

**CITY OF LA PALMA
CALIFORNIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2005**

**Prepared By
Finance Department**

**Robbeyn Bird, CPA
Director of Finance**



CITY OF LA PALMA
Comprehensive Annual Financial Report
Year ended June 30, 2005

TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTORY SECTION</u>	
Letter of Transmittal	i
Certificate of Award for Outstanding Financial Reporting (CSMFO)	viii
Certificate of Achievement for Excellence in Financial Reporting (GFOA)	ix
Directory of Officials	x
Organizational Chart	xi
<u>FINANCIAL SECTION</u>	
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	20
Reconciliation of the Balance Sheet to the Statement of Net Assets	22
Statement of Revenues, Expenditures and Changes in Fund Balances	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	26
Proprietary Funds:	
Statement of Net Assets	28
Statement of Revenues, Expenses and Changes in Fund Net Assets	29
Statement of Cash Flows	30
Fiduciary Funds:	
Statement of Fiduciary Assets and Liabilities	34
Notes to the Basic Financial Statements	35

CITY OF LA PALMA
Comprehensive Annual Financial Report
Year ended June 30, 2005

TABLE OF CONTENTS

	<u>Page</u>
Required Supplementary Information:	
Notes to Required Supplementary Information	73
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
General Fund	74
Low/Moderate Income Housing Fund	75
Supplementary Schedules:	
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	78
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	80
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Asset Seizure	82
Streets	83
Measure M	84
Park Development	85
Air Quality Improvement	86
Supplemental Law Enforcement Service	87
Public Safety Augmentation	88
Abandoned Vehicles	89
Local Law Enforcement Block Grant	90
California Law Enforcement Equipment Program	91
Urban Park Grant	92
Major Debt Service Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
CDC Debt Service Fund	94
Internal Service Funds:	
Combining Statement of Net Assets	96
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	97
Combining Statement of Cash Flows	98
Agency Funds:	
Combining Statement of Fiduciary Assets and Liabilities	100
Combining Statement of Changes in Fiduciary Assets and Liabilities	101

CITY OF LA PALMA
Comprehensive Annual Financial Report
Year ended June 30, 2005

TABLE OF CONTENTS

	<u>Page</u>
Capital Assets Used in the Operation of Governmental Funds:	
Comparative Schedules by Source	102
Schedule by Function and Activity	103
Schedule of Changes by Function	104
 <u>STATISTICAL SECTION (UNAUDITED)</u>	
General Governmental Revenues and Expenditures by Source and Function- Last Ten Fiscal Years	106
Secured Tax Levies, Collections and Delinquencies-Last Ten Fiscal Years	108
Assessed Value of Taxable Property-Last Ten Fiscal Years	109
Property Tax Rate-Direct and Overlapping Governments-Last Ten Fiscal Years	110
Ten Largest Property Tax Payers Within the City Boundaries	111
Ratio of Net Bonded Debt to Assessed Value and Net Bonded Debt per Capita - Last Ten Fiscal Years	112
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Expenditures	113
Computation of Legal Debt Margin	114
Water Revenue Bond Coverage-Last Ten Fiscal Years	115
Estimated Direct and Overlapping Bonded Debt	116
Construction Activity-Last Ten Fiscal Years	117
Miscellaneous Statistics	118



Office of the City Manager

October 1, 2005

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

It is the policy of the City of La Palma to annually publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial statements of the City of La Palma (“the City”) for the fiscal year ending June 30, 2005.

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 framework has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City’s financial statements have been audited by CONRAD AND ASSOCIATES, L.L.P., a firm of certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ending June 30, 2005 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City’s financial statements for the fiscal year ended June 30, 2005, were fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of this report.

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

October 1, 2005

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

control structure is subject to periodic evaluation by management. Under Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, which was revised June 24, 1997, the City did not meet the criteria for periodic evaluation and, therefore, was not required to have a single audit performed for fiscal year ending June 30, 2005.

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

Profile of the Government

The City, incorporated in 1955, is located in north Orange County. The City currently occupies a land area of 2 square miles and serves a population of 16,112. 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, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members serve four-year staggered terms. The mayor serves a one-year term and is selected for the position annually by the Council as a whole.

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

The annual budget serves as the foundation for the City's financial planning and control. All agencies of the City are required to submit requests for appropriation to the City Manager in February/March of each year. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the council for review. The council is required to hold public hearings on the proposed budget and to adopt a final budget on or around June 30, the

close of the City's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the special approval of the City Manager. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and major special revenue funds, this comparison is presented as part of the required supplementary information in the accompanying financial statements. For governmental funds that have appropriated annual budgets, other than the general fund and major special revenue funds, this comparison is presented in the supplementary section of the accompanying financial statements.

Factors Affecting Financial Condition

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

Local Economy

The impact on the City's budget due to the State ongoing budget crisis has abated somewhat with the passing of the Local Taxpayers and Public Safety Protection Act, also known as Prop 1A. With some exceptions California cities are constitutionally protected from future State raids on local revenues. The economy continues to drive the increases in the City's main revenue sources, especially sales taxes and property taxes. However caution must be taken on relying on sales taxes, the City largest single source of revenues, on an ongoing basis. Ongoing discussions are taking place at the state level dealing with changing the methodology from a point of sale to point of use allocation. Currently sales taxes provide in excess of 40% of the City's total revenues and it is conceivable that if this change of allocation takes place, the City could stand to lose up to half of its sales tax revenues.

The current revenues are strong enough to permit the City to approve a temporary reduction in the utility users tax from 5% to 4% in the upcoming fiscal year. In addition the City Council has directed that in the upcoming fiscal year any excess revenues over ongoing expenditures will be transferred to a City Hall Rehabilitation Fund.

The City of La Palma's revenue base continues to be heavily reliant on the sales and property taxes generated by the business community. While residents tend to believe that their sales, property and utility users taxes pay for the City services they receive, in actuality, 65% of La Palma's General Fund is generated from the business sector. Sales tax continues to be La Palma's largest source of revenue, comprising about 40% of the City's total General Fund. The bulk of the City's sales tax comes from just nine businesses.

Long-term Financial Planning

The La Palma City Council has adopted a series of Financial Policy Statements over the years to guide budgetary decisions. These Financial Policy Statements are not cast in stone, and change as economic conditions, both internal and external to the La Palma organization, impact City finances. In February 2004, the City Council added two new Policy Statements to the list, which are crucial to resolving long-term issues in the General Fund Budget and enhancing its long-term financial stability.

Policy Statement No. 12: The City should strive to budget for the “normal costs” of certain ongoing expenditures. When actual costs are less than normal costs, the City should reserve the difference to build up reserves. When actual costs exceed normal costs, the City should use reserves to bridge the gap.

This Policy Statement formalized the practice that was approved two years ago that “the City would start planning today for future needs.” One of the most pressing needs of the City has been to “smooth” fluctuations in certain operating costs so that they have less of an impact on the City’s General Fund from year to year. These specific operating costs are: General Liability Insurance, Workers’ Compensation Insurance, Vehicle Replacement, and Employee Retirement costs.

Four years ago, the City Council effectively applied this financial philosophy to address a dramatic increase in General Liability and Workers’ Compensation insurance costs. In FY 2001-2002, the City organization was reduced in order to fund what City staff forecast to be the “baseline” or “normal” cost for insurance. At that time, staff recommended that a policy be established such that fluctuations above the baseline would be paid for by Insurance Fund Reserves, but any subsequent credits or refunds would be placed in the Insurance Fund Reserve, so that in bad times, these Reserves could in turn be used to pay for losses.

The Council’s formal adoption of this financial guideline in the form of Policy Statement No. 12 is now being applied to Vehicle Replacement and Employee Retirement costs, in addition to insurance. Budgeting for the “normal cost” of vehicle replacement will prevent the General Fund from having to absorb a dramatic upswing in expenditures when a large number of vehicles must be replaced.

In the case of employee retirement, the implementation of Financial Policy Number 12 better insures that the City organization and its services are protected against the drastic swings of investment gains and losses in the PERS retirement portfolio. Effective in FY 2004-2005, each department was charged its fair share of the City’s normal ongoing retirement costs. Instead of using credits or rate reductions when retirement costs are lower due to PERS investment gain for other operational needs, such savings will now be held in the Employee Benefits Fund Reserve, to ensure that funds accumulate to use in those times when PERS investment losses negatively affect the City’s rates.

The City had the economic capacity to fund PERS investment losses through Reserves and establish a baseline for new retirement costs in part due to the City Council's adoption of Financial Policy Number 13, which states: *The City should make annual budget allocations to the Capital Outlay Reserve based upon short-term and long-term capital needs and identified projects. Allocations should be made from total General Fund revenues, not from an individual or particular revenue source.*

With a specific allocation of General Fund revenues to support capital improvement needs, the City is better able to utilize remaining resources to address both short-term and long-term liabilities in an effort to minimize year-to-year impacts on the General Fund over the long term. This planned "smoothing" of assets and resources increases the City's long-term resiliency to changing economic conditions—whether they are caused by State budgetary actions, the loss of a top sales tax-generating business, or other unpredictable factors.

Cash Management Policies and Practices

Cash temporarily idle during the year was invested in certificates of deposit, obligations of the U.S. Treasury, commercial paper, and the State Treasurer's investment pool. Cash resources of the individual funds are combined to form a pool of cash and investments. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the City intends to hold to maturity.

Risk Management

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

The limit of general liability insurance provided on June 30, 2005 was \$50 million, combined single limit occurrence. The City has all risk property insurance as indicated on a list of scheduled property. The City purchases Special Event insurance on an as-needed basis for City-sponsored events.

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

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

Pension and Other Post-Employment Benefits

The City contributes to the California Public Employees Retirement System, an agent multiple-employer public employee defined benefit pension plan for its employees. Each year, an independent actuary engaged by the pension plan calculates that amount of the annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by this funding policy. The unfunded actuarial liability associated with employee services rendered to date is being systematically funded over 20 years as part of the annual required contribution calculated by the actuary.

The City also provides post-retirement health and dental care benefits for certain retirees. As of the end of the current fiscal year, there were 20 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. Currently GAAP does not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits, however in two years this will be a required disclosure on the City financial statements.

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

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2004. This was the sixth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe that our current CAFR 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.

Similarly, The California Society of Municipal Finance Officers (CSMFO) presented the City of La Palma with a Certificate of Award for Outstanding Financial Reporting for its Comprehensive Annual Financial Report for the fiscal year ending June 30, 2004. The Certificate of Award is a prestigious state recognition for conformance with certain high

Members of the City Council and Citizens of the City of La Palma
October 1, 2005

standards for preparation of local government financial reports. The CSMFO Certificate of Award is also valid for a period of only one year. We believe that our current report conforms to the Certificate of Award program requirements, and we are submitting it to CSMFO.

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

Respectfully submitted,



Catherine Standiford
City Manager



Steve Klotzsche
Interim Director of Finance

*California Society of
Municipal Finance Officers*

Certificate of Award

Outstanding Financial Reporting 2003-04

Presented to the

City of La Palma

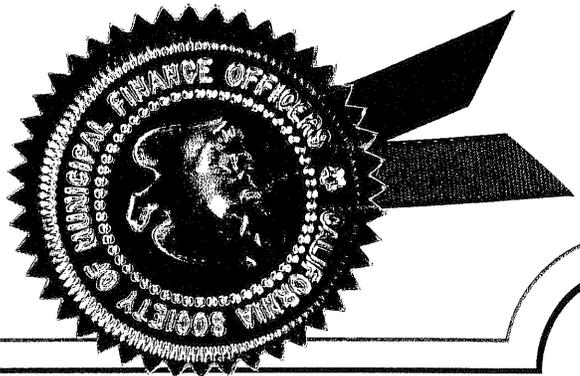
*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 24, 2005

William A. Shand

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of La Palma,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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



President

Executive Director

City of La Palma

Directory of Officials

June 30, 2005

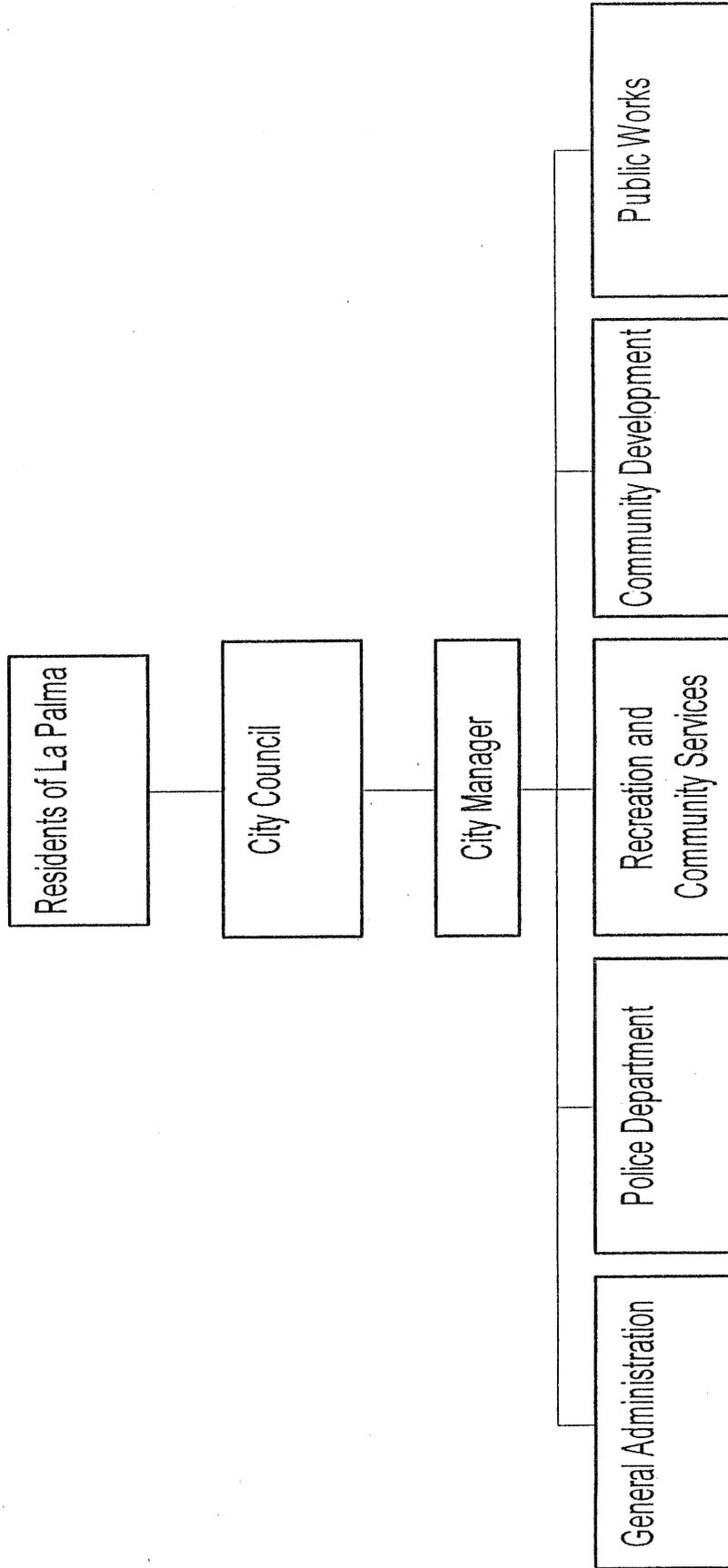
CITY COUNCIL

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

ADMINISTRATION

Catherine Standiford, City Manager
Edward O. Ethell, Chief of Police
Robbeyn Bird, Director of Finance
Tami K. Piscotty, Assistant to the City Manager/City Clerk
Ismile H. Noorbaksh, P.E., Director of Public Works/City Engineer
Janice L. Hobson, Director of Recreation & Community Services
Dominic Lazzaretto, Director of Community Development

CITY OF LA PALMA





Honorable Mayor and City Council
City of La Palma, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of La Palma, California as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the City of La Palma, California. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of La Palma, California, as of June 30, 2005, and the respective changes in the financial position and cash flows, where applicable, of the City of La Palma, California for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Honorable Mayor and City Council
City of La Palma, California

INDEPENDENT AUDITORS' REPORT

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 2, 2005 on our consideration of the City of La Palma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Conrad and Associates, L.L.P.

