheim Union High School District	3.352	3,525,766
Fullerton Joint Union High School District	2.182	1,141,468
Buena Park School District	10.693	947,628
Centralia School District	17.648	2,565,956
Cypress School District	8.104	3,283,589
City of La Palma	100.000	
Total Direct and Overlapping Tax and Assessment Debt		<u>\$ 15,297,895</u>
<u>Overlapping General Fund Obligation Debt:</u>		
Orange County General Fund Obligations	0.402	\$ 765,995
Orange County Pension Obligations	0.402	1,231,275
Orange County Board of Education Certificates of Participation	0.402	63,395
Municipal Water District of Orange County Water Facilities Corporation	0.482	48,369
North Orange County ROP Certificates of Participation	1.781	194,485
Anaheim Union High School District Certificates of Participation	3.352	1,235,148
Fullerton Joint Union High School District Certificates of Participation	2.182	485,604
Cypress School District Certificates of Participation	8.104	596,860
Total Gross Overlapping General Fund Obligation Debt		<u>4,621,131</u>
Less: MWDOC Water Facilities Corporation		<u>48,369</u>
Total Net Overlapping General Fund Obligation Debt		<u>\$ 4,572,762</u>
<u>Total Direct Debt</u>		
Gross Combined Total Debt		\$ 25,493,016 ⁽¹⁾
Net Combined Total Debt		\$ 25,444,647

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

Ratios to 2012-13 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	0.89%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	1.48%
Net Combined Total Debt	1.48%

State School Building Aid Repayable as of 6/30/13: \$0

Source: California Municipal Statistics, Inc.

CITY OF LA PALMA, CALIFORNIA

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>
2004	1,219,288,694	3.750%	45,723,326		45,723,326
2005	1,304,656,046	3.750%	48,924,602		48,924,602
2006	1,397,263,921	3.750%	52,397,397		52,397,397
2007	1,509,443,337	3.750%	56,604,125		56,604,125
2008	1,636,207,200	3.750%	61,357,770		61,357,770
2009	1,673,970,266	3.750%	62,773,885		62,773,885
2010	1,695,055,043	3.750%	63,564,564		63,564,564
2011	1,698,468,994	3.750%	63,702,785		63,702,785
2012	1,698,166,410	3.750%	63,681,240		63,681,240
2013	1,718,093,819	3.750%	64,428,518		64,428,518

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

CITY OF LA PALMA, CALIFORNIA

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN CALENDAR YEARS

<u>Calendar Year</u>	<u>Population</u>	<u>City of La Palma Personal Income (In Thousands)</u>	<u>City of La Palma Per Capita Personal Income</u>	<u>City of La Palma Unemployment Rate</u>
2003	15,954	430,441	26,980	4.9%
2004	16,028	457,557	28,547	4.4%
2005	16,034	481,962	30,059	4.2%
2006	16,028	517,776	32,304	3.8%
2007	16,028	541,698	33,797	4.3%
2008	16,091	549,378	34,142	5.9%
2009	16,187	535,163	33,061	10.0%
2010	16,304	512,337	31,424	10.6%
2011	15,700	518,681	33,037	9.6%
2012	15,818	535,597	33,860	6.3%

Sources: "HDL 2012-13 CAFR Statistical Reports," Demographic and Economic Statistics table.

CITY OF LA PALMA, CALIFORNIA

OPERATING INDICATORS BY FUNCTION

LAST EIGHT FISCAL YEARS

Function:	Fiscal Year							
	2013	2012	2011	2010	2009	2008	2007	2006
Public safety:								
Calls for service	19,242	17,443	22,059	33,923	28,130	27,837	26,085	15,564
Crime reports	2,012	1,751	2,121	2,295	1,931	2,062	2,142	2,023
Arrests	979	871	1,201	1,383	1,031	1,056	1,034	859
Traffic citations	2,385	1,747	2,520	2,876	2,800	2,826	3,873	1,840
Parking citations	1,155	1,637	1,649	1,997	2,569	2,672	2,010	1,901
Other citations	90	151	136	119	113	130	117	75
Public works:*								
Traffic signals maintained	21	19	18	18	18	18	18	18
Infrastructure improvement projects administered	10	23	23	21	20	10	3	4
Private development plans reviewed	3	1	1	1	2	5	5	5
Graffiti removal (square feet)	1,064	2,400	2,300	2,600	4,100	4,000	4,800	2,000
Street sweeping (miles)	62	62	62	62	62	62	62	62
Trees pruned *	350	2,000	2,000	2,572	2,000	1,000	2,000	2,200
Recreation:								
Recreation classes	970	470	527	528	540	632	564	878
Recreation classes enrollment	5,162	4,824	4,106	3,794	3,748	3,455	3,790	4,094
Indoor facility rentals	230	288	242	222	100	23	431	382
Indoor facility rental hours	800	900	869	956	386	83	1,289	1,187
Outdoor facility rentals	374	257	278	239	223	236	390	381
Outdoor facility rental hours	1,022	758	812	787	683	760	964	1,154
Community Development:**								
Planning entitlements processed**	36	55	24	16	16	20	12	10
Building permits issued	476	417	434	409	404	394	400	324
Estimated valuation of building permits (millions)	\$6.602	\$8.589	\$3.870	\$3.289	\$3.768	\$3.685	\$3.876	\$2.255
Code enforcement cases	365	494	204	589	503	323	501	450
Water:								
Average monthly consumption per household (cubic feet)	1,800	1,800	1,616	1,756	2,000	2,000	2,000	2,000
Customer accounts	4,380	4,334	4,334	4,374	4,374	4,323	4,323	4,323
Water samples taken	2,216	2,716	2,400	2,216	1,600	1,600	1,300	508

