



**CITY OF LA PALMA, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2004**



**CITY OF LA PALMA,
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

YEAR ENDED JUNE 30, 2004

**Prepared By
Finance Department**

**Robbeyn Bird, CPA
Director of Finance**



CITY OF LA PALMA
Comprehensive Annual Financial Report
Year ended June 30, 2004

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INTRODUCTORY SECTION

Office of the City Manager

October 1, 2004

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 ended June 30, 2004.

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, 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 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 ended June 30, 2004 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, 2004, were fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of this report.

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

control structure is subject to periodic evaluation by management. Under Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, which was revised June 24, 1997, the City did not meet the criteria for periodic evaluation and, therefore, was not required to have a single audit performed for fiscal year ended June 30, 2004.

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 15,954. 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.

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 State budget crisis is expected to continue to impact the City of La Palma's resources for the next two years, and beyond, depending upon the success of a ballot initiative to protect local revenues. La Palma has four major revenue sources that contribute to its General Fund. Three of them are subject to the whim of the State Legislature, which has tampered with each of them to varying degrees over the last 10 years. These include sales tax, property tax and the Vehicle License Fee. The only revenue that is completely retained by La Palma and is not subject to State actions is the Utility Users Tax.

The Local Taxpayers and Public Safety Protection Act (or LOCAL Initiative) qualified for the November 2004 election. In order to gain the Governor and Legislature's support for the Initiative, local governments have agreed to "help" balance the State budget over the next two years. The City of La Palma is expected to lose approximately \$195,000 in General Fund revenues for each of the next two years. Additionally, the La Palma Community Development Commission (CDC) would lose approximately \$190,000 per year in additional property tax shifts to the Education Revenue Augmentation Fund (ERAF).

For this short term "pain," cities and counties will receive an almost full prohibition of future State raids on sales tax, property tax, and the vehicle license fee. The City and CDC have adequate reserves and fund balances to address this "short term pain," without having to make operational reductions in services or programs.

The outcome of either the LOCAL will not be known until November. This short-term uncertainty warranted a FY 2004/2005 budgeting approach that continued to fund and

Members of the City Council and Citizens of the City of La Palma
October 1, 2004

maintain essential services until specific impacts were known, while limiting organizational growth to provide as much operational flexibility as possible.

General Fund revenues appear to have increased this year from last year; however, this has not occurred. The appearance of growth is directly related to the City Council's direction that the City discontinue the practice of allocating a portion of sales tax related to one tax-generating business to the City's Capital Outlay Reserve. This change in policy was necessitated by State budget actions and the fact that the State controls 25% of the City's sales tax revenues effective July 1, 2004. In order to ensure that the funding of capital projects is not based upon the whims of the State Legislature, the Council directed that needed CIP funding be allocated from General Fund revenues as a whole, and not just from one revenue source. Consequently, proposed General Fund revenues include total projected sales taxes from all sources.

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 35% 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.

Members of the City Council and Citizens of the City of La Palma
October 1, 2004

Three 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, 2004 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 postretirement 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. GAAP does not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

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 ended June 30, 2003. This was the 5th 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 one year only. 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 ended June 30, 2003. The Certificate of Award is a prestigious state recognition for conformance with certain high standards for preparation of local government financial reports. The CSMFO Certificate of Award is also valid for a period of one year only. 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



Robbeyn Bird, CPA
Director of Finance

*California Society of
Municipal Finance Officers*

Certificate of Award

Outstanding Financial Reporting 2002-2003

Presented to the

City of La Palma

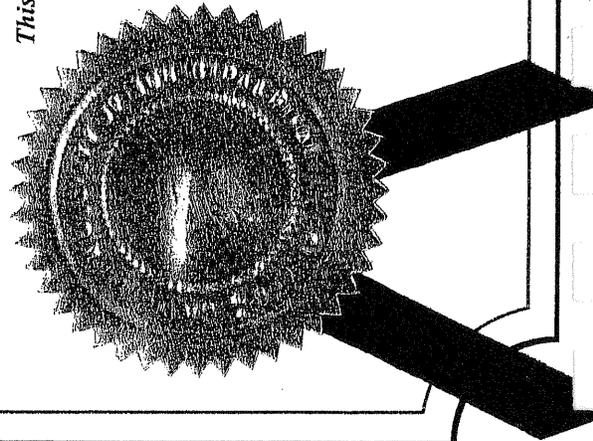
*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

March 1, 2004

Bret M. Chmlee

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, 2003

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.



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Enser".

Executive Director

City of La Palma

Directory of Officials

June 30, 2004

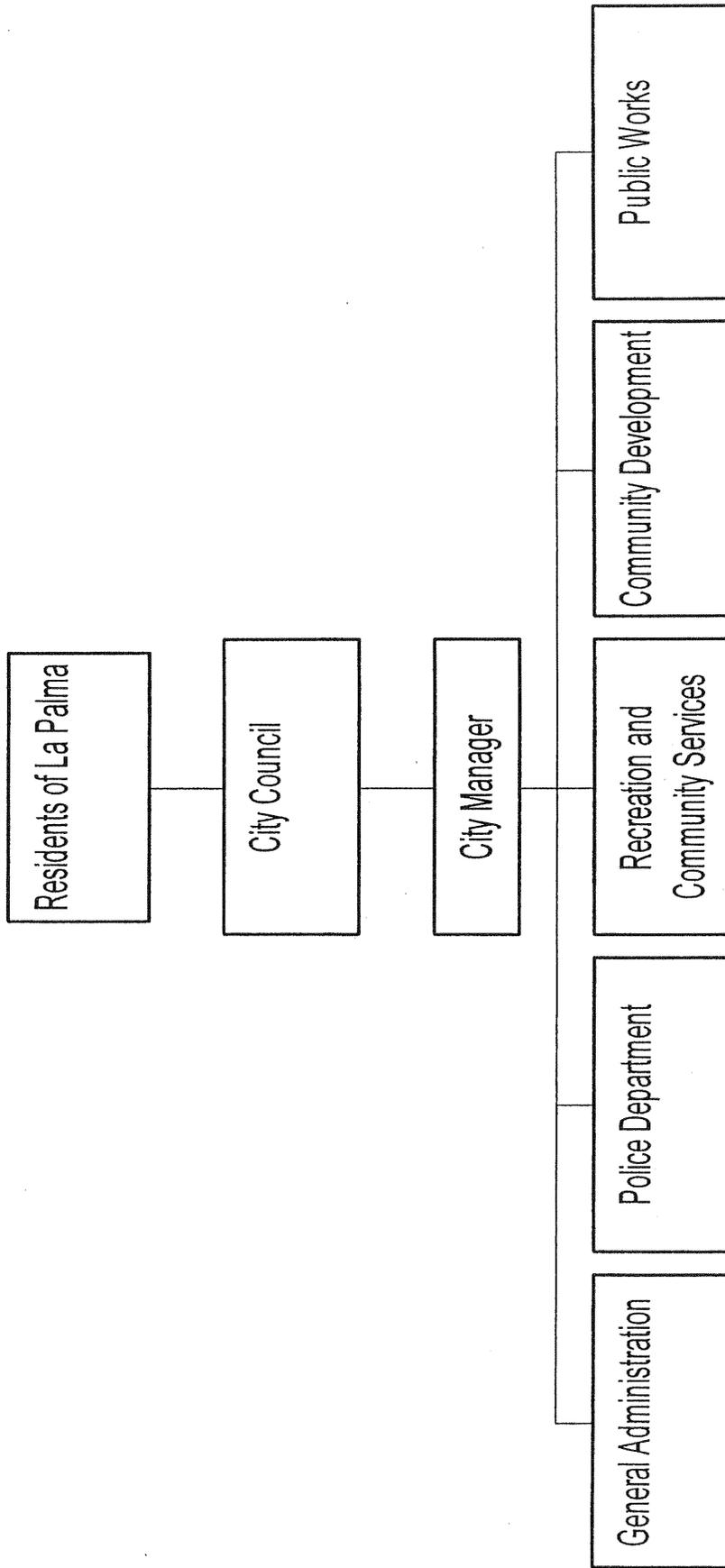
CITY COUNCIL

Alta E. Duke, Mayor
Kenneth A. Blake, Mayor Pro Tem
Christine M. Barnes, Councilmember
Larry A. Herman, Councilmember
Paul F. Walker, Councilmember

ADMINISTRATION

Catherine Standiford, City Manager
Vincent J. Giampa, 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





FINANCIAL SECTION

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, 2004, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the City of La Palma, California. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of La Palma, California, as of June 30, 2004, 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 Governmental Accounting Standards Board. 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.

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

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, statistical tables and the supplementary schedules 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 1, 2004 on our consideration of the City of La Palma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Carroll and Associates, C.C.P.