September 2, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the City of La Palma provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Figure A-1 summarizes the major features of the City's 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.

**Figure A-1
Major Features of the City’s Government-wide and Fund Financial Statements**

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

Reporting the City as a Whole

The accompanying **government-wide financial statements** include two statements that present financial data for the City as a whole. One of the most important questions asked about the City’s finances is, “Is the City as a whole better or worse off as a result of the year’s activities?” The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the

accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

Reporting the City's Major Funds

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

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

Reporting the City's Fiduciary Responsibilities

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A summary of the government-wide *statement of net assets* for the fiscal years ending June 30, 2005 and 2004 follows:

Table 1
Net Assets
(In Millions)

	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business-type Activities	Total
	<u>2004-05</u>			<u>2003-04</u>		
Current and other assets	27.9	10.0	37.9	24.5	9.3	33.8
Capital assets	<u>14.9</u>	<u>7.0</u>	<u>21.9</u>	<u>14.5</u>	<u>7.2</u>	<u>21.7</u>
Total assets	<u>42.8</u>	<u>17.0</u>	<u>59.8</u>	<u>39.0</u>	<u>16.5</u>	<u>55.5</u>
Long-term debt outstanding	9.5	0	9.5	9.9	0	9.9
Other liabilities	<u>.6</u>	<u>0.5</u>	<u>1.1</u>	<u>0.9</u>	<u>0.3</u>	<u>1.2</u>
Total liabilities	<u>10.1</u>	<u>0.5</u>	<u>10.6</u>	<u>10.8</u>	<u>0.3</u>	<u>11.1</u>
Net assets:						
Invested in capital assets, net of debt	14.4	7.0	21.4	14.8	7.2	22.0
Restricted	5.6	0	5.6	5.5	0	5.5
Unrestricted	<u>12.7</u>	<u>9.5</u>	<u>22.2</u>	<u>7.9</u>	<u>9.0</u>	<u>16.9</u>
Total net assets	<u><u>32.7</u></u>	<u><u>16.5</u></u>	<u><u>49.2</u></u>	<u><u>28.2</u></u>	<u><u>16.2</u></u>	<u><u>44.4</u></u>

A summary of the government-wide *statement of activities* for the fiscal years ending June 30, 2005 and 2004 follows:

Table 2
Changes in Net Assets
(In Millions)

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u> <u>2004-05</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u> <u>2003-04</u>
Revenues						
Program revenues:						
Charges for services	0.9	2.3	3.2	0.9	2.4	3.3
Operating contributions and grants	0.8	-	0.8	0.8	-	0.8
Capital contributions and grants	0.0	-	-	0.1	-	0.1
General revenues:	-	-	-	-	-	-
Property taxes	3.1	-	3.1	3.1	-	3.1
Sales taxes	4.4	-	4.4	4.5	-	4.5
Utility users tax	1.3	-	1.3	1.2	-	1.2
Motor vehicle in lieu tax	1.3	-	1.3	0.7	-	0.7
Other general revenues	1.2	0.3	1.5	0.9	0.2	1.1
Total revenues	13.0	2.6	15.6	12.2	2.6	14.8
Program expenses						
General government	1.4	-	1.4	1.6	-	1.6
Public safety	4.4	-	4.4	3.7	-	3.7
Public works	1.1	-	1.1	1.6	-	1.6
Recreation	1.2	-	1.2	1.1	-	1.1
Community development	0.8	-	0.8	0.8	-	0.8
Interest on long-term debt	0.6	-	0.6	0.6	-	0.6
Water	-	1.7	1.7	-	1.6	1.6
Sewer	-	0.3	0.3	-	0.2	0.2
Total expenses	9.5	2.0	11.5	9.4	1.8	11.2
Excess (deficiency) before special items and transfers	3.5	0.6	4.1	2.8	0.8	3.6
Transfers	0.3	(0.3)	-	0.4	(0.4)	-
Increase (decrease) in net assets	3.8	0.3	4.1	3.2	0.4	3.6
Beginning net assets	28.9	16.2	45.1	25.0	15.8	40.8
Ending net assets	32.7	16.5	49.2	28.2	16.2	44.4

The City's total revenues, including transfers, for governmental and business-type activities were \$13,258,271 and \$2,594,065, while the total cost of all programs and services was \$9,452,752 and \$2,282,959, respectively. The result was an increase in net assets for governmental and business-type activities of \$3,805,519 or 13.2% and \$311,106 or 1.9%, respectively. The increase or decrease in net assets can provide an indication as to whether the overall financial position of the City improved or deteriorated during the year.

Governmental Activities

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

- Revenues increased by \$677,209 when compared to the previous fiscal year. The majority of this growth is directly related to the receipt of motor vehicle licensing fees.
- The increase of expenditures was less than \$100,000 in comparison with the fiscal year ended June 30, 04. This increase was obtained by a combination of increases in public safety cost and decreases in public works expenses.

Business-Type Activities

During the year ended June 30, 2005, the revenues and expenditures did not change significantly from the prior fiscal year. However the net assets increased in value by \$311,106 primarily by maintaining the rate of expenses below the revenues from prior rate increases.

MAJOR FUNDS

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

Major Governmental Funds. The **General Fund** is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$11,311,064, while total fund balance was \$14,236,263. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 142 percent of total general fund expenditures, while total fund balance represents 179 percent of that same amount.

The City's General Fund expenditures increased during the current fiscal year by \$199,968. The most significant reason for this was due to increased cost of employee benefits and normal inflationary increases in supplies and services.

The **Low and Moderate Income Housing Fund** accounts for 20% of tax increment received and is used to develop housing for citizens which meet the affordable housing criteria. This fund has a fund balance of \$2,120,705. The net increase in fund balance during the current year was \$259,019.

The most significant reason for the increase in fund balance was that interest revenues of \$245,130 from loans made to construct senior housing was received and not budgeted.

The **CDC Debt Service Fund** has a fund balance of \$424,265 as opposed to a negative \$116,609 in the previous fiscal year. The net increase in fund balance during the current year in the debt service fund was \$540,874. The primary reason for this increase is due to the fact that tax increment received was higher than anticipated through the budget process.

The **CDC Projects Fund** has a fund balance of \$1,364,509. The net decrease in fund balance during the year was \$377,436.

The main reason for this decrease was that revenues are limited to bond proceeds and interest income. During the current fiscal year, the Community Development Commission did not receive loans nor did it issue new bonds. Expenditures were used for various community development operating costs.

The **Capital Outlay Reserve** fund has a fund balance of \$4,703,738. The net decrease in fund balance during the year was \$48,769. The reason for the net increase in this fund was as follows:

- Revenues for the current year were \$0; whereas expenditures were \$48,769. These expenditures were for various capital projects approved by the City Council as part of the Fiscal Year 2004-05 budget including median enhancement, street enhancement, storm drains and some minor facility improvements.

Major Enterprise Funds. Unrestricted net assets of the **Water Fund** at the end of the year amounted to \$5,102,946 and those for the **Sewer Fund** amounted to \$4,264,228. The total increase in net assets for both funds was \$389,865. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGET

The final amended budget for the General Fund expenditures was \$8,505,900. There were no significant deviations between the final amended and originally adopted budget of the General Fund and its actual operating results were as follows:

- General Government expenditures were under budget by \$208,412. There were three main reasons for the difference between actual and budgeted amounts. The first reason was in salary savings. The second reason was both in legal and other professional services cost was lower than expected. Lastly the elections cost came in under budgeted estimates.
- Public Safety expenditures were under budget by \$64,700. This entire amount was due to vacancies in the police department during the year.
- Public Works expenditures were under budget by \$85,611. The most significant reason for this difference is electrical costs were less than budgeted by approximately \$43,000. All other variances were not for significant amounts.
- Recreation expenditures were under budget by \$36,670. The largest single largest reason for the recreation expenditures to be less than budgeted is due to vacancies not filled during the year.
- Community Development expenditures were under budget by \$7,927. Again, the single largest reason for this variance from budget is due to not filling positions that were budgeted for during the fiscal year.
- Capital Outlay expenditures were under budget by \$134,690. The primary reason is that planned building improvements and heavy equipment was not implemented in the fiscal year.

Taken as a whole these deviations and higher than expected revenues continues to improved the City's liquidity or ability to provide future government services.

CAPITAL ASSETS

Capital Assets
(net of depreciation)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$6,706,753	754,000	7,460,753
Buildings and improvements	2,060,526	2,695,039	4,755,565
Construction in progress	21,457	-	21,457
Equipment	526,312	211,370	737,682
Vehicles	492,285	-	492,285
Furniture & Fixtures	24,241	-	24,241
Infrastructure	<u>5,076,517</u>	<u>3,338,705</u>	<u>8,415,222</u>
Total	<u>\$14,908,091</u>	<u>6,999,114</u>	<u>21,907,205</u>

The major additions to capital assets during the year ended June 30, 2005 were as follows:

- The City replaced a series of vehicles and trucks for approximately \$172,252.
- A water division prefab building was installed in the amount of \$93,760.
- Additional information on the City's capital assets can be found in the notes to the financial statements.

LONG-TERM BONDED DEBT

At the end of the current fiscal year, the City had bonded debt outstanding of \$9,030,000. The City's debt represents bonds secured solely by specified revenue sources (e.g., revenue bonds).

Outstanding Debt

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Tax Allocation Revenue Bonds	\$9,030,000	-	9,030,000

The City's total debt outstanding decreased by \$350,000 during the current fiscal year. The key factor in this decrease was principal payments made during the fiscal year.

Additional information on the City's long-term debt can be found in the notes to the accompanying financial statements.

Contacting the City's Financial Management

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS



CITY OF LA PALMA
Statement of Net Assets
June 30, 2005
(With Comparative Data for Prior Year)

	Governmental Activities	Business-type Activities	Totals	
			2005	2004
Assets:				
Cash and investments (note 3)	\$ 20,846,577	8,135,378	28,981,955	25,617,758
Cash and investments with fiscal agent (note 3)	876,133	-	876,133	872,795
Receivables:				
Taxes	263,594	-	263,594	264,899
Accounts	35,103	636,203	671,306	615,866
Interest	120,746	79,285	200,031	89,725
Loans (note 6)	5,164,343	-	5,164,343	5,264,253
Internal balances	(1,132,157)	1,132,157	-	-
Due from other governments	1,747,190	-	1,747,190	1,048,232
Prepaid items	16,546	-	16,546	27,822
Capital assets (note 7):				
Capital assets, not being depreciated	6,728,210	754,000	7,482,210	7,460,753
Capital assets being depreciated, net of accumulated depreciation	8,179,881	6,245,114	14,424,995	14,149,691
Total assets	42,846,166	16,982,137	59,828,303	55,411,794
Liabilities:				
Accounts payable	409,660	457,163	866,823	791,860
Salaries payable	136,516	9,606	146,122	157,204
Retentions payable	2,564	16,923	19,487	48,986
Other accrued liabilities	2,849	-	2,849	3,162
Interest payable	41,785	-	41,785	43,105
Unearned revenue	20,273	-	20,273	117,440
Due to other governmental agencies	-	-	-	8,791
Long-term liabilities:				
Portion due within one year:				
Compensated absences (note 8)	29,028	-	29,028	113,408
Tax allocation bonds (notes 8 and 9)	360,000	-	360,000	350,000
Portion due beyond one year:				
Compensated absences (note 8)	432,745	-	432,745	384,905
Tax allocation bonds (notes 8 and 9)	8,670,000	-	8,670,000	9,030,000
Total liabilities	10,105,420	483,692	10,589,112	11,048,861
Net assets:				
Invested in capital assets, net of related debt	14,467,865	6,999,114	21,466,979	21,958,779
Restricted for:				
Low and moderate income housing	2,430,705	-	2,430,705	2,182,688
Debt service	876,133	-	876,133	872,795
Specific projects and programs	931,268	-	931,268	711,774
Capital projects	1,364,509	-	1,364,509	1,741,945
Unrestricted	12,670,266	9,499,331	22,169,597	16,894,952
Total net assets	\$ 32,740,746	16,498,445	49,239,191	44,362,933

See accompanying notes to the basic financial statements.

CITY OF LA PALMA
Statement of Activities
Year ended June 30, 2005
(With Comparative Data for Prior Year)

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>
Governmental activities:				
General government	\$ 1,425,026	146,628	1,810	-
Public safety	4,416,982	150,439	252,995	204
Public works	1,065,915	9,256	554,137	8,570
Recreation	1,241,094	356,075	-	-
Community development	742,232	203,138	-	3,015
Interest on long-term debt	561,503	-	-	-
Total governmental activities	<u>9,452,752</u>	<u>865,536</u>	<u>808,942</u>	<u>11,789</u>
Business-type activities:				
Water	1,725,075	1,947,296	-	-
Sewer	233,184	361,915	-	-
Total business-type activities	<u>1,958,259</u>	<u>2,309,211</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 11,411,011</u>	<u>3,174,747</u>	<u>808,942</u>	<u>11,789</u>

General revenues:

Taxes:

Property taxes

Sales taxes

Utility users tax

Franchise taxes

Transient occupancy taxes

Motor vehicle in lieu - unrestricted

Licenses and fines

Investment income

Other

Transfers (note 5)

Total general revenues and transfers

Change in net assets

Net assets at beginning of year, as restated (note 2)

Net assets at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Totals	
		2005	2004
(1,276,588)	-	(1,276,588)	(1,409,003)
(4,013,344)	-	(4,013,344)	(3,333,450)
(493,952)	-	(493,952)	(1,012,821)
(885,019)	-	(885,019)	(750,341)
(536,079)	-	(536,079)	(613,223)
(561,503)	-	(561,503)	(568,863)
<u>(7,766,485)</u>	<u>-</u>	<u>(7,766,485)</u>	<u>(7,687,701)</u>
-	222,221	222,221	485,167
-	128,731	128,731	169,229
<u>-</u>	<u>350,952</u>	<u>350,952</u>	<u>654,396</u>
<u>(7,766,485)</u>	<u>350,952</u>	<u>(7,415,533)</u>	<u>(7,033,305)</u>
3,129,238	-	3,129,238	3,127,876
4,398,978	-	4,398,978	4,453,950
1,266,727	-	1,266,727	1,212,829
306,192	-	306,192	306,413
212,624	-	212,624	164,178
1,291,482	-	1,291,482	730,327
572	-	572	523
553,486	281,972	835,458	491,868
88,005	2,882	90,887	84,032
324,700	(324,700)	-	-
<u>11,572,004</u>	<u>(39,846)</u>	<u>11,532,158</u>	<u>10,571,996</u>
3,805,519	311,106	4,116,625	3,538,691
<u>28,935,227</u>	<u>16,187,339</u>	<u>45,122,566</u>	<u>40,824,242</u>
<u>\$ 32,740,746</u>	<u>16,498,445</u>	<u>49,239,191</u>	<u>44,362,933</u>



FUND FINANCIAL STATEMENTS



GOVERNMENTAL FUNDS

GENERAL FUND

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

SPECIAL REVENUE FUNDS

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

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

DEBT SERVICE FUND

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

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

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

CAPITAL PROJECTS FUNDS

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

Community Development Commission (CDC) Projects – To account for financial resources segregated for the acquisition or construction of major capital facilities or for the rehabilitation of commercial and public property located within the Community Development Commission Project Area.

