

CITY OF LA PALMA

**Comprehensive Annual Financial Report
Year Ended June 30, 2014**

CITY OF LA PALMA, CALIFORNIA

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2014**

**Prepared by the Administrative Services
Department/Accounting Division**

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CITY OF LA PALMA, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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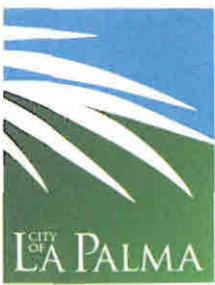
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December 22, 2014

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

We are pleased to present the Comprehensive Annual Financial Report of the City of La Palma for the fiscal year ended June 30, 2014. The purpose of this report is to provide the City Council, residents, general public, and other interested parties a broad financial outlook of the City as well as to comply with state law.

The Comprehensive Annual Financial Report is prepared in accordance with Generally Accepted Account Principles (GAAP) using the guidelines set forth by the Government Accounting Standards Board, and it has been audited by Vavrinek, Trine, Day & Co., LLP, a certified public accounting firm. For the year ended June 30, 2014, these financial statements received an unqualified opinion by Vavrinek, Trine, Day & Co., LLP. The independent auditors' report is presented at the beginning of the financial section of this report.

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.

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.

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, 2014.

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 15,896. 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

As a general law city within the State of California, the City of La Palma is required to adopt a budget. The annual budget serves as the foundation for the City's financial planning and control. 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. All departments of the City are required to submit requests for appropriations to the City Manager each 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 a public hearing 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 all other governmental funds that have appropriated annual budgets, 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 in 2009, the depth of the economic retraction continues to affect all aspects of the local economy – from property values to retail activity (i.e., property and sales tax receipts). In response to this, management developed a Sustainable Financial Plan during Fiscal Year 2013-14 that aligns ongoing revenues with ongoing expenditures and assures that one-time revenues are used only for one-time purposes.

In response to declining revenues due to the recession, management undertook a cost containment effort beginning in FY 2009-10. This cost containment effort included analyzing and reorganizing the City's operating strategies. The Fiscal Year 2013-14 budget included a reduction of seven full-time positions, and the Fiscal Year 2014-15 budget includes a reduction of an additional two full-time positions. As part of this process, the City's Public Works and Recreation & Community Services departments were consolidated and the Administration and Finance Departments were consolidated. Through these efforts, the City was able to weather the economic downturn and is believed to be operating at optimal efficiency with the least impact to services to residents.

As the economy continues to recover, property tax returns and retail activity will be important factors in the City's overall fiscal health since approximately 65% of Fiscal Year 2013-14 General Fund revenue comes from these two sources.

Property tax provided 34% of the General Fund's revenue in Fiscal Year 2013-14. At the peak of the real estate boom in 2006, the median home value in La Palma was approximately \$667,500. As of the end of 2013, the median home value was only \$549,500, 18% below the peak. However, a slight increase in the number of single family home sales for 2013 is a positive, recent trend. About 32% of La Palma's properties have base year assessed values of 1984 or earlier; the sale of these properties will increase their assessed values and, consequently, the City's property tax revenue.

Sales tax provided 26% of the General Fund's revenue in Fiscal Year 2013-14. The City's largest sales tax provider, Tesoro, deals in the volatile commodity of petroleum products, and the City only has one year of sales history with this business. However, the City's sales tax base has become more diversified in the last couple of years with the opening of a Wal-Mart Neighborhood Market and a Bulgogi House Korean BBQ restaurant. Also helping with revenue diversification was the negotiation of a sales tax in-lieu agreement with the recently opened Chase Bank.

Dissolution of Redevelopment: Continuing Effects

The dissolution of redevelopment agencies in the State of California effective January 31, 2012 per AB1X26 and AB1484 continues to affect the City.

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. The City Council elected to become the Successor Agency for the former redevelopment agency, and the City's fund accounting and financial reporting was updated accordingly to reflect this new entity in FY 2011-12.

Subject to the control of an oversight board, the assets remaining in the Successor Agency 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). The Successor Agency will only receive revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations until all enforceable obligations have been paid in full and all assets have been liquidated.

On April 18, 2013, the City received a Finding of Completion from the State of California Department of Finance, allowing the advances from the City to the former CDC to be included on the Recognized Obligation Payment Schedule (ROPS) beginning on July 1, 2014. Consequently, the City may begin receiving payments from the Successor Agency on these loans in Fiscal Year 2014-15. However, the amount of each

year's payment will be dependent upon how much of the former tax increment will actually be available to the Successor Agency.

In addition, property at 5410-14 La Palma Avenue was approved to be transferred from the Successor Agency to the City. This property transfer took place in Fiscal Year 2013-14. The intent is that this property will be developed for private commercial use, further diversifying the City's revenue base.

The City will need to continue 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.

Funding of Other Post-Employment Benefits

During Fiscal Year 2013-14, the City established an irrevocable trust to manage the City's unfunded liabilities related to its retiree health program (Other Post-Employment Benefits [OPEB]). The City deposited \$1.5 million to the trust, resulting in a significant reduction in the amount of the unfunded liability. Establishing the trust allowed the City to meet the ongoing expenses of current retirees while simultaneously funding the projected expenses of future retirees.

Long-term Fiscal Response and Planning

During Fiscal Year 2013-14, the City adopted a Sustainable Financial Plan covering Fiscal Year 2014-15 through 2025-26. The Plan was developed using specific financial principles. The Plan is revenue-based and bases projections on actual experience combined with known impacts, while providing that one-time monies are used only for one-time needs. This Plan will be reviewed annually as part of the budget process and will be refreshed continuously over time. The City's Fiscal Year 2014-15 and 2015-16 General Fund budget was adopted without drawing from fund balance reserves and without affecting the City's services provided to citizens. Management has a positive outlook for the City's fiscally sustainable future.

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, 2013. This was the fifteenth 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, 2014)

Members of the City Council and Residents of the City of La Palma
December 22, 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 Administrative Services Department. Special thanks are due to Laurie Murray, Administrative Services Director; Lori Rake, Accounting Supervisor; 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, 2013

Executive Director/CEO

City of La Palma
Directory of Officials
June 30, 2014

CITY COUNCIL

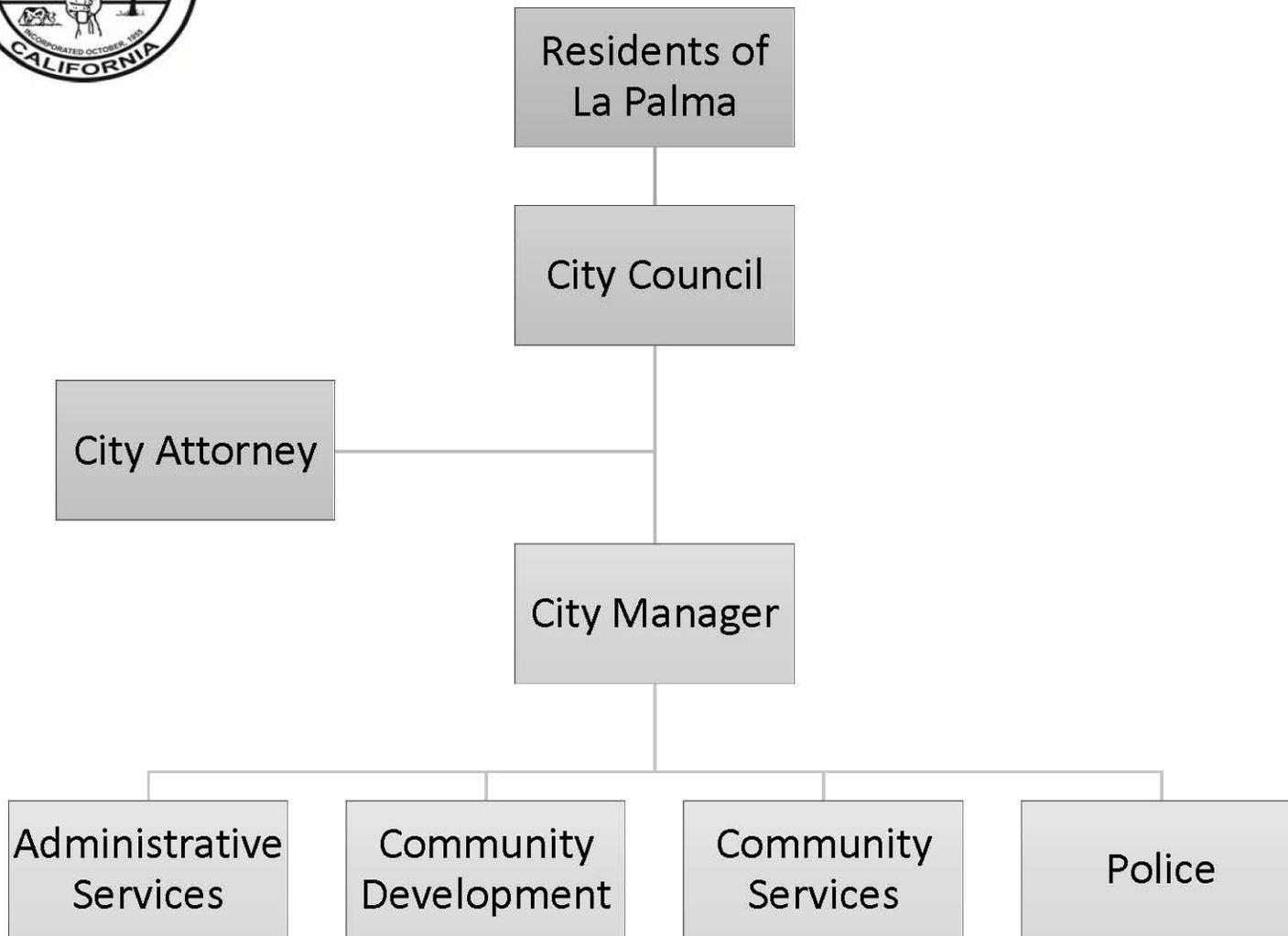
Steve Shanahan, Mayor
Peter L. Kim, Mayor Pro Tem
Steve S. Hwangbo, Councilmember
Henry Charoen, Councilmember
Gerard Goedhart, Councilmember

ADMINISTRATION

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



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, 2014, 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, as of June 30, 2014, 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 discussed in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 65 - *Items Previously Reported as Assets and Liabilities*, effective July 1, 2013. 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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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, combining and individual nonmajor fund financial statements and 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 combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 combining and individual nonmajor fund financial statements and 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 December 22, 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.

Varrinick, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 22, 2014

**CITY OF LA PALMA, CALIFORNIA
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

As management of the City of La Palma (City), we offer readers of the City’s financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal and the City’s basic financial statements.

This Comprehensive Annual Financial Report consists of the following sections:

- Introductory Section – contains the City Manager’s transmittal letter and organizational information about the City.
- Financial Section – contains the independent auditors’ report, Management Discussion & Analysis, Basic Financial Statements, Notes to the Basic Financial Statements, Required Supplementary Information, and Other Supplementary Schedules.
- Statistical Section – contains information about the financial health of the City including schedules pertaining to financial trends, revenue capacity, debt capacity, and demographic, economic, and operating information.

The discussion and analysis presented herein is intended to serve as an introduction to the City’s basic financial statements. The comparisons in the discussion and analysis are between FY 2012-13 and FY 2013-14. All increases and decreases are expressed relative to FY 2012-13 amounts.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year ended June 30, 2014, by \$59,565,000 (net position). Of this amount, \$32,700,000 may be used to meet the government’s ongoing obligations to citizens and creditors (unrestricted net position).
- The City’s total net position decreased by \$3,144,000.
- As of June 30, 2014, the City’s governmental funds reported a combined ending fund balance of \$20,079,000, a decrease of \$2,680,000. Of this amount, \$1,559,000 is available for spending at the City’s discretion (unassigned fund balance).
- As of June 30, 2014, the unassigned fund balance for the General Fund was \$1,559,000 or 17.7% of total General Fund expenditures.

Analysis of these balances and changes in balances is provided following the overview of the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements: The City’s *Basic Financial Statements* are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also includes required supplementary information and other supplementary information.

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

**CITY OF LA PALMA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
JUNE 30, 2014**

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

	Government-wide Statements	<i>Fund Statements</i>		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net 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 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; includes deferred inflows of resources which reflect unavailable revenues; 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; although allowed, the City's fiduciary funds do not currently contain capital assets
Type of inflow/outflow information	All revenues and expenses during the 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

Government-wide Financial Statements - 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. However, one should consider other nonfinancial factors 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.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, recreation, and community development. The City's business-type activities are comprised of water and sewer functions.

The government-wide financial statements are in this report's financial section immediately following the Management's Discussion and Analysis.

Note should be taken that the since the State's dissolution of redevelopment agencies (effective January 31, 2012), the Successor Agency to the former Community Development Commission is not reported within the government-wide financial statements. Rather, the financial activities and position of the Successor Agency are reported with the Fiduciary Fund Statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of La Palma, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. 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.

Fund balance is categorized into a hierarchy of five classifications: non-spendable, restricted, committed, assigned, and unassigned. These categories facilitate analysis and understanding of the City's commitment of financial resources.

**CITY OF LA PALMA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
JUNE 30, 2014**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City reports 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Successor Housing Fund, and the Capital Outlay Reserve Fund, all of which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the optional supplementary information section of this report.

The City adopts an annual appropriated budget for the General Fund and most of its Special Revenue Funds. No annual budget is adopted for the Capital Outlay Reserve Fund. A budgetary comparison statement has been provided for the General Fund and each major Special Revenue fund to demonstrate compliance with the budget. These budgetary comparison statements are found within the Required Supplementary Information Section.

The basic governmental fund financial statements can be found in the financial section of this report immediately following the government-wide financial statements.

Proprietary Funds consist of both enterprise and internal service 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 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.

The City has two enterprise funds – the Water Fund and the Sewer Fund. The internal service funds are for Risk Management, Employee Benefits, Facility Maintenance, Vehicle Replacement, and Technology Maintenance and Replacement. The basic proprietary fund financial statements are found immediately following the governmental fund financial statements.

Fiduciary Funds are used to account for resources 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. The fiduciary fund financial statements are found immediately following the proprietary fund financial statements.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are found immediately following the fund fiduciary fund financial statements.

**CITY OF LA PALMA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
JUNE 30, 2014**

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information such as the comparison of budgeted to actual results for the general and major special revenue funds. Required supplementary information is found immediately following the notes to the basic financial statements.