October 1, 2004

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, 2004. 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, 2004 and 2003 follows:

Table 1
Net Assets
(In Millions)

	2003-04			2002-03		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 24.5	9.3	33.8	21.7	8.8	30.5
Capital assets	14.5	7.2	21.7	14.8	7.3	22.1
Total assets	39.0	16.5	55.5	36.5	16.1	52.6
Long-term debt outstanding	9.9	-	9.9	10.2	-	10.2
Other liabilities	0.9	0.3	1.2	1.3	0.3	1.6
Total liabilities	10.8	0.3	11.1	11.5	0.3	11.8
Net assets:						
Invested in capital assets, net of debt	14.8	7.2	22.0	14.8	7.3	22.1
Restricted	5.5	-	5.5	5.8	-	5.8
Unrestricted	7.9	9.0	16.9	4.4	8.5	12.9
Total net assets	\$ 28.2	16.2	44.4	25.0	15.8	40.8

A summary of the government-wide *statement of activities* for the fiscal years ending June 30, 2004 and 2003 follows:

Table 2
Changes in Net Assets
(In Millions)

	2003-04			2002-03		
	Governmental		Total	Governmental		Total
	Business-type Activities	Business-type Activities		Business-type Activities	Business-type Activities	
Revenues						
Program revenues:						
Charges for services	\$ 0.9	2.4	3.3	0.9	1.9	2.8
Operating contributions and grants	0.8	-	0.8	0.8	-	0.8
Capital contributions and grants	0.1	-	0.1	0.3	-	0.3
General revenues:						
Property taxes	3.1	-	3.1	3.0	-	3.0
Sales taxes	4.5	-	4.5	2.9	-	2.9
Utility users tax	1.2	-	1.2	1.2	-	1.2
Motor vehicle in lieu tax	0.7	-	0.7	0.9	-	0.9
Other general revenues	0.9	0.2	1.1	1.0	0.3	1.3
Total revenues	12.2	2.6	14.8	11.0	2.2	13.2
Program expenses						
General government	1.6	-	1.6	1.3	-	1.3
Public safety	3.7	-	3.7	4.1	-	4.1
Public works	1.6	-	1.6	1.7	-	1.7
Recreation	1.1	-	1.1	1.2	-	1.2
Community development	0.8	-	0.8	2.3	-	2.3
Interest on long-term debt	0.6	-	0.6	0.6	-	0.6
Water	-	1.6	1.6	-	1.8	1.8
Sewer	-	0.2	0.2	-	0.2	0.2
Total expenses	9.4	1.8	11.2	11.2	2.0	13.2
Excess (deficiency) before special items and transfers	2.8	0.8	3.6	(0.2)	0.2	-
Transfers	0.4	(0.4)	-	0.5	(0.5)	-
Increase (decrease) in net assets	3.2	0.4	3.6	0.3	(0.3)	-
Beginning net assets	25.0	15.8	40.8	24.7	16.1	40.8
Ending net assets	\$28.2	16.2	44.4	25.0	15.8	40.8

The City's total revenues, including transfers, for governmental and business-type activities were \$12,581,062 and \$2,595,490, while the total cost of all programs and services was \$9,413,752 and \$2,224,109, respectively. The result was an increase in net assets for governmental and business-type activities of \$3,167,310 or 12.7% and \$371,381 or 2.4%, 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, including transfers, of the City's governmental activities presented above are as follows:

- Revenues increased by \$1,121,416 when compared to the previous fiscal year. The appearance of growth is directly related to the City Council's direction to discontinue the practice of allocating a portion of sales tax related to one tax-generating business to the City's Capital Outlay Reserve fund.
- Expenditures were \$1,750,846 lower than fiscal year ended 2002-03. This decrease was a direct result of a concerted effort made by City Management to control expenditures during the fiscal year and reductions to the annual budget in anticipation of State take aways.

Business-type Activities

During the year ended June 30, 2004, the revenues for business-type activities increased \$438,735. Effective July 1, 2003, the City increased its water and sewer rates for the first time in five years, which resulted in the increase in revenues.

The City's business-type activities total revenues were \$2,595,490 while the total cost of providing these services was \$2,224,109 resulting in an increase in net assets of \$371,381. As mentioned above, this is largely due to an increase in water and sewer rates effective July 1, 2003.

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 \$8,159,673, while total fund balance was \$11,228,214. 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 105.0% of total general fund expenditures, while total fund balance represents 144.6% of total general fund expenditures.

The City's General Fund expenditures increased during the current fiscal year by \$439,303. The most significant reason for this increase was due to implementation of enhanced retirement to 3.0% at 50 for safety and 2.7% at 55 for miscellaneous employees.

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 \$1,861,686. The net increase in fund balance during the current year was \$252,426.

The most significant reason for the increase in fund balance was the fact that tax increment and investment income received during the fiscal year was \$248,967 higher than was budgeted.

The **CDC Debt Service Fund** has a negative fund balance of \$116,609 as opposed to \$470,951 in the previous fiscal year. The net increase in fund balance during the current year in the debt service fund was \$354,342. The single largest 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 \$1,741,945. The net decrease in fund balance during the year was \$370,924. The main reason for this decrease was revenues for the fiscal year were only \$21,191 while expenditures were \$392,115. The primary source of revenue in this fund is investment income, City loans, and bond proceeds. 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 \$4,752,507. The net increase in fund balance during the year was \$213,834. The reason for the net increase in this fund was as follows:

- Revenues for the current year were \$666,374; whereas expenditures were \$452,540. These expenditures were for various capital projects approved by the City Council as part of the Fiscal Year 2003-04 budget including median enhancement, street enhancement, and the installation of several City identification monuments.

Major Enterprise Funds. Unrestricted net assets of the **Water Fund** at the end of the year amounted to \$4,986,895 and those for the **Sewer Fund** amounted to \$3,990,414. The total increase in net assets for both funds was \$303,930. 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 original budget for the General Fund expenditures was \$8,372,700 which was increased by \$29,600 during the fiscal year resulting in a final budget of \$8,402,300. There are two major reasons for the additional appropriations:

1. In April 1998, the City entered into an agreement for recovery of sales tax either misallocated or misreported to the State. As part of this agreement, the vendor receives 15% of all sales tax recovered. It is the City's policy not to appropriate funds for this purpose as part of the budget process, since the amounts vary widely from year to year, but rather appropriate funds as needed. During the current fiscal year, an additional appropriation of \$12,400 was granted for this purpose.
2. The City Council also granted an additional appropriation of \$12,650 for the purchase of first responder protective equipment under the state domestic preparedness program.

Major deviations between the final budget of the General Fund and its actual operating results were as follows:

- General Government expenditures were under budget by \$237,342. There were three main reasons for the difference between actual and budgeted amounts. The first reason was due to lower legal costs resulting in savings of approximately \$56,000. The second

reason was due to cable contract negotiations being carried over to the 2004-05 fiscal year resulting in unexpended funds in the amount of \$50,000. Lastly, the City newsletter was eliminated which resulted in savings of approximately \$10,000.

- Public Safety expenditures were under budget by \$75,449. This entire amount was due to vacancies in the police department during the year.
- Public Works expenditures were under budget by \$81,897. 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 \$87,852. The 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 \$43,674. 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 \$108,164. The City budgeted \$65,000 for one-half the replacement value of five police vehicles which are scheduled to be purchased in the 2004-05 fiscal year.

These deviations 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	2,135,982	2,771,491	4,907,473
Equipment	628,590	229,615	858,205
Vehicles	493,102	-	493,102
Furniture & Fixtures	44,335	-	44,335
Infrastructure	<u>4,459,103</u>	<u>3,387,473</u>	<u>7,846,576</u>
 Total	 <u>\$14,467,865</u>	 <u>7,142,579</u>	 <u>21,610,444</u>

The major additions to capital assets during the year ended June 30, 2004 were as follows:

- The City replaced a backhoe and a utility tractor for approximately \$65,000.
- Multiple streets were rehabilitated in the amount of \$123,931.
- Additional information on the City's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At the end of the current fiscal year, the City had bonded debt outstanding of \$9,380,000. 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 Bonds	\$9,380,000	-	9,380,000

The City's total debt outstanding decreased by \$330,000 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.



BASIC
FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS



CITY OF LA PALMA
Statement of Net Assets
June 30, 2004
(With Comparative Data for Prior Year)

	Governmental Activities	Business-type Activities	Totals	
			2004	2003
Assets:				
Cash and investments (note 2)	\$ 18,004,525	7,613,233	25,617,758	22,779,256
Cash and investments with fiscal agent (note 2)	872,795	-	872,795	873,188
Receivables:				
Taxes	264,899	-	264,899	223,082
Accounts	23,003	592,863	615,866	438,562
Interest	48,724	41,001	89,725	97,900
Loans (note 5)	5,264,253	-	5,264,253	5,335,697
Internal balances	(1,067,451)	1,067,451	-	-
Due from other governments	1,048,232	-	1,048,232	717,324
Prepaid items	27,822	-	27,822	12,992
Capital assets (note 6):				
Capital assets, not being depreciated	6,706,753	754,000	7,460,753	7,460,753
Capital assets being depreciated, net of accumulated depreciation	7,761,112	6,388,579	14,149,691	14,652,412
Total assets	<u>38,954,667</u>	<u>16,457,127</u>	<u>55,411,794</u>	<u>52,591,166</u>
Liabilities:				
Accounts payable	533,590	258,270	791,860	633,897
Salaries payable	145,686	11,518	157,204	102,909
Retentions payable	48,986	-	48,986	32,739
Other accrued liabilities	3,162	-	3,162	3,058
Interest payable	43,105	-	43,105	44,282
Deferred revenue	117,440	-	117,440	173,488
Due to other governmental agencies	8,791	-	8,791	570,847
Long-term liabilities:				
Portion due within one year:				
Compensated absences (note 7)	113,408	-	113,408	40,977
Tax allocation bonds (notes 7 and 8)	350,000	-	350,000	330,000
Portion due beyond one year:				
Compensated absences (note 7)	384,905	-	384,905	454,727
Tax allocation bonds (notes 7 and 8)	9,030,000	-	9,030,000	9,380,000
Total liabilities	<u>10,779,073</u>	<u>269,788</u>	<u>11,048,861</u>	<u>11,766,924</u>
Net assets:				
Invested in capital assets, net of related debt	14,816,200	7,142,579	21,958,779	22,113,165
Restricted for:				
Low and moderate income housing	2,182,688	-	2,182,688	1,966,633
Debt service	872,795	-	872,795	873,188
Specific projects and programs	711,774	-	711,774	847,092
Capital projects	1,741,945	-	1,741,945	2,112,869
Unrestricted	7,850,192	9,044,760	16,894,952	12,911,295
Total net assets	<u>\$ 28,175,594</u>	<u>16,187,339</u>	<u>44,362,933</u>	<u>40,824,242</u>

See accompanying notes to the basic financial statements.