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

NONMAJOR GOVERNMENTAL FUNDS

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

CITY OF LA PALMA
Governmental Funds
Balance Sheet
June 30, 2005
(With Comparative Data for Prior Year)

	General Fund	Special Revenue Low/Moderate Income Housing	Debt Service CDC Debt Service Fund
<u>Assets</u>			
Cash and investments	\$ 10,311,681	1,845,722	1,014,728
Cash and investments with fiscal agent	-	-	876,133
Receivables:			
Taxes	263,594	-	-
Accounts	1,965	33,138	-
Interest	80,393	14,249	6,364
Loans	-	5,155,028	-
Due from other funds	-	-	-
Due from other governments	1,007,252	822	4,502
Prepaid items	16,137	-	-
Advances to other funds (note 4)	2,909,062	-	-
	<u>\$ 14,590,084</u>	<u>7,048,959</u>	<u>1,901,727</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 225,408	8,861	76,604
Salaries payable	121,945	1,189	-
Retentions payable	-	-	-
Other accrued liabilities	1,352	-	-
Due to other funds	-	-	-
Deferred revenue	5,116	310,000	-
Advances from other funds (note 4)	-	4,608,204	1,400,858
	<u>353,821</u>	<u>4,928,254</u>	<u>1,477,462</u>
Fund balances (note 18):			
Reserved for:			
Advances to other funds	2,909,062	-	-
Prepaid items	16,137	-	-
Loans receivable	-	4,845,028	-
Unreserved, reported in:			
General fund	11,311,064	-	-
Special revenue funds	-	(2,724,323)	-
Debt service fund	-	-	424,265
Capital projects funds	-	-	-
	<u>14,236,263</u>	<u>2,120,705</u>	<u>424,265</u>
Total fund balances	<u>\$ 14,590,084</u>	<u>7,048,959</u>	<u>1,901,727</u>
Total liabilities and fund balances	<u>\$ 14,590,084</u>	<u>7,048,959</u>	<u>1,901,727</u>

See accompanying notes to the basic financial statements.

Capital Projects		Nonmajor Governmental Funds	Totals	
CDC Projects	Capital Outlay Reserve		2005	2004
1,355,232	4,208,849		946,202	19,682,414
-	-	-	876,133	872,795
-	-	-	263,594	264,899
-	-	-	35,103	16,247
10,633	-	9,107	120,746	48,724
-	-	-	5,155,028	5,251,397
-	-	-	-	87
-	-	85,269	1,097,845	889,152
-	-	409	16,546	19,643
-	500,000	-	3,409,062	3,548,898
<u>1,365,865</u>	<u>4,708,849</u>	<u>1,040,987</u>	<u>30,656,471</u>	<u>27,467,249</u>
17	5,111	86,546	402,547	517,002
1,339	-	5,609	130,082	132,652
-	-	2,564	2,564	48,986
-	-	-	1,352	1,665
-	-	-	-	87
-	-	15,000	330,116	438,442
-	-	-	6,009,062	6,148,898
<u>1,356</u>	<u>5,111</u>	<u>109,719</u>	<u>6,875,723</u>	<u>7,287,732</u>
-	500,000	-	3,409,062	3,548,898
-	-	409	16,546	19,643
-	-	-	4,845,028	4,974,469
-	-	-	11,311,064	8,159,673
-	-	930,859	(1,793,464)	(2,401,009)
-	-	-	424,265	(116,609)
<u>1,364,509</u>	<u>4,203,738</u>	<u>-</u>	<u>5,568,247</u>	<u>5,994,452</u>
<u>1,364,509</u>	<u>4,703,738</u>	<u>931,268</u>	<u>23,780,748</u>	<u>20,179,517</u>
<u>1,365,865</u>	<u>4,708,849</u>	<u>1,040,987</u>	<u>30,656,471</u>	<u>27,467,249</u>

CITY OF LA PALMA
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Assets
June 30, 2005
(With Comparative Data for Prior Year)

	Totals	
	2005	2004
Fund balances of governmental funds	\$ 23,780,748	20,179,517
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.		
Capital assets	23,961,306	23,798,051
Accumulated depreciation	(9,053,215)	(9,330,186)
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Assets.		
Compensated absences	(461,773)	(498,313)
Tax allocation bonds	(9,030,000)	(9,380,000)
Accrued interest payable for the current portion of interest due on long-term liabilities has not been reported in the governmental funds.		
Accrued interest - tax allocation bonds	(41,785)	(43,105)
Deferred revenue balances relating to certain loans receivable are not reported as liabilities in the Statement of Net Assets since recognition is not based upon measurable and available criteria.		
Deferred revenue - low and moderate income housing loans	310,000	310,000
Deferred revenue - senior citizens affordable rental housing loan	-	11,002
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds must be added to the Statement of Net Assets since revenue recognition is not based upon measurable and available criteria.		
Internal service funds net assets	3,407,622	3,196,079
Interfund balances	(132,157)	(67,451)
Net assets of governmental activities	\$ 32,740,746	28,175,594

See accompanying notes to the basic financial statements.



CITY OF LA PALMA
Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2005
(With Comparative Data for Prior Year)

	General Fund	Special Revenue Low/Moderate Income Housing
Revenues:		
Taxes	\$ 7,520,300	431,582
Intergovernmental	1,299,068	-
Licenses and permits	251,721	-
Fines and forfeitures	136,056	-
Investment income	524,701	285,679
Charges for services	450,595	-
Rental income	149,427	-
Miscellaneous	287,971	-
Total revenues	10,619,839	717,261
Expenditures:		
Current:		
General government	1,568,188	-
Public safety	4,086,800	-
Public works	623,289	-
Recreation	1,164,230	-
Community development	377,273	244,267
Capital outlay	148,110	-
Debt service:		
Principal	-	-
Interest	-	213,975
Pass-through payments	-	-
Payment to state education fund	-	-
Total expenditures	7,967,890	458,242
Excess (deficiency) of revenues over (under) expenditures	2,651,949	259,019
Other financing sources (uses):		
Transfers in (note 5)	356,100	-
Transfers out (note 5)	-	-
Total other financing sources (uses)	356,100	-
Net changes in fund balances	3,008,049	259,019
Fund balances (deficit) at beginning of year	11,228,214	1,861,686
Fund balances at end of year	\$ 14,236,263	2,120,705

See accompanying notes to the basic financial statements.

Debt Service	Capital Projects		Nonmajor Governmental Funds	Totals	
	CDC Projects	Capital Outlay Reserve		2005	2004
1,726,330	-	-	-	9,678,212	9,603,741
-	-	-	784,713	2,083,781	1,489,853
-	-	-	-	251,721	247,974
-	-	-	-	136,056	146,619
32,159	35,638	-	25,638	903,815	721,190
-	-	-	27,164	477,759	480,289
-	-	-	-	149,427	145,556
2,134	8,570	-	-	298,675	370,319
<u>1,760,623</u>	<u>44,208</u>	<u>-</u>	<u>837,515</u>	<u>13,979,446</u>	<u>13,205,541</u>
30,615	-	-	-	1,598,803	1,909,436
-	-	-	279,039	4,365,839	4,002,515
-	-	-	237,731	861,020	811,906
-	-	-	-	1,164,230	1,131,298
-	224,808	-	-	846,348	837,729
-	8,980	48,769	69,851	275,710	973,863
350,000	-	-	-	350,000	330,000
662,537	-	-	-	876,512	903,252
176,597	-	-	-	176,597	229,722
-	187,856	-	-	187,856	108,773
<u>1,219,749</u>	<u>421,644</u>	<u>48,769</u>	<u>586,621</u>	<u>10,702,915</u>	<u>11,238,494</u>
<u>540,874</u>	<u>(377,436)</u>	<u>(48,769)</u>	<u>250,894</u>	<u>3,276,531</u>	<u>1,967,047</u>
-	-	-	-	356,100	470,200
-	-	-	(31,400)	(31,400)	(27,200)
-	-	-	(31,400)	324,700	443,000
540,874	(377,436)	(48,769)	219,494	3,601,231	2,410,047
(116,609)	1,741,945	4,752,507	711,774	20,179,517	17,769,470
<u>424,265</u>	<u>1,364,509</u>	<u>4,703,738</u>	<u>931,268</u>	<u>23,780,748</u>	<u>20,179,517</u>

CITY OF LA PALMA
Governmental Funds

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

Year ended June 30, 2005

(With Comparative Data for Prior Year)

	Totals	
	2005	2004
Net change in fund balances - total governmental funds	\$3,601,231	2,410,047
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. As a result, fund balances decrease by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.		
Capital outlay	263,859	265,908
Depreciation expense	(582,135)	(612,441)
Governmental funds report the proceeds from sale of capital assets as revenue. However, in the Statement of Activities, those proceeds are offset by the net book value of the asset, resulting in a gain or loss on the sale. As a result, fund balances decrease by the amount of the net book value of capital assets sold during the year.		
Capital assets deleted	(100,604)	(45,017)
Accumulated depreciation on deleted capital assets	99,473	43,215
Repayment of bond principal is an expenditure in the governmental funds and, thus, has the effect of reducing the fund balances because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liabilities in the Statement of Net Assets and do not result in an expense in the Statement of Activities.		
Debt service principal - tax allocation bonds	350,000	330,000
Accrued interest expense related to long-term liabilities. This amount is the difference between the amount of interest paid and the amount of interest incurred on long-term liabilities.		
	1,320	1,177
Compensated absences expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences - current year accrual	(844,669)	(349,086)
Compensated absences - current year retirements	881,209	346,477
Cumulative interest on the senior citizens affordable rental housing loan that has been accrued but not collected is reflected as deferred revenue in the governmental funds. However, earned interest is recognized as revenue in the Statement of Activities, regardless of when the interest was collected.		
	(11,002)	(36,371)
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 net assets of Internal Service Funds	211,543	880,852
Less: Charges to business-type activities in excess of actual related expenses	(64,706)	(67,451)
Changes in net assets of governmental activities	\$3,805,519	3,167,310

See accompanying notes to the basic financial statements

PROPRIETARY FUNDS

ENTERPRISE FUNDS

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

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

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

INTERNAL SERVICE FUNDS

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

CITY OF LA PALMA
Proprietary Funds
Statement of Net Assets
June 30, 2005
(With Comparative Data for Prior Year)

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds	Totals	
	Water	Sewer	Total		2005	2004
Assets:						
Current assets:						
Cash and investments	\$4,470,723	3,664,655	8,135,378	1,164,163	9,299,541	9,062,351
Receivables:						
Accounts	532,165	104,038	636,203	-	636,203	599,619
Interest	43,563	35,722	79,285	-	79,285	41,001
Loans	-	-	-	9,315	9,315	12,856
Prepaid items	-	-	-	-	-	8,179
Due from other governmental agencies - current portion	-	-	-	458,711	458,711	12,707
Total current assets	<u>5,046,451</u>	<u>3,804,415</u>	<u>8,850,866</u>	<u>1,632,189</u>	<u>10,483,055</u>	<u>9,736,713</u>
Noncurrent assets:						
Capital assets:						
Capital assets not being depreciated	754,000	-	754,000	-	754,000	754,000
Capital assets being depreciated, net of accumulated depreciation	4,089,698	2,155,416	6,245,114	-	6,245,114	6,388,579
Due from other governmental agencies - noncurrent portion	-	-	-	190,634	190,634	146,373
Advances to other funds (note 4)	500,000	500,000	1,000,000	1,600,000	2,600,000	2,600,000
Total noncurrent assets	<u>5,343,698</u>	<u>2,655,416</u>	<u>7,999,114</u>	<u>1,790,634</u>	<u>9,789,748</u>	<u>9,888,952</u>
Total assets	<u>10,390,149</u>	<u>6,459,831</u>	<u>16,849,980</u>	<u>3,422,823</u>	<u>20,272,803</u>	<u>19,625,665</u>
Liabilities:						
Current liabilities:						
Accounts payable	421,858	35,305	457,163	7,113	464,276	274,858
Salaries payable	8,671	935	9,606	6,434	16,040	24,552
Retentions payable	12,976	3,947	16,923	-	16,923	-
Deferred revenue	-	-	-	157	157	-
Other accrued liabilities	-	-	-	1,497	1,497	1,497
Total current liabilities	<u>443,505</u>	<u>40,187</u>	<u>483,692</u>	<u>15,201</u>	<u>498,893</u>	<u>300,907</u>
Noncurrent liabilities:						
Due to other governmental agencies - noncurrent portion	-	-	-	-	-	8,791
Total liabilities	<u>443,505</u>	<u>40,187</u>	<u>483,692</u>	<u>15,201</u>	<u>498,893</u>	<u>309,698</u>
Net assets:						
Invested in capital assets	4,843,698	2,155,416	6,999,114	-	6,999,114	7,142,579
Unrestricted	5,102,946	4,264,228	9,367,174	3,407,622	12,774,796	12,173,388
Total net assets	<u>\$9,946,644</u>	<u>6,419,644</u>	<u>16,366,288</u>	<u>3,407,622</u>	<u>19,773,910</u>	<u>19,315,967</u>
Some amounts reported for <i>business-type activities</i> in the statement of net assets are different because an internal receivable has been established for internal service fund charges in excess of actual related expenses and are included with business-type activities.						
			<u>132,157</u>			
Net assets of business-type activities			<u>\$ 16,498,445</u>			

See accompanying notes to the basic financial statements.

CITY OF LA PALMA

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

Year ended June 30, 2005
(With Comparative Data for Prior Year)

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds	Totals	
	Water	Sewer	Total		2005	2004
Operating revenues:						
Charges for services	\$ 1,947,296	361,915	2,309,211	2,682,200	4,991,411	5,064,905
Miscellaneous	2,882	-	2,882	-	2,882	2,226
Total operating revenues	<u>1,950,178</u>	<u>361,915</u>	<u>2,312,093</u>	<u>2,682,200</u>	<u>4,994,293</u>	<u>5,067,131</u>
Operating expenses:						
Personnel services	405,551	35,650	441,201	1,578,707	2,019,908	1,329,534
Maintenance and operations	1,011,587	60,490	1,072,077	17,218	1,089,295	956,597
Contractual services	108,241	38,746	146,987	14,396	161,383	123,607
Depreciation	180,456	93,277	273,733	-	273,733	257,334
Settlement, claims and insurance	74,300	11,500	85,800	860,336	946,136	918,807
Administration	3,167	-	3,167	-	3,167	11,503
Total operating expenses	<u>1,783,302</u>	<u>239,663</u>	<u>2,022,965</u>	<u>2,470,657</u>	<u>4,493,622</u>	<u>3,597,382</u>
Operating income (loss)	<u>166,876</u>	<u>122,252</u>	<u>289,128</u>	<u>211,543</u>	<u>500,671</u>	<u>1,469,749</u>
Nonoperating revenues (expenses):						
Investment income	152,622	129,350	281,972	-	281,972	158,033
Total nonoperating revenues (expenses)	<u>152,622</u>	<u>129,350</u>	<u>281,972</u>	<u>-</u>	<u>281,972</u>	<u>158,033</u>
Income (loss) before transfers	319,498	251,602	571,100	211,543	782,643	1,627,782
Transfers out (note 5)	<u>(285,500)</u>	<u>(39,200)</u>	<u>(324,700)</u>	<u>-</u>	<u>(324,700)</u>	<u>(443,000)</u>
Change in net assets	33,998	212,402	246,400	211,543	457,943	1,184,782
Net assets at beginning of year	9,912,646	6,207,242	16,119,888	3,196,079	19,315,967	18,131,185
Net assets at end of year	<u>\$ 9,946,644</u>	<u>6,419,644</u>	<u>16,366,288</u>	<u>3,407,622</u>	<u>19,773,910</u>	<u>19,315,967</u>

Some amounts reported for *business-type activities* in the statement of activities are different because an internal receivable has been established for internal service fund charges in excess of actual related expenses and are included with business-type activities.