Optional supplementary information is also presented in this report. This supplementary information consists of combining and individual fund statements for nonmajor governmental funds and for the internal service funds. This information is found immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A summary of the government-wide *Statement of Net Position* as of June 30, 2014, and June 30, 2013, is as follows:

**Condensed Statement of Net Position
(In Millions)**

	Business-			Business-		
	Governmental Activities	Type Activities	Total	Governmental Activities	Type Activities	Total
	June 30, 2014			June 30, 2013		
Current and other assets	\$ 26.3	\$ 10.5	\$ 36.8	\$ 30.2	\$ 10.8	\$ 41.0
Capital assets	18.8	7.1	25.9	18.2	7.2	25.4
Total Assets	<u>45.1</u>	<u>17.6</u>	<u>62.7</u>	<u>48.4</u>	<u>18.0</u>	<u>66.4</u>
Long-term debt outstanding	1.4	-	1.4	1.4	-	1.4
Other liabilities	1.1	0.6	1.7	1.7	0.5	2.2
Total Liabilities	<u>2.5</u>	<u>0.6</u>	<u>3.1</u>	<u>3.1</u>	<u>0.5</u>	<u>3.6</u>
Net Position:						
Net investment in capital assets	18.8	7.1	25.9	18.2	7.2	25.4
Restricted	1.0	-	1.0	1.4	-	1.4
Unrestricted	22.8	9.9	32.7	25.7	10.2	35.9
Total Net Position	<u>\$ 42.6</u>	<u>\$ 17.0</u>	<u>\$ 59.6</u>	<u>\$ 45.3</u>	<u>\$ 17.4</u>	<u>\$ 62.7</u>

Over time, net position may serve as a useful indicator of a City's financial position. In the case of the City of La Palma, assets exceeded liabilities by \$59.6 million at June 30, 2014. A large portion of the City's net position (\$25.9 million or 43.4%) is its investment in capital assets (e.g. land, infrastructure, buildings, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

An additional portion of the City's net position (\$1.0 million or 1.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position (\$32.7 million or 54.9%) which may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF LA PALMA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
JUNE 30, 2014

A summary of the government-wide *Statement of Activities* for the fiscal years ending June 30, 2014, and June 30, 2013, is as follows:

Condensed Statement of Net Position
(In Millions)

	Business-			Business-		
	Governmental Activities	Type Activities	Total	Governmental Activities	Type Activities	Total
	June 30, 2014			June 30, 2013		
Revenues:						
Program revenues:						
Charges for services	\$ 1.0	\$ 3.1	\$ 4.1	\$ 0.9	\$ 3.1	\$ 4.0
Operating contributions and grants	1.1	-	1.1	0.9	-	0.9
Capital contributions and grants	0.8	-	0.8	0.3	-	0.3
General revenues:						
Property taxes	3.4	-	3.4	4.4	-	4.4
Sales taxes	2.2	-	2.2	4.3	-	4.3
Utility users taxes	1.1	-	1.1	1.0	-	1.0
Other taxes	0.7	-	0.7	0.6	-	0.6
Other general revenues	0.3	-	0.3	0.4	-	0.4
Total Revenues	<u>10.6</u>	<u>3.1</u>	<u>13.7</u>	<u>12.8</u>	<u>3.1</u>	<u>15.9</u>
Expenses:						
Program expenses:						
General government	1.8	-	1.8	1.8	-	1.8
Public safety	6.8	-	6.8	6.1	-	6.1
Public works	2.9	-	2.9	2.9	-	2.9
Recreation	1.8	-	1.8	1.6	-	1.6
Community development	0.9	-	0.9	0.8	-	0.8
Interest on long-term debt	-	-	-	-	-	-
Water	-	2.7	2.7	-	2.7	2.7
Sewer	-	0.5	0.5	-	0.6	0.6
Total Expenses	<u>14.2</u>	<u>3.2</u>	<u>17.4</u>	<u>13.2</u>	<u>3.3</u>	<u>16.5</u>
Excess before transfers	(3.6)	(0.1)	(3.7)	(0.4)	(0.2)	(0.6)
Transfers	0.3	(0.3)	-	0.3	(0.3)	-
Contributions from						
Successor Agency	0.7	-	0.7	-	-	-
Extraordinary Gain (Loss)	<u>(0.1)</u>	<u>-</u>	<u>(0.1)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	(2.7)	(0.4)	(3.1)	(0.1)	(0.5)	(0.6)
Beginning 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>
Ending net position	<u>\$ 42.6</u>	<u>\$ 17.0</u>	<u>\$ 59.6</u>	<u>\$ 45.3</u>	<u>\$ 17.4</u>	<u>\$ 62.7</u>

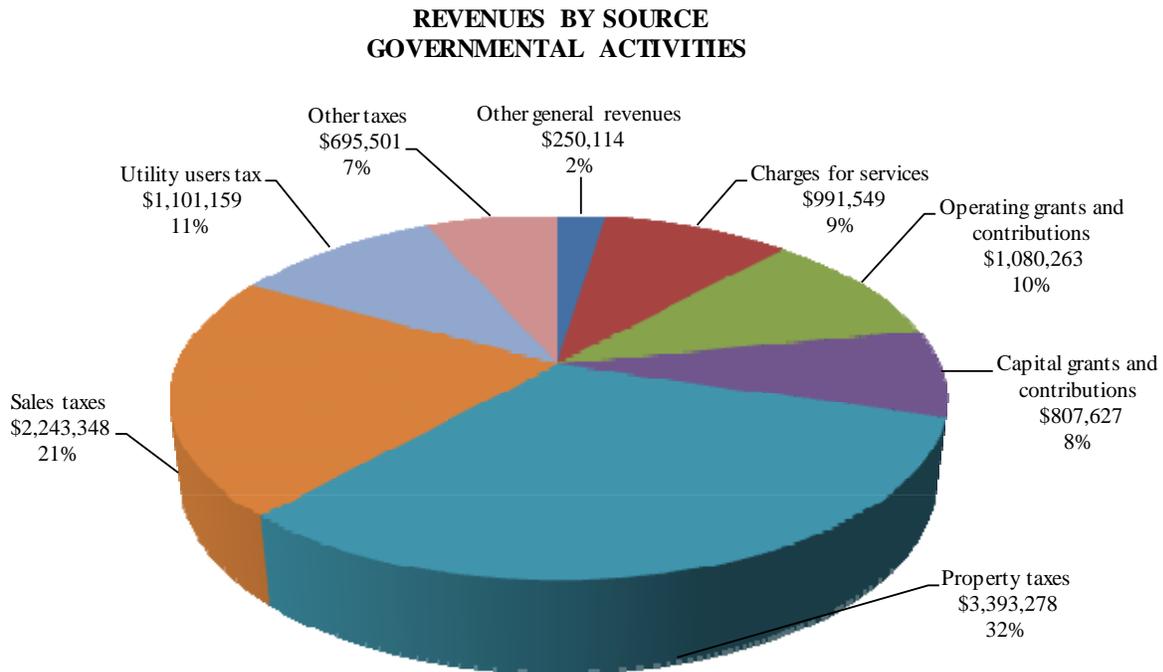
**CITY OF LA PALMA, CALIFORNIA
 MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued
 JUNE 30, 2014**

Governmental Activities

Governmental Activities decreased the City’s net position by \$2.7 million during the fiscal year, in contrast to a decrease of \$0.1 million during the prior fiscal year. Key elements of this change include:

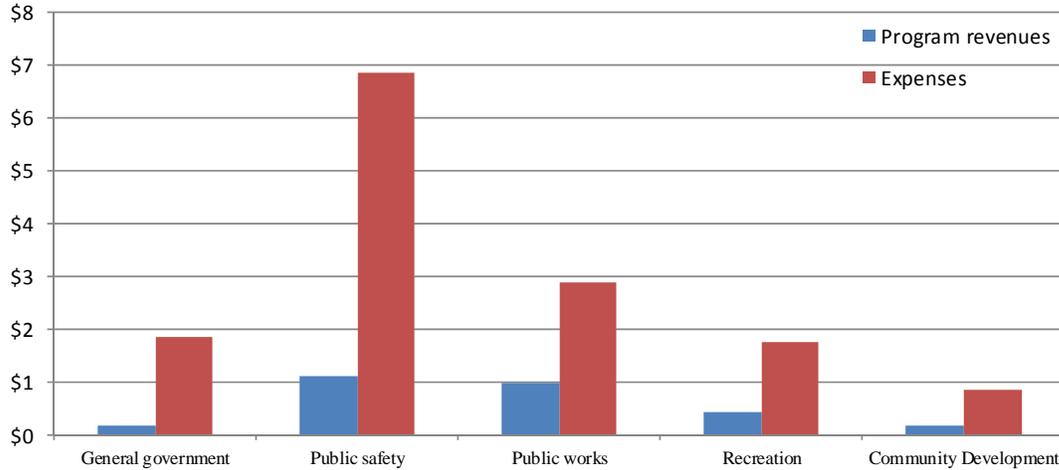
- Revenues decreased by \$2.2 million when compared to the previous fiscal year. The decrease is mainly due to three factors: decreased property taxes of \$1.0 million resulting from reduced amounts received from the dissolution of redevelopment agencies, decreased sales taxes of \$2.1 million mainly resulting from a repayment of prior years’ over-receipt of sales tax, and increased grant receipts of \$0.7 million.
- Expenses increased by \$1.0 million when compared to the previous fiscal year. Public safety increased by \$0.7 million, Recreation increased by \$0.2 million, and Community Development increased by \$0.1 million. The major reason for the net increase to costs is due to a one-time, city-wide cost of \$1.5 million to fund a trust for the City’s retiree medical benefit program offset by a retrospective adjustment to prior year insurance costs of \$0.6 million. These net cost adjustments were allocated among all departments.
- In FY 2013-14, the City received a transfer of property of \$670,000 from the Successor Agency to the Community Development Commission.

The following two charts illustrate the expenses and revenues by source of the City’s Governmental Activities.



**CITY OF LA PALMA, CALIFORNIA
 MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued
 JUNE 30, 2014**

**EXPENSES AND PROGRAM REVENUES
 GOVERNMENTAL ACTIVITIES
 (in millions)**

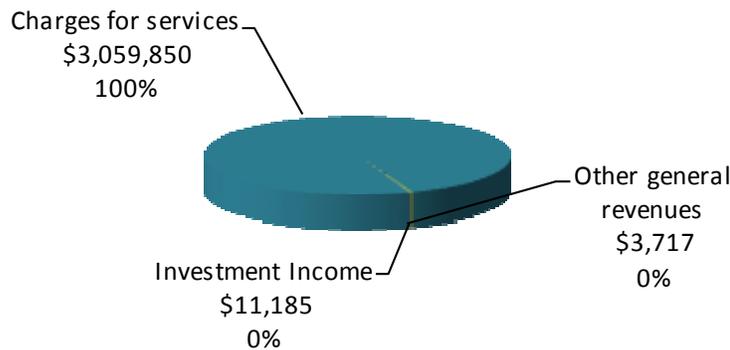


General revenues such as property tax, utility users tax, and sales tax are not shown by program since they are effectively used to support program activities citywide. Program revenues mainly consist of charges for services and program-related grants and contributions. Without regard for program, taxes are the largest single source of governmental revenue for the City (70% of total revenue), followed by grants and contributions (18% of total revenue), charges for services (9% of total revenue), and other general revenue (3% of total revenue).

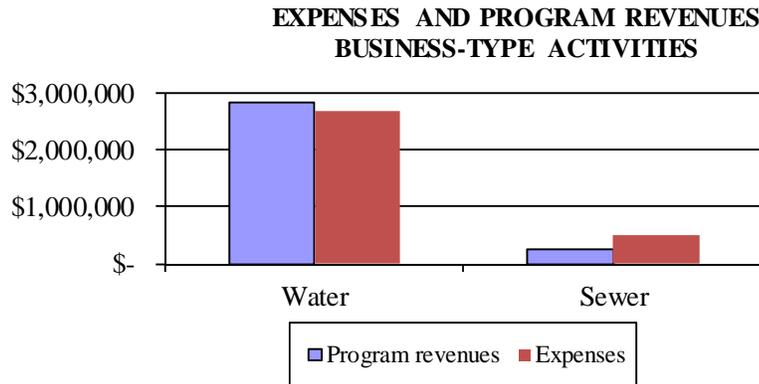
Business-type Activities

Business-type activities are financed primarily by fees charged to external parties for goods and services. Business-type activities decreased the City’s net position by \$406,100 in FY 2013-14, comparable to the prior year’s decrease to net position of \$450,054. Program expenses for Water activities were less than program revenues by \$143,600 while program expenses for Sewer activities exceeded program revenues by \$253,500.

**REVENUES BY SOURCE
 BUSINESS-TYPE ACTIVITIES**



**CITY OF LA PALMA, CALIFORNIA
MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued
JUNE 30, 2014**



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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). At the end of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$20.1 million, a decrease of \$2.7 million in fund balance. Expenditures of \$11.7 million exceeded revenues of \$10.6 million, decreasing fund balance by \$1.2 million; net transfers out to proprietary funds totaled \$1.4 million; and a net loss due to the continued winding down of the former CDC totaled \$0.1 million.

Major Governmental Funds – The **General Fund** is the chief operating fund of the City and comprises approximately 75% of the governmental expenditures of the City. At the end of the current fiscal year, the “spendable” portion of the General Fund’s fund balance (i.e., Committed, Assigned, and Unassigned fund balance) was \$12.1 million, while the total fund balance was \$13.1 million. As a measure of the General Fund’s liquidity, it may be useful to compare this “spendable” portion of fund balance to total General Fund expenditures. Using this metric, total General Fund “spendable” fund balance represents 137% of total General Fund expenditures. The General Fund’s Unassigned fund balance was \$1.6 million at June 30, 2014 and represents 17.7% of total General Fund expenditures.

The City’s General Fund had a net decrease to fund balance of \$2.7 million as compared to a prior increase of \$1.0 million. This total change of \$3.7 million is due to a \$2.9 million decrease in revenues, an additional \$1.2 million transferred to other funds, and an offset of \$370,000 for a decrease in expenditures.

The City’s General Fund revenues decreased \$2.9 million (25%) from the prior year. This decrease is due to decreased property taxes of \$1.0 million resulting from reduced amounts received from the dissolution of redevelopment agencies and decreased sales taxes of \$2.1 million mainly resulting from a repayment of prior years’ over-receipt of sales tax. These tax decreases are somewhat offset by an increase of \$61,000 in investment earnings due to the City’s change in investment strategy to a managed, diversified portfolio.

The City's General Fund expenditures decreased \$370,000 (4%) from 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 saw decreases from the prior year, which included cost savings resulting from consolidation of the Public Works and Recreation Departments as well as the consolidation of Administration, Finance, and Administrative Services Departments.

The General Fund transferred \$0.5 million less to the Capital Outlay Reserve Fund in the current year than in the prior year while transferring an additional \$1.7 million to various internal service funds. The technology maintenance and replacement fund received a transfer of \$216,000 to more fully fund replacement costs, and the employee benefits fund received a transfer of \$1.5 million to set up a trust fund for retiree medical costs.