CITY OF LA PALMA
Statement of Activities
Year ended June 30, 2004
(With Comparative Data for Prior Year)

<u>Functions/Programs</u>	Program Revenues			
Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	
Governmental activities:				
General government	\$ 1,565,840	156,835	2	-
Public safety	3,742,786	162,169	246,864	303
Public works	1,618,280	6,682	517,581	81,196
Recreation	1,145,119	394,778	-	-
Community development	772,864	154,418	-	5,223
Interest on long-term debt	568,863	-	-	-
Total governmental activities	9,413,752	874,882	764,447	86,722
Business-type activities:				
Water	1,618,362	2,103,529	-	-
Sewer	162,747	331,976	-	-
Total business-type activities	1,781,109	2,435,505	-	-
 Total	\$11,194,861	3,310,387	764,447	86,722
General revenues:				
Taxes:				
Property taxes				
Sales taxes				
Utility users tax				
Franchise taxes				
Transient occupancy taxes				
Motor vehicle in lieu				
Licenses and fines				
Investment income				
Gain on sale of capital assets				
Other				
Transfers (note 4)				
Total general revenues and transfers				
Change in net assets				
Net assets at beginning of year				
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	
		2004	2003
(1,409,003)	-	(1,409,003)	(1,188,230)
(3,333,450)	-	(3,333,450)	(3,583,027)
(1,012,821)	-	(1,012,821)	(811,745)
(750,341)	-	(750,341)	(881,387)
(613,223)	-	(613,223)	(2,099,421)
(568,863)	-	(568,863)	(588,396)
<u>(7,687,701)</u>	<u>-</u>	<u>(7,687,701)</u>	<u>(9,152,206)</u>
-	485,167	485,167	(74,237)
-	169,229	169,229	32,341
<u>-</u>	<u>654,396</u>	<u>654,396</u>	<u>(41,896)</u>
<u>(7,687,701)</u>	<u>654,396</u>	<u>(7,033,305)</u>	<u>(9,194,102)</u>
3,127,876	-	3,127,876	3,049,918
4,453,950	-	4,453,950	2,857,987
1,212,829	-	1,212,829	1,165,104
306,413	-	306,413	296,180
164,178	-	164,178	143,148
730,327	-	730,327	914,383
523	-	523	444
333,835	158,033	491,868	736,291
-	-	-	1,617
82,080	1,952	84,032	103,166
443,000	(443,000)	-	-
<u>10,855,011</u>	<u>(283,015)</u>	<u>10,571,996</u>	<u>9,268,238</u>
3,167,310	371,381	3,538,691	74,136
<u>25,008,284</u>	<u>15,815,958</u>	<u>40,824,242</u>	<u>40,750,106</u>
<u>\$ 28,175,594</u>	<u>16,187,339</u>	<u>44,362,933</u>	<u>40,824,242</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 expenditure 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, 2004
(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	\$ 7,502,771	1,605,588	531,100
Cash and investments with fiscal agent	-	-	872,795
Receivables:			
Taxes	264,899	-	-
Accounts	16,247	-	-
Interest	27,927	6,079	3,490
Loans (note 5)	-	5,251,397	-
Due from other funds (note 3)	87	-	-
Due from other governments	745,817	23,268	3,017
Prepaid items	19,643	-	-
Advances to other funds (note 3)	3,048,898	-	-
	<u>\$ 11,626,289</u>	<u>6,886,332</u>	<u>1,410,402</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 274,752	6,516	74,222
Salaries payable	121,658	1,019	-
Retentions payable	-	-	-
Other accrued liabilities	1,665	-	-
Due to other funds (note 3)	-	-	-
Deferred revenue	-	321,002	-
Advances from other funds (note 3)	-	4,696,109	1,452,789
	<u>398,075</u>	<u>5,024,646</u>	<u>1,527,011</u>
Fund balances (deficit) (note 17):			
Reserved for:			
Advances to other funds	3,048,898	-	-
Prepaid items	19,643	-	-
Loans receivable	-	4,974,469	-
Unreserved, reported in:			
General fund	8,159,673	-	-
Special revenue funds	-	(3,112,783)	-
Debt service fund	-	-	(116,609)
Capital projects funds	-	-	-
	<u>11,228,214</u>	<u>1,861,686</u>	<u>(116,609)</u>
Total fund balances (deficit)	<u>\$ 11,626,289</u>	<u>6,886,332</u>	<u>1,410,402</u>
Total liabilities and fund balances	<u>\$ 11,626,289</u>	<u>6,886,332</u>	<u>1,410,402</u>

See accompanying notes to the basic financial statements.

Capital Projects		Nonmajor Governmental Funds	Totals	
CDC Projects	Capital Outlay Reserve		2004	2003
			1,795,544	4,242,575
-	-	-	872,795	873,188
-	-	-	-	-
-	-	-	264,899	223,082
-	-	-	16,247	29,025
6,382	-	4,846	48,724	47,031
-	-	-	5,251,397	5,312,451
-	-	-	87	320,618
-	30,423	86,627	889,152	717,324
-	-	-	19,643	12,992
-	500,000	-	3,548,898	4,057,315
<u>1,801,926</u>	<u>4,772,998</u>	<u>969,302</u>	<u>27,467,249</u>	<u>25,733,066</u>
53,831	168	107,513	517,002	334,968
1,289	-	8,686	132,652	93,585
4,861	20,323	23,802	48,986	24,688
-	-	-	1,665	1,561
-	-	87	87	320,618
-	-	117,440	438,442	530,861
-	-	-	6,148,898	6,657,315
<u>59,981</u>	<u>20,491</u>	<u>257,528</u>	<u>7,287,732</u>	<u>7,963,596</u>
-	500,000	-	3,548,898	4,057,315
-	-	-	19,643	12,992
-	-	-	4,974,469	4,955,078
-	-	-	8,159,673	5,562,220
-	-	711,774	(2,401,009)	(2,498,726)
-	-	-	(116,609)	(470,951)
<u>1,741,945</u>	<u>4,252,507</u>	<u>-</u>	<u>5,994,452</u>	<u>6,151,542</u>
<u>1,741,945</u>	<u>4,752,507</u>	<u>711,774</u>	<u>20,179,517</u>	<u>17,769,470</u>
<u>1,801,926</u>	<u>4,772,998</u>	<u>969,302</u>	<u>27,467,249</u>	<u>25,733,066</u>

CITY OF LA PALMA
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Assets
June 30, 2004
(With Comparative Data for Prior Year)

	Totals	
	2004	2003
Fund balances of governmental funds	\$20,179,517	17,769,470
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets net of depreciation have not been included as financial resources in governmental fund activity.</p>		
Capital assets	23,798,051	23,577,160
Accumulated depreciation	(9,330,186)	(8,760,960)
<p>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.</p>		
Compensated absences	(498,313)	(495,704)
Tax allocation bonds	(9,380,000)	(9,710,000)
<p>Accrued interest payable for the current portion of interest due on long-term liabilities has not been reported in the governmental funds.</p>		
Accrued interest - tax allocation bonds	(43,105)	(44,282)
<p>Deferred revenue balances relating to certain loans receivable are not reported as liabilities in the Statement of Net Assets since recognition is not based upon measurable and available criteria.</p>		
Deferred revenue - low and moderate income housing loans	310,000	310,000
Deferred revenue - senior citizens affordable rental housing loan	11,002	47,373
<p>Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds must be added to the Statement of Net Assets since revenue recognition is not based upon measurable and available criteria.</p>		
Internal service funds net assets	3,196,079	2,315,227
Interfund balances	(67,451)	-
Net assets of governmental activities	\$28,175,594	25,008,284

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, 2004

(With Comparative Data for Prior Year)

	General Fund	Special Revenue Low/Moderate Income Housing	Debt Service CDC Debt Service Fund
Revenues:			
Taxes	\$ 6,935,940	414,392	1,657,567
Intergovernmental	740,858	-	-
Licenses and permits	247,974	-	-
Fines and forfeitures	146,619	-	-
Investment income (loss)	413,478	267,350	9,862
Charges for services	480,289	-	-
Rental income	145,556	-	-
Miscellaneous	282,695	1,225	4,200
Total revenues	9,393,409	682,967	1,671,629
Expenditures:			
Current:			
General government	1,869,958	-	39,478
Public safety	3,729,401	-	-
Public works	502,103	-	-
Recreation	1,131,298	-	-
Community development	375,326	245,376	-
Capital outlay	159,836	-	-
Debt service:			
Principal	-	-	330,000
Interest	-	185,165	718,087
Pass-through payments	-	-	229,722
Payment to state education fund	-	-	-
Total expenditures	7,767,922	430,541	1,317,287
Excess (deficiency) of revenues over (under) expenditures	1,625,487	252,426	354,342
Other financing sources (uses):			
Transfers in (note 4)	470,200	-	-
Transfers out (note 4)	-	-	-
Total other financing sources (uses)	470,200	-	-
Net changes in fund balances	2,095,687	252,426	354,342
Fund balances (deficit) at beginning of year	9,132,527	1,609,260	(470,951)
Fund balances (deficit) at end of year	\$11,228,214	1,861,686	(116,609)

See accompanying notes to the basic financial statements.