*Prior fiscal years over-reported the number the trees trimmed. It appears prior years reported was the total number of trees in the City's inventory, not the smaller subset of trees actually trimmed. The amount shown of 350 trees trimmed in FY 2012-13 is in line with the updated methodology showing actual trees trimmed.

**A more accurate method of determining the number of "Planning Entitlements" was utilized beginning with FY 2011-12. This method, based on Chapter 26, Article IV, Division 1, Table IV-1 of the La Palma Municipal Code provides for a broader, more accurate accounting that can be backed by code citation. This accounting includes items such as Precise Plans, Tract Maps, Conditional Use Permits, Community Events Permits, Temporary Use Permits, and Administrative Approval of residential remodels, some items which were not necessarily included in prior years.

CITY OF LA PALMA, CALIFORNIA

CAPITAL ASSETS STATISTICS BY FUNCTION

LAST SIX FISCAL YEARS

Function:	Fiscal Year					
	2013	2012	2011	2010	2009	2008
Public safety:						
Police stations	1	1	1	1	1	1
Public works:						
Streets (miles)	31	31	31	31	31	31
Streetlights	972	972	972	972	972	972
Traffic signals	18.5	18.5	18	18	18	18
Recreation:						
Community centers	1	1	1	1	1	1
Parks	2	2	2	2	2	2
Water:						
Water mains (miles)	38	38	38	38	38	38
Maximum daily capacity (millions of gallons)	2.65	2.65	2.65	2.65	2.65	2.65
Fire hydrants	343	343	343	343	343	343
Water wells	2	2	2	2	2	2
Storage capacity (millions of gallons)	4.50	4.50	4.50	4.50	4.50	4.50
Reservoirs	2	2	2	2	2	2
Wastewater:						
Sanitary sewers (miles)	28	28	28	28	28	28
Storm drains (miles)	5	5	5	5	5	5
Manholes	631	631	631	631	631	631

Source: City of La Palma, respective Departments

CITY OF LA PALMA, CALIFORNIA

PRINCIPAL EMPLOYERS

CURRENT YEAR AND TEN YEARS AGO

Employer	2013		2002*	
	Number of Employees	Percentage of Total Employment	Number of Employees	Percentage of Total Employment
ADP, Inc.	600	8.21%	800	20.00%
C & D Zodiac Aerospace	415	5.68%	0	0.00%
La Palma Intercommunity Community Hospital	360	4.93%	450	11.25%
Performance Machine	178	2.44%	0	0.00%
Anaheim Union High School District (Kennedy HS)	157	2.15%	140	3.50%
Kaiser Foundation Healthplan	155	2.12%	0	0.00%
Unisource Worlwide	152	2.08%	0	0.00%
Arcadia Chair Company	150	2.05%	0	0.00%
Keebler Snack Co. / Kelloggs	110	1.51%	300	7.50%
Tesoro	90	1.23%	0	0.00%
CJ Foods	50	0.68%	0	0.00%
BP West Coast Products	0	0.00%	300	7.50%
Forms Engineering	0	0.00%	130	3.25%
Thrifty Corporation	0	0.00%	100	2.50%
Orchid Paper Company	0	0.00%	300	7.50%

* 2004 information not available.

"Total employment" as used above represents the total employment of all employees located within City limits.

Source: City of La Palma Community Development Department, "Economic Development" section of City website

CITY OF LA PALMA, CALIFORNIA

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>
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
2007	9.0	32.0	7.0	9.0	4.0	4.0	65.0
2008	9.0	32.0	7.0	9.0	4.0	4.0	65.0
2009	9.0	32.0	7.0	9.0	4.0	4.0	65.0
2010	9.0	32.0	7.0	9.0	4.0	4.0	65.0
2011	9.0	32.0	7.0	9.0	4.0	4.0	65.0
2012	9.0	32.0	7.0	8.0	4.0	4.0	64.0
2013	9.0	32.0	7.0	8.0	4.0	4.0	64.0

Source: City of La Palma Finance Department

OTHER INFORMATION

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CITY OF LA PALMA, CALIFORNIA

**LONG-TERM DEBT AMORTIZATION TABLE
SUCCESSOR AGENCY
JUNE 30, 2013**

Debt service requirements on the 1993 tax allocation bonds at June 30, 2013, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
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
2019-2022	460,000	66,490
Total	<u>\$ 1,885,000</u>	<u>\$ 477,935</u>

Debt service requirements on the 2001 refunding tax allocation bonds at June 30, 2013 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
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
2019-2022	2,050,000	243,100
Total	<u>\$ 3,685,000</u>	<u>\$ 1,086,525</u>