**CITY OF LA PALMA, CALIFORNIA
MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued
JUNE 30, 2014**

The **Capital Outlay Reserve Fund** has an assigned fund balance of \$5.9 million, an increase of \$327,000 which compares to the prior year’s increase of \$463,000. The fund’s current year activity consisted of \$500,000 in grant revenues, capital outlay expenditures of \$1.4 million, and transfers in from the General Fund of \$1.2 million. The current year projects included arterial and residential pavement rehabilitation and digital speed-limit awareness signs related to the Safe Route to School project. Included within the Capital Outlay Reserve Fund are monies assigned for one-time capital or non-capital projects, including \$819,500 to fund 800 MHz expenses over the next four years.

The **Successor Housing 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 \$282,045, a reduction of \$393,000. All of this fund’s fund balance is restricted for housing activities. The main reason for the reduction in fund balance is related to the continuing effects of the wind-down of the former CDC. In Fiscal Year 2013-14, the State Department of Finance disallowed some previously-recorded transactions (known as the clawback).

Major Enterprise Funds. Unrestricted fund net position of the **Water Fund** at the end of the year totaled \$5.5 million and the **Sewer Fund** was \$4.4 million. The total decrease in fund net position for both funds was \$436,000, which compares to the prior year’s decrease of \$316,000.

GENERAL FUND BUDGETARY HIGHLIGHTS

In preparing its budgets, the City attempts to estimate its revenues using realistic, but conservative, methods so as to budget its expenditure appropriations and activities in a prudent manner. As a result, the City Council adopted budget adjustments during the course of the fiscal year to reflect both changed priorities and availability of additional revenues.

During the year, the City Council amended the originally adopted General Fund budget to increase revenues by \$753,916. Actual results for the year were \$187,442 less than this final budget. The originally adopted General Fund budget was also amended to increase expenditures by \$206,246. The actual expenditures for the year were \$33,111 less than this final budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

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

	Business-			Business-		
	Governmental	Type	Total	Governmental	Type	Total
	Activities	Activities		Activities	Activities	
	June 30, 2014			June 30, 2013		
Land	\$ 6.7	\$ 0.8	\$ 7.5	\$ 6.7	\$ 0.8	\$ 7.5
Construction in progress	0.5	0.3	0.8	0.4	0.1	0.5
Buildings and improvements	5.9	1.3	7.2	5.4	1.3	6.7
Equipment	0.4	2.0	2.4	0.3	2.2	2.5
Vehicles	0.3	-	0.3	0.4	-	0.4
Furniture and fixtures	-	-	-	-	-	-
Infrastructure	5.0	2.7	7.7	5.0	2.8	7.8
Total Capital Assets	\$ 18.8	\$ 7.1	\$ 25.9	\$ 18.2	\$ 7.2	\$ 25.4

**CITY OF LA PALMA, CALIFORNIA
MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued
JUNE 30, 2014**

The City's investment in capital assets for its *Governmental* and *Business-type Activities* as of June 30, 2014, totaled \$25,865,055 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, equipment, vehicles, furniture and fixtures, and infrastructure. Capital asset acquisitions for governmental activities totaled \$479,000, while depreciation expense totaled \$615,000. In addition to assets purchased or constructed for governmental activities, the City received a current year transfer of property from the Successor Agency to the CDC totaling \$669,000.

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	Type	Total	Governmental	Type	Total
	Activities	Activities		Activities	Activities	
	June 30, 2014			June 30, 2013		
Net OPEB Obligation	\$ 0.8	\$ -	\$ 0.8	\$ 0.8	\$ -	\$ 0.8
Compensated absences	0.6	-	0.6	0.6	-	0.6
Total Long-term Liabilities	<u>\$ 1.4</u>	<u>\$ -</u>	<u>\$ 1.4</u>	<u>\$ 1.4</u>	<u>\$ -</u>	<u>\$ 1.4</u>

The amount of general obligation debt a City may issue is limited by state statutes to a maximum of 15% of the City’s total assessed value. The City currently has no general obligation debt, and, therefore, has no debt that is applicable to the limit. Additional information on the City's long-term liabilities can be found in Notes 7 and 8 of the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of La Palma adopted a Sustainable Financial Plan during Fiscal Year 2013-14 that outlined a plan for a fiscally sustainable future. The plan aligns ongoing revenues with ongoing expenditures and assures that one-time revenues are used only for one-time purposes. In conjunction with that plan, the City’s Fiscal Year 2014-15 budget does not use any General Fund reserves. The General Fund’s ending fund balance at June 30, 2015 is projected to be \$513,065 with \$10,000,000 in reserve funds.

The City’s Capital Outlay Reserve Fund is expected to incur costs totaling \$4.8 million for improvements to City Hall, for arterial street rehabilitation projects, residential street rehabilitation projects, and for community center and park improvements. Much of these costs have already been funded from the General Fund in prior years; consequently, Fiscal Year 2014-15 will draw from the Capital Outlay Reserve fund balance.

By basing future costs on the principles established in the Sustainable Financial Plan, the City has an overall positive outlook for the City’s future.

**CITY OF LA PALMA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
JUNE 30, 2014**

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, 714-690-3300. 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, 2014**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 21,178,468	\$ 8,757,360	\$ 29,935,828
Receivables:			
Accounts	281,123	741,598	1,022,721
Interest	79,974	656	80,630
Loans	4,074,916		4,074,916
Internal balances	(1,000,000)	1,000,000	
Due from other governments	693,801	248	694,049
Prepaid items	51,241		51,241
Due from the former CDC Successor Agency	960,104		960,104
Capital assets:			
Capital assets not being depreciated	7,208,445	994,941	8,203,386
Capital assets being depreciated, net of accumulated depreciation	11,558,130	6,103,539	17,661,669
Total Assets	<u>45,086,202</u>	<u>17,598,342</u>	<u>62,684,544</u>
LIABILITIES			
Accounts payable	512,027	573,283	1,085,310
Salaries payable	136,762	11,436	148,198
Retentions payable	7,432		7,432
Other accrued liabilities	271,676		271,676
Due to other governments	166,297		166,297
Long-term liabilities:			
Net OPEB obligation	822,533		822,533
Portion due within one year:			
Compensated absences	154,523		154,523
Portion due beyond one year:			
Compensated absences	463,568		463,568
Total Liabilities	<u>2,534,818</u>	<u>584,719</u>	<u>3,119,537</u>
NET POSITION			
Investment in capital assets	18,766,575	7,098,480	25,865,055
Restricted for:			
Specific projects and programs	1,060,933		1,060,933
Unrestricted	22,723,876	9,915,143	32,639,019
Total Net Position	<u>\$ 42,551,384</u>	<u>\$ 17,013,623</u>	<u>\$ 59,565,007</u>

See accompanying notes to financial statements.

CITY OF LA PALMA, CALIFORNIA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental Activities:				
General government	\$ 1,838,648	\$ 164,764	\$ 25,876	
Public safety	6,832,640	157,921	493,629	\$ 445,207
Public works	2,868,255	68,055	560,758	362,403
Recreation	1,763,797	421,306		
Community development	864,927	179,503		17
Total Governmental Activities	14,168,267	991,549	1,080,263	807,627
Business-Type Activities:				
Water	2,679,623	2,823,219		
Sewer	490,144	236,631		
Total Business-Type Activities	3,169,767	3,059,850		
Total	\$ 17,338,034	\$ 4,051,399	\$ 1,080,263	\$ 807,627

General Revenues:

Taxes:

Property tax

Sales tax

Utility users tax

Franchise tax

Transient occupancy taxes

Intergovernmental - unrestricted

Investment income

Other

Transfers

Contributions from Successor Agency

Extraordinary Gain (Loss) - Note 16

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

Governmental Activities	Business-type Activities	Total
\$ (1,648,008)		\$ (1,648,008)
(5,735,883)		(5,735,883)
(1,877,039)		(1,877,039)
(1,342,491)		(1,342,491)
(685,407)		(685,407)
<u>(11,288,828)</u>		<u>(11,288,828)</u>
	\$ 143,596	143,596
	<u>(253,513)</u>	<u>(253,513)</u>
	(109,917)	(109,917)
<u>(11,288,828)</u>	<u>(109,917)</u>	<u>(11,398,745)</u>
3,393,278		3,393,278
2,243,348		2,243,348
1,101,159		1,101,159
381,839		381,839
313,662		313,662
61,851		61,851
114,371	3,717	118,088
73,892	11,185	85,077
283,100	(283,100)	
669,405		669,405
<u>(84,630)</u>	<u>(27,952)</u>	<u>(112,582)</u>
<u>8,551,275</u>	<u>(296,150)</u>	<u>8,255,125</u>
(2,737,553)	(406,067)	(3,143,620)
<u>45,288,937</u>	<u>17,419,690</u>	<u>62,708,627</u>
<u>\$ 42,551,384</u>	<u>\$ 17,013,623</u>	<u>\$ 59,565,007</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 PROJECTS 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 and deferred outflows of resources, liabilities and deferred inflows of resources, 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, 2014**

	General Fund	Special Revenue Successor Housing Fund	Capital Projects Capital Outlay Reserve
ASSETS			
Cash and investments	\$ 11,906,780	\$ 266,506	\$ 5,346,130
Receivables:			
Accounts	253,408	23,346	
Interest	79,345	26	328
Loans		4,073,720	
Due from other governments	392,828		146,172
Due from other funds	19,660		
Prepaid items	51,241		
Due from the former CDC Successor Agency	960,104		
Advances to other funds	28,804		500,000
Total Assets	<u>\$ 13,692,170</u>	<u>\$ 4,363,598</u>	<u>\$ 5,992,630</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 217,601	\$ 376	\$ 13,703
Salaries payable	107,340	2,741	
Retentions payable			7,432
Other accrued liabilities	267,534		
Due to other funds			
Advances from other funds		4,028,804	
Total Liabilities	<u>592,475</u>	<u>4,031,921</u>	<u>21,135</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	<u>3,171</u>	<u>49,632</u>	
FUND BALANCES			
Nonspendable	1,040,149		
Restricted		282,045	
Committed	10,246,885		
Assigned	250,000		5,971,495
Unassigned	1,559,490		
Total Fund Balances	<u>13,096,524</u>	<u>282,045</u>	<u>5,971,495</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 13,692,170</u>	<u>\$ 4,363,598</u>	<u>\$ 5,992,630</u>

See accompanying notes to financial statements.

Non-major Governmental Funds		Total
\$ 636,771	\$ 18,156,187	
4,369	281,123	
45	79,744	
	4,073,720	
154,801	693,801	
	19,660	
	51,241	
	960,104	
	528,804	
<u>\$ 795,986</u>	<u>\$ 24,844,384</u>	
\$ 36,738	\$ 268,418	
10,332	120,413	
	7,432	
	267,534	
19,660	19,660	
	4,028,804	
<u>66,730</u>	<u>4,712,261</u>	
	52,803	
	1,040,149	
729,256	1,011,301	
	10,246,885	
	6,221,495	
	1,559,490	
<u>729,256</u>	<u>20,079,320</u>	
<u>\$ 795,986</u>	<u>\$ 24,844,384</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, 2014**

Fund Balances of Governmental Funds	\$ 20,079,320
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	7,208,445
Capital Assets being depreciated, net of accumulated depreciation	11,558,130
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	(618,091)
Other post employment benefits obligation	(822,533)
Unavailable revenue- resource inflows that do not qualify for recognition as revenue in governmental funds because they are not yet considered to be available.	52,803
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>5,093,310</u>
Net Position of Governmental Activities	<u>\$ 42,551,384</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, 2014**

	General Fund	Special Revenue Successor Housing Fund	Capital Projects Capital Outlay Reserve
REVENUES:			
Taxes	\$ 7,179,494		
Intergovernmental	38,174		\$ 525,932
Licenses and permits	267,110		
Fines and forfeitures	148,175		
Investment income	157,607	\$ 101,005	3,796
Charges for services	584,574		
Rental income	161,796		
Miscellaneous	98,344	14,654	
Total Revenues	8,635,274	115,659	529,728
EXPENDITURES:			
Current:			
General government	1,424,960		
Public safety	5,032,990		
Public works	596,128		
Recreation	1,248,759		
Community development	481,167	278,673	
Capital outlay	5,676		1,427,593
Total Expenditures	8,789,680	278,673	1,427,593
Excess (deficiency) of revenues over (under) expenditures	(154,406)	(163,014)	(897,865)
OTHER FINANCING SOURCES (USES):			
Transfers in	283,100		1,236,069
Transfers out	(2,935,500)		
Total Other Financing Sources (Uses)	(2,652,400)		1,236,069
EXTRAORDINARY ITEMS:			
Dissolution of Redevelopment Agency	156,104	(229,646)	(11,088)
Total Extraordinary Items	156,104	(229,646)	(11,088)
Net Change in Fund Balances	(2,650,702)	(392,660)	327,116
Fund Balances at Beginning of Year	15,747,226	674,705	5,644,379
Fund Balances at End of Year	\$ 13,096,524	\$ 282,045	\$ 5,971,495

See accompanying notes to financial statements.

Non-major Governmental Funds		Total
		\$ 7,179,494
\$ 1,279,773		1,843,879
		267,110
		148,175
565		262,973
		584,574
		161,796
16,553		129,551
<u>1,296,891</u>		<u>10,577,552</u>
		1,424,960
299,717		5,332,707
314,296		910,424
		1,248,759
		759,840
630,523		2,063,792
<u>1,244,536</u>		<u>11,740,482</u>
52,355		(1,162,930)
		1,519,169
(16,569)		(2,952,069)
<u>(16,569)</u>		<u>(1,432,900)</u>
		(84,630)
		(84,630)
35,786		(2,680,460)
693,470		22,759,780
<u>\$ 729,256</u>	<u>\$</u>	<u>20,079,320</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, 2014**

Net Change in Fund Balances - Total Governmental Funds \$ (2,680,460)

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

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.