Capital Projects		Nonmajor Governmental Funds	Totals	
CDC Projects	Capital Outlay Reserve		2004	2003
-	595,842	-	9,603,741	7,766,905
-	-	748,995	1,489,853	1,747,794
-	-	-	247,974	268,441
-	-	-	146,619	164,329
21,191	(10,664)	19,973	721,190	688,933
-	-	-	480,289	447,673
-	-	-	145,556	148,219
-	81,196	1,003	370,319	592,006
<u>21,191</u>	<u>666,374</u>	<u>769,971</u>	<u>13,205,541</u>	<u>11,824,300</u>
-	-	-	1,909,436	1,500,769
-	-	273,114	4,002,515	3,915,915
-	-	309,803	811,906	1,085,032
-	-	-	1,131,298	1,137,569
217,027	-	-	837,729	2,339,821
66,315	452,540	295,172	973,863	1,214,791
-	-	-	330,000	320,000
-	-	-	903,252	801,984
-	-	-	229,722	178,101
108,773	-	-	108,773	76,467
<u>392,115</u>	<u>452,540</u>	<u>878,089</u>	<u>11,238,494</u>	<u>12,570,449</u>
<u>(370,924)</u>	<u>213,834</u>	<u>(108,118)</u>	<u>1,967,047</u>	<u>(746,149)</u>
-	-	-	470,200	1,997,000
-	-	(27,200)	(27,200)	(1,552,000)
-	-	(27,200)	443,000	445,000
(370,924)	213,834	(135,318)	2,410,047	(301,149)
<u>2,112,869</u>	<u>4,538,673</u>	<u>847,092</u>	<u>17,769,470</u>	<u>18,070,619</u>
<u>1,741,945</u>	<u>4,752,507</u>	<u>711,774</u>	<u>20,179,517</u>	<u>17,769,470</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, 2004
(With Comparative Data for Prior Year)

	Totals	
	2004	2003
Net change in fund balances - total governmental funds	\$2,410,047	(301,149)
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	265,908	788,993
Depreciation expense	(612,441)	(631,845)
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	(45,017)	(68,592)
Accumulated depreciation on deleted capital assets	43,215	59,117
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	330,000	320,000
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.		
	1,177	1,078
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	(349,086)	(28,454)
Compensated absences - current year retirements	346,477	69,431
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.		
	(36,371)	22,340
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.		
	813,401	64,129
Changes in net assets of governmental activities	\$3,167,310	295,048

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, 2004
(With Comparative Data for Prior Year)

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds	Totals	
	Water	Sewer	Total		2004	2003
Assets:						
Current assets:						
Cash and investments	\$ 4,211,038	3,402,195	7,613,233	1,449,118	9,062,351	8,639,216
Receivables:						
Accounts	513,594	79,269	592,863	6,756	599,619	409,537
Interest	22,673	18,328	41,001	-	41,001	50,869
Loans	-	-	-	12,856	12,856	23,246
Prepaid items	-	-	-	8,179	8,179	-
Due from other governmental agencies - current portion	-	-	-	12,707	12,707	-
Total current assets	<u>4,747,305</u>	<u>3,499,792</u>	<u>8,247,097</u>	<u>1,489,616</u>	<u>9,736,713</u>	<u>9,122,868</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	4,171,751	2,216,828	6,388,579	-	6,388,579	6,542,965
Due from other governmental agencies - noncurrent portion	-	-	-	146,373	146,373	-
Advances to other funds (note 3)	500,000	500,000	1,000,000	1,600,000	2,600,000	2,600,000
Total noncurrent assets	<u>5,425,751</u>	<u>2,716,828</u>	<u>8,142,579</u>	<u>1,746,373</u>	<u>9,888,952</u>	<u>9,896,965</u>
Total assets	<u>10,173,056</u>	<u>6,216,620</u>	<u>16,389,676</u>	<u>3,235,989</u>	<u>19,625,665</u>	<u>19,019,833</u>
Liabilities:						
Current liabilities:						
Accounts payable	249,730	8,540	258,270	16,588	274,858	298,929
Salaries payable	10,680	838	11,518	13,034	24,552	9,324
Retentions payable	-	-	-	-	-	8,051
Other accrued liabilities	-	-	-	1,497	1,497	1,497
Due to other governmental agencies - current portion	-	-	-	-	-	302,487
Total current liabilities	<u>260,410</u>	<u>9,378</u>	<u>269,788</u>	<u>31,119</u>	<u>300,907</u>	<u>620,288</u>
Noncurrent liabilities:						
Due to other governmental agencies - noncurrent portion	-	-	-	8,791	8,791	268,360
Total liabilities	<u>260,410</u>	<u>9,378</u>	<u>269,788</u>	<u>39,910</u>	<u>309,698</u>	<u>888,648</u>
Net assets:						
Invested in capital assets	4,925,751	2,216,828	7,142,579	-	7,142,579	7,296,965
Unrestricted	4,986,895	3,990,414	8,977,309	3,196,079	12,173,388	10,834,220
Total net assets	<u>\$ 9,912,646</u>	<u>6,207,242</u>	<u>16,119,888</u>	<u>3,196,079</u>	<u>19,315,967</u>	<u>18,131,185</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>67,451</u>			
Net assets of business-type activities			<u>\$ 16,187,339</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, 2004

(With Comparative Data for Prior Year)

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds	Totals	
	Water	Sewer	Total		2004	2003
Operating revenues:						
Charges for services	\$ 2,103,529	331,976	2,435,505	2,629,400	5,064,905	4,308,071
Miscellaneous	1,847	105	1,952	274	2,226	4,878
Total operating revenues	<u>2,105,376</u>	<u>332,081</u>	<u>2,437,457</u>	<u>2,629,674</u>	<u>5,067,131</u>	<u>4,312,949</u>
Operating expenses:						
Personnel services	408,974	32,414	441,388	888,146	1,329,534	1,102,111
Maintenance and operations	934,241	10,135	944,376	12,221	956,597	1,148,129
Contractual services	84,763	24,796	109,559	14,048	123,607	66,827
Depreciation	166,487	90,847	257,334	-	257,334	258,882
Settlement, claims and insurance	73,100	11,300	84,400	834,407	918,807	1,708,828
Administration	11,503	-	11,503	-	11,503	2,059
Total operating expenses	<u>1,679,068</u>	<u>169,492</u>	<u>1,848,560</u>	<u>1,748,822</u>	<u>3,597,382</u>	<u>4,286,836</u>
Operating income (loss)	<u>426,308</u>	<u>162,589</u>	<u>588,897</u>	<u>880,852</u>	<u>1,469,749</u>	<u>26,113</u>
Nonoperating revenues (expenses):						
Investment income	87,088	70,945	158,033	-	158,033	262,104
Total nonoperating revenues (expenses)	<u>87,088</u>	<u>70,945</u>	<u>158,033</u>	<u>-</u>	<u>158,033</u>	<u>262,104</u>
Income (loss) before transfers	513,396	233,534	746,930	880,852	1,627,782	288,217
Transfers out (note 4)	(401,300)	(41,700)	(443,000)	-	(443,000)	(445,000)
Change in net assets	112,096	191,834	303,930	880,852	1,184,782	(156,783)
Net assets at beginning of year	9,800,550	6,015,408	15,815,958	2,315,227	18,131,185	18,287,968
Net assets at end of year	<u>\$ 9,912,646</u>	<u>6,207,242</u>	<u>16,119,888</u>	<u>3,196,079</u>	<u>19,315,967</u>	<u>18,131,185</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

67,451

business-type activities.

Net assets of business-type activities \$ 16,187,339

See accompanying notes to the basic financial statements.