132,157

Net assets of business-type activities

\$ 16,498,445

See accompanying notes to the basic financial statements.

CITY OF LA PALMA
Proprietary Funds
Statement of Cash Flows
Year ended June 30, 2005
(With Comparative Data for Prior Year)

	Business-type Activities - Enterprise Funds	
	Water	Sewer
Cash flows from operating activities:		
Cash received from customers	\$ 1,928,725	337,146
Cash received from user departments	-	-
Cash payments to suppliers for goods and services	(1,009,024)	(80,024)
Cash payments to employees for services	(410,727)	(35,553)
Cash received from other operating activities	2,882	-
Net cash provided by (used for) operating activities	511,856	221,569
Cash flows from noncapital financing activities:		
Cash paid to other funds	(285,500)	(39,200)
Net cash provided by (used for) noncapital financing activities	(285,500)	(39,200)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(98,403)	(31,865)
Disposition of capital assets	-	-
Net cash provided by (used for) capital and related financing activities	(98,403)	(31,865)
Cash flows from investing activities:		
Interest income received	131,732	111,956
Net cash provided by (used for) investing activities	131,732	111,956
Net increase (decrease) in cash and cash equivalents	259,685	262,460
Cash and cash equivalents at beginning of year	4,211,038	3,402,195
Cash and cash equivalents at end of year	\$ 4,470,723	3,664,655
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 166,876	122,252
Adjustments to reconcile operating income (loss) to net income provided by (used for) operating activities:		
Depreciation	180,456	93,277
(Increase) decrease in accounts receivable	(18,571)	(24,769)
(Increase) decrease in loans receivable	-	-
(Increase) decrease in prepaid items	-	-
(Increase) decrease in due from other governmental agencies	-	-
Increase (decrease) in accounts payable	172,128	26,765
Increase (decrease) in salaries payable	(2,009)	97
Increase (decrease) in other accrued liabilities	12,976	3,947
Increase (decrease) in due to other governmental agencies	-	-
Increase (decrease) in deferred revenues	-	-
Total adjustments	344,980	99,317
Net cash provided by (used for) operating activities	\$ 511,856	221,569

There were no noncash capital, financing or investing activities for the year ended June 30, 2005.

See accompanying notes to the basic financial statements.

<u>Total</u>	Governmental Activities - Internal Service Funds	Totals	
		<u>2005</u>	<u>2004</u>
2,265,871	-	2,265,871	2,252,179
-	2,688,956	2,688,956	2,622,644
(1,089,048)	(1,392,302)	(2,481,350)	(2,752,397)
(446,280)	(1,585,307)	(2,031,587)	(1,333,860)
2,882	3,698	6,580	12,616
<u>733,425</u>	<u>(284,955)</u>	<u>448,470</u>	<u>801,182</u>
<u>(324,700)</u>	<u>-</u>	<u>(324,700)</u>	<u>(443,000)</u>
<u>(324,700)</u>	<u>-</u>	<u>(324,700)</u>	<u>(443,000)</u>
(130,268)	-	(130,268)	(104,193)
-	-	-	1,245
<u>(130,268)</u>	<u>-</u>	<u>(130,268)</u>	<u>(102,948)</u>
<u>243,688</u>	<u>-</u>	<u>243,688</u>	<u>167,901</u>
<u>243,688</u>	<u>-</u>	<u>243,688</u>	<u>167,901</u>
522,145	(284,955)	237,190	423,135
7,613,233	1,449,118	9,062,351	8,639,216
<u>8,135,378</u>	<u>1,164,163</u>	<u>9,299,541</u>	<u>9,062,351</u>
<u>289,128</u>	<u>211,543</u>	<u>500,671</u>	<u>1,469,749</u>
273,733	-	273,733	257,334
(43,340)	6,756	(36,584)	(190,082)
-	3,541	3,541	10,390
-	8,179	8,179	(8,179)
-	(490,265)	(490,265)	(159,080)
198,893	(9,475)	189,418	(24,071)
(1,912)	(6,600)	(8,512)	11,845
16,923	-	16,923	(4,668)
-	(8,791)	(8,791)	(562,056)
-	157	157	-
<u>444,297</u>	<u>(496,498)</u>	<u>(52,201)</u>	<u>(668,567)</u>
<u>733,425</u>	<u>(284,955)</u>	<u>448,470</u>	<u>801,182</u>

See accompanying notes to the basic financial statements.



FIDUCIARY FUNDS

AGENCY FUNDS

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

CITY OF LA PALMA
Fiduciary Funds

Statement of Fiduciary Assets and Liabilities

June 30, 2005
(With Comparative Data for Prior Year)

	<u>Totals</u>	
	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Cash and investments (note 3)	<u>\$ 19,055</u>	<u>15,888</u>
Total assets	<u><u>\$ 19,055</u></u>	<u><u>15,888</u></u>
<u>Liabilities</u>		
Liabilities:		
Deposits payable	<u>\$ 19,055</u>	<u>15,888</u>
Total liabilities	<u><u>\$ 19,055</u></u>	<u><u>15,888</u></u>

See accompanying notes to the basic financial statements.

CITY OF LA PALMA

Notes to the Basic Financial Statements

Year ended June 30, 2005

(1) Summary of Significant Accounting Policies

The financial statements of the City of La Palma, California (City) have been prepared in conformity with generally accepted accounting principles (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 more significant of the City's accounting policies are described below.

(a) Reporting Entity

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

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

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

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

(a) Reporting Entity, (Continued)

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

(b) Fund Accounting

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

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

Governmental Fund Types

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

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

(b) Fund Accounting, (Continued)

The City reports the following major governmental funds:

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

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

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

Community Development Commission (CDC) Projects – To account for financial resources segregated for the acquisition or construction of major capital facilities or for the rehabilitation of commercial and public property located within the Community Development Commission Project Area.

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

Proprietary Fund Types

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

The City reports the following major enterprise funds:

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

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

(b) Fund Accounting, (Continued)

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

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

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

Agency Funds are used to account for assets held by the City as an agent for individuals or private organizations, other governmental units and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

(c) Measurement Focus and Basis of Accounting

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

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

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

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

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

Government-wide Financial Statements

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

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

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

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

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

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

Fund Financial Statements

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

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

Governmental Funds

In the fund financial statements, governmental funds and agency 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 motor vehicle in-lieu taxes.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

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

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

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

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

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

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

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

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

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

Proprietary Funds

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

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

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

(d) Cash and Investments

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

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

(d) Cash and Investments, (Continued)

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

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

(e) Cash Equivalents

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

(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 \$1,000 (general capital assets) and \$25,000 (infrastructure) are capitalized if they have an expected useful life of one year or more. Capital assets include public domain (infrastructure) capital assets consisting of certain improvements, including streets (pavement, medians, curbs/gutters, sidewalks, traffic signals, monument signs and bridges), storm drains and water/sewer systems and improvements.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

(f) Capital Assets, (Continued)

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

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

(g) Compensated Absences

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

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

(g) Compensated Absences, (Continued)

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

(h) Deferred Revenue

Deferred revenue in the fund financial statements represents receivables at year-end that will not be collected soon enough to finance current year expenditures, and grant reimbursement revenue received in advance of the recognition of a related fund expenditure.

(i) Property Taxes

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

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

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

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

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

(j) Interfund Transfers

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

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

(k) Advances to Other Funds

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

(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 self insurance activities.

(m) Prior Year

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

(n) Use of Estimates

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

(2) Change in Accounting Estimate

During the year ended June 30, 2005, the City increased the estimated useful life of its infrastructure-pavements from 50 years to 80 years as the valuation appears to be more reasonable. As a result of changing the estimate, beginning net assets has increased by \$759,633 and beginning accumulated depreciation decreased by \$759,633.

(3) Cash and Investments

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$28,981,955
Cash and investments with fiscal agent	876,133
Fiduciary Fund:	
Cash and investments	<u>19,055</u>
Total cash and investments	<u>\$29,877,143</u>

Cash and investments as of June 30, 2005 consist of the following:

Cash on hand	\$ 7,725
Deposits with financial institutions	79,949
Investments	<u>29,789,469</u>
Total cash and investments	<u>\$ 29,877,143</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

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

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

<u>Investment Types Authorized by State Law</u>	<u>Authorized by Investment Policy</u>	<u>Maximum Maturity*</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment In One Issuer*</u>
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	No	180 days	40%	40%
Commercial Paper	Yes	180 days	15%	25%
Negotiable Certificates of Deposit	No	5 years	30%	None
Repurchase Agreements	Yes	30 days	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund	Yes	N/A	\$40,000,000 per Agency	None
JPA Pools (other investment pools)	No	N/A	None	None

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

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturing (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
LAIF	\$28,839,947	28,839,947	-	-	-
Money market	73,389	73,389	-	-	-
Held by bond trustee:					
Money market funds	<u>876,133</u>	<u>876,133</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$29,789,469</u>	<u>29,789,469</u>	<u>-</u>	<u>-</u>	<u>-</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

Disclosures Relating to Credit Risk

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

<u>Investment Type</u>	<u>Totals</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
LAIF	\$ 28,839,947	N/A	28,839,947	-	-	28,839,947
Money market	73,389	Aa	-	-	73,389	-
Held by bond trustee:						
Money market funds	<u>876,133</u>	Aa	<u>-</u>	<u>-</u>	<u>876,133</u>	<u>-</u>
Total	<u>\$ 29,789,469</u>		<u>28,839,947</u>	<u>-</u>	<u>949,522</u>	<u>3,897,916</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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2005, \$0 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in uncollateralized account(s).

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

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

Investment in State Investment Pool

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

(4) Interfund Receivables and Payables

Long-term interfund receivables and payables at June 30, 2005 are as follows:

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Low/Moderate Income Housing	\$1,508,204 (a)
General Fund	CDC Debt Service Fund	<u>1,400,858 (b)</u>
		2,909,062
Capital Outlay Reserve	Low/Moderate Income Housing	500,000 (a)
Water	Low/Moderate Income Housing	500,000 (a)
Sewer	Low/Moderate Income Housing	500,000 (a)
Internal service funds	Low/Moderate Income Housing	<u>1,600,000 (a)</u>
	Total advances	<u>\$6,009,062</u>

- (a) During the year ended June 30, 2001, the City Council authorized a \$4,933,000 advance to the Commission. The Commission then used the proceeds to make a loan to a developer for the construction of a senior citizens affordable rental housing project. Interest on the advance accrues at a rate equal to the rate of return on City investments in LAIF plus 2.375%. Annual principal and interest payments are due from the Commission over the next 30 years. The outstanding balance on the loan at June 30, 2005 is \$4,608,204 and is recorded as an advance from various City funds to the Low/Moderate Income Housing Special Revenue Fund.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(4) Interfund Receivables and Payables, (Continued)

- (b) In July 2002, the City loaned \$1,500,000 to the Commission for the purpose of assisting the Commission in meeting certain contractual obligations pertaining to the redevelopment of its project area. Interest accrues on the advance at a rate of 10% compounded annually. The loan plus accrued interest are repaid to the City out of the Commission's tax increment. All amounts must be repaid no later than June 30, 2017. The outstanding balance on the loan at June 30, 2005 is \$1,400,858 and is recorded as an advance from the City's General Fund to the Commission's Debt Service Fund.

(5) Interfund Transfers

Interfund transfers for the year ended June 30, 2005 are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 31,400 (a)
General Fund	Water	285,500 (b)
General Fund	Sewer	<u>39,200 (b)</u>
	Total interfund transfers	<u>\$356,100</u>

Purpose of Interfund Transfers

- (a) The General Fund charged various nonmajor governmental funds \$31,400 for building, vehicle and computer maintenance and replacement.
- (b) The General Fund charged the Water and Sewer Funds \$285,500 and \$39,200, respectively, for administrative costs.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(6) Loans Receivable

Loans receivable consists of the following at June 30, 2005:

	<u>Amount</u>
During the year ended June 30, 2001, the City loaned \$4,930,395 to a developer for the construction of a senior citizens affordable rental housing project. Interest on the loan accrued at a rate equal to the rate of return on City investments in LAIF plus 2.375%. The developer makes monthly payments to the City based on its operating income. The loan is not expected to be collected by the City within one year	\$4,845,028
Deferred low and moderate income housing loans	310,000
Other loans	<u>9,315</u>
Total	<u>\$5,164,343</u>

(7) Capital Assets

A summary of capital asset activity for the year ended June 30, 2005 follows:

	<u>Balance at July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2005</u>
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,602,281	-	-	1,602,281
Land rights related to streets	5,104,472	-	-	5,104,472
Construction in progress	<u>-</u>	<u>21,457</u>	<u>-</u>	<u>21,457</u>
Total capital assets not being depreciated	<u>6,706,753</u>	<u>21,457</u>	<u>-</u>	<u>6,728,210</u>
Capital assets being depreciated:				
Building and improvements	3,772,781	-	-	3,772,781
Equipment	1,579,765	35,098	(5,499)	1,609,364
Vehicles	1,441,522	172,252	(94,620)	1,519,154
Furniture and fixtures	193,729	5,592	-	199,321
Infrastructure – streets network	9,647,061	29,460	(485)	9,676,036
Infrastructure – storm drains	<u>456,440</u>	<u>-</u>	<u>-</u>	<u>456,440</u>
Total capital assets being depreciated	<u>17,091,298</u>	<u>242,402</u>	<u>(100,604)</u>	<u>17,233,096</u>

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

(7) Capital Assets, (Continued)