Capital outlay	\$ 478,663	
Depreciation expense	(615,073)	
Transfer of capital assets from Successor Agency Private Purpose Trust Fund	669,405	532,995

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences-current year accruals	(705,109)
Compensated absences-current year retirements	692,926
Net change in OPEB obligation	(42,441)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (14,713)

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 - FY 2013-2014 Change	(490,278)
Prior Year Net Position included with Business-Type Activities	(30,473)
Change in Net Position of Governmental Activities	\$ <u>(2,737,553)</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, 2014**

	Business-Type Activities			Governmental
	Enterprise Fund			Activities
	Water	Sewer	Total	Internal Service Fund
ASSETS				
Current assets:				
Cash and investments	\$ 4,812,605	\$ 3,944,755	\$ 8,757,360	\$ 3,022,281
Receivables:				
Accounts	684,267	57,331	741,598	
Interest	352	304	656	230
Loans				1,196
Due from other governments	248		248	(86,071)
Total Current Assets	5,497,472	4,002,390	9,499,862	2,937,636
Non-current assets:				
Capital assets				
Capital assets not being depreciated	994,941		994,941	
Capital assets being depreciated, net of accumulated depreciation	4,711,217	1,392,322	6,103,539	
Advances to other funds	500,000	500,000	1,000,000	2,500,000
Total Non-Current Assets	6,206,158	1,892,322	8,098,480	2,500,000
Total Assets	11,703,630	5,894,712	17,598,342	5,437,636
LIABILITIES				
Current liabilities:				
Accounts payable	492,521	80,762	573,283	243,609
Due to other governments				80,226
Salaries payable	9,734	1,702	11,436	16,349
Retentions payable				4,142
Total Current Liabilities	502,255	82,464	584,719	344,326
Total Liabilities	502,255	82,464	584,719	344,326
NET POSITION				
Net investment in capital assets	5,706,158	1,392,322	7,098,480	
Unrestricted	5,495,217	4,419,926	9,915,143	5,093,310
Total Fund Net Position	\$ 11,201,375	\$ 5,812,248	17,013,623	\$ 5,093,310

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, 2014**

	Business-type Activities- Enterprise Fund			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Operating revenues:				
Charges for services	\$ 2,823,219	\$ 236,631	\$ 3,059,850	\$ 3,093,473
Miscellaneous	11,185		11,185	97,148
Total Operating Revenues	<u>2,834,404</u>	<u>236,631</u>	<u>3,071,035</u>	<u>3,190,621</u>
Operating expenses:				
Personnel services	538,034	98,298	636,332	3,375,705
Maintenance and operations	1,318,119	301,428	1,619,547	751,059
Contractual services	415,485	42,953	458,438	11,202
Depreciation	359,878	42,802	402,680	
Settlement claims and insurance	62,300	6,600	68,900	1,190,627
Administration	12,928	1,415	14,343	
Total Operating Expenses	<u>2,706,744</u>	<u>493,496</u>	<u>3,200,240</u>	<u>5,328,593</u>
Operating Income (Loss)	<u>127,660</u>	<u>(256,865)</u>	<u>(129,205)</u>	<u>(2,137,972)</u>
NON-OPERATING REVENUES				
Investment income	1,923	1,794	3,717	1,576
Total Non-operating Revenues	<u>1,923</u>	<u>1,794</u>	<u>3,717</u>	<u>1,576</u>
Income before transfers and extraordinary items	129,583	(255,071)	(125,488)	(2,136,396)
Transfers in				1,716,000
Transfers out	(270,900)	(12,200)	(283,100)	
Extraordinary items	(13,976)	(13,976)	(27,952)	(69,882)
Change in Fund Net Position	<u>(155,293)</u>	<u>(281,247)</u>	<u>(436,540)</u>	<u>(490,278)</u>
Fund Net Position at Beginning of Year	<u>11,356,668</u>	<u>6,093,495</u>	<u>17,450,163</u>	<u>5,583,588</u>
Fund Net Position at End of Year	<u>\$ 11,201,375</u>	<u>\$ 5,812,248</u>	<u>\$ 17,013,623</u>	<u>\$ 5,093,310</u>

See accompanying notes to financial statements.

CITY OF LA PALMA, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

	Business-type Activities-			Governmental
	Enterprise Fund			Activities
	Water	Sewer	Total	Internal Service Fund
Cash flows from operating activities:				
Cash received from customers	\$ 2,930,380	\$ 245,084	\$ 3,175,464	
Cash received from internal users				\$ 3,278,163
Cash payments to suppliers for goods and services	(1,738,329)	(320,464)	(2,058,793)	(1,576,999)
Cash payments for employee services	(600,334)	(104,898)	(705,232)	(4,562,190)
Net Cash Provided By (Used By) Operating Activities	<u>591,717</u>	<u>(180,278)</u>	<u>411,439</u>	<u>(2,861,026)</u>
Cash flows from non-capital financing activities:				
Cash payments from other funds				1,716,000
Cash payments to other funds	(270,900)	(12,200)	(283,100)	
Advances to other funds	(13,976)	(13,976)	(27,952)	(69,882)
Net Cash (Used For) Non-Capital Financing Activities	<u>(284,876)</u>	<u>(26,176)</u>	<u>(311,052)</u>	<u>1,646,118</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(320,387)	(19,405)	(339,792)	
Net Cash (Used For) Capital and Related Financing Activities	<u>(320,387)</u>	<u>(19,405)</u>	<u>(339,792)</u>	
Cash flows from investing activities:				
Interest income received	4,371	3,919	8,290	3,766
Net Cash Provided By Investing Activities	<u>4,371</u>	<u>3,919</u>	<u>8,290</u>	<u>3,766</u>
Net (Decrease) in Cash and Cash Equivalents	(9,175)	(221,940)	(231,115)	(1,211,142)
Cash and cash equivalents at beginning of year	4,821,780	4,166,695	8,988,475	4,233,423
Cash and cash equivalents at end of year	<u>\$ 4,812,605</u>	<u>\$ 3,944,755</u>	<u>\$ 8,757,360</u>	<u>\$ 3,022,281</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss):	\$ 127,660	\$ (256,865)	\$ (129,205)	\$ (2,137,972)
Adjustments to reconcile operating income to net income provided by operating activities:				
Depreciation	359,878	42,802	402,680	
(Increase) decrease in accounts receivable	95,976	8,453	104,429	694
(Increase) decrease in loans receivable				777
(Increase) decrease in due from other governments	(248)		(248)	86,071
Increase (decrease) in accounts payable	7,840	25,106	32,946	(198,285)
Increase (decrease) in salaries payable	611	226	837	(19,969)
Increase (decrease) in accrued liabilities				84,368
Increase (decrease) in due to other governments				(676,710)
Total Adjustments	<u>464,057</u>	<u>76,587</u>	<u>540,644</u>	<u>(723,054)</u>
Net Cash Provided By (Used By) Operating Activities	<u>\$ 591,717</u>	<u>\$ (180,278)</u>	<u>\$ 411,439</u>	<u>\$ (2,861,026)</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, 2014**

	Redevelopment Successor Agency Private-Purpose Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and investments	\$ 370,882	\$ 9,760
Restricted cash and investments	878,228	
Interest receivable	365	
Total Current Assets	<u>1,249,475</u>	<u>9,760</u>
Total Assets	<u>1,249,475</u>	<u>\$ 9,760</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	6,690	
Deposits payable		\$ 9,760
Interest payable	23,846	
Bonds payable - current portion	575,000	
Total Current Liabilities	<u>605,536</u>	<u>9,760</u>
Noncurrent liabilities:		
Advance payable to City of La Palma	960,104	
Bonds payable - long term portion	4,450,000	
Total Noncurrent Liabilities	<u>5,410,104</u>	
Total Liabilities	<u>6,015,640</u>	<u>\$ 9,760</u>
Net Position:		
Held in trust for other governments	<u>\$ (4,766,165)</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, 2014**

	Redevelopment Successor Agency Private-Purpose Trust Fund
	<u> </u>
Additions:	
Taxes	\$ 350,243
Interest and use of property	9,312
Other	69,883
Total Additions	<u>429,438</u>
Deductions:	
Program expenses	78,859
Interest and fiscal expenses	315,035
Total Deductions	<u>393,894</u>
Transfer of government use assets to City of La Palma	(669,405)
Extraordinary gain (Note 16)	<u>112,582</u>
Change in net position	(521,279)
Net Position - Beginning of year	<u>(4,244,886)</u>
Net Position (Deficit) - End of year	<u><u>\$ (4,766,165)</u></u>

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, 2014

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, deferred inflows of resources, 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. Revenues are from housing activities and are restricted for housing purposes.

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, 2014**

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 risk management activity, costs of the City's employees plan and workers' compensation insurance, as well as maintenance and replacement costs of City facilities, vehicles, and technology items.

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, 2014

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, deferred inflows of resources, 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, 2014**

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 available 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, current liabilities and deferred inflows of resources 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, 2014**

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, 2014**

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, 2014**

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

H. 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.

I. 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.

J. Advances to Other Funds – Governmental Funds

Non-current portions of long-term interfund loan receivables are reported in the General 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. Non-current portions of long-term interfund loan receivables that are reported in other governmental funds are reported as advances and included as part of fund balance assigned for the purpose of the fund.

K. Designation of Unrestricted Net Position

The government-wide statement of net position reports \$9,915,143 of business-type unrestricted net position, of which \$5,570,496 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 \$3,331,809 and within the Sewer Fund in the amount of \$2,238,687 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, 2014**

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

L. 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.

M. 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.

N. 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.

O. 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.

P. 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, 2014**

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

P. Fund Balance (Continued)

Definitions

Fund balance is the difference between the assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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 such as an ordinance or resolution. The constraint remains binding unless removed in the same formal manner by the City Council. For the purposes of committing fund balance, both an ordinance or resolution are equally binding.
- **Assigned:** Resources that are constrained by the City's intent to be used for specific purposes, but that are neither restricted nor committed.
- **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 Administrative Services 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.

The City's fund balance policy establishes an assignment for unprogrammed/unfunded capital and infrastructure projects. It is the City's intent that the fund balances for the Capital Outlay Reserve Fund and the One-time Projects Capital Projects Fund (a component of the Capital Outlay Reserve Fund) be considered to be assigned for the purpose of the fund.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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

P. Fund Balance (Continued)

The City committed an initial \$9,000,000 of the General Fund fund balance for Emergency Reserves. Sixty percent of this initial commitment is reserved for economic uncertainties and the remaining 40% is committed for capital reserves. Appropriations from the Emergency Reserve commitment can only be made by formal City Council action. At June 30, 2014, this commitment totaled \$8,996,969. The City also committed an initial amount of \$250,000 of the General Fund fund balance for economic development. Appropriations from the economic development commitment can only be made by formal action of the City Council. At June 30, 2014, the commitment totaled \$249,916. Additionally, the City committed an initial \$1,000,000 of the General Fund fund balance for a Revenue Volatility Reserve.

The City's fund balance policy established assigned fund balance in the General Fund of \$250,000 for a Cash Flow Float.

Q. Deferred Outflows/Inflows Of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

R. New GASB Pronouncements

Implemented during 2013-2014

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 was implemented as of July 1, 2013.

Effective in Future Years

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.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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

R. New GASB Pronouncements, (Continued)

Effective in Future Years

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. 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. 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.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 29,935,828
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Fiduciary funds:

Cash and investments	380,642
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Restricted cash and investments	878,228
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Total Cash and Investments	\$ 31,194,698
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Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	\$ 7,725
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Deposits with financial institutions	720,056
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Investments	30,466,917
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Total Cash and Investments	\$ 31,194,698
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CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

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

The table below identifies the investment types that are authorized 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, 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	Yes	180 days	40%	None
Commercial Paper	Yes	270 days	25%	None
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	No	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	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	\$50,000,000 per Account	None
JPA Pools (other investment pools)	Yes	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, 2014**

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
Investments held by City:				
U.S Treasury Notes	\$ 10,028,825		\$ 1,160,794	\$ 8,868,031
Federal Agency Securities	5,193,853		4,708,819	485,034
Corporate Note	6,120,545	\$ 2,316,973	2,080,097	1,723,475
Certificate of Deposit	3,670,041	601,204	3,068,837	
LAIF	4,449,188	4,449,188		
Money Market Mutual Funds	125,800	125,800		
Federal Agency Securities				
GNMA	436			436
Investments held by Fiscal Agent:				
Federal Agency Securities				
FRLMC	851,366		851,366	
Money Market Mutual Funds	26,863	26,863		
Total	<u>\$ 30,466,917</u>	<u>\$ 7,520,028</u>	<u>\$ 11,869,913</u>	<u>\$ 11,076,976</u>

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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 from S & P as of year end for each investment type.

Investment Type	Totals	Minimum Legal Rating	Rating as of Year End			
			AAA	AA	A	Not Rated
Investments held by City:						
U.S Treasury Notes	\$ 10,028,825	N/A		\$ 10,028,825		
Federal Agency Securities	5,193,853	N/A		5,193,853		
Corporate Note	6,120,545	A		3,001,707	\$ 3,118,838	
Certificate of Deposit	3,670,041	N/A		609,759	3,060,282	
LAIF	4,449,188	N/A				\$ 4,449,188
Money Market Mutual Funds	125,800	N/A	\$ 66,715			59,085
Federal Agency Securities						
GNMA	436	N/A	436			
Held by fiscal agent						
Federal Agency Securities						
FHLB	851,366	N/A	851,366			
Money Market Mutual Funds	26,863	N/A	26,863			
Total	<u>\$ 30,466,917</u>		<u>\$ 945,380</u>	<u>\$ 18,834,144</u>	<u>\$ 6,179,120</u>	<u>\$ 4,508,273</u>

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. The City's financial institutions also have insurance through the Federal Depository Insurance Corporation (FDIC)

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, 2014**

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 and is not regetrsed with the . 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 Measure M Special Revenue Fund resulted due to a negative cash balance as of year-end in the amount of \$19,660, which is expected to be repaid in fiscal year 2014-15. Long-term interfund receivables and payables at June 30, 2014 are as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Private-Purpose Trust Fund	\$ 960,104 (B)
General Fund	Successor Housing Fund	28,804
Capital Outlay Reserve	Successor Housing Fund	500,000
Water	Successor Housing Fund	500,000
Sewer	Successor Housing Fund	500,000
Internal service funds	Successor Housing Fund	2,500,000
		<u>4,028,804 (A)</u>
	Total Advances	<u>\$ 4,988,908</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 were due from the former 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.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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

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, 2014, is \$4,028,804 and is recorded as an advance from various City funds.

In the previous fiscal year, the City interpreted that per the terms of the agreement, the advance payable was to be paid back from the proceeds of the loan receivable due from a developer discussed in Note 5 that is recorded in the Successor Housing Fund. As of June 30, 2014, the City now interprets the agreement that any payment to repay the Advances is to be made from the net income of the Successor Housing Fund. No payments have been made since the dissolution of redevelopment agency to repay the Advances. During fiscal year 2013-2014, the Successor Agency received the Finding of Completion which allowed the Successor Agency to add this obligation and to begin paying the advances through the Recognized Obligation Payment Schedule (ROPS) beginning in fiscal year 2014-2015. The amount to be paid back to the General Fund, Water Fund, Sewer Fund, Capital Outlay Reserve Fund and Internal Service Funds is restricted to 50 percent 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. Furthermore, twenty percent (20%) of any loan repayment is required to be transferred to the City’s Successor Housing Fund. The City estimates that the Successor Agency has sufficient cash flow from residual tax increment earnings to pay back the advances and expects the advances to be paid back by June 30, 2024.