CITY OF LA PALMA
Proprietary Funds
Statement of Cash Flows
Year ended June 30, 2004
(With Comparative Data for Prior Year)

	Business-type Activities - Enterprise Funds	
	<u>Water</u>	<u>Sewer</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,955,220	296,959
Cash received from user departments	-	-
Cash payments to suppliers for goods and services	(1,121,876)	(38,066)
Cash payments to employees for services	(425,396)	(32,163)
Cash received from other operating activities	<u>1,847</u>	<u>105</u>
Net cash provided by (used for) operating activities	<u>409,795</u>	<u>226,835</u>
Cash flows from noncapital financing activities:		
Cash paid to other funds	<u>(401,300)</u>	<u>(41,700)</u>
Net cash provided by (used for) noncapital financing activities	<u>(401,300)</u>	<u>(41,700)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(91,694)	(12,499)
Disposition of capital assets	<u>1,245</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	<u>(90,449)</u>	<u>(12,499)</u>
Cash flows from investing activities:		
Interest income received	<u>93,471</u>	<u>74,430</u>
Net cash provided by (used for) investing activities	<u>93,471</u>	<u>74,430</u>
Net increase (decrease) in cash and cash equivalents	11,517	247,066
Cash and cash equivalents at beginning of year	<u>4,199,521</u>	<u>3,155,129</u>
Cash and cash equivalents at end of year	<u>\$ 4,211,038</u>	<u>3,402,195</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	<u>\$ 426,308</u>	<u>162,589</u>
Adjustments to reconcile operating income (loss) to net income provided by (used for) operating activities:		
Depreciation	166,487	90,847
(Increase) decrease in accounts receivable	(148,309)	(35,017)
(Increase) decrease in loans receivable	-	-
(Increase) decrease in prepaid items	-	-
(Increase) decrease in due from other governmental agencies	-	-
Increase (decrease) in accounts payable	(29,772)	8,165
Increase (decrease) in salaries payable	-	-
Increase (decrease) in other accrued liabilities	(4,919)	251
Increase (decrease) in due to other governmental agencies	<u>-</u>	<u>-</u>
Total adjustments	<u>(16,513)</u>	<u>64,246</u>
Net cash provided by (used for) operating activities	<u>\$ 409,795</u>	<u>226,835</u>

There were no noncash capital, financing or investing activities for the year ended June 30, 2004.

See accompanying notes to the basic financial statements.

<u>Total</u>	Governmental Activities - Internal Service Funds	<u>Totals</u>	
		2004	2003
2,252,179	-	2,252,179	1,976,392
-	2,622,644	2,622,644	2,417,300
(1,159,942)	(1,592,455)	(2,752,397)	(3,039,715)
(457,559)	(876,301)	(1,333,860)	(1,109,250)
1,952	10,664	12,616	4,306
<u>636,630</u>	<u>164,552</u>	<u>801,182</u>	<u>249,033</u>
<u>(443,000)</u>	<u>-</u>	<u>(443,000)</u>	<u>(445,000)</u>
<u>(443,000)</u>	<u>-</u>	<u>(443,000)</u>	<u>(445,000)</u>
(104,193)	-	(104,193)	(101,082)
1,245	-	1,245	-
<u>(102,948)</u>	<u>-</u>	<u>(102,948)</u>	<u>(101,082)</u>
<u>167,901</u>	<u>-</u>	<u>167,901</u>	<u>285,061</u>
<u>167,901</u>	<u>-</u>	<u>167,901</u>	<u>285,061</u>
258,583	164,552	423,135	(11,988)
<u>7,354,650</u>	<u>1,284,566</u>	<u>8,639,216</u>	<u>8,651,204</u>
<u>7,613,233</u>	<u>1,449,118</u>	<u>9,062,351</u>	<u>8,639,216</u>
<u>588,897</u>	<u>880,852</u>	<u>1,469,749</u>	<u>26,113</u>
257,334	-	257,334	258,882
(183,326)	(6,756)	(190,082)	85,621
-	10,390	10,390	(572)
-	(8,179)	(8,179)	-
-	(159,080)	(159,080)	-
(21,607)	(2,464)	(24,071)	(45,221)
-	11,845	11,845	-
(4,668)	-	(4,668)	(9,171)
-	(562,056)	(562,056)	(66,619)
<u>47,733</u>	<u>(716,300)</u>	<u>(668,567)</u>	<u>222,920</u>
<u>636,630</u>	<u>164,552</u>	<u>801,182</u>	<u>249,033</u>



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, 2004
(With Comparative Data for Prior Year)

	<u>Agency Funds</u>	
	<u>2004</u>	<u>2003</u>
<u>Assets</u>		
Cash and investments (note 2)	<u>\$ 15,888</u>	<u>23,094</u>
Total assets	<u><u>\$ 15,888</u></u>	<u><u>23,094</u></u>
<u>Liabilities</u>		
Liabilities:		
Deposits payable	<u>\$ 15,888</u>	<u>23,094</u>
Total liabilities	<u><u>\$ 15,888</u></u>	<u><u>23,094</u></u>

See accompanying notes to the basic financial statements.

NOTES TO THE BASIC
FINANCIAL STATEMENTS

CITY OF LA PALMA

Notes to the Basic Financial Statements

Year ended June 30, 2004

(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 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.

- 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.

Fiduciary Fund Type

- 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	50 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 in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity (residential equity transfers) 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) Cash and Investments

Cash and investments held by the City consist of the following at June 30, 2004:

Petty cash	\$ 7,725
Demand deposits	169,317
Local Agency Investment Fund	25,442,446
Federal agency securities	<u>14,158</u>
Total cash and investments held by City	<u>\$25,633,646</u>

Cash and investments held with fiscal agent consist of the following at June 30, 2004:

Mutual funds – money market	<u>\$872,795</u>
Total cash and investments held with fiscal agent	<u>\$872,795</u>

Cash and investments at June 30, 2004 are presented in the accompanying basic financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$25,617,758
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	<u>15,888</u>
Total cash and investments	<u>\$25,633,646</u>
Statement of Net Assets:	
Cash and investments with fiscal agent	<u>\$ 872,795</u>
Total cash and investments with fiscal agent	<u>\$ 872,795</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

The City and its component unit are generally authorized under Section 53601 of the California Government Code and the City's investment policy to invest in the following types of investments:

- Securities of the U.S. government, or its agencies
- Commercial paper of "prime" quality with maximum maturities of 180 days; no more than 15% of the portfolio's market value may be invested in any one corporation
- Certificates of deposit and time deposits with maximum maturities of 30 – 360 days
- Repurchase agreements with maximum maturities of 30 days
- Local Agency Investment Fund (State Pool) deposits
- Passbook savings account demand deposit

Deposits

Under the California Government Code, a financial institution is required to secure deposits made by state or local governmental units by pledging securities held in the form of an undivided collateral pool. 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.

Deposits of cities and other state or local governments are classified in three categories to give an indication of the level of custodial risk assumed by the entity. Category 1 includes deposits that are insured or collateralized with securities held by the City or its agent in the City's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. Category 2 also includes deposits collateralized by an interest in an undivided collateral pool held by an authorized Agent of Depository and subject to certain regulatory requirements under State law. Category 3 includes deposits collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name. Category 3 also includes any uncollateralized deposits. Deposits are categorized as follows:

<u>Form of Deposit</u>	<u>Category</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Deposits held by City:					
Demand deposits	<u>\$181,686</u>	<u>7,255</u>	<u>-</u>	<u>188,941</u>	<u>169,317</u>
Total deposits	<u>\$181,686</u>	<u>7,255</u>	<u>-</u>	<u>188,941</u>	<u>169,317</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Investments

Investments of cities and other state or local governments are classified in three categories to give an indication of the level of custodial risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or the City’s custodial agent (which must be a different institution other than the party through which the City purchased the securities) in the City’s name. Investments held “in the City’s name” include securities held in a separate custodial or fiduciary account and identified as owned by the City in the custodian’s internal accounting records. Category 2 includes uninsured and unregistered investments for which the securities are held by the dealer’s agent in the City’s name (or by the trust department of the dealer if the dealer was a financial institution and another department of the institution purchased the securities for the City). Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer’s agent but not in the City’s name. Category 3 also includes all securities held by the broker-dealer agent of the City (the party that purchased the securities for the City) regardless of whether or not the securities are being held in the City’s name:

<u>Form of Investment</u>	<u>Category</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Investments held by the City:				
Federal agency securities	<u>\$14,158</u>	<u>-</u>	<u>-</u>	14,158
Investments held by City not subject to categorization:				
Investment in Local Agency Investment Fund				25,442,446
Investments held with fiscal agent not subject to categorization:				
Mutual funds – money market				<u>872,795</u>
Total investments				<u>\$26,329,399</u>

The carrying amount of all investments reflected in the above table is at fair value.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 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. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

(3) Interfund Receivables and Payables

Current interfund receivables and payables as of June 30, 2004 are as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	<u>\$87</u>

All current interfund receivables and payables represent short-term borrowings to manage cash flows and are expected to be repaid within one year. Generally, these balances result from interfund borrowings to cover short-term operating deficits.

Long-term interfund receivables and payables at June 30, 2004 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	\$1,596,109 (a)
General Fund	CDC Debt Service Fund	<u>1,452,789 (b)</u>
		3,048,898
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>\$6,148,898</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(3) Interfund Receivables and Payables, (Continued)

- (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, 2004 is \$4,696,109 and is recorded as an advance from various City funds to the Low/Moderate Income Housing Special Revenue Fund.
- (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, 2004 is \$1,452,789 and is recorded as an advance from the City's General Fund to the Commission's Debt Service Fund.