	Balance at July 1, 2004 (as restated)	Additions	Deletions	Balance at June 30, 2005
<u>Governmental Activities:</u>				
Less accumulated depreciation for:				
Building and improvements	(1,636,799)	(75,456)	-	(1,712,255)
Equipment	(951,175)	(136,491)	4,614	(1,083,052)
Vehicles	(948,420)	(173,069)	94,620	(1,026,869)
Furniture and fixtures	(149,394)	(25,686)	-	(175,080)
Infrastructure – streets network	(4,586,560)*	(165,344)	239	(4,751,665)
Infrastructure – storm drains	<u>(298,205)</u>	<u>(6,089)</u>	<u>-</u>	<u>(304,294)</u>
Total accumulated depreciation	<u>(8,570,553)</u>	<u>(582,135)</u>	<u>99,473</u>	<u>(9,053,215)</u>
Capital assets being depreciated, net	<u>7,761,112</u>	<u>(339,733)</u>	<u>(1,131)</u>	<u>8,179,881</u>
Governmental activity capital assets, net	<u>\$15,227,498</u>	<u>(318,276)</u>	<u>(1,131)</u>	<u>14,908,091</u>
<u>Business-Type Activities:</u>				
Capital assets not being depreciated:				
Land	<u>\$ 754,000</u>	<u>-</u>	<u>-</u>	<u>754,000</u>
Capital assets being depreciated:				
Building and improvements	7,756,845	93,760	-	7,850,605
Machinery and equipment	349,835	4,643	(9,275)	345,203
Water system and other improvements	2,867,808	-	-	2,867,808
Sewer system and other improvements	<u>3,179,677</u>	<u>31,865</u>	<u>-</u>	<u>3,211,542</u>
Total capital assets being depreciated	<u>14,154,165</u>	<u>130,268</u>	<u>(9,275)</u>	<u>14,275,158</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,985,354)	(170,212)	-	(5,155,566)
Machinery and equipment	(120,220)	(22,888)	9,275	(133,833)
Water system and other improvements	(1,248,971)	(38,266)	-	(1,287,237)
Sewer system and other improvements	<u>(1,411,041)</u>	<u>(42,367)</u>	<u>-</u>	<u>(1,453,408)</u>
Total accumulated depreciation	<u>(7,765,586)</u>	<u>(273,733)</u>	<u>9,275</u>	<u>(8,030,044)</u>
Capital assets being depreciated, net	<u>6,388,579</u>	<u>(143,465)</u>	<u>-</u>	<u>6,245,114</u>
Business-type activities capital assets, net	<u>\$ 7,142,579</u>	<u>(143,465)</u>	<u>-</u>	<u>6,999,114</u>

* Beginning accumulated depreciation decreased by \$759,633 as a result of a change in the estimated useful life of infrastructure-pavement (note 2)

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(7) Capital Assets, (Continued)

Depreciation expense was charged to functions for the year ended June 30, 2005 as follows:

Governmental activities:	
General government	\$ 91,656
Public safety	168,554
Public works	229,052
Recreation	85,387
Community development	<u>7,486</u>
Total – governmental activities	<u>\$582,135</u>
Business-type activities:	
Water	\$180,456
Sewer	<u>93,277</u>
Total – business-type activities	<u>\$273,733</u>

(8) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance at July 1, 2004	Additions	Retirements	Balance at June 30, 2005	Portion Due Within One Year	Portion Due Beyond One Year
<u>Governmental Activities:</u>						
1993 Tax Allocation Bonds	\$3,660,000	-	(160,000)	3,500,000	165,000	3,335,000
2001 Tax Allocation Bonds	<u>5,720,000</u>	<u>-</u>	<u>(190,000)</u>	<u>5,530,000</u>	<u>195,000</u>	<u>5,335,000</u>
Subtotal	<u>9,380,000</u>	<u>-</u>	<u>(350,000)</u>	<u>9,030,000</u>	<u>360,000</u>	<u>8,670,000</u>
Compensated absences	<u>498,313</u>	<u>844,669</u>	<u>(881,209)</u>	<u>461,773</u>	<u>29,028</u>	<u>432,745</u>
Total long-term liabilities	<u>\$9,878,313</u>	<u>844,669</u>	<u>(1,231,209)</u>	<u>9,491,773</u>	<u>389,028</u>	<u>9,102,745</u>

Compensated absences are generally liquidated by the General Fund.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(9) Bonds Payable

1993 Tax Allocation Bonds

On December 1, 1993, the Commission issued tax allocation bonds in the amount of \$5,100,000 to finance a portion of the cost of the redevelopment area known as the Community Development Project Area. The bonds are in denominations of \$5,000 each and bear interest at rates ranging from 3.30% to 6.10%. Principal is payable annually on June 1. Interest is payable semiannually on June 1 and December 1. Bonds maturing on or before June 1, 2002 are not subject to call or redemption prior to maturity. Bonds maturing on or after June 1, 2003 may be redeemed at par plus a premium. As of June 30, 2005, \$3,500,000 of the bonds were outstanding.

Debt service requirements on the 1993 tax allocation bonds at June 30, 2005, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 165,000	212,990
2007	180,000	203,255
2008	185,000	192,455
2009	190,000	181,170
2010	205,000	169,580
2011	220,000	157,075
2012	230,000	143,655
2013	240,000	129,625
2014	255,000	114,985
2015	265,000	99,430
2016	285,000	83,265
2017	295,000	65,880
2018	325,000	47,885
2019	230,000	28,060
2020	30,000	14,030
2021	-	12,200
2022	<u>200,000</u>	<u>12,200</u>
Total	<u>\$3,500,000</u>	<u>1,867,740</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(9) Bonds Payable, (Continued)

2001 Refunding Tax Allocation Bonds

On December 1, 2001, the Commission 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 Commission. The refunding bonds are in denominations of \$5,000 each and bear interest at rates ranging from 2.50% to 5.50%. Principal is payable annually on June 1. Interest is payable semiannually on June 1 and December 1. Bonds maturing on or before June 1, 2011 are not subject to call or redemption prior to maturity. Bonds maturing on or after June 1, 2012 may be redeemed at par plus a premium. As of June 30, 2005, \$5,530,000 of 2001 refunding tax allocation bonds were outstanding.

Debt service requirements on the 2001 refunding tax allocation bonds at June 30, 2005 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 195,000	288,433
2007	200,000	281,217
2008	215,000	273,118
2009	225,000	263,980
2010	230,000	254,080
2011	245,000	243,615
2012	260,000	232,100
2013	275,000	217,800
2014	290,000	202,675
2015	310,000	186,725
2016	325,000	169,675
2017	350,000	151,800
2018	360,000	132,550
2019	495,000	112,750
2020	740,000	85,525
2021	<u>815,000</u>	<u>44,825</u>
Total	<u>\$5,530,000</u>	<u>3,140,868</u>

1993 and 2001 Tax Allocation Bonds Reserve Requirement

The required reserve for the 1993 and 2001 Tax Allocation Bonds is \$872,025. As of June 30, 2005, the reserve was \$876,133.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(10) Arbitrage Rebate

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

During the current year, the City performed calculations of excess investment earnings on various bonds and financings in accordance with arbitrage regulations. The City has determined that no arbitrage rebate liability exists as of June 30, 2005.

(11) Post Retirement Benefits

In addition to providing pension benefits, the City provides postemployment health care benefits, in accordance with State statute, to all safety employees who retire from the City on or after attaining age 50 with at least five years of service. Currently 19 retirees meet those eligibility requirements. These health care benefits are funded by insurance premiums paid by retirees enrolled in the health plans and by the City. The cost of retiree health care benefits is recognized as an expense as the insurance premiums are paid on a monthly basis, which were approximately \$65,232 for the year ended June 30, 2005.

(12) 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 91 California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500, et seq. The purpose of the CJPIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverages. The CJPIA's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

Self-insurance programs of the CJPIA

General liability – Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). Six months after the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Costs are spread to members as follows: the first \$30,000 of each occurrence is charged directly to the member; costs from \$30,001 to \$750,000 are pooled based on a member's share of costs under \$30,000; costs from \$750,001 to \$5,000,000 are pooled based on payroll. Costs of covered claims above \$5,000,000 are currently paid by reinsurance. The protection for each member is \$50,000,000 per occurrence and \$50,000,000 annual aggregate.

Workers' compensation – The City also participates in the workers' compensation pool administered by the CJPIA. Pool deposits and retrospective adjustments are valued in a manner similar to the General Liability Pool. The City is charged for the first \$50,000 of each claim. Costs from \$50,001 to \$100,000 per claim are pooled based on the member's losses under its retention level. Costs between \$100,001 and \$2,000,000 per claim are pooled based on payroll. Costs between \$2,000,000 and \$50,000,000 are paid by excess insurance purchased by the CJPIA. The excess insurance provides coverage to statutory limits. Costs in excess of \$50,000,000 are pooled by members based on payroll.

Purchased insurance

Environmental insurance – The City participates in the pollution legal liability and remediation legal liability insurance which is available through CJPIA. The policy covers sudden and gradual pollution of scheduled property, streets and storm drains owned by the City. Coverage is on a claims-made basis. There is a \$50,000 deductible. The CJPIA has a limit of \$120,000,000 for the three-year period from July 1, 2002 through June 30, 2005. Each member of CJPIA has a \$10,000,000 limit during the three-year term of the policy.

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. Total all-risk property insurance coverage is \$8,706,406. There is a \$5,000 per loss deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

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. The City's property currently has earthquake protection in the amount of \$6,829,700. There is a deductible of 5% of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

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

Adequacy of protection

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

Prior to becoming a member of the CJPIA effective July 1, 1998, the City was self-insured against risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and injuries to employees. In the fund financial statements, the City's Insurance and Employee Benefits Internal Service Funds are used to account for and finance its uninsured risks of loss. A reconciliation of changes in aggregate liabilities for claim activities filed in the current fiscal year and the prior fiscal year for incidents occurring through June 30, 1998 are as follows:

<u>Workers' Compensation:</u>	<u>Employee Benefits</u>
Amount of accrued claims at June 30, 2003	\$1,497
Incurred claims, representing the total of a provision for events of the current fiscal year and any changes (increase or decrease) in the provision for events of prior fiscal years	-
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	-
Amount of accrued claims at June 30, 2004	1,497
Incurred claims representing the total of a provision for events of the current fiscal year and any changes (increase or decrease) in the provision for events of prior fiscal years	-
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	-
Amount of accrued claims at June 30, 2005	<u>\$1,497</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(13) Defined Benefit Pension Plan (PERS)

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

Participants are required to contribute 7% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and town contract with employee bargaining groups.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2004 to June 30, 2005 has been determined by an actuarial valuation of the plan as of June 30, 2002. The contribution rate indicated for the period is 35.392% of payroll for the safety plan and 7.230% of payroll for the miscellaneous plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2005, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2004 to June 30, 2005.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

A summary of principle assumptions and methods used to determine the ARC is shown below.

Valuation Date	June 30, 2002
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	17 Years and 22 Years as of the Valuation Date for safety and miscellaneous plans, respectively
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	8.25% (net of administrative expenses)
Projected Salary Increases	4.27% to 11.59% and 3.75% to 14.20% depending on Age, Service, and type of employment for safety and miscellaneous plans, respectively
Inflation	3.50%
Payroll Growth	3.75%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.5% and an annual production growth of 0.25%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level % of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization period may not be lower than the payment calculated over a 30 year amortization period. This unfunded actuarial liability is amortized over a period ending June 30, 2033 and June 30, 2024 for the safety plan and miscellaneous plan, respectively.

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

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

Safety Employees

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (Employer Contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 38,904	100%	-
6/30/04	4,907	100%	-
6/30/05	616,936	100%	-

Required Supplementary Information

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability/ (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>*UAAL As a % of Payroll</u>
6/30/00	\$13,061,886	15,142,222	(2,080,336)	115.9%	1,588,089	(131.0%)
6/30/01	14,038,812	15,708,001	(1,669,189)	111.9%	1,711,883	(97.5%)
6/30/02	17,203,967	14,904,497	2,299,470	86.6%	1,667,140	137.9%

*UAAL refers to *unfunded actuarial accrued liability*.

The most recent PERS letter was not available for the year ended June 30, 2005.

Miscellaneous Employees

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (Employer Contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ -	100%	-
6/30/04	-	100%	-
6/30/05	150,517	100%	-

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

Required Supplementary Information

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	*UAAL As a % of Payroll
6/30/00	\$6,856,993	9,950,250	(3,093,257)	145.1%	1,949,545	(58.7%)
6/30/01	7,472,524	10,467,109	(2,994,585)	140.1%	2,064,034	(5.1%)
6/30/02	9,043,074	10,086,020	(1,042,946)	111.5%	2,042,627	(51.1%)

The most recent PERS letter was not available for the year ended June 30, 2005.

(14) Defined Benefit Pension Plan (PARS)

On April 18, 2000, the City Council authorized the City to become a member of the Public Agency Retirement System (PARS) Trust, a governmental trust, effective July 1, 2000 for its eligible part-time, seasonal and temporary employees. This is an alternative retirement system for those not covered by a retirement plan other than social security. Under PARS, the City and the employee each contribute 3.75% of compensation for a total annual contribution of 7.5%. For the year ended June 30, 2005, the amount contributed by the City was \$6,184. Employees are fully vested at all times. The City has entered into an agreement with Phase II Systems to provide trust administrator services.

(15) Litigation

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

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(16) Joint Venture – Orange County Fire Authority

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

No determination has been made as to each participant's proportionate share of fund equity as of June 30, 2005. 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.

(17) Owner Participation Agreements

The City entered into an Owner Participation Agreement in January 1994 with a business owner within the City for the purpose of expanding the owner's facilities. This agreement requires the City to remit property tax increment equal to the amount of sales tax revenue generated by its operation in excess of \$104,284. The agreement limits the amount of increment that can be remitted to a maximum of \$500,000 for a period of ten years. The City remitted \$0 during the year ended June 30, 2005. The total amount remitted by the City under this agreement through June 30, 2005 was approximately \$233,000.

The City entered into an Owner Participation Agreement in March 1999 with a business enterprise for the purpose of relocating and consolidating the enterprise's business operations within the City. This agreement requires the City to remit property tax increment equal to 20% of the sales tax revenue generated each year by the business enterprise back to the enterprise. The agreement limits the amount of the increment that can be remitted to a maximum of \$600,000 for a period of ten years. The City remitted approximately \$0 of this amount during the year ended June 30, 2005. The total amount remitted by the City under this agreement through June 30, 2005 was approximately \$124,909.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(17) Owner Participation Agreements, (Continued)

The City entered into an Owner Participation Agreement in May 2002 with a business enterprise whereby the City disbursed \$1,500,000 to the enterprise for the purpose of rehabilitating certain real property within the City. Under the terms of the agreement, the cost of the project is expected to be recovered by the City through increased sales tax revenues. At the end of the project's fifteenth operating year, the business enterprise must pay the City any portion of the cost not recovered. The total cost recovered as of June 30, 2005 was \$0.

(18) Fund Balances

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

	General Fund	Special Revenue Low/ Moderate Income Housing	Debt Service CDC Debt Service Fund	Capital Projects CDC Projects	Capital Outlay Reserve	Nonmajor Governmental Funds	Total
Reserved for:							
Advances to other funds	\$2,909,062	-	-	-	500,000	-	3,409,062
Prepaid items	16,137	-	-	-	-	409	16,546
Loans receivable	-	4,845,028	-	-	-	-	4,845,028
	<u>2,925,199</u>	<u>4,845,028</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>409</u>	<u>8,270,636</u>
Unreserved, designated for:							
Maintenance and replacement of capital assets	2,583,118	-	-	-	-	-	2,583,118
Capital projects	-	-	-	1,364,509	4,203,738	-	5,568,247
	<u>2,583,118</u>	<u>-</u>	<u>-</u>	<u>1,364,509</u>	<u>4,203,738</u>	<u>-</u>	<u>8,151,365</u>
Unreserved, undesignated	<u>8,727,946</u>	<u>(2,724,323)</u>	<u>424,265</u>	<u>-</u>	<u>-</u>	<u>930,859</u>	<u>7,358,747</u>
Total fund balances	<u>\$14,236,263</u>	<u>2,120,705</u>	<u>424,265</u>	<u>1,364,509</u>	<u>4,703,738</u>	<u>931,268</u>	<u>23,780,748</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(19) Expenditures in Excess of Appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance Positive (Negative)</u>
Nonmajor special revenue funds:			
Local Law enforcement Block Grant Fund	29,000	30,707	(1,707)
California Law Enforcement Equipment Program Fund	10,800	10,906	(106)



REQUIRED SUPPLEMENTARY INFORMATION



GENERAL FUND

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

SPECIAL REVENUE FUNDS

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

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



CITY OF LA PALMA

Notes to Required Supplementary Information

Year ended June 30, 2005

(1) Budgetary Control and Accounting

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

- Budgets are legally adopted and formal budgetary integration is employed as a management control device during the year for the General, Special Revenue and Debt Service Funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles. 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.
- In the case of the General, Special Revenue and Debt Service Funds, unexpended budgeted amounts, except for amounts relating to Capital Projects, 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 budgeted appropriations at the fund level. Reserves for encumbrances are not recorded by the City.