- 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, 2014, is \$960,104 and is recorded as a Due from former CDC Successor Agency in the General Fund and Government-Wide Statement of Net Position of the City. Per the agreement, all amounts are to be repaid no later than fiscal year ending June 30, 2018. During fiscal year 2013-2014, 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 General Fund is restricted to 50 percent 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. Furthermore, twenty percent (20%) of any loan repayment is required to be transferred to the City’s Successor Housing Fund. The receivable is expected to be paid by the Successor Agency with residual tax increment by July 1, 2017.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 – INTERFUND TRANSFERS

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

Transfers In	Transfers Out	Amount
Capital Outlay Reserve	General Fund	\$ 1,219,500 (A)
Capital Outlay Reserve	Non-Major Fund - Measure M	16,569 (A)
General Fund	Water	270,900 (B)
General Fund	Sewer	12,200 (B)
Employee Benefits	General Fund	1,500,000 (C)
Computer Maintenance	General Fund	216,000 (C)
Total Interfund Transfers		<u>\$ 3,235,169</u>

Purpose of Interfund Transfers

- A. The General Fund and Measure M Fund transferred \$1,219,500 and \$16,569, respectively, 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.
- C. The General Fund transferred \$1,500,000 and \$216,000 to the Employee Benefits and Computer Maintenance Internal Service Funds, respectively, to fund the City's Other Post Employment Benefit contribution to CalPERS and to finance capital expenditures.

NOTE 5 – LOANS RECEIVABLE

Loans receivable consists of the following at June 30, 2014:

Governmental Funds	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Loan Receivable - Rental Housing Project	\$ 4,220,202		\$ (196,113)	\$ 4,024,089
Loans Receivable - Housing Loans	64,286		(14,655)	49,631
Total Governmental Fund Loans	<u>\$ 4,284,488</u>	<u>\$ -</u>	<u>\$ (210,768)</u>	<u>\$ 4,073,720</u>
			Internal Service Fund	
			Computer Loans	\$ 1,196
			Total governmental activities	<u>\$ 4,074,916</u>

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 – LOANS RECEIVABLE, (Continued)

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 \$196,113 from the operator. The balance of this loan at June 30, 2014, was \$4,024,089.

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, 2014, there were 14 remaining loans outstanding with a total balance of \$49,631.

Computer Loans

The City has a Computer loan program for its employees (related party transactions). No new loans were issued during 2013-14 and the outstanding loan balances as of June 30, 2014, totaled \$1,196. This amount is recorded in the Employee Benefits Internal Service Fund.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 – CAPITAL ASSETS

A summary of capital asset activity for the year ended June 30, 2014 is as follows:

Governmental Activities:	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
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	390,821	\$ 279,099	\$ (168,228)	501,692
Total Capital Assets Not Being Depreciated	7,097,574	279,099	(168,228)	7,208,445
Capital Assets, Being Depreciated:				
Buildings and improvements	8,080,899	669,405		8,750,304
Equipment	1,031,906	199,175	(24,492)	1,206,589
Vehicles	1,986,617	70,653	(45,772)	2,011,498
Furniture and fixtures	123,638			123,638
Infrastructure-streets network	10,852,683	168,228		11,020,911
Infrastructure-storm drains	676,184			676,184
Total Capital Assets Being Depreciated	22,751,927	1,107,461	(70,264)	23,789,124
Less Accumulated Depreciation for:				
Buildings and improvements	(2,706,913)	(177,649)		(2,884,562)
Equipment	(690,168)	(111,187)	4,899	(796,456)
Vehicles	(1,568,413)	(174,566)	45,772	(1,697,207)
Furniture and fixtures	(125,417)	(5,110)	6,889	(123,638)
Infrastructure-streets network	(6,157,372)	(195,105)		(6,352,477)
Infrastructure-storm drains	(367,638)	(9,016)		(376,654)
Total Accumulated Depreciation	(11,615,921)	(672,633)	57,560	(12,230,994)
Total Capital Assets, Being Depreciated, Net	11,136,006	434,828	(12,704)	11,558,130
Governmental Activities Capital Assets, Net	\$ 18,233,580	\$ 713,927	\$ (180,932)	\$ 18,766,575

During the fiscal year ended June 30, 2014, the City transferred buildings and improvement totaling \$669,405, from the Private Purpose Trust Fund to Governmental Activities.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 – CAPITAL ASSETS, (Continued)

Business-type Activities	Balance at June 30, 2013	Additions	Deletions	Balance at June 30, 2014
Capital Assets Not Being Depreciated:				
Land	\$ 754,000			\$ 754,000
Construction in progress	134,988	\$ 293,686	\$ (187,733)	240,941
Total Capital Assets Not Being Depreciated	888,988	293,686	(187,733)	994,941
Capital Assets, Being Depreciated:				
Buildings and improvements	7,839,661			7,839,661
Vehicles	15,118			15,118
Machinery and equipment	3,092,539	233,839		3,326,378
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	17,167,773	233,839	-	17,401,612
Less Accumulated Depreciation for:				
Buildings and improvements	(6,499,597)	(44,144)		(6,543,741)
Vehicles	(6,046)	(3,023)		(9,069)
Machinery and equipment	(1,005,083)	(272,587)		(1,277,670)
Water system and other improvements	(1,588,844)	(40,124)		(1,628,968)
Sewer system and other improvements	(1,795,823)	(42,802)		(1,838,625)
Total Accumulated Depreciation	(10,895,393)	(402,680)	-	(11,298,073)
Total Capital Assets, Being Depreciated, Net	6,272,380	(168,841)	-	6,103,539
Business-type Activities Capital Assets, Net	\$ 7,161,368	\$ 124,845	\$ (187,733)	\$ 7,098,480

Depreciation expense was charged to functions for the year ended June 30,2014 as follows:

Governmental Activities:	
General government	\$ 19,554
Public safety	168,241
Public works	317,773
Recreation	167,065
Total Depreciation Expense - Governmental Activities	\$ 672,633
Business-type Activities:	
Water	\$ 359,878
Sewer	42,802
Total Depreciation Expense - Business-type Activities	\$ 402,680

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

Governmental Activities	Balance at June 30, 2013	Additions	Reductions	Balance at June 30, 2014	Portion Due Within One Year
Compensated absences	\$ 605,908	\$ 705,109	\$ (692,926)	\$ 618,091	\$ 154,523
Total long-term liabilities	\$ 605,908	\$ 705,109	\$ (692,926)	\$ 618,091	\$ 154,523

Compensated absences are generally liquidated by the General Fund.

NOTE 8 – OTHER POST EMPLOYMENT 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,

	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 year 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, the City paid \$113,954 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, 2014**

NOTE 8 – OTHER POST EMPLOYMENT 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:

	June 30, 2014
Annual required contribution	\$ 159,370
Interest on net OPEB Obligation	56,557
Adjustment to annual required contribution	<u>(59,532)</u>
Annual OPEB Cost (Expense)	156,395
Contributions made	<u>(113,954)</u>
Increase in net OPEB Obligation	42,441
Net OPEB Obligation, Beginning of Year	<u>780,092</u>
Net OPEB Obligation, End of Year	<u><u>\$ 822,533</u></u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014 and the preceding year, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 303,649	41.40%	\$ 733,098
6/30/2013	155,293	69.70%	780,092
6/30/2014	156,395	72.90%	822,533

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 \$1,500,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$393,010 and a funded ratio (actuarial value of assets as a percentage of the actuarial accrued liability) of 79 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. During the fiscal year ended June 30, 2014, the City made a one-time contribution to CalPERS of \$1,500,000 to prefund the OPEB Trust Fund with CalPERS. It is anticipated that the annual required contribution (ARC) will reduce from \$159,370 to \$68,584 after the next scheduled actuarial study, when the \$1,500,000 contribution will be recognized in the calculation of the ARC. Therefore, in effect the City has reduced its annual obligation from the \$113,954 pay-as-you-go amount to the anticipated \$68,584 ARC payment.

CITY OF LA PALMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 8 – OTHER POST EMPLOYMENT 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. The actuarial assumptions included a 7.25 percent investment rate of return.

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.

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.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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

Self-insurance programs of the CJPIA, (Continued)

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.

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.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 10 – DEFINED BENEFIT PENSION PLAN (PERS)

A. Plan Description

The City of La Palma contributes to the California Public Employees Retirement System (CalPERS), a cost sharing, multiple employer public employee defined benefit pension plan. CalPERS 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 CalPERS policy, belongs to a “Risk Pool” for the purposes of benefit plan valuation. Copies of CalPERS’ 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 Public Employees Pension Reform Act of 2013 (PEPRA) became effective January 1, 2013. This means that the City of La Palma now has three 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.

The PEPRA Tier (Tier 3) is in effect for new employees hired after January 1, 2013, who have a six-month break in CalPERS service or have never worked for a CalPERS covered agency. Miscellaneous employees have a benefit formula of 2.0 percent at 62 and Safety employees have a benefit formula of 2.0 percent at 57.

In addition, labor agreements over the past few years phased in provisions for increasing member (employee) contributions towards the employee share of retirement costs. In FY 2013-14, the phasing in was complete with Miscellaneous employees in Tier 1, contributing the full eight percent (8.0 percent) member contribution amount and Safety employees in Tier 1 contributing the full 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 and Tier 3 (PEPRA) employees, Miscellaneous and Safety, are required to pay 50% of the normal cost with the City paying the other 50% (6.25% and 10.25% respectively).

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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

C. Funding Policy

As described in Section B above, all City employees pay the entire 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 2013-14 differ depending on whether the employee is a Tier 1, Tier 2, or Tier 3 member. The table below provides this information, based on CalPERS valuation of the plan as of June 30, 2011, with a special report done to provide the Tier 3 rates:

	Miscellaneous	Safety
Tier 1	15.685%	27.877%
Tier 2	8.049%	16.489%
Tier 3 (PEPRA)	6.25%	10.05%

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

Fiscal Year Ending	Annual Pension Cost (Employer- Contribution)	Percentage of APC Contributed
6/30/2012	\$ 564,109	100%
6/30/2013	591,509	100%
6/30/2014	620,022	100%

Miscellaneous

Fiscal Year Ending	Annual Pension Cost (Employer- Contribution)	Percentage of APC Contributed
6/30/2012	\$ 377,484	100%
6/30/2013	382,106	100%
6/30/2014	348,318	100%

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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 CalPERS retirement plan. 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, 2014, the amount contributed by the City was \$9,057. 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, 2014. 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, 2014**

NOTE 14 – FUND BALANCES

The details of the Fund Balance Classifications as of June 30, 2014 are presented below:

	Major Governmental Funds			Total
	General	Successor Housing Fund	Capital Outlay Reserve	
Nonspendable:				
Prepaid Items	\$ 51,241			\$ 51,241
Loans receivable	960,104			960,104
Advances from other Funds	28,804			28,804
Restricted for:				
Public Information				\$ 161,949
Capital Projects				333,457
Public Safety				233,850
Affordable Housing		\$ 282,045		282,045
Committed for:				
Economic Uncertainty	5,398,181			5,398,181
Capital Projects	3,598,788			3,598,788
Revenue Volatility Reserve	1,000,000			1,000,000
Economic Development	249,916			249,916
Assigned for:				
Cash Float Reserve	250,000			250,000
Capital Projects			\$ 5,151,995	5,151,995
One-Time Projects			819,500	819,500
Unassigned:				
	1,559,490			1,559,490
Total Fund Balance	\$ 13,096,524	\$ 282,045	\$ 5,971,495	\$ 20,079,320

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.

Non-Major Fund:

Special Revenue Fund:

Supplemental Law Enforcement

20,966
<u>\$ 20,966</u>

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 Abandoned Vehicles – Special Revenue Fund and the Park Development Fund – Special Revenue Fund.

CITY OF LA PALMA, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2014

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).

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.

Pursuant to AB 1X 26 and AB 1484 (Health and Safety Code Section 34167.5), the State Controller is required to review the activities of redevelopment agencies in the state to determine whether an asset transfer has occurred from January 1, 2011, to January 31, 2012, between the city or county, or city and county that created a redevelopment agency or any other public agency, and the redevelopment agency. If such an asset transfer did occur and the government agency that received the asset is not contractually committed to a third party, then the State Controller shall order that the assets be returned to the successor agency. The City received a final report from the State Controller in April 2014. The controller's report concluded that the Successor Agency had \$121,148 in unallowable transfers to the City. Additionally, the City identified \$8,566 in additional net unallowed transfers and transferred a net total of \$112,582 from various City funds back to the Successor Agency Private-Purpose Trust Fund. The transfers are reported as an extraordinary gain in the Private-Purpose Trust Fund and an extraordinary loss in the Governmental Activities and Business-Type Activities.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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

B. Successor Agency Long-term Debt

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
1993 Tax Allocation Bonds	\$ 1,885,000		\$ (255,000)	\$ 1,630,000	\$ 265,000
2001 Tax Allocation Bonds	3,685,000		(290,000)	3,395,000	310,000
Advances from the City of La Palma	858,904	\$ 101,200		960,104	
	<u>\$ 6,428,904</u>	<u>\$ 101,200</u>	<u>\$ (545,000)</u>	<u>\$ 5,985,104</u>	<u>\$ 575,000</u>

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, 2014 was \$1,630,000.

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, 2014, \$3,395,000 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, 2014, 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 tax increment to pay back the Advance by July 1, 2017. Furthermore, twenty percent (20%) of any loan repayment is required to be transferred to the City’s Successor Housing Fund.

CITY OF LA PALMA, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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

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, \$185,004 was recovered, bringing the total recovered to date of \$1,322,864 and ending balance of \$177,136.

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.

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.

NOTE 17 – COMMITMENTS

The City entered into an Operating Covenant Agreement in December 2013 with a business enterprise whereby the City shall rebate to the business enterprise on a calendar quarterly basis an amount equal to one-half (50%) of all of the net sales tax up to \$3,000,000 and 70% of all net sales tax in excess of \$3,000,000 received by the City from the sale of the business enterprise's products within the City's limits. The term of the Operating Covenant shall be for twenty (20) years and shall automatically renew for an additional ten (10) years thereafter unless the business enterprise provides written notice not less than 90 days before to the expiration date. The business enterprise may terminate the agreement at any time upon 180 days with prior written notice to the City. Rebate payments to the business enterprise shall be made in quarterly installments by City, after receipt of sales tax revenue.

For the fiscal year ended June 30, 2014, a total amount of \$1,125,396 was rebated to the business enterprise, and is reflected as a reduction of tax revenues in the General Fund.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF LA PALMA, CALIFORNIA

**OTHER POST EMPLOYMENT BENEFITS (OPEB)
FOR THE YEAR ENDED JUNE 30, 2014**

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
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	1,500,000	1,893,010	393,010	79%	4,788,525	39.5%

**CITY OF LA PALMA, CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION
MAJOR FUNDS – BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014**

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.