(4) Interfund Transfers

Interfund transfers for the year ended June 30, 2004 are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 27,200 (a)
General Fund	Water	401,300 (b)
General Fund	Sewer	<u>41,700 (b)</u>
	Total interfund transfers	<u>\$470,200</u>

Purpose of Interfund Transfers

- (a) The General Fund charged various nonmajor governmental funds \$27,200 for building, vehicle and computer maintenance and replacement.
- (b) The General Fund charged the Water and Sewer Funds \$401,300 and \$41,700, respectively, for administrative costs.

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

(5) Loans Receivable

Loans receivable consists of the following at June 30, 2004:

	<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	\$4,941,397
Deferred low and moderate income housing loans	310,000
Other loans	<u>12,856</u>
Total	<u>\$5,264,253</u>

(6) Capital Assets

A summary of capital asset activity for the year ended June 30, 2004 follows:

	<u>Balance at July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2004</u>
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 1,602,281	-	-	1,602,281
Land rights related to streets	<u>5,104,472</u>	<u>-</u>	<u>-</u>	<u>5,104,472</u>
Total capital assets not being depreciated	<u>6,706,753</u>	<u>-</u>	<u>-</u>	<u>6,706,753</u>
Capital assets being depreciated:				
Building and improvements	3,772,781	-	-	3,772,781
Equipment	1,554,313	36,072	(10,620)	1,579,765
Vehicles	1,360,169	105,905	(24,552)	1,441,522
Furniture and fixtures	193,729	-	-	193,729
Infrastructure – streets network	9,532,975	123,931	(9,845)	9,647,061
Infrastructure – storm drains	<u>456,440</u>	<u>-</u>	<u>-</u>	<u>456,440</u>
Total capital assets being depreciated	<u>16,870,407</u>	<u>265,908</u>	<u>(45,017)</u>	<u>17,091,298</u>

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

(6) Capital Assets, (Continued)

	<u>Balance at July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2004</u>
<u>Governmental Activities:</u>				
Less accumulated depreciation for:				
Building and improvements	(1,561,344)	(75,455)	-	(1,636,799)
Equipment	(794,123)	(166,079)	9,027	(951,175)
Vehicles	(808,658)	(164,314)	24,552	(948,420)
Furniture and fixtures	(121,970)	(27,424)	-	(149,394)
Infrastructure – streets network	(5,182,745)	(173,084)	9,636	(5,346,193)
Infrastructure – storm drains	<u>(292,120)</u>	<u>(6,085)</u>	<u>-</u>	<u>(298,205)</u>
Total accumulated depreciation	<u>(8,760,960)</u>	<u>(612,441)</u>	<u>43,215</u>	<u>(9,330,186)</u>
Capital assets being depreciated, net	<u>8,109,447</u>	<u>(346,533)</u>	<u>(1,802)</u>	<u>7,761,112</u>
Governmental activity capital assets, net	<u>\$14,816,200</u>	<u>(346,533)</u>	<u>(1,802)</u>	<u>14,467,865</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	7,757,512	-	(667)	7,756,845
Machinery and equipment	250,766	104,193	(5,124)	349,835
Water system and other improvements	2,867,808	-	-	2,867,808
Sewer system and other improvements	<u>3,179,677</u>	<u>-</u>	<u>-</u>	<u>3,179,677</u>
Total capital assets being depreciated	<u>14,055,763</u>	<u>104,193</u>	<u>(5,791)</u>	<u>14,154,165</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,817,684)	(168,337)	667	(4,985,354)
Machinery and equipment	(115,779)	(8,320)	3,879	(120,220)
Water system and other improvements	(1,210,731)	(38,240)	-	(1,248,971)
Sewer system and other improvements	<u>(1,368,604)</u>	<u>(42,437)</u>	<u>-</u>	<u>(1,411,041)</u>
Total accumulated depreciation	<u>(7,512,798)</u>	<u>(257,334)</u>	<u>4,546</u>	<u>(7,765,586)</u>
Capital assets being depreciated, net	<u>6,542,965</u>	<u>(153,141)</u>	<u>(1,245)</u>	<u>6,388,579</u>
Business-type activities capital assets, net	<u>\$ 7,296,965</u>	<u>(153,141)</u>	<u>(1,245)</u>	<u>7,142,579</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(6) Capital Assets, (Continued)

Depreciation expense was charged to functions for the year ended June 30, 2004 as follows:

Governmental activities:		
General government		\$104,512
Public safety		180,092
Public works		223,783
Recreation		96,796
Community development		<u>7,258</u>
Total – governmental activities		<u>\$612,441</u>
Business-type activities:		
Water		166,487
Sewer		<u>90,847</u>
Total – business-type activities		<u>\$257,334</u>

(7) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance at <u>July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	Balance at <u>June 30, 2004</u>	Portion Due Within <u>One Year</u>	Portion Due Beyond <u>One Year</u>
<u>Governmental Activities:</u>						
1993 Tax Allocation Bonds	\$ 3,810,000	-	(150,000)	3,660,000	160,000	3,500,000
2001 Tax Allocation Bonds	<u>5,900,000</u>	<u>-</u>	<u>(180,000)</u>	<u>5,720,000</u>	<u>190,000</u>	<u>5,530,000</u>
Subtotal	9,710,000	-	(330,000)	9,380,000	350,000	9,030,000
Compensated absences	<u>495,704</u>	<u>349,086</u>	<u>(346,477)</u>	<u>498,313</u>	<u>113,408</u>	<u>384,905</u>
Total long-term liabilities	<u>\$10,205,704</u>	<u>349,086</u>	<u>(676,477)</u>	<u>9,878,313</u>	<u>463,408</u>	<u>9,414,905</u>

Compensated absences are generally liquidated by the General Fund.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(8) Bonds Payable

1993 Tax Allocation Bonds

On December 1, 1993, the 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, 2004, \$3,660,000 of the bonds were outstanding.

Debt service requirements on the 1993 tax allocation bonds at June 30, 2004, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 160,000	222,270
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>\$3,660,000</u>	<u>2,090,010</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(8) Bonds Payable, (Continued)

2001 Refunding Tax Allocation Bonds

On December 1, 2001, the 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, 2004, \$5,720,000 of 2001 refunding tax allocation bonds were outstanding.

Debt service requirements on the 2001 refunding tax allocation bonds at June 30, 2004 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 190,000	294,987
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	815,000	44,825
Total	<u>\$5,720,000</u>	<u>3,435,855</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, 2004, the reserve was \$872,652.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(9) Arbitrage Rebate

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

During the current year, the City performed calculations of excess investment earnings on various bonds and financings in accordance with arbitrage regulations. The City has determined that no arbitrage rebate liability exists as of June 30, 2004.

(10) Post Retirement Benefits

In addition to providing pension benefits, the City provides postemployment health care benefits, in accordance with State statute, to all safety employees who retire from the City on or after attaining age 50 with at least five years of service. Currently 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 \$52,800 for the year ended June 30, 2004.

(11) Liability, Property and Workers' Compensation Protection

Description of self-insurance pool pursuant to Joint Powers Agreement

The City is a member of the California Joint Powers Insurance Authority (CJPIA). The CJPIA is composed of 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)

(11) 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)

(11) 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, 2002	\$17,397
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	<u>(15,900)</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	<u>-</u>
Amount of accrued claims at June 30, 2004	<u>\$ 1,497</u>

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(12) Defined Benefit Pension Plan (PERS)

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

Participants are required to contribute 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, 2003 to June 30, 2004 has been determined by an actuarial valuation of the plan as of June 30, 2001. The contribution rate indicated for the period is 6.435% of payroll for the safety plan and 0.000% 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, 2004, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2003 to June 30, 2004.

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

Valuation Date	June 30, 2001
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	14 Years and 37 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	3.75% to 14.20% depending on Age, Service, and type of employment
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%

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

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

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. 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.

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>
6/30/02	\$101,792	100%	-
6/30/03	38,904	100%	-
6/30/04	4,907	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, 2004.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

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>
6/30/02	\$ -	100%	-
6/30/03	-	100%	-
6/30/04	-	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	\$6,898,355	10,065,977	(3,167,622)	145.9%	1,949,545	(162.5%)
6/30/01	7,512,633	10,584,773	(3,072,140)	140.9%	2,064,034	(148.8%)
6/30/02	9,064,768	10,197,698	(1,132,930)	112.5%	2,042,627	(55.5%)

The most recent PERS letter was not available for the year ended June 30, 2004.

(13) Defined Benefit Pension Plan (PARS)

On April 18, 2000, the City Council authorized the City to become a member of the Public Agency Retirement System (PARS) Trust, a governmental trust, effective July 1, 2000 for its eligible part-time, seasonal and temporary employees. This is an alternative retirement system for those not covered by a retirement plan other than social security. Under PARS, the City and the employee each contribute 3.75% of compensation for a total annual contribution of 7.5%. For the year ended June 30, 2004, the amount contributed by the City was \$4,007. Employees are fully vested at all times. The City has entered into an agreement with Phase II Systems to provide trust administrator services.

(14) Litigation

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

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(15) Joint Venture – Orange County Fire Authority

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

No determination has been made as to each participant's proportionate share of fund equity as of June 30, 2004. Upon dissolution of the Authority, all surplus money and property of the Authority will be conveyed or distributed to each member in proportion to all funds provided to the Authority by that member or by the County on behalf of that member during its membership. Separate audited financial statements may be obtained from the Authority at 180 South Water Street, Orange, California 92866.