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

CITY OF LA PALMA
General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Taxes	\$ 5,874,300	5,874,300	7,520,300	1,646,000	6,935,940
Intergovernmental	902,300	902,300	1,299,068	396,768	740,858
Licenses and permits	236,600	236,600	251,721	15,121	247,974
Fines and forfeitures	156,500	156,500	136,056	(20,444)	146,619
Investment income	395,200	395,200	524,701	129,501	413,478
Charges for services	425,500	442,500	450,595	8,095	480,289
Rental income	148,600	148,600	149,427	827	145,556
Miscellaneous	271,600	271,600	287,971	16,371	282,695
Total revenues	<u>8,410,600</u>	<u>8,427,600</u>	<u>10,619,839</u>	<u>2,192,239</u>	<u>9,393,409</u>
Expenditures:					
Current:					
General government	1,744,700	1,776,600	1,568,188	208,412	1,869,958
Public safety	4,300,905	4,151,500	4,086,800	64,700	3,729,401
Public works	708,900	708,900	623,289	85,611	502,103
Recreation	1,184,900	1,200,900	1,164,230	36,670	1,131,298
Community development	385,200	385,200	377,273	7,927	375,326
Capital outlay	240,400	282,800	148,110	134,690	159,836
Total expenditures	<u>8,565,005</u>	<u>8,505,900</u>	<u>7,967,890</u>	<u>538,010</u>	<u>7,767,922</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(154,405)</u>	<u>(78,300)</u>	<u>2,651,949</u>	<u>2,730,249</u>	<u>1,625,487</u>
Other financing sources (uses):					
Transfers in	215,700	215,700	356,100	140,400	470,200
Total other financing sources (uses)	<u>215,700</u>	<u>215,700</u>	<u>356,100</u>	<u>140,400</u>	<u>470,200</u>
Net changes in fund balances	61,295	137,400	3,008,049	2,870,649	2,095,687
Fund balances at beginning of year	<u>11,228,214</u>	<u>11,228,214</u>	<u>11,228,214</u>	<u>-</u>	<u>9,132,527</u>
Fund balances at end of year	<u>\$ 11,289,509</u>	<u>11,365,614</u>	<u>14,236,263</u>	<u>2,870,649</u>	<u>11,228,214</u>

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

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

Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Taxes	\$ 408,000	408,000	431,582	23,582	414,392
Investment income	20,000	20,000	285,679	265,679	267,350
Miscellaneous	-	-	-	-	1,225
Total revenues	<u>428,000</u>	<u>428,000</u>	<u>717,261</u>	<u>289,261</u>	<u>682,967</u>
Expenditures:					
Current:					
Community development	314,500	314,500	244,267	70,233	245,376
Debt service:					
Principal	56,700	56,700	-	56,700	-
Interest	312,500	312,500	213,975	98,525	185,165
Total expenditures	<u>683,700</u>	<u>683,700</u>	<u>458,242</u>	<u>225,458</u>	<u>430,541</u>
Net changes in fund balances	(255,700)	(255,700)	259,019	514,719	252,426
Fund balances at beginning of year	<u>1,861,686</u>	<u>1,861,686</u>	<u>1,861,686</u>	<u>-</u>	<u>1,609,260</u>
Fund balances at end of year	<u><u>\$ 1,605,986</u></u>	<u><u>1,605,986</u></u>	<u><u>2,120,705</u></u>	<u><u>514,719</u></u>	<u><u>1,861,686</u></u>



NONMAJOR SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF LA PALMA
Nonmajor Special Revenue Funds

Combining Balance Sheet

June 30, 2005

	Asset Seizure	Streets	Measure M	Park Development	Air Quality Improvement
<u>Assets</u>					
Cash and investments	\$ 3,983	225,728	451,464	115,125	37,951
Receivables:					
Interest	39	1,960	4,318	1,129	506
Due from other governments	-	29,864	37,865	-	4,720
Prepaid items	-	409	-	-	-
	<u>\$ 4,022</u>	<u>257,961</u>	<u>493,647</u>	<u>116,254</u>	<u>43,177</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ -	56,972	16,900	-	-
Salaries payable	-	2,720	-	-	-
Retentions payable	-	2,564	-	-	-
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
	<u>-</u>	<u>62,256</u>	<u>16,900</u>	<u>-</u>	<u>-</u>
Fund balances:					
Reserved for prepaid items	-	409	-	-	-
Unreserved, reported in special revenue funds	4,022	195,296	476,747	116,254	43,177
	<u>4,022</u>	<u>195,705</u>	<u>476,747</u>	<u>116,254</u>	<u>43,177</u>
Total fund balances	<u>4,022</u>	<u>195,705</u>	<u>476,747</u>	<u>116,254</u>	<u>43,177</u>
Total liabilities and fund balances	<u>\$ 4,022</u>	<u>257,961</u>	<u>493,647</u>	<u>116,254</u>	<u>43,177</u>

Supplemental Law Enforcement Service	Public Safety Augmentation	Abandoned Vehicles	Local Law Enforcement Block Grant	CA Law Enforcement Equipment Program	Urban Park Grant	Totals	
						2005	2004
2,676	65,839	15,781	10,975	661	16,019	946,202	877,829
83	588	155	157	15	157	9,107	4,846
-	12,820	-	-	-	-	85,269	86,627
-	-	-	-	-	-	409	-
<u>2,759</u>	<u>79,247</u>	<u>15,936</u>	<u>11,132</u>	<u>676</u>	<u>16,176</u>	<u>1,040,987</u>	<u>969,302</u>
-	1,538	-	10,777	359	-	86,546	107,513
-	2,534	-	355	-	-	5,609	8,686
-	-	-	-	-	-	2,564	23,802
-	-	-	-	-	-	-	87
-	-	-	-	-	15,000	15,000	117,440
-	4,072	-	11,132	359	15,000	109,719	257,528
-	-	-	-	-	-	409	-
<u>2,759</u>	<u>75,175</u>	<u>15,936</u>	<u>-</u>	<u>317</u>	<u>1,176</u>	<u>930,859</u>	<u>711,774</u>
<u>2,759</u>	<u>75,175</u>	<u>15,936</u>	<u>-</u>	<u>317</u>	<u>1,176</u>	<u>931,268</u>	<u>711,774</u>
<u>2,759</u>	<u>79,247</u>	<u>15,936</u>	<u>11,132</u>	<u>676</u>	<u>16,176</u>	<u>1,040,987</u>	<u>969,302</u>

CITY OF LA PALMA
Nonmajor Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2005

	Asset Seizure	Streets	Measure M	Traffic Congestion Relief	Park Development	Air Quality Improvement
Revenues:						
Intergovernmental	\$ -	302,582	213,702	-	-	18,976
Investment income	120	5,432	11,911	-	3,015	1,534
Charges for services	-	-	-	-	27,164	-
Miscellaneous	-	-	-	-	-	-
Total revenues	120	308,014	225,613	-	30,179	20,510
Expenditures:						
Current:						
Public safety	-	-	-	-	-	-
Public works	-	196,013	36,482	-	-	3,100
Capital outlay	-	15,000	32,037	-	-	22,814
Total expenditures	-	211,013	68,519	-	-	25,914
Excess (deficiency) of revenues over expenditures	120	97,001	157,094	-	30,179	(5,404)
Other financing sources (uses):						
Transfers out	-	(30,400)	(1,000)	-	-	-
Total other financing sources (uses)	-	(30,400)	(1,000)	-	-	-
Net changes in fund balances	120	66,601	156,094	-	30,179	(5,404)
Fund balances at beginning of year	3,902	129,104	320,653	-	86,075	48,581
Fund balances (deficit) at end of year	\$4,022	195,705	476,747	-	116,254	43,177

Supplemental Law Enforcement Service	Public Safety Augmentation	Abandoned Vehicles	Local Law Enforcement Block Grant	CA Law Enforcement Equipment Program	Urban Park Grant	Totals	
						2005	2004
						100,041	145,297
364	1,958	483	617	204	-	25,638	19,973
-	-	-	-	-	-	27,164	-
-	-	-	-	-	-	-	1,003
<u>100,405</u>	<u>147,255</u>	<u>4,598</u>	<u>617</u>	<u>204</u>	<u>-</u>	<u>837,515</u>	<u>769,971</u>
95,308	131,426	10,692	30,707	10,906	-	279,039	273,114
-	-	-	-	-	2,136	237,731	309,803
-	-	-	-	-	-	69,851	295,172
<u>95,308</u>	<u>131,426</u>	<u>10,692</u>	<u>30,707</u>	<u>10,906</u>	<u>2,136</u>	<u>586,621</u>	<u>878,089</u>
<u>5,097</u>	<u>15,829</u>	<u>(6,094)</u>	<u>(30,090)</u>	<u>(10,702)</u>	<u>(2,136)</u>	<u>250,894</u>	<u>(108,118)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,400)</u>	<u>(27,200)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,400)</u>	<u>(27,200)</u>
5,097	15,829	(6,094)	(30,090)	(10,702)	(2,136)	219,494	(135,318)
<u>(2,338)</u>	<u>59,346</u>	<u>22,030</u>	<u>30,090</u>	<u>11,019</u>	<u>3,312</u>	<u>711,774</u>	<u>847,092</u>
<u>2,759</u>	<u>75,175</u>	<u>15,936</u>	<u>-</u>	<u>317</u>	<u>1,176</u>	<u>931,268</u>	<u>711,774</u>

CITY OF LA PALMA
Asset Seizure Fund

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

Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Investment income	\$ 200	200	120	(80)	123
Total revenues	200	200	120	(80)	123
Expenditures:					
Current:					
Public safety	-	-	-	-	-
Total expenditures	-	-	-	-	-
Net changes in fund balances	200	200	120	(80)	123
Fund balances at beginning of year	3,902	3,902	3,902	-	3,779
Fund balances at end of year	<u>\$ 4,102</u>	<u>4,102</u>	<u>4,022</u>	<u>(80)</u>	<u>3,902</u>

CITY OF LA PALMA
Streets Fund

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

Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ 300,000	300,000	302,582	2,582	300,763
Investment income	2,000	2,000	5,432	3,432	3,042
Miscellaneous	-	-	-	-	1,003
Total revenues	302,000	302,000	308,014	6,014	304,808
Expenditures:					
Current:					
Public works	209,700	209,700	196,013	13,687	287,555
Capital outlay	15,000	15,000	15,000	-	33,427
Total expenditures	224,700	224,700	211,013	13,687	320,982
Excess (deficiency) of revenues over (under) expenditures	77,300	77,300	97,001	19,701	(16,174)
Other financing sources (uses):					
Transfers out	-	-	(30,400)	(30,400)	(26,200)
Total other financing sources (uses)	-	-	(30,400)	(30,400)	(26,200)
Net changes in fund balances	77,300	77,300	66,601	(10,699)	(42,374)
Fund balances at beginning of year	129,104	129,104	129,104	-	171,478
Fund balances at end of year	\$ 206,404	206,404	195,705	(10,699)	129,104

CITY OF LA PALMA
Measure M Fund

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

Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ 188,000	188,000	213,702	25,702	185,434
Investment income	7,000	7,000	11,911	4,911	6,965
Total revenues	<u>195,000</u>	<u>195,000</u>	<u>225,613</u>	<u>30,613</u>	<u>192,399</u>
Expenditures:					
Current:					
Public works	36,500	36,500	36,482	18	19,872
Capital outlay	260,000	260,000	32,037	227,963	149,357
Total expenditures	<u>296,500</u>	<u>296,500</u>	<u>68,519</u>	<u>227,981</u>	<u>169,229</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(101,500)</u>	<u>(101,500)</u>	<u>157,094</u>	<u>258,594</u>	<u>23,170</u>
Other financing sources (uses):					
Transfers out	-	-	(1,000)	(1,000)	(1,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,000)</u>	<u>(1,000)</u>	<u>(1,000)</u>
Net changes in fund balances	(101,500)	(101,500)	156,094	257,594	22,170
Fund balances at beginning of year	<u>320,653</u>	<u>320,653</u>	<u>320,653</u>	<u>-</u>	<u>298,483</u>
Fund balances at end of year	<u>\$ 219,153</u>	<u>219,153</u>	<u>476,747</u>	<u>257,594</u>	<u>320,653</u>

CITY OF LA PALMA
Park Development Fund

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

Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Investment income	\$ 3,000	3,000	3,015	15	2,733
Charges for services	26,200	26,200	27,164	964	-
Total revenues	<u>29,200</u>	<u>29,200</u>	<u>30,179</u>	<u>979</u>	<u>2,733</u>
Expenditures:					
Capital outlay	-	-	-	-	48,253
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,253</u>
Net changes in fund balances	29,200	29,200	30,179	979	(45,520)
Fund balances at beginning of year	<u>86,075</u>	<u>86,075</u>	<u>86,075</u>	<u>-</u>	<u>131,595</u>
Fund balances at end of year	<u><u>\$ 115,275</u></u>	<u><u>115,275</u></u>	<u><u>116,254</u></u>	<u><u>979</u></u>	<u><u>86,075</u></u>

CITY OF LA PALMA
Air Quality Improvement Fund

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

Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ 18,000	18,000	18,976	976	18,515
Investment income	1,200	1,200	1,534	334	1,134
Total revenues	<u>19,200</u>	<u>19,200</u>	<u>20,510</u>	<u>1,310</u>	<u>19,649</u>
Expenditures:					
Current:					
Public works	3,100	3,100	3,100	-	2,376
Capital outlay	23,000	23,000	22,814	186	21,776
Total expenditures	<u>26,100</u>	<u>26,100</u>	<u>25,914</u>	<u>186</u>	<u>24,152</u>
Net changes in fund balances	(6,900)	(6,900)	(5,404)	1,496	(4,503)
Fund balances at beginning of year	<u>48,581</u>	<u>48,581</u>	<u>48,581</u>	<u>-</u>	<u>53,084</u>
Fund balances at end of year	<u><u>\$ 41,681</u></u>	<u><u>41,681</u></u>	<u><u>43,177</u></u>	<u><u>1,496</u></u>	<u><u>48,581</u></u>

CITY OF LA PALMA
Supplemental Law Enforcement Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual

Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ 100,000	100,000	100,041	41	100,000
Investment income	400	400	364	(36)	336
Total revenues	<u>100,400</u>	<u>100,400</u>	<u>100,405</u>	<u>5</u>	<u>100,336</u>
Expenditures:					
Current:					
Public safety	97,400	97,400	95,308	2,092	105,184
Total expenditures	<u>97,400</u>	<u>97,400</u>	<u>95,308</u>	<u>2,092</u>	<u>105,184</u>
Net changes in fund balances	3,000	3,000	5,097	2,097	(4,848)
Fund balances (deficit) at beginning of year	<u>(2,338)</u>	<u>(2,338)</u>	<u>(2,338)</u>	<u>-</u>	<u>2,510</u>
Fund balances (deficit) at end of year	<u>\$ 662</u>	<u>662</u>	<u>2,759</u>	<u>2,097</u>	<u>(2,338)</u>