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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 6,803,000	\$ 7,415,075	\$ 7,179,494	\$ (235,581)
Intergovernmental	16,000	31,000	38,174	7,174
Licenses and permits	228,600	269,700	267,110	(2,590)
Fines and forfeitures	161,000	161,000	148,175	(12,825)
Investment income	60,000	60,241	157,607	97,366
Changes for services	508,600	501,600	584,574	82,974
Rental income	165,800	165,800	161,796	(4,004)
Miscellaneous	125,800	218,300	98,344	(119,956)
Total Revenues	8,068,800	8,822,716	8,635,274	(187,442)
EXPENDITURES				
Current:				
General government	1,436,430	1,377,622	1,424,960	(47,338)
Public safety	4,900,705	5,188,709	5,032,990	155,719
Public works	580,810	559,460	596,128	(36,668)
Recreation	1,196,790	1,209,190	1,248,759	(39,569)
Community development	490,510	476,510	481,167	(4,657)
Capital outlay	11,300	11,300	5,676	5,624
Total Expenditures	8,616,545	8,822,791	8,789,680	33,111
Excess (Deficiency) of Revenues Over (Under) Expenditures	(547,745)	(75)	(154,406)	(154,331)
OTHER FINANCING SOURCES (USES)				
Transfers in	283,100	283,100	283,100	
Transfers out	(400,000)	(1,900,000)	(2,935,500)	(1,035,500)
Total Other Financing Sources (Uses)	(116,900)	(1,616,900)	(2,652,400)	(1,035,500)
EXTRAORDINARY ITEMS:				
Dissolution of Redevelopment Agency			156,104	156,104
Net Change in Fund Balance	(664,645)	(1,616,975)	(2,650,702)	(1,033,727)
Fund Balance, Beginning of Year	15,747,226	15,747,226	15,747,226	
Fund Balance, End of Year	\$ 15,082,581	\$ 14,130,251	\$ 13,096,524	\$ (1,033,727)

See accompanying note to required supplementary information.

CITY OF LA PALMA, CALIFORNIA

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SUCCESSOR AGENCY HOUSING
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Investment income			\$ 101,005	\$ 101,005
Miscellaneous			14,654	14,654
Total Revenues			115,659	115,659
EXPENDITURES				
Current				
Community development	\$ 192,000	\$ 317,000	278,673	38,327
Total Expenditures	192,000	317,000	278,673	38,327
Excess (Deficiency) of Revenues Over (Under) Expenditures	(192,000)	(317,000)	(163,014)	153,986
EXTRAORDINARY ITEMS:				
Dissolution of Redevelopment Agency			(229,646)	(229,646)
Total Extraordinary Items			(229,646)	(229,646)
Net Change in Fund Balance	(192,000)	(317,000)	(392,660)	(75,660)
Fund Balance, Beginning of Year	674,705	674,705	674,705	
Fund Balance, End of Year	\$ 482,705	\$ 357,705	\$ 282,045	\$ (75,660)

See accompanying note to required supplementary information.

CITY OF LA PALMA, CALIFORNIA

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2014**

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. 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, 2014

Special Revenue Funds are used to account for and report revenue proceeds of specific revenue resources that are restricted to expenditure for specific purposes. The City of La Palma has nine 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 restricted to the development and renovation of City parks. No budget was adopted for the 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. No budget was adopted for the fiscal year.

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, 2014**

	Special Revenue Funds			
ASSETS	Streets	Measure M	Park Development	Air Quality Improvement
Cash and investments	\$ 209,264		\$ 22,147	\$ 50,366
Receivables:				
Accounts				
Interest	13		2	3
Due from other governments	50,839	\$ 49,225		5,096
Total Assets	<u>\$ 260,116</u>	<u>\$ 49,225</u>	<u>\$ 22,149</u>	<u>\$ 55,465</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 31,511			
Salaries payable	2,327			
Due to other funds		\$ 19,660		
Total Liabilities	<u>33,838</u>	<u>19,660</u>		
FUND BALANCES				
Restricted	226,278	\$ 29,565	\$ 22,149	\$ 55,465
Total Fund Balances	<u>226,278</u>	<u>29,565</u>	<u>22,149</u>	<u>55,465</u>
Total Liabilities and Fund Balances	<u>\$ 260,116</u>	<u>\$ 49,225</u>	<u>\$ 22,149</u>	<u>\$ 55,465</u>

Special Revenue Funds

Supplemental Law Enforcement Service	Public Safety Augmentation	Abandoned Vehicles	Assets Seizure	PEG Funds	Total
\$ 13,265	\$ 65,403	\$ 25,646	\$ 93,112	\$ 157,568	\$ 636,771
				4,369	4,369
2	5	2	6	12	45
	12,699		36,942		154,801
<u>\$ 13,267</u>	<u>\$ 78,107</u>	<u>\$ 25,648</u>	<u>\$ 130,060</u>	<u>\$ 161,949</u>	<u>\$ 795,986</u>
			\$ 5,227		\$ 36,738
\$ 2,064	\$ 3,162		2,779		10,332
					19,660
<u>2,064</u>	<u>3,162</u>		<u>8,006</u>		<u>66,730</u>
11,203	74,945	\$ 25,648	122,054	\$ 161,949	729,256
<u>11,203</u>	<u>74,945</u>	<u>25,648</u>	<u>122,054</u>	<u>161,949</u>	<u>729,256</u>
<u>\$ 13,267</u>	<u>\$ 78,107</u>	<u>\$ 25,648</u>	<u>\$ 130,060</u>	<u>\$ 161,949</u>	<u>\$ 795,986</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, 2014**

	Special Revenue Funds			
	Streets	Measure M	Park Development	Air Quality Improvement
REVENUES				
Intergovernmental	\$ 515,239	\$ 298,152		\$ 19,502
Investment income	248	53	\$ 17	46
Miscellaneous	95			
Total Revenues	<u>515,582</u>	<u>298,205</u>	<u>17</u>	<u>19,548</u>
EXPENDITURES				
Current:				
Public safety				
Public works	288,596	700		25,000
Capital outlay	311,923	318,600		
Total Expenditures	<u>600,519</u>	<u>319,300</u>		<u>25,000</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(84,937)</u>	<u>(21,095)</u>	<u>17</u>	<u>(5,452)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out		(16,569)		
Total Other Financing Sources (Uses)		<u>(16,569)</u>		
Net Change in Fund Balances	(84,937)	(37,664)	17	(5,452)
Fund Balances at Beginning of Year	<u>311,215</u>	<u>67,229</u>	<u>22,132</u>	<u>60,917</u>
Fund Balances at End of Year	<u>\$ 226,278</u>	<u>\$ 29,565</u>	<u>\$ 22,149</u>	<u>\$ 55,465</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, 2014**

Special Revenue Funds					
Supplemental Law Enforcement Service	Public Safety Augmentation	Abandoned Vehicles	Assets Seizure	PEG Funds	Total
\$ 103,157	\$ 161,954		\$ 181,769		\$ 1,279,773
5	51	\$ 21	13	\$ 111	565
				16,458	16,553
<u>103,162</u>	<u>162,005</u>	<u>21</u>	<u>181,782</u>	<u>16,569</u>	<u>1,296,891</u>
75,966	153,998		69,753		299,717
					314,296
					630,523
<u>75,966</u>	<u>153,998</u>		<u>69,753</u>		<u>1,244,536</u>
27,196	8,007	21	112,029	16,569	52,355
					(16,569)
					(16,569)
27,196	8,007	21	112,029	16,569	35,786
(15,993)	66,938	25,627	10,025	145,380	693,470
<u>\$ 11,203</u>	<u>\$ 74,945</u>	<u>\$ 25,648</u>	<u>\$ 122,054</u>	<u>\$ 161,949</u>	<u>729,256</u>

CITY OF LA PALMA, CALIFORNIA

**SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE –BUDGET AND ACTUAL
STREETS FUND – SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 479,700	\$ 479,700	\$ 515,239	\$ 35,539
Investment income	1,500	1,500	248	(1,252)
Miscellaneous			95	95
Total Revenues	<u>481,200</u>	<u>481,200</u>	<u>515,582</u>	<u>34,382</u>
EXPENDITURES				
Current:				
Public works	303,925	300,525	288,596	11,929
Capital outlay	400,000	453,971	311,923	142,048
Total Expenditures	<u>703,925</u>	<u>754,496</u>	<u>600,519</u>	<u>153,977</u>
Net Change in Fund Balance	(222,725)	(273,296)	(84,937)	188,359
Fund Balance, Beginning of Year	311,215	311,215	311,215	
Fund Balance, End of Year	<u>\$ 88,490</u>	<u>\$ 37,919</u>	<u>\$ 226,278</u>	<u>\$ 188,359</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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 269,100	\$ 269,100	\$ 298,152	\$ 29,052
Investment income	1,000	1,000	53	(947)
Total Revenues	270,100	270,100	298,205	28,105
EXPENDITURES				
Current:				
Public works	700	700	700	
Capital outlay		337,329	318,600	18,729
Total Expenditures	700	338,029	319,300	18,729
Excess (Deficiency) of Revenues Over (Under) Expenditures	269,400	(67,929)	(21,095)	46,834
OTHER FINANCING SOURCES (USES)				
Transfers out			(16,569)	(16,569)
Total Other Financing Sources (Uses)			(16,569)	(16,569)
Net Change in Fund Balance	269,400	(67,929)	(37,664)	30,265
Fund Balance, Beginning of Year	67,229	67,229	67,229	
Fund Balance, End of Year	\$ 336,629	\$ (700)	\$ 29,565	\$ 30,265

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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 19,800	\$ 19,800	\$ 19,502	\$ (298)
Investment income	100	100	46	(54)
Total Revenues	<u>19,900</u>	<u>19,900</u>	<u>19,548</u>	<u>(352)</u>
EXPENDITURES				
Current:				
Public works	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	
Total Expenditures	<u>25,000</u>	<u>25,000</u>	<u>25,000</u>	
Net Change in Fund Balance	(5,100)	(5,100)	(5,452)	(352)
Fund Balance, Beginning of Year	60,917	60,917	60,917	
Fund Balance, End of Year	<u>\$ 55,817</u>	<u>\$ 55,817</u>	<u>\$ 55,465</u>	<u>\$ (352)</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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 103,157	\$ 3,157
Investment income			5	5
Total Revenues	<u>100,000</u>	<u>100,000</u>	<u>103,162</u>	<u>3,162</u>
EXPENDITURES				
Current:				
Public safety	55,000	55,000	75,966	(20,966)
Total Expenditures	<u>55,000</u>	<u>55,000</u>	<u>75,966</u>	<u>(20,966)</u>
Net Change in Fund Balance	45,000	45,000	27,196	(17,804)
Fund Balance, Beginning of Year	(15,993)	(15,993)	(15,993)	
Fund Balance, End of Year	<u>\$ 29,007</u>	<u>\$ 29,007</u>	<u>\$ 11,203</u>	<u>\$ (17,804)</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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 164,000	\$ 164,000	\$ 161,954	\$ (2,046)
Investment income	100	100	51	(49)
Total Revenues	<u>164,100</u>	<u>164,100</u>	<u>162,005</u>	<u>(2,095)</u>
EXPENDITURES				
Current:				
Public safety	174,500	174,500	153,998	20,502
Total Expenditures	<u>174,500</u>	<u>174,500</u>	<u>153,998</u>	<u>20,502</u>
Net Change in Fund Balance	(10,400)	(10,400)	8,007	18,407
Fund Balance, Beginning of Year	66,938	66,938	66,938	
Fund Balance, End of Year	<u>\$ 56,538</u>	<u>\$ 56,538</u>	<u>\$ 74,945</u>	<u>\$ 18,407</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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 25,000	\$ 162,996	\$ 181,769	\$ 18,773
Investment income	-	-	13	13
Total Revenues	<u>25,000</u>	<u>162,996</u>	<u>181,782</u>	<u>18,786</u>
EXPENDITURES				
Current:				
Public safety	22,100	94,100	69,753	24,347
Total Expenditures	<u>22,100</u>	<u>94,100</u>	<u>69,753</u>	<u>24,347</u>
Net Change in Fund Balance	2,900	68,896	112,029	43,133
Fund Balance, Beginning of Year	<u>10,025</u>	<u>10,025</u>	<u>10,025</u>	
Fund Balance, End of Year	<u>\$ 12,925</u>	<u>\$ 78,921</u>	<u>\$ 122,054</u>	<u>\$ 43,133</u>

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, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Investment income	\$ 400	\$ 400	\$ 111	\$ (289)
Miscellaneous	15,000	15,000	16,458	1,458
Total Revenues	15,400	15,400	16,569	1,169
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)	16,569	18,369
Fund Balance, Beginning of Year	145,380	145,380	145,380	
Fund Balance, End of Year	\$ 143,580	\$ 143,580	\$ 161,949	\$ 18,369

CITY OF LA PALMA, CALIFORNIA

**INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

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:

Risk Management – To account for certain risk management activities 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 and Replacement – To account for the accumulation of monies to be used for vehicle replacements.