(16) Owner Participation Agreements

The City entered into an Owner Participation Agreement in 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, 2004. The total amount remitted by the City under this agreement through June 30, 2004 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, 2004. The total amount remitted by the City under this agreement through June 30, 2004 was approximately \$124,909.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(16) Owner Participation Agreements, (Continued)

The City entered into an Owner Participation Agreement in May 2002 with a business enterprise whereby the City disbursed \$1,500,000 to the enterprise for the purpose of rehabilitating certain real property within the City. Under the terms of the agreement, the cost of the project is expected to be recovered by the City through increased sales tax revenues. At the end of the project's fifteenth operating year, the business enterprise must pay the City any portion of the cost not recovered. The total cost recovered as of June 30, 2004 was \$0.

(17) Fund Balances

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

	General Fund	Special Revenue Low/ 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	\$ 3,048,898	-	-	-	500,000	-	3,548,898
Prepaid items	19,643	-	-	-	-	-	19,643
Loans receivable	-	4,974,469	-	-	-	-	4,974,469
	3,068,541	4,974,469	-	-	500,000	-	8,543,010
Unreserved, designated for:							
Maintenance and replacement of capital assets	2,487,915	-	-	-	-	-	2,487,915
Capital projects	-	-	-	1,741,945	4,252,507	-	5,994,452
	2,487,915	-	-	1,741,945	4,252,507	-	8,482,367
Unreserved, undesignated	5,671,758	(3,112,783)	(116,609)	-	-	711,774	3,154,140
Total fund balances (deficit)	\$11,228,214	1,861,686	(116,609)	1,741,945	4,752,507	711,774	20,179,517

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

(18) 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:			
Traffic Congestion Relief Fund	\$30,000	42,359	(12,359)

(19) Deficit Fund Balances

The following funds reported deficit fund balances as of June 30, 2004:

	<u>Amount</u>
CDC Debt Service Fund	\$116,609
Supplemental Law Enforcement Service Fund	2,338

The deficit in the CDC Debt Service Fund was caused by the reporting of \$1,452,789 of interfund advances, which were accounted for in the General Long-Term Debt Account Group in previous years. The deficit will be reduced as the advances are repaid in future years with available tax increment.



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, 2004

(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 of up to \$25,000 between line items within each department, provided that they do not increase or decrease total fund appropriations adopted by City Council.

CITY OF LA PALMA

Notes to Required Supplementary Information

(Continued)

(1) Budgetary Control and Accounting, (Continued)

- 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, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Taxes	\$ 5,409,800	5,409,800	6,935,940	1,526,140	4,571,604
Intergovernmental	912,800	912,800	740,858	(171,942)	925,172
Licenses and permits	238,800	238,800	247,974	9,174	268,441
Fines and forfeitures	150,000	150,000	146,619	(3,381)	164,329
Investment income	453,200	453,200	413,478	(39,722)	335,869
Charges for services	384,700	384,700	480,289	95,589	439,062
Rental income	148,000	148,000	145,556	(2,444)	148,219
Miscellaneous	269,100	269,100	282,695	13,595	305,762
Total revenues	<u>7,966,400</u>	<u>7,966,400</u>	<u>9,393,409</u>	<u>1,427,009</u>	<u>7,158,458</u>
Expenditures:					
Current:					
General government	2,095,800	2,107,300	1,869,958	237,342	1,471,025
Public safety	3,788,200	3,804,850	3,729,401	75,449	3,631,629
Public works	584,000	584,000	502,103	81,897	508,674
Recreation	1,217,700	1,219,150	1,131,298	87,852	1,137,569
Community development	419,000	419,000	375,326	43,674	420,421
Capital outlay	268,000	268,000	159,836	108,164	159,301
Total expenditures	<u>8,372,700</u>	<u>8,402,300</u>	<u>7,767,922</u>	<u>634,378</u>	<u>7,328,619</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(406,300)</u>	<u>(435,900)</u>	<u>1,625,487</u>	<u>2,061,387</u>	<u>(170,161)</u>
Other financing sources (uses):					
Transfers in	215,700	215,700	470,200	254,500	497,000
Transfers out	(254,500)	(254,500)	-	254,500	-
Total other financing sources (uses)	<u>(38,800)</u>	<u>(38,800)</u>	<u>470,200</u>	<u>509,000</u>	<u>497,000</u>
Net changes in fund balances	<u>(445,100)</u>	<u>(474,700)</u>	<u>2,095,687</u>	<u>2,570,387</u>	<u>326,839</u>
Fund balances at beginning of year	<u>9,132,527</u>	<u>9,132,527</u>	<u>9,132,527</u>	<u>-</u>	<u>8,805,688</u>
Fund balances at end of year	<u>\$ 8,687,427</u>	<u>8,657,827</u>	<u>11,228,214</u>	<u>2,570,387</u>	<u>9,132,527</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, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Taxes	\$ 384,000	384,000	414,392	30,392	399,060
Investment income	50,000	50,000	267,350	217,350	247,771
Miscellaneous	-	-	1,225	1,225	5,000
Total revenues	<u>434,000</u>	<u>434,000</u>	<u>682,967</u>	<u>248,967</u>	<u>651,831</u>
Expenditures:					
Current:					
Community development	312,400	312,400	245,376	67,024	226,567
Debt service:					
Principal	56,700	56,700	-	56,700	-
Interest	312,500	312,500	185,165	127,335	219,964
Total expenditures	<u>681,600</u>	<u>681,600</u>	<u>430,541</u>	<u>251,059</u>	<u>446,531</u>
Net changes in fund balances	(247,600)	(247,600)	252,426	500,026	205,300
Fund balances at beginning of year	<u>1,609,260</u>	<u>1,609,260</u>	<u>1,609,260</u>	<u>-</u>	<u>1,403,960</u>
Fund balances at end of year	<u><u>\$ 1,361,660</u></u>	<u><u>1,361,660</u></u>	<u><u>1,861,686</u></u>	<u><u>500,026</u></u>	<u><u>1,609,260</u></u>



SUPPLEMENTARY
SCHEDULES

NONMAJOR SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF LA PALMA
Nonmajor Special Revenue Funds

Combining Balance Sheet

June 30, 2004

	Asset Seizure	Streets	Measure M	Traffic Congestion Relief	Park Development	Air Quality Improvement
<u>Assets</u>						
Cash and investments	\$ 3,881	129,172	344,491	-	130,368	43,837
Receivables:						
Interest	21	620	1,917	76	704	298
Due from other governments	-	30,586	33,681	-	-	4,860
Total assets	\$ 3,902	160,378	380,089	76	131,072	48,995
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ -	24,392	42,134	76	40,497	414
Salaries payable	-	4,882	-	-	-	-
Retentions payable	-	2,000	17,302	-	4,500	-
Due to other funds	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Total liabilities	-	31,274	59,436	76	44,997	414
Fund balances (deficit):						
Unreserved, reported in special revenue funds	3,902	129,104	320,653	-	86,075	48,581
Total fund balances (deficit)	3,902	129,104	320,653	-	86,075	48,581
Total liabilities and fund balances	\$ 3,902	160,378	380,089	76	131,072	48,995

Supplemental Law Enforcement Service	Public Safety Augmentation	Abandoned Vehicles	Local Law Enforcement Block Grant	CA Law Enforcement Equipment Program	Urban Park Grant	Totals	
						2004	2003
-	46,497	18,591	29,928	10,960	120,104	877,829	904,397
34	207	100	162	59	648	4,846	6,662
-	14,161	3,339	-	-	-	86,627	100,293
<u>34</u>	<u>60,865</u>	<u>22,030</u>	<u>30,090</u>	<u>11,019</u>	<u>120,752</u>	<u>969,302</u>	<u>1,011,352</u>
-	-	-	-	-	-	107,513	39,848
2,285	1,519	-	-	-	-	8,686	6,972
-	-	-	-	-	-	23,802	-
87	-	-	-	-	-	87	-
-	-	-	-	-	117,440	117,440	117,440
<u>2,372</u>	<u>1,519</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,440</u>	<u>257,528</u>	<u>164,260</u>
<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>(2,338)</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>34</u>	<u>60,865</u>	<u>22,030</u>	<u>30,090</u>	<u>11,019</u>	<u>120,752</u>	<u>969,302</u>	<u>1,011,352</u>

CITY OF LA PALMA
Nonmajor Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2004

	Asset Seizure	Streets	Measure M	Traffic Congestion Relief	Park Development	Air Quality Improvement
Revenues:						
Intergovernmental	\$ -	300,763	185,434	-	-	18,515
Investment income	123	3,042	6,965	725	2,733	1,134
Charges for services	-	-	-	-	-	-
Miscellaneous	-	1,003	-	-	-	-
Total revenues	123	304,808	192,399	725	2,733	19,649
Expenditures:						
Current:						
Public safety	-	-	-	-	-	-
Public works	-	287,555	19,872	-	-	2,376
Capital outlay	-	33,427	149,357	42,359	48,253	21,776
Total expenditures	-	320,982	169,229	42,359	48,253	24,152
Excess (deficiency) of revenues over expenditures	123	(16,174)	23,170	(41,634)	(45,520)	(4,503)
Other financing sources (uses):						
Transfers out	-	(26,200)	(1,000)	-	-	-
Total other financing sources (uses)	-	(26,200)	(1,000)	-	-	-
Net changes in fund balances	123	(42,374)	22,170	(41,634)	(45,520)	(4,503)
Fund balances at beginning of year	3,779	171,478	298,483	41,634	131,595	53,084
Fund balances (deficit) at end of year	\$3,902	129,104	320,653	-	86,075	48,581