CITY OF LA PALMA
Public Safety Augmentation Fund

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

Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ 125,000	125,000	145,297	20,297	132,253
Investment income	1,000	1,000	1,958	958	1,201
Total revenues	<u>126,000</u>	<u>126,000</u>	<u>147,255</u>	<u>21,255</u>	<u>133,454</u>
Expenditures:					
Current:					
Public safety	144,800	144,800	131,426	13,374	153,890
Total expenditures	<u>144,800</u>	<u>144,800</u>	<u>131,426</u>	<u>13,374</u>	<u>153,890</u>
Net changes in fund balances	(18,800)	(18,800)	15,829	34,629	(20,436)
Fund balances at beginning of year	<u>59,346</u>	<u>59,346</u>	<u>59,346</u>	<u>-</u>	<u>79,782</u>
Fund balances (deficit) at end of year	<u><u>\$ 40,546</u></u>	<u><u>40,546</u></u>	<u><u>75,175</u></u>	<u><u>34,629</u></u>	<u><u>59,346</u></u>

CITY OF LA PALMA
Abandoned Vehicles Fund

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

Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ 10,400	10,400	4,115	(6,285)	12,030
Investment income	200	200	483	283	299
Total revenues	<u>10,600</u>	<u>10,600</u>	<u>4,598</u>	<u>(6,002)</u>	<u>12,329</u>
Expenditures:					
Public safety	<u>14,100</u>	<u>14,100</u>	<u>10,692</u>	<u>3,408</u>	<u>14,040</u>
Total expenditures	<u>14,100</u>	<u>14,100</u>	<u>10,692</u>	<u>3,408</u>	<u>14,040</u>
Net changes in fund balances	(3,500)	(3,500)	(6,094)	(2,594)	(1,711)
Fund balances at beginning of year	<u>22,030</u>	<u>22,030</u>	<u>22,030</u>	-	<u>23,741</u>
Fund balances at end of year	<u>\$ 18,530</u>	<u>18,530</u>	<u>15,936</u>	<u>(2,594)</u>	<u>22,030</u>

CITY OF LA PALMA
Local Law Enforcement Block Grant Fund

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

Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Investment income	\$ 600	600	617	17	621
Total revenues	<u>600</u>	<u>600</u>	<u>617</u>	<u>17</u>	<u>621</u>
Expenditures:					
Current:					
Public safety	29,000	29,000	30,707	(1,707)	-
Total expenditures	<u>29,000</u>	<u>29,000</u>	<u>30,707</u>	<u>(1,707)</u>	<u>-</u>
Net change in fund balances	(28,400)	(28,400)	(30,090)	(1,690)	621
Fund balances at beginning of year	30,090	30,090	30,090	-	29,469
Fund balances at end of year	<u>\$ 1,690</u>	<u>1,690</u>	<u>-</u>	<u>(1,690)</u>	<u>30,090</u>

CITY OF LA PALMA
California Law Enforcement Equipment Program Fund

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

Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Investment income	\$ 400	400	204	(196)	304
Total revenues	<u>400</u>	<u>400</u>	<u>204</u>	<u>(196)</u>	<u>304</u>
Expenditures:					
Current:					
Public safety	10,800	10,800	10,906	(106)	-
Total expenditures	<u>10,800</u>	<u>10,800</u>	<u>10,906</u>	<u>(106)</u>	<u>-</u>
Net changes in fund balances	(10,400)	(10,400)	(10,702)	(302)	304
Fund balances at beginning of year	<u>11,019</u>	<u>11,019</u>	<u>11,019</u>	<u>-</u>	<u>10,715</u>
Fund balances at end of year	<u><u>\$ 619</u></u>	<u><u>619</u></u>	<u><u>317</u></u>	<u><u>(302)</u></u>	<u><u>11,019</u></u>

CITY OF LA PALMA
Urban Park Grant Fund

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

Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Investment income	\$ 2,600	2,600	-	(2,600)	2,490
Total revenues	<u>2,600</u>	<u>2,600</u>	<u>-</u>	<u>(2,600)</u>	<u>2,490</u>
Expenditures:					
Current:					
Public works	-	-	2,136	(2,136)	-
Capital outlay	140,400	140,400	-	140,400	-
Total expenditures	<u>140,400</u>	<u>140,400</u>	<u>2,136</u>	<u>138,264</u>	<u>-</u>
Net changes in fund balances	(137,800)	(137,800)	(2,136)	135,664	2,490
Fund balances at beginning of year	<u>3,312</u>	<u>3,312</u>	<u>3,312</u>	<u>-</u>	<u>822</u>
Fund balances (deficit) at end of year	<u>\$ (134,488)</u>	<u>(134,488)</u>	<u>1,176</u>	<u>135,664</u>	<u>3,312</u>

MAJOR DEBT SERVICE FUND

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

CITY OF LA PALMA
CDC Debt Service Fund

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

Year ended June 30, 2005

	2005			Variance with Final Budget Positive (Negative)	2004 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Taxes	\$ 1,632,000	1,632,000	1,726,330	94,330	1,657,567
Investment income	10,000	10,000	32,159	22,159	9,862
Miscellaneous	-	-	2,134	2,134	4,200
Total revenues	<u>1,642,000</u>	<u>1,642,000</u>	<u>1,760,623</u>	<u>118,623</u>	<u>1,671,629</u>
Expenditures:					
Current:					
General government	141,000	141,000	30,615	110,385	39,478
Debt service:					
Principal	350,000	350,000	350,000	-	330,000
Interest	699,300	699,300	662,537	36,763	718,087
Pass-through payments	186,200	186,200	176,597	9,603	229,722
Total expenditures	<u>1,376,500</u>	<u>1,376,500</u>	<u>1,219,749</u>	<u>156,751</u>	<u>1,317,287</u>
Excess (deficiency) of revenues over (under) expenditures	<u>265,500</u>	<u>265,500</u>	<u>540,874</u>	<u>275,374</u>	<u>354,342</u>
Net changes in fund balances	265,500	265,500	540,874	275,374	354,342
Fund balances (deficit) at beginning of year	<u>(116,609)</u>	<u>(116,609)</u>	<u>(116,609)</u>	<u>-</u>	<u>(470,951)</u>
Fund balances (deficit) at end of year	<u>\$ 148,891</u>	<u>148,891</u>	<u>424,265</u>	<u>275,374</u>	<u>(116,609)</u>

INTERNAL SERVICE FUNDS

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

The City of La Palma has two Internal Service Funds:

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

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

CITY OF LA PALMA
Internal Service Funds

Combining Statement of Net Assets

June 30, 2005

	Insurance	Employee Benefits	Totals	
			2005	2004
Assets:				
Current assets:				
Cash and investments	\$ 402,073	762,090	1,164,163	1,449,118
Receivables:				
Accounts	-	-	-	6,756
Loans	-	9,315	9,315	12,856
Prepaid items	-	-	-	8,179
Due from other government agencies - current portion	342,651	116,060	458,711	12,707
Total current assets	744,724	887,465	1,632,189	1,489,616
Noncurrent assets:				
Due from other government agencies - noncurrent portion	-	190,634	190,634	146,373
Advances to other funds	600,000	1,000,000	1,600,000	1,600,000
Total noncurrent assets	600,000	1,190,634	1,790,634	1,746,373
Total assets	1,344,724	2,078,099	3,422,823	3,235,989
Liabilities:				
Current liabilities:				
Accounts payable	3,151	3,962	7,113	16,588
Salaries payable	-	6,434	6,434	13,034
Deferred revenue	-	157	157	-
Other accrued liabilities	-	1,497	1,497	1,497
Total current liabilities	3,151	12,050	15,201	31,119
Noncurrent liabilities:				
Due to other governmental agencies - noncurrent portion	-	-	-	8,791
Total liabilities	3,151	12,050	15,201	39,910
Net assets:				
Unrestricted	\$ 1,341,573	2,066,049	3,407,622	3,196,079

CITY OF LA PALMA
Internal Service Funds

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

Year ended June 30, 2005

	<u>Insurance</u>	<u>Employee Benefits</u>	<u>Totals</u>	
			<u>2005</u>	<u>2004</u>
Operating revenues:				
Charges for services	\$ 381,100	2,301,100	2,682,200	2,629,400
Miscellaneous	-	-	-	274
	<u>381,100</u>	<u>2,301,100</u>	<u>2,682,200</u>	<u>2,629,674</u>
Operating expenses:				
Personnel services	-	1,578,707	1,578,707	888,146
Maintenance and operations	-	17,218	17,218	12,221
Contractual services	-	14,396	14,396	14,048
Settlement, claims and insurance	75,141	785,195	860,336	834,407
	<u>75,141</u>	<u>2,395,516</u>	<u>2,470,657</u>	<u>1,748,822</u>
Total operating expenses	<u>75,141</u>	<u>2,395,516</u>	<u>2,470,657</u>	<u>1,748,822</u>
Operating income (loss)	<u>305,959</u>	<u>(94,416)</u>	<u>211,543</u>	<u>880,852</u>
Change in net assets	305,959	(94,416)	211,543	880,852
Net assets at beginning of year	<u>1,035,614</u>	<u>2,160,465</u>	<u>3,196,079</u>	<u>2,315,227</u>
Net assets at end of year	<u>\$ 1,341,573</u>	<u>2,066,049</u>	<u>3,407,622</u>	<u>3,196,079</u>

CITY OF LA PALMA
Internal Service Funds
Combining Statement of Cash Flows
Year ended June 30, 2005

	Insurance	Employee Benefits	Totals	
			2005	2004
Cash flows from operating activities:				
Cash received from user departments	\$ 381,100	2,307,856	2,688,956	2,622,644
Cash payments to suppliers for goods and services	(424,109)	(968,193)	(1,392,302)	(1,592,455)
Cash payments to employees for services	-	(1,585,307)	(1,585,307)	(876,301)
Cash received from (used for) other operating activities	-	3,698	3,698	10,664
Net cash provided by (used for) operating activities	<u>(43,009)</u>	<u>(241,946)</u>	<u>(284,955)</u>	<u>164,552</u>
Cash flows from investing activities:				
Interest income	-	-	-	-
Net cash provided by (used for) investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(43,009)	(241,946)	(284,955)	164,552
Cash and cash equivalents at beginning of year	445,082	1,004,036	1,449,118	1,284,566
Cash and cash equivalents at end of year	<u>\$ 402,073</u>	<u>762,090</u>	<u>1,164,163</u>	<u>1,449,118</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 305,959	(94,416)	211,543	880,852
Adjustments to reconcile operating income (loss) to net income provided by (used for) operating activities:				
(Increase) decrease in accounts receivable	-	6,756	6,756	(6,756)
(Increase) decrease in loans receivable	-	3,541	3,541	10,390
(Increase) decrease in prepaid items	-	8,179	8,179	(8,179)
Increase (decrease) in due from other governmental agencies	(342,651)	(147,614)	(490,265)	(159,080)
Increase (decrease) in accounts payable	2,474	(11,949)	(9,475)	(2,464)
Increase (decrease) in salaries payable	-	(6,600)	(6,600)	11,845
Increase (decrease) in other accrued liabilities	-	-	-	-
Increase (decrease) in due to other governmental agencies	(8,791)	-	(8,791)	(562,056)
Increase (decrease) in deferred revenues	-	157	157	-
Total adjustments	<u>(348,968)</u>	<u>(147,530)</u>	<u>(496,498)</u>	<u>(716,300)</u>
Net cash provided by (used for) operating activities	<u>\$ (43,009)</u>	<u>(241,946)</u>	<u>(284,955)</u>	<u>164,552</u>

AGENCY FUNDS

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

The City of La Palma has two Agency Funds:

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

800 MHz Communication System – To account for assets held by the City for the installation of the 800 MHz coordinated law enforcement, public works and fire radio communications system.

CITY OF LA PALMA
Agency Funds

Combining Statement of Fiduciary Assets and Liabilities

June 30, 2005

	<u>City Trust</u>	<u>800 MHz Communication System</u>	<u>Totals</u>	
			<u>2005</u>	<u>2004</u>
<u>Assets</u>				
Cash and investments	\$ 19,055	-	19,055	15,888
Total assets	<u>\$ 19,055</u>	<u>-</u>	<u>19,055</u>	<u>15,888</u>
<u>Liabilities</u>				
Liabilities:				
Deposits payable	\$ 19,055	-	19,055	15,888
Total liabilities	<u>\$ 19,055</u>	<u>-</u>	<u>19,055</u>	<u>15,888</u>

CITY OF LA PALMA
Agency Funds

Combining Statement of Changes in Fiduciary Assets and Liabilities

Year ended June 30, 2005

	<u>Balance at</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2005</u>
<u>City Trust</u>				
Assets:				
Cash and investments	\$ 15,720	82,440	(79,105)	19,055
Liabilities:				
Deposits payable	\$ 15,720	16,950	(13,615)	19,055
<u>800 MHz Communication System</u>				
Assets:				
Cash and investments	\$ 168	4	(172)	-
Liabilities:				
Deposits payable	\$ 168	4	(172)	-
<u>Totals - All Agency Funds</u>				
Assets:				
Cash and investments	\$ 15,888	82,444	(79,277)	19,055
Total assets	\$ 15,888	82,444	(79,277)	19,055
Liabilities:				
Deposits payable	\$ 15,888	16,954	(13,787)	19,055
Total liabilities	\$ 15,888	16,954	(13,787)	19,055

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

Comparative Schedule by Source

June 30, 2005 and 2004

	Totals	
	2005	2004
Governmental funds capital assets:		
Land	\$ 1,602,281	1,602,281
Land rights related to streets	5,104,472	5,104,472
Construction in progress	21,457	-
Building and improvements	3,772,781	3,772,781
Equipment	1,609,364	1,579,765
Vehicles	1,519,154	1,441,522
Furniture and fixtures	199,321	193,729
Infrastructure	10,132,476	10,103,501
Total governmental funds capital assets	\$ 23,961,306	23,798,051
Investments in governmental funds capital assets by source:		
General fund and other sources	\$ 22,656,779	22,493,524
Civic Center Authority	650,773	650,773
Federal and state grants	530,519	530,519
Donations	123,235	123,235
Total governmental funds capital assets	\$ 23,961,306	23,798,051

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

Schedule by Function and Activity

June 30, 2005

	Land	Construction in Progress	Buildings and Improvements	Equipment	Vehicles	Furniture and Fixtures	Totals	
							2005	2004
General								
government	\$ 1,218,281	-	239,554	251,356	-	108,472	1,817,663	1,813,542
Public safety	-	-	867,910	771,437	638,619	49,266	2,327,232	2,331,029
Public works	79,000	21,457	273,235	303,764	749,345	16,167	1,442,968	1,352,146
Recreation	305,000	-	2,392,082	261,117	56,094	15,899	3,030,192	3,009,872
Community development	-	-	-	21,690	75,096	9,517	106,303	83,489
	<u>\$ 1,602,281</u>	<u>21,457</u>	<u>3,772,781</u>	<u>1,609,364</u>	<u>1,519,154</u>	<u>199,321</u>	<u>8,724,358</u>	<u>8,590,078</u>
Land rights related to streets							5,104,472	5,104,472
Infrastructure							10,132,476	10,103,501
Totals							<u>\$ 23,961,306</u>	<u>23,798,051</u>

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

Schedule of Changes by Function

Year ended June 30, 2005

	<u>Balance at July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2005</u>
General government	\$ 1,813,542	4,121	-	1,817,663
Public safety	2,331,029	90,823	(94,620)	2,327,232
Public works	1,352,146	96,321	(5,499)	1,442,968
Recreation	3,009,872	20,320	-	3,030,192
Community development	83,489	22,814	-	106,303
	<u>8,590,078</u>	<u>234,399</u>	<u>(100,119)</u>	<u>8,724,358</u>
Land rights related to streets	5,104,472	-	-	5,104,472
Infrastructure	<u>10,103,501</u>	<u>29,460</u>	<u>(485)</u>	<u>10,132,476</u>
Totals	<u>\$ 23,798,051</u>	<u>263,859</u>	<u>(100,604)</u>	<u>23,961,306</u>



CITY OF LA PALMA
 General Governmental Revenues and Expenditures
 by Source and Function (1)
 Last Ten Fiscal Years

Revenues:	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Taxes and assessments	\$ 9,678,212	\$ 9,603,741	\$ 7,766,905	\$ 7,990,144
Licenses and permits	251,721	247,974	268,441	226,618
Intergovernmental revenue	2,083,781	1,489,853	1,747,794	1,681,431
Charges for services	477,759	480,289	447,673	416,163
Fines and forfeitures	136,056	146,619	164,329	173,375
Interest income	903,815	721,190	688,933	848,756
Rental income	149,427	145,556	148,219	257,470
Other revenue	<u>298,675</u>	<u>370,319</u>	<u>592,006</u>	<u>341,082</u>
Total Revenues	<u>\$ 13,979,446</u>	<u>\$ 13,205,541</u>	<u>\$ 11,824,300</u>	<u>\$ 11,935,039</u>
Expenditures:	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
General government	\$ 1,598,803	\$ 1,909,436	\$ 1,500,769	\$ 1,548,135
Public safety	4,365,839	4,002,515	3,915,915	3,859,866
Public works	861,020	811,906	1,085,032	733,028
Recreation	1,164,230	1,131,298	1,137,569	-
Community development	846,348	837,729	2,339,821	1,865,003
Loss on litigation claim	-	-	-	-
Payments to other agencies	364,453	338,495	254,568	175,464
Capital outlay	275,710	973,863	1,214,791	1,816,810
Debt service	<u>1,226,512</u>	<u>1,233,252</u>	<u>1,121,984</u>	<u>2,278,980</u>
Total Expenditures	<u>\$ 10,702,915</u>	<u>\$ 11,238,494</u>	<u>\$ 12,570,449</u>	<u>\$ 12,277,286</u>

(1) Includes General, Special Revenue, Debt Service and Capital Projects funds.