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

CITY OF LA PALMA, CALIFORNIA

**COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2014**

	Risk Management	Employee Benefits	Facilities Maintenance
ASSETS			
Current assets:			
Cash and investments	\$ 226,262	\$ 363,691	\$ 879,573
Receivables:			
Interest	39	22	71
Loans		1,196	
Due from other governments		(87,008)	
Total Current Assets	<u>226,301</u>	<u>277,901</u>	<u>879,644</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>826,301</u>	<u>1,277,901</u>	<u>1,379,644</u>
LIABILITIES			
Current liabilities:			
Accounts payable	10,138	40,813	79,491
Due to other governments	80,226		
Salaries payable		15,072	1,277
Retentions payable			4,142
Total Liabilities	<u>90,364</u>	<u>55,885</u>	<u>84,910</u>
Total Net Position - Unrestricted	<u>\$ 735,937</u>	<u>\$ 1,222,016</u>	<u>\$ 1,294,734</u>

Vehicle Maintenance and Replacement	Technology Maintenance and Replacement	Total
\$ 832,141	\$ 720,614	\$ 3,022,281
61	37	230
937		1,196
<u>833,139</u>	<u>720,651</u>	<u>(86,071)</u>
<u>400,000</u>		<u>2,937,636</u>
<u>400,000</u>		<u>2,500,000</u>
<u>1,233,139</u>	<u>720,651</u>	<u>2,500,000</u>
37,800	75,367	243,609
		80,226
		16,349
		<u>4,142</u>
<u>37,800</u>	<u>75,367</u>	<u>344,326</u>
<u>\$ 1,195,339</u>	<u>\$ 645,284</u>	<u>\$ 5,093,310</u>

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, 2014**

	Risk Management	Employee Benefits	Facilities Maintenance
OPERATING REVENUES			
Charges for services	\$ 254,220	\$ 2,077,188	\$ 264,990
Miscellaneous		87,098	
Total Operating Revenues	<u>254,220</u>	<u>2,164,286</u>	<u>264,990</u>
OPERATING EXPENSES			
Personnel services		3,049,121	187,702
Maintenance and operations		19,015	259,710
Contractual services		11,202	
Settlement, claims and insurance	246,830	943,797	
Total Operating Expenses	<u>246,830</u>	<u>4,023,135</u>	<u>447,412</u>
Operating Income (Loss)	<u>7,390</u>	<u>(1,858,849)</u>	<u>(182,422)</u>
NON OPERATING REVENUES (EXPENSE)			
Investment income	398	200	413
Total Non Operating Revenues (Expense)	<u>398</u>	<u>200</u>	<u>413</u>
Income (Loss) Before Transfers and Extraordinary Item	7,788	(1,858,649)	(182,009)
Transfers in		1,500,000	
Extraordinary item	(16,772)	(27,953)	(13,976)
Change in net position	<u>(8,984)</u>	<u>(386,602)</u>	<u>(195,985)</u>
Net Position at Beginning of Year	<u>744,921</u>	<u>1,608,618</u>	<u>1,490,719</u>
Net Position at End of Year	<u>\$ 735,937</u>	<u>\$ 1,222,016</u>	<u>\$ 1,294,734</u>

Vehicle Maintenance and Replacement	Technology Maintenance and Replacement	Total
\$ 304,175	\$ 192,900	\$ 3,093,473
10,050		97,148
<u>314,225</u>	<u>192,900</u>	<u>3,190,621</u>
	138,882	3,375,705
238,946	233,388	751,059
		11,202
		<u>1,190,627</u>
<u>238,946</u>	<u>372,270</u>	<u>5,328,593</u>
<u>75,279</u>	<u>(179,370)</u>	<u>(2,137,972)</u>
<u>320</u>	<u>245</u>	<u>1,576</u>
<u>320</u>	<u>245</u>	<u>1,576</u>
75,599	(179,125)	(2,136,396)
	216,000	1,716,000
(11,181)		(69,882)
<u>64,418</u>	<u>36,875</u>	<u>(490,278)</u>
<u>1,130,921</u>	<u>608,409</u>	<u>5,583,588</u>
<u>\$ 1,195,339</u>	<u>\$ 645,284</u>	<u>\$ 5,093,310</u>

CITY OF LA PALMA, CALIFORNIA

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Risk Management	Employee Benefits	Facilities Maintenance
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from internal users	\$ 254,220	\$ 2,252,765	\$ 264,990
Cash payments to suppliers for goods and services	(813,187)	(59,766)	(214,289)
Cash payments for employee services	(246,830)	(3,992,918)	(183,560)
Net Cash Provided By (Used For) Operating Activities	(805,797)	(1,799,919)	(132,859)
Cash flows from non-capital financing activities:			
Cash payments from other funds		1,500,000	
Advances to other funds	(16,772)	(27,953)	(13,976)
Net Cash Provided By (Used For) Non-Capital Financing Activities	(16,772)	1,472,047	(13,976)
Cash flows from investing activities:			
Interest income	959	530	943
Net Cash Provided By (Used For) Investing Activities	959	530	943
Net Increase (Decrease) In Cash and Cash Equivalents	(821,610)	(327,342)	(145,892)
Cash and Cash Equivalents at Beginning of Year	1,047,872	691,033	1,025,465
Cash and Cash Equivalents at End of Year	\$ 226,262	\$ 363,691	\$ 879,573
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED FOR) OPERATING ACTIVITIES			
Operating income (loss)	\$ 7,390	\$ (1,858,849)	\$ (182,422)
Adjustments to reconcile operating income (loss) to net income provided by (used for) operating activities:			
(Increase) decrease in accounts receivable		694	
(Increase) decrease in loans receivable		777	
(Increase) decrease in due from other governments		87,008	
Increase (decrease) in accounts payable	(216,703)	(9,159)	45,000
Increase (decrease) in other accrued liabilities	80,226		4,142
Increase (decrease) in salaries payable		(20,390)	421
Increase (decrease) in due to other governments	(676,710)		
Total adjustments	(813,187)	58,930	49,563
Net Cash Provided By (Used For) Operating Activities	\$ (805,797)	\$ (1,799,919)	\$ (132,859)

Vehicle Maintenance and Replacement	Technology Maintenance and Replacement	Total
\$ 313,288	\$ 192,900	\$ 3,278,163
(287,385)	(202,372)	(1,576,999)
	(138,882)	(4,562,190)
<u>25,903</u>	<u>(148,354)</u>	<u>(2,861,026)</u>
	216,000	1,716,000
<u>(11,181)</u>		<u>(69,882)</u>
<u>(11,181)</u>	<u>216,000</u>	<u>1,646,118</u>
745	589	3,766
<u>745</u>	<u>589</u>	<u>3,766</u>
15,467	68,235	(1,211,142)
<u>816,674</u>	<u>652,379</u>	<u>4,233,423</u>
<u>\$ 832,141</u>	<u>\$ 720,614</u>	<u>\$ 3,022,281</u>
<u>\$ 75,279</u>	<u>\$ (179,370)</u>	<u>\$ (2,137,972)</u>
		694
		777
(937)		86,071
(48,439)	31,016	(198,285)
		84,368
		(19,969)
		(676,710)
<u>(49,376)</u>	<u>31,016</u>	<u>(723,054)</u>
<u>\$ 25,903</u>	<u>\$ (148,354)</u>	<u>\$ (2,861,026)</u>

CITY OF LA PALMA, CALIFORNIA

**AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2014**

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, 2014**

	<u>City Agency</u>
ASSETS	
Cash and investments	\$ 9,760
Total Assets	<u><u>\$ 9,760</u></u>
LIABILITIES	
Deposits payable	\$ 9,760
Total Liabilities	<u><u>\$ 9,760</u></u>

CITY OF LA PALMA, CALIFORNIA

**STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 FOR THE YEAR ENDED JUNE 30, 2014**

City Agency	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014
ASSETS				
Cash and investments	\$ 12,406	\$ 9,760	\$ (12,406)	\$ 9,760
LIABILITIES				
Account payable	\$ 29	\$ -	\$ (29)	\$ -
Deposits payable	12,377	-	(2,617)	9,760
	<u>\$ 12,406</u>	<u>\$ -</u>	<u>\$ (2,646)</u>	<u>\$ 9,760</u>

CITY OF LA PALMA, CALIFORNIA

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL ACTIVITIES
SCHEDULE BY SOURCE
JUNE 30, 2014**

GOVERNMENTAL ACTIVITIES CAPITAL ASSETS:

Land	\$ 1,602,281
Land rights related to streets	5,104,472
Construction in progress	501,692
Building and improvements	8,750,304
Equipment	1,206,589
Vehicles	2,011,498
Furniture and fixtures	123,638
Infrastructure	11,697,095
Total Governmental Funds Capital Assets	<u>\$ 30,997,569</u>

Investments in governmental funds capital assets by source

General fund and other sources	\$ 30,262,305
Federal and state grants	735,264
Total Governmental Funds Capital Assets	<u>\$ 30,997,569</u>

CITY OF LA PALMA, CALIFORNIA

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL ACTIVITIES
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2014**

	<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	\$ 108,743	\$ 908,959	\$ 278,746		\$ 56,550	\$ 2,571,279
Public safety			1,046,390	608,007	\$ 897,859	12,338	2,564,594
Public works	79,000	101,420	269,741	140,451	995,216		1,585,828
Recreation	305,000	291,530	6,525,215	163,380	88,181	54,750	7,428,056
Community development				16,023	30,222		46,245
	<u>\$ 1,602,281</u>	<u>\$ 501,693</u>	<u>\$ 8,750,305</u>	<u>\$ 1,206,607</u>	<u>\$ 2,011,478</u>	<u>\$ 123,638</u>	<u>14,196,002</u>
Land rights related to streets							5,104,472
Infrastructure							11,697,095
Totals							<u>\$ 30,997,569</u>

CITY OF LA PALMA, CALIFORNIA

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE OF CHANGES BY FUNCTION
 YEAR ENDED JUNE 30, 2014**

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014
General government	\$ 1,790,981	\$ 748,818	\$ 5,500	\$ 2,534,299
Public safety	2,359,188	267,678	25,272	2,601,594
Public works	1,591,710	201,837	207,721	1,585,826
Recreation	7,428,056			7,428,056
Community development	46,227			46,227
	<u>13,216,162</u>	<u>1,218,333</u>	<u>238,493</u>	<u>14,196,002</u>
Land rights related to streets	5,104,472			5,104,472
Infrastructure	11,528,867	168,228		11,697,095
Totals	<u>\$ 29,849,501</u>	<u>\$ 1,386,561</u>	<u>\$ 238,493</u>	<u>\$ 30,997,569</u>

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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									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Governmental activities										
Net investment in capital assets	\$ 18,766,575	\$ 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
Restricted	1,060,933	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
Unrestricted	22,723,876	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
Total governmental activities	<u>\$ 42,551,384</u>	<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>
Business-type activities										
Net investment in capital assets	\$ 7,098,480	\$ 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
Restricted					6,200,398	6,135,261	5,699,473	5,699,473		
Unrestricted	9,915,143	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>\$ 17,013,623</u>	<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>
Primary government										
Net investment in capital assets	\$ 25,865,055	\$ 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
Restricted	1,060,933	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
Unrestricted	32,639,019	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
Total primary government	<u>\$ 59,565,007</u>	<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>

CITY OF LA PALMA, CALIFORNIA

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

LAST TEN FISCAL YEARS

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Expenses:										
Governmental activities:										
General government	\$ 1,838,648	\$ 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
Public safety	6,832,640	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
Public works	2,868,255	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
Recreation	1,763,797	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
Community development	864,927	781,198	1,035,990	1,133,634	1,034,199	1,014,666	883,184	881,167	798,299	744,627
Interest on long-term debt	-	-	379,412	621,207	673,477	769,850	890,561	956,237	561,699	561,503
Total governmental activities	14,168,267	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
Business-type activities:										
Water	2,679,623	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
Sewer	490,144	575,902	582,362	631,394	495,149	454,780	156,265	173,746	246,959	237,912
Total business-type activities	3,169,767	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
Total primary government expenses	17,338,034	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
Program revenues:										
Governmental activities:										
Charges for services:										
General government	164,764	169,574	144,219	143,992	165,290	177,829	175,399	162,811	156,524	146,628
Public safety	157,921	149,371	164,139	175,503	181,453	185,561	14,351	17,144	157,301	150,439
Public works	68,055	28,382	15,780	11,591	13,469	10,254	20,171	12,917	8,461	9,256
Recreation	421,306	399,277	373,732	365,006	339,012	317,082	473,574	542,008	333,045	356,075
Community development	179,503	177,107	199,880	115,540	53,111	108,927	132,257	114,422	112,704	203,138
Operating grants and contributions	1,080,263	881,341	915,410	987,325	1,093,013	955,223	940,219	1,123,017	931,703	808,942
Capital grants and contributions	807,627	310,616	292,116	261,883	431,415	764,518	934,216	11,273	36,043	11,789
Total governmental activities	2,879,439	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
Business-type activities:										
Charges for services:										
Water	2,823,219	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
Sewer	236,631	224,020	242,414	223,648	277,921	299,729	315,548	317,785	328,934	361,915
Operating grants and contributions								65,253	40,606	23,744
Capital grants and contributions									119,747	-
Total business-type activities	3,059,850	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
Total primary government program revenues	5,939,289	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

(Continued on next page)

CITY OF LA PALMA, CALIFORNIA

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

LAST TEN FISCAL YEARS

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Net revenues (expenses):										
Governmental activities	\$ (11,288,828)	\$ (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)
Business-type activities	(109,917)	(185,290)	(183,978)	(251,887)	(332,449)	177,126	604,286	764,712	934,011	330,370
Total primary government net revenues (expenses)	<u>(11,398,745)</u>	<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>
General revenues and other changes in net assets:										
Governmental activities:										
Taxes:										
Property taxes	\$ 3,393,278	\$ 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
Sales Taxes	2,243,348	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
Utility users tax	1,101,159	994,444	893,605	943,146	995,062	1,332,177	1,383,922	826,331	4,398,978	4,398,978
Franchise taxes	381,839	358,672	357,553	353,974	347,316	345,924	370,960	318,679	306,192	306,192
Transient occupancy taxes	313,662	257,975	227,539	216,387	198,230	291,340	279,406	244,976	212,624	212,624
Intergovernmental - unrestricted	61,851	218,858	8,066	74,446	47,601	71,636	94,819	104,895	1,291,482	1,291,482
Investment income	114,371	156,106	202,128	360,544	484,854	1,757,446	1,808,537	1,137,651	520,348	520,348
Other general revenues	73,892	-	259,924	350,384	365,373	353,089	598,549	80,621	88,577	88,577
Transfers	283,100	283,100	283,100	283,100	369,700	363,000	361,900	334,900	324,700	324,700
Contributions from Successor Agency	669,405									
Extraordinary Gain (Loss)	(84,630)	-	(3,333,018)							
Total governmental activities	<u>8,551,275</u>	<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>
Business-type activities:										
Investment income	3,717	15,876	59,209	74,123	103,091	515,042	569,759	397,845	281,972	281,972
Other general revenues	11,185	2,460	13,501	29,735	4,716		10,653	325	2,882	2,882
Transfers	(283,100)	(283,100)	(283,100)	(283,100)	(369,700)	(363,000)	(361,900)	(334,900)	(324,700)	(324,700)
Extraordinary Gain (Loss)	(27,952)	-	-							
Total business-type activities	<u>(296,150)</u>	<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>
Total primary government general revenues and other changes in net assets	<u>8,255,125</u>	<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>
Changes in net position:										
Governmental activities	(2,737,553)	(140,699)	(2,452,467)	71,594	(1,545,851)	6,926,723	3,324,488	(174,289)	3,364,314	3,819,601
Business-type activities	(406,067)	(450,054)	(394,368)	(431,129)	(594,342)	329,168	822,798	827,982	894,165	290,524
Total primary government changes in net position	<u>\$ (3,143,620)</u>	<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>

CITY OF LA PALMA, CALIFORNIA

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

LAST TEN FISCAL YEARS

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Fund:										
Reserved*					\$ 2,140,684	\$ 2,354,906	\$ 2,527,584	\$ 2,674,702	\$ 2,792,661	\$ 2,925,199
Unreserved					18,032,721	18,839,746	21,735,394	11,342,958	10,757,902	11,311,064
Nonspendable	\$ 1,040,149	\$ 902,303	\$ 915,758	\$ 1,021,205						
Committed	10,246,885	-	-	-						
Assigned	250,000	3,663,975	4,541,983	5,180,159						
Unassigned	1,559,490	11,180,948	9,289,212	9,466,500						
Total General Fund	<u>\$ 13,096,524</u>	<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>
All other governmental funds:										
Reserved*					\$ 5,884,851	\$ 5,404,370	\$ 5,419,100	\$ 5,527,395	\$ 5,343,068	\$ 5,345,437
Unreserved, reported in:										
Special Revenue Funds					454,353	561,069	410,434	(880,054)	(1,229,687)	(1,826,602)
Debt Service Funds					3,503,408	4,301,725	3,331,433	1,925,285	944,512	424,265
Non-major Governmental Funds					2,097,396	2,603,625	1,983,038	4,315,537	5,097,871	5,568,247
Nonspendable	\$ -	\$ -	\$ 396,668	\$ 2,637,750						
Restricted	1,011,301	1,384,168	4,493,579	5,541,769						
Assigned	5,971,495	5,644,379	5,628,728	6,605,377						
Unassigned	-	(15,993)	(3,975,674)	(1,239,989)						
Total all other governmental funds	<u>\$ 6,982,796</u>	<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>

Source: City of La Palma Finance Department

* During FY 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. The City has chosen not to restate years prior to FY 2010-11.