Source: City Finance Department

<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
\$ 7,928,915	\$ 7,142,913	\$ 6,704,952	\$ 6,276,527	\$ 5,645,091	\$ 5,300,781
223,556	237,631	225,096	305,016	117,005	130,863
1,906,145	1,490,200	1,531,033	1,399,329	1,364,095	1,376,573
417,670	408,602	378,288	503,585	1,690,499	1,779,393
158,922	195,618	139,357	66,853	71,031	22,195
1,318,721	1,147,400	1,034,786	771,277	994,369	891,704
36,832	48,073	47,530	33,773	28,107	13,540
487,780	110,095	300,160	164,139	172,262	215,243
<u>\$ 12,478,541</u>	<u>\$ 10,780,532</u>	<u>\$ 10,361,202</u>	<u>\$ 9,520,499</u>	<u>\$ 10,082,459</u>	<u>\$ 9,730,292</u>

<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
\$ 1,677,366	\$ 1,655,420	\$ 1,184,060	\$ 969,834	\$ 925,248	\$ 1,344,137
3,730,790	3,595,537	3,387,223	3,368,348	3,040,463	2,812,797
746,615	796,478	1,090,235	1,214,267	2,294,248	2,078,519
-	-	-	-	-	-
1,643,999	2,219,238	1,406,926	1,175,296	1,452,833	1,192,251
-	149,061	-	-	-	-
191,241	237,527	208,101	120,313	135,281	119,190
1,165,202	2,964,685	1,136,135	857,538	532,967	324,938
1,406,344	2,332,690	1,340,211	1,265,738	1,494,819	1,568,809
<u>\$ 10,561,557</u>	<u>\$ 13,950,636</u>	<u>\$ 9,752,891</u>	<u>\$ 8,971,334</u>	<u>\$ 9,875,859</u>	<u>\$ 9,440,641</u>

CITY OF LA PALMA
Secured Tax Levies, Collections and Delinquencies
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Secured Ending Tax Levy (1)</u>	<u>Amount Collected (2)</u>	
1996	\$ 915,309	\$ 915,309	(3)
1997	905,533	905,533	
1998	974,545	974,545	
1999	939,497	939,497	
2000	977,556	977,556	
2001	965,776	965,776	
2002	1,100,772	1,100,772	
2003	1,125,467	1,125,467	
2004	1,187,924	1,187,924	
2005	1,276,534	1,276,534	

Notes:

- (1) Includes only City of La Palma General Fund.
- (2) Through an agreement with Orange County, effective for fiscal years beginning 1993-94, the City of La Palma will receive 100% of its property tax levy in the current fiscal year.
- (3) Includes \$6,427 in secured property taxes collected by County withheld from the City of La Palma as of June 30, 1996 because of the County bankruptcy.

Source: Orange County Auditor-Controller

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

Fiscal Year	Secured Value	Public Utility	Unsecured Value	Total Assessed Value	% Change
1996	\$ 815,164,055	\$ 68,047	\$ 56,163,614	\$ 871,395,716	-0.2%
1997	812,214,126	58,505	54,820,879	867,093,510	-0.5%
1998	826,506,630	82,230	63,058,188	889,647,048	2.6%
1999	880,835,784	100,784	56,142,832	937,079,400	5.3%
2000	931,096,721	68,858	61,650,338	992,815,917	5.9%
2001	991,205,259	63,654	81,876,472	1,073,145,385	8.1%
2002	1,059,594,685	69,689	66,839,950	1,126,504,324	5.0%
2003	1,095,014,297	67,095	61,121,959	1,156,203,351	2.6%
2004	1,159,356,062	76,623	63,317,352	1,222,750,037	5.8%
2005	1,240,404,682	95,611	64,092,753	1,304,593,046	6.7%

Source: Orange County Auditor-Controller

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

<u>Fiscal Year</u>	<u>School Districts</u>	<u>Basic County City School Levy</u>	<u>Orange County</u>	<u>County Flood Control</u>	<u>Metropolitan Water District</u>	<u>Total</u>
1996	0.0000	1.0000	0.0001	0.0004	0.0089	1.0094
1997	0.0000	1.0000	0.0001	0.0000	0.0089	1.0090
1998	0.0000	1.0000	0.0000	0.0000	0.0089	1.0089
1999	0.0000	1.0000	0.0000	0.0000	0.0089	1.0089
2000	0.0000	1.0000	0.0000	0.0000	0.0089	1.0089
2001	0.0000	1.0000	0.0000	0.0000	0.0088	1.0088
2002	0.0602	1.0000	0.0000	0.0000	0.0061	1.0663
2003	0.0414	1.0000	0.0000	0.0000	0.0067	1.0481
2004	0.0602	1.0000	0.0000	0.0000	0.0061	1.0663
2005	0.0670	1.0000	0.0000	0.0000	0.0058	1.0728

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

CITY OF LA PALMA
 Ten Largest Property Taxpayers
 within the City Boundaries
 June 30, 2005

Property Owner's Name	Assessed Valuation of Property	Number of Taxable Parcels	Percentage of Market Value
1. Arden Realty Finance IV LLC	\$ 85,493,132	11	6.23%
2. Steadfast Mc Cord CLP	24,507,042	1	1.79%
3. ADP Inc.	18,405,272	8	1.34%
4. La Palma Paper	17,813,362	1	1.30%
5. Anaheim Union High School District	13,851,167	5	1.01%
6. Fresca Industrial Park Limited Partnership	13,188,452	1	0.96%
7. Huntington-Humboldt	12,370,530	1	0.90%
8. VHS of Orange County	12,043,436	12	0.88%
9. Casa La Veta Associates	11,686,675	2	0.85%
10. La Quinta Development Partners	10,756,229	1	0.78%
	<u>\$ 220,115,297</u>		<u>16.04%</u>

Source: Orange County Assessor

CITY OF LA PALMA
Ratio of Net Bonded Debt to
Assessed Value and Net Bonded Debt per Capita
Last Ten Fiscal Years

Fiscal Year	Population	Assessed Value	Gross Bonded Debt	Debt Service Monies Available	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Values	Net Bonded Debt Per Capital
1996	15,504	\$ 871,395,716	\$ 10,910,000	\$ 486,806	\$ 10,423,194	1.20	\$ 672.29
1997	15,761	867,093,510	10,720,000	40,637	10,679,363	1.23	677.58
1998	15,987	889,647,048	10,520,000	-	10,520,000	1.18	658.03
1999	15,967	937,079,400	10,310,000	175,015	10,134,985	1.08	634.75
2000	15,392	992,815,917	10,085,000	350,824	9,734,176	0.98	632.42
2001	15,408	1,073,145,385	9,850,000	906,976	8,943,024	0.83	580.41
2002	15,845	1,126,504,324	10,030,000	974,776	9,055,224	0.80	571.49
2003	15,954	1,156,203,351	9,710,000	-	9,710,000	0.84	608.62
2004	16,050	1,222,750,037	9,380,000	-	9,380,000	0.77	584.42
2005	16,112	1,304,593,046	9,030,000	424,265	8,605,735	0.66	534.12

Source: City Finance Department

CITY OF LA PALMA
Ratio of Annual Debt Service Expenditures for
General Bonded Debt to Total General Expenditures
Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Expenditures (1)	Ratio of Debt Service to Total General Expenditures
1995/96	180,000	726,473	\$906,473	9,440,641	0.096018109
1996/97	190,000	496,443	\$686,443	9,875,859	0.069507118
1997/98	200,000	706,420	\$906,420	8,971,334	0.101035141
1998/99	210,000	695,035	\$905,035	9,752,891	0.092796587
1999/00	225,000	682,730	\$907,730	13,950,636	0.065067284
2000/01	235,000	669,330	\$904,330	10,561,557	0.085624686
2001/02	260,000	400,617	\$660,617	12,277,286	0.053808065
2002/03	320,000	544,320	\$864,320	12,570,449	0.068758085
2003/04	330,000	531,387	\$861,387	11,238,494	0.076646124
2004/05	350,000	517,258	\$867,258	10,702,915	0.081030075

Note (1): Includes General, Special Revenue, Debt Service Funds, and Capital Project Funds.

Source: City Finance Department

CITY OF LA PALMA
Computation of Legal Debt Margin
June 30, 2005

Assessed value:	<u>\$ 1,304,593,046</u>
Debt limit: 15% of assessed value	\$ 195,688,957
Total amount of debt applicable to debt limit	<u>-</u>
Legal debt margin	<u>\$ 195,688,957</u>

Source: City Finance Department

CITY OF LA PALMA
Water Revenue Bond Coverage
Last Ten Fiscal Years

WATER:

<u>Fiscal Year</u>	<u>Gross Revenue (1)</u>	<u>Direct Operating Expense (2)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Coverage</u>
1996	\$ 1,889,288	\$ 1,177,184	\$ 712,104	\$ 30,000	\$ 2,550	\$32,550	21.88
1997	1,952,206	1,309,356	642,850	30,000	1,345	31,345	20.51
1998	1,805,690	1,124,844	680,846	-	-	-	N/A
1999	1,904,596	1,397,828	506,768	-	-	-	N/A
2000	1,939,929	1,076,205	863,724	-	-	-	N/A
2001	1,817,877	1,350,729	467,148	-	-	-	N/A
2002	1,782,177	1,428,329	353,848	-	-	-	N/A
2003	1,837,658	1,593,233	244,425	-	-	-	N/A
2004	2,192,464	1,512,581	679,883	-	-	-	N/A
2005	2,102,800	1,602,846	499,954	-	-	-	N/A

(1) Gross revenues include operating and non-operating revenues.

(2) Direct operating expenses include operating expenses less depreciation.

Source: City Finance Department

CITY OF LA PALMA
 Estimated Direct and Overlapping Bonded Debt
 As of June 30, 2005

2004-05 Assessed Valuation: \$1,086,127,932 (after deducting \$218,535,852 redevelopment incremental valuation)

<u>Direct and Overlapping Tax and Assessment Debt:</u>	<u>% Applicable</u>	<u>Debt 6/30/05</u>
Orange County Teeter Plan Obligations	0.387	\$ 478,816
Metropolitan Water District	0.082	342,916
North Orange County Joint Community College District	1.791	4,419,006
Anaheim Union High School District	3.688	4,381,674
Fullerton Joint Union High School District	1.501	968,639
Buena Park School District	8.563	1,096,491
Centralia School District	20.153	3,526,703
City of La Palma	100.000	-
Total Direct and Overlapping Tax and Assessment Debt		<u>\$ 15,214,245</u>
<u>Overlapping General Fund Obligation Debt:</u>		
Orange County General Fund Obligations	0.387	3,392,051
Orange County Pension Obligations	0.387	432,560
Orange County Board of Education Certificates of Participation	0.387	77,013
Orange County Transit District Authority	0.387	14,338
Municipal Water District of Orange County Water Facilities Corporation	0.462	162,462
Orange County Sanitation District Certificates of Participation	0.572	814,099
Anaheim Union High School District Certificates of Participation	3.688	1,506,732
Fullerton Joint Union High School District Certificates of Participation	1.501	56,888
Centralia School District Certificates of Participation	20.153	717,447
Orange County Fire Authority General Fund Obligations	0.960	188,784
Total Gross Overlapping General Fund Obligation Debt		<u>\$ 7,362,374</u>
Less: Orange County Transit Authority (80% self-supporting)		11,471
MWDOC Water Facilities Corporation		<u>162,462</u>
Total Net Overlapping General Fund Obligation Debt		<u>\$ 7,188,441</u>
Gross Combined Total Debt		\$ 22,576,619 (1)
Net Combined Total Debt		\$ 22,402,686

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

Ratios to 2004-05 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	1.17%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	2.08%
Net Combined Total Debt	2.06%

State School Building Aid Repayable as of 6/30/05: \$0

Source: California Municipal Statistics, Inc.

CITY OF LA PALMA
Construction Activity
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Number of Building Permits Issued</u>	<u>Percent Change</u>	<u>Estimated Valuation</u>	<u>Percent Change</u>
1996	377	26.9%	\$ 12,074,587	202.7%
1997	381	1.1%	5,345,164	-55.7%
1998	397	4.2%	14,271,886	167.0%
1999	358	-9.8%	1,432,482	-90.0%
2000	524	46.4%	6,648,167	364.1%
2001	372	-29.0%	2,573,237	-61.3%
2002	371	-0.3%	3,219,126	25.1%
2003	428	15.4%	10,932,140	239.6%
2004	486	13.6%	3,014,475	-72.4%
2005	442	-9.1%	6,216,964	106.2%

Source: City Building Department

CITY OF LA PALMA
Miscellaneous Statistics
June 30, 2005

Date of incorporation	October 26, 1955
Form of government	Council-Manager
Area	2.0 square miles
Miles of street	34.8
Registered voters	7,675
Fire protection	Orange County Fire Authority
Police protection:	
Number of stations	1
Number of police officers	25
Recreation and culture:	
Number of parks	2
Number of libraries	1
Municipal Water Utility:	
Average monthly consumption per family	1600 cubic feet
Miles of water mains	33
Sewers:	
Miles of sanitary sewers	33
Employees:	
Full-time	66
Part-time	37
Electrical utility	Southern California Edison Company
Gas utility	Southern California Gas Company
Telephone	Pacific Bell and GTE

Source: City Finance Department