CITY OF LA PALMA, CALIFORNIA

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

LAST NINE FISCAL YEARS

	Fiscal Year								
	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenues:									
Taxes	\$ 7,179,494	\$ 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	1,843,879	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	267,110	281,145	268,847	210,224	194,070	253,277	257,525	229,219	218,911
Fines and forfeitures	148,175	136,883	153,549	161,914	166,408	171,489	188,171	219,283	139,338
Investment income	262,973	157,902	210,835	392,338	581,268	1,284,478	1,939,278	1,999,787	1,540,813
Charges for services	584,574	514,062	504,934	448,325	391,932	392,681	376,921	435,390	415,913
Rental income	161,796	173,977	160,182	161,683	156,533	155,806	155,099	156,464	150,225
Miscellaneous	129,551	139,175	165,955	227,322	274,015	183,373	250,132	401,797	383,244
Total revenues	<u>10,577,552</u>	<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	1,424,960	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	5,332,707	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	910,424	1,004,085	1,210,218	1,112,072	1,037,332	960,353	907,617	885,951	887,029
Recreation	1,248,759	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	759,840	737,788	968,804	1,119,008	1,019,794	973,365	869,581	882,759	900,053
Capital outlay	2,063,792	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>11,740,482</u>	<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>(1,162,930)</u>	<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	1,519,169	1,983,100	3,783,100	2,527,126	1,495,870	2,624,290	402,400	394,800	364,700
Transfers out	(2,952,069)	(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>(1,432,900)</u>	<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	(84,630)		(9,970,644)						
Net change in fund balances	<u>\$ (2,680,460)</u>	<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%	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>Assessed Value</u>	<u>Direct Rate</u>
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%
2014	1,689,678,380		54,605,820	1,744,284,200	0.11949%

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 2013-14 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	Basic Levy (Note 1)	Overlapping Rates (Note 2)							Total Direct and Overlapping Tax Rates	Total Direct Rate (Note 3)
		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 O.C. Joint Community College District Bonds		
2005	1.00000	0.02770	0.01778	0.02490	0.00000	0.01554	0.00580	0.01441	1.10613	0.2616%
2006	1.00000	0.02444	0.01751	0.01895	0.00000	0.01503	0.00520	0.01666	1.09779	0.2635%
2007	1.00000	0.02355	0.01495	0.01763	0.00000	0.01540	0.00470	0.01444	1.09067	0.2643%
2008	1.00000	0.02516	0.01743	0.02090	0.00000	0.01346	0.00450	0.01502	1.09647	0.2856%
2009	1.00000	0.02363	0.01444	0.02190	0.00000	0.01431	0.00430	0.01493	1.09351	0.2858%
2010	1.00000	0.02617	0.01768	0.02531	0.02195	0.01529	0.00430	0.01662	1.12732	0.2989%
2011	1.00000	0.02745	0.01851	0.02569	0.02615	0.01588	0.00370	0.01758	1.13496	0.2878%
2012	1.00000	0.02678	0.01851	0.02682	0.01505	0.01300	0.00370	0.01742	1.12128	0.2795%
2013	1.00000	0.02858	0.01809	0.02593	0.02549	0.01579	0.00350	0.01902	1.13640	0.2793%
2014	1.00000	0.02620	0.01662	0.02558	0.02676	0.01435	0.00350	0.01704	1.13005	0.1195%

Notes

Note 1: 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. The City receives only a portion of this basic 1% levy.

Note 2: Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all city property owners.

Note 3: Because basic and overlapping rates vary by tax rate area, individual rates cannot be summed. The Total Direct Rate is the weighted average of all individual direct rates applied by the City.

Source: County of Orange Assessor's Office, Tax Rate Table, as reported in "HDL 2013-14 CAFR Statistical Reports," Direct and Overlapping Property Tax Rates table.

CITY OF LA PALMA, CALIFORNIA

PRINCIPAL PROPERTY TAX PAYERS

CURRENT YEAR AND NINE YEARS AGO

Property Owner's Name	2014			2005		
	Assessed Value	Rank	Percentage of Net AV	Assessed Value	Rank	Percentage of Net AV
Realty Associates Fund IX LP	\$ 82,963,445	1	4.76%			
Kaiser Foundation Health Plan Inc.	24,052,246	2	1.38%			
La Palma Paper	20,979,833	3	1.20%	\$ 17,813,362	3	1.37%
MPT of La Palma LP	20,726,357	4	1.19%			
ADP Inc.	19,970,968	5	1.14%	18,405,272	2	1.41%
Bre LQ Properties LLC	19,257,936	6	1.10%			
Dexus Socal LLC	18,751,690	7	1.08%			
Huntington-Humboldt	14,282,915	8	0.82%	12,370,530	5	0.95%
Casa La Veta Associates	13,491,215	9	0.77%	11,686,675	7	0.90%
AL United States La Palma Sr. Housing	13,096,926	10	0.75%			
Arden Realty Finance IV				87,163,750	1	6.68%
Fresca Industrial Park LP				13,188,452	4	1.01%
La Quinta Development				10,756,229	8	0.82%
Wallace Computer Services				9,904,953	9	0.76%
VHS of Orange OC				12,043,436	6	0.92%
183rd La Palma Investors				9,356,103	10	0.72%
	<u>\$ 247,573,531</u>		<u>14.19%</u>	<u>\$ 202,688,762</u>		<u>15.54%</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 2013-14 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>
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
2014	2,084,245	2,084,245

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	Tax Allocation Bonds		Population	Debt Per Capita	Bonded Debt Per Capita	Bonded Debt as a Percentage of Personal Income
	Governmental Activities	Successor Agency				
2005	\$ 9,380,000	\$ -	16,028	\$ 585.23	\$ 585.23	0.3043%
2006	9,030,000	-	16,034	563.18	563.18	0.3329%
2007	8,670,000	-	16,028	540.93	540.93	0.3726%
2008	8,290,000	-	16,028	517.22	517.22	0.4077%
2009	7,890,000	-	16,091	490.34	490.34	0.4327%
2010	7,475,000	-	16,187	461.79	461.79	0.4423%
2011	7,040,000	-	16,304	431.80	431.80	0.4464%
2012	-	6,575,000	15,700	418.79	418.79	0.5025%
2013	-	6,085,000	15,818	384.69	384.69	0.5565%
2014	-	5,025,000	15,896	316.12	316.12	0.6984%

**The total principal amount represents the outstanding debt on the 1993 and 2001 Tax Allocation Bonds - As discussed in Note 16 of the CAFR, during FY 11/12 this debt became an obligation of the Successor Agency rather than debt of the City of La Palma.*

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, 2014

2013-14 Assessed Valuation: \$1,744,907,431

<u>Direct and Overlapping Tax and Assessment Debt:</u>	<u>% Applicable</u>	<u>City's Share of Debt 06/30/14</u>
Metropolitan Water District	0.080	\$ 105,820
North Orange County Joint Community College District	1.716	3,453,261
Anaheim Union High School District	3.320	3,330,755
Fullerton Joint Union High School District	2.126	1,068,058
Buena Park School District	10.322	856,682
Centralia School District	17.520	2,427,334
Cypress School District	8.107	3,258,661
City of La Palma	100.000	
Total Direct and Overlapping Tax and Assessment Debt		<u>\$ 14,500,571</u>
<u>Overlapping General Fund Debt:</u>		
Orange County General Fund Obligations	0.394	\$ 573,175
Orange County Pension Obligation Bonds	0.394	126,849
Orange County Board of Education Certificates of Participation	0.394	61,070
Municipal Water District of Orange County Water Facilities Corporation	0.473	36,776
North Orange County ROP Certificates of Participation	1.766	188,785
Anaheim Union High School District Certificates of Participation	3.32	1,201,113
Fullerton Joint Union High School District Certificates of Participation	2.126	473,141
Cypress School District Certificates of Participation	8.107	597,081
Total Gross Overlapping General Fund Debt		<u>3,257,990</u>
Less: MWDOC Water Facilities Corporation (100% self-supported)		<u>36,776</u>
Total Net Overlapping General Fund Debt		<u>\$ 3,221,214</u>
Overlapping Tax Increment Debt (Successor Agencies):	.0230-100%	<u>5,028,516</u>

Total Direct Debt

Gross Combined Total Direct and Overlapping Debt	\$ 22,787,077
Net Combined Total Direct and Overlapping Debt	\$ 22,750,301

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

Ratios to 2013-14 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	0.83%
Gross Combined Total Debt	1.31%
Net Combined Total Debt	1.30%

Ratios to Redevelopment Incremental Valuation (\$316,142,300):

Total Overlapping Tax Increment Debt	1.59%
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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>
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
2014	1,744,284,200	3.750%	65,410,658		65,410,658

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>
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%
2013	15,896	557,902	35,097	5.6%

Sources: "HDL 2013-14 CAFR Statistical Reports," Demographic and Economic Statistics

CITY OF LA PALMA, CALIFORNIA

OPERATING INDICATORS BY FUNCTION

LAST NINE FISCAL YEARS

Function:	Fiscal Year								
	2014	2013	2012	2011	2010	2009	2008	2007	2006
Public safety:									
Calls for service	14,244	19,242	17,443	22,059	33,923	28,130	27,837	26,085	15,564
Crime reports	1,622	2,012	1,751	2,121	2,295	1,931	2,062	2,142	2,023
Arrests	432	979	871	1,201	1,383	1,031	1,056	1,034	859
Traffic citations	1,036	2,385	1,747	2,520	2,876	2,800	2,826	3,873	1,840
Parking citations	1,418	1,155	1,637	1,649	1,997	2,569	2,672	2,010	1,901
Other citations	75	90	151	136	119	113	130	117	75
Public works:*									
Traffic signals maintained	21	21	19	18	18	18	18	18	18
Infrastructure improvement projects administered	11	10	23	23	21	20	10	3	4
Private development plans reviewed	4	3	1	1	1	2	5	5	5
Graffiti removal (square feet)	875	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	62
Trees pruned *	621	350	2,000	2,000	2,572	2,000	1,000	2,000	2,200
Recreation:									
Recreation classes	653	970	470	527	528	540	632	564	878
Recreation classes enrollment	4,456	5,162	4,824	4,106	3,794	3,748	3,455	3,790	4,094
Indoor facility rentals	232	230	288	242	222	100	23	431	382
Indoor facility rental hours	649	800	900	869	956	386	83	1,289	1,187
Outdoor facility rentals	488	374	257	278	239	223	236	390	381
Outdoor facility rental hours	1,164	1,022	758	812	787	683	760	964	1,154
Community Development:**									
Planning entitlements processed**	89	36	55	24	16	16	20	12	10
Building permits issued	369	476	417	434	409	404	394	400	324
Estimated valuation of building permits (millions)	\$6.759	\$6.602	\$8.589	\$3.870	\$3.289	\$3.768	\$3.685	\$3.876	\$2.255
Code enforcement cases	298	365	494	204	589	503	323	501	450
Water:									
Average monthly consumption per household (cubic feet)	1,835	1,800	1,800	1,616	1,756	2,000	2,000	2,000	2,000
Customer accounts	4,369	4,380	4,334	4,334	4,374	4,374	4,323	4,323	4,323
Water samples taken	444	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 SEVEN FISCAL YEARS

Function:	Fiscal Year						
	2014	2013	2012	2011	2010	2009	2008
Public safety:							
Police stations	1	1	1	1	1	1	1
Public works:							
Streets (miles)	31	31	31	31	31	31	31
Streetlights	972	972	972	972	972	972	972
Traffic signals	18.5	18.5	18.5	18	18	18	18
Recreation:							
Community centers	1	1	1	1	1	1	1
Parks	2	2	2	2	2	2	2
Water:							
Water mains (miles)	38	38	38	38	38	38	38
Maximum daily capacity (millions of gallons)	2.65	2.65	2.65	2.65	2.65	2.65	2.65
Fire hydrants	343	343	343	343	343	343	343
Water wells	2	2	2	2	2	2	2
Storage capacity (millions of gallons)	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Reservoirs	2	2	2	2	2	2	2
Wastewater:							
Sanitary sewers (miles)	28	28	28	28	28	28	28
Storm drains (miles)	5	5	5	5	5	5	5
Manholes	631	631	631	631	631	631	631

Source: City of La Palma, respective Departments

CITY OF LA PALMA, CALIFORNIA

PRINCIPAL EMPLOYERS

CURRENT YEAR AND TWELVE YEARS AGO

Employer	2014		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%
Anahiem 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%

* 2005 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>
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
2014*	7.65	30.0	5.5	4.6	3.0	6.3	57.0

Source: City of La Palma Finance Department

* Two reorganizations took place in FY14: Recreation & Public Works were consolidated to create Community Services and Finance was absorbed into the Administrative Services Department.

OTHER INFORMATION

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CITY OF LA PALMA, CALIFORNIA

**LONG-TERM DEBT AMORTIZATION TABLE
SUCCESSOR AGENCY
JUNE 30, 2014**

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 265,000	\$ 99,430
2016	285,000	83,265
2017	295,000	65,880
2018	325,000	47,885
2019	230,000	28,060
2020-2022	230,000	38,430
Total	<u>\$ 1,630,000</u>	<u>\$ 362,950</u>

Debt service requirements on the 2001 refunding tax allocation bonds at June 30,2014 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 310,000	\$ 186,725
2016	325,000	169,675
2017	350,000	151,800
2018	360,000	132,550
2019	495,000	112,750
2020-2021	1,555,000	130,350
Total	<u>\$ 3,395,000</u>	<u>\$ 883,850</u>