Supplemental Law Enforcement Service	Public Safety Augmentation	Abandoned Vehicles	Local Law Enforcement Block Grant	CA Law Enforcement Equipment Program	Urban Park Grant	Totals	
						2004	2003
100,000	132,253	12,030	-	-	-	748,995	822,622
336	1,201	299	621	304	2,490	19,973	24,576
-	-	-	-	-	-	-	8,611
-	-	-	-	-	-	1,003	2,121
<u>100,336</u>	<u>133,454</u>	<u>12,329</u>	<u>621</u>	<u>304</u>	<u>2,490</u>	<u>769,971</u>	<u>857,930</u>
105,184	153,890	14,040	-	-	-	273,114	284,286
-	-	-	-	-	-	309,803	214,025
-	-	-	-	-	-	295,172	481,584
<u>105,184</u>	<u>153,890</u>	<u>14,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>878,089</u>	<u>979,895</u>
<u>(4,848)</u>	<u>(20,436)</u>	<u>(1,711)</u>	<u>621</u>	<u>304</u>	<u>2,490</u>	<u>(108,118)</u>	<u>(121,965)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,200)</u>	<u>(52,000)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,200)</u>	<u>(52,000)</u>
<u>(4,848)</u>	<u>(20,436)</u>	<u>(1,711)</u>	<u>621</u>	<u>304</u>	<u>2,490</u>	<u>(135,318)</u>	<u>(173,965)</u>
<u>2,510</u>	<u>79,782</u>	<u>23,741</u>	<u>29,469</u>	<u>10,715</u>	<u>822</u>	<u>847,092</u>	<u>1,021,057</u>
<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>

CITY OF LA PALMA
Asset Seizure Fund

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

Year ended June 30, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Investment income	\$ 500	500	123	(377)	441
Total revenues	500	500	123	(377)	441
Expenditures:					
Current:					
Public safety	-	-	-	-	11,154
Total expenditures	-	-	-	-	11,154
Net changes in fund balances	500	500	123	(377)	(10,713)
Fund balances at beginning of year	3,779	3,779	3,779	-	14,492
Fund balances at end of year	<u>\$ 4,279</u>	<u>4,279</u>	<u>3,902</u>	<u>(377)</u>	<u>3,779</u>

CITY OF LA PALMA
Streets Fund

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

Year ended June 30, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ 303,000	303,000	300,763	(2,237)	298,727
Investment income	2,000	2,000	3,042	1,042	2,406
Miscellaneous	-	-	1,003	1,003	2,121
Total revenues	<u>305,000</u>	<u>305,000</u>	<u>304,808</u>	<u>(192)</u>	<u>303,254</u>
Expenditures:					
Current:					
Public works	332,700	332,700	287,555	45,145	210,464
Capital outlay	42,500	42,500	33,427	9,073	35,294
Total expenditures	<u>375,200</u>	<u>375,200</u>	<u>320,982</u>	<u>54,218</u>	<u>245,758</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(70,200)</u>	<u>(70,200)</u>	<u>(16,174)</u>	<u>54,026</u>	<u>57,496</u>
Other financing sources (uses):					
Transfers out	-	-	(26,200)	(26,200)	(51,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(26,200)</u>	<u>(26,200)</u>	<u>(51,000)</u>
Net changes in fund balances	(70,200)	(70,200)	(42,374)	27,826	6,496
Fund balances at beginning of year	<u>171,478</u>	<u>171,478</u>	<u>171,478</u>	<u>-</u>	<u>164,982</u>
Fund balances at end of year	<u><u>\$ 101,278</u></u>	<u><u>101,278</u></u>	<u><u>129,104</u></u>	<u><u>27,826</u></u>	<u><u>171,478</u></u>

CITY OF LA PALMA
Measure M Fund

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

Year ended June 30, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ 180,000	180,000	185,434	5,434	188,512
Investment income	8,000	8,000	6,965	(1,035)	7,830
Total revenues	<u>188,000</u>	<u>188,000</u>	<u>192,399</u>	<u>4,399</u>	<u>196,342</u>
Expenditures:					
Current:					
Public works	36,400	36,400	19,872	16,528	1,461
Capital outlay	250,000	250,000	149,357	100,643	243,082
Total expenditures	<u>286,400</u>	<u>286,400</u>	<u>169,229</u>	<u>117,171</u>	<u>244,543</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(98,400)</u>	<u>(98,400)</u>	<u>23,170</u>	<u>121,570</u>	<u>(48,201)</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	(98,400)	(98,400)	22,170	120,570	(49,201)
Fund balances at beginning of year	<u>298,483</u>	<u>298,483</u>	<u>298,483</u>	<u>-</u>	<u>347,684</u>
Fund balances at end of year	<u><u>\$ 200,083</u></u>	<u><u>200,083</u></u>	<u><u>320,653</u></u>	<u><u>120,570</u></u>	<u><u>298,483</u></u>

CITY OF LA PALMA
Traffic Congestion Relief Fund

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

Year ended June 30, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ -	-	-	-	40,955
Investment income	400	400	725	325	679
Total revenues	400	400	725	325	41,634
Expenditures					
Capital outlay	30,000	30,000	42,359	(12,359)	39,746
Total expenditures	30,000	30,000	42,359	(12,359)	39,746
Net changes in fund balances	(29,600)	(29,600)	(41,634)	(12,034)	1,888
Fund balances at beginning of year	41,634	41,634	41,634	-	39,746
Fund balances at end of year	\$ 12,034	12,034	-	(12,034)	41,634

CITY OF LA PALMA
Park Development Fund

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

Year ended June 30, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Investment income	\$ -	-	2,733	2,733	3,547
Charges for services	4,000	4,000	-	(4,000)	8,611
Total revenues	4,000	4,000	2,733	(1,267)	12,158
Expenditures:					
Capital outlay	50,000	50,000	48,253	1,747	-
Total expenditures	50,000	50,000	48,253	1,747	-
Net changes in fund balances	(46,000)	(46,000)	(45,520)	480	12,158
Fund balances at beginning of year	131,595	131,595	131,595	-	119,437
Fund balances at end of year	<u>\$ 85,595</u>	<u>85,595</u>	<u>86,075</u>	<u>480</u>	<u>131,595</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, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ 18,000	18,000	18,515	515	18,205
Investment income	1,400	1,400	1,134	(266)	1,253
Total revenues	<u>19,400</u>	<u>19,400</u>	<u>19,649</u>	<u>249</u>	<u>19,458</u>
Expenditures:					
Current:					
Public works	3,100	3,100	2,376	724	2,100
Capital outlay	-	23,000	21,776	1,224	-
Total expenditures	<u>3,100</u>	<u>26,100</u>	<u>24,152</u>	<u>1,948</u>	<u>2,100</u>
Net changes in fund balances	16,300	(6,700)	(4,503)	2,197	17,358
Fund balances at beginning of year	<u>53,084</u>	<u>53,084</u>	<u>53,084</u>	<u>-</u>	<u>35,726</u>
Fund balances at end of year	<u><u>\$ 69,384</u></u>	<u><u>46,384</u></u>	<u><u>48,581</u></u>	<u><u>2,197</u></u>	<u><u>53,084</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, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ 100,000	100,000	100,000	-	100,029
Investment income	1,000	1,000	336	(664)	730
Total revenues	<u>101,000</u>	<u>101,000</u>	<u>100,336</u>	<u>(664)</u>	<u>100,759</u>
Expenditures:					
Current:					
Public safety	107,200	107,200	105,184	2,016	105,884
Total expenditures	<u>107,200</u>	<u>107,200</u>	<u>105,184</u>	<u>2,016</u>	<u>105,884</u>
Net changes in fund balances	(6,200)	(6,200)	(4,848)	1,352	(5,125)
Fund balances at beginning of year	<u>2,510</u>	<u>2,510</u>	<u>2,510</u>	<u>-</u>	<u>7,635</u>
Fund balances (deficit) at end of year	<u><u>\$ (3,690)</u></u>	<u><u>(3,690)</u></u>	<u><u>(2,338)</u></u>	<u><u>1,352</u></u>	<u><u>2,510</u></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, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ 125,000	125,000	132,253	7,253	123,927
Investment income	3,000	3,000	1,201	(1,799)	2,493
Total revenues	<u>128,000</u>	<u>128,000</u>	<u>133,454</u>	<u>5,454</u>	<u>126,420</u>
Expenditures:					
Current:					
Public safety	<u>215,100</u>	<u>211,100</u>	<u>153,890</u>	<u>57,210</u>	<u>152,290</u>
Total expenditures	<u>215,100</u>	<u>211,100</u>	<u>153,890</u>	<u>57,210</u>	<u>152,290</u>
Net changes in fund balances	(87,100)	(83,100)	(20,436)	62,664	(25,870)
Fund balances at beginning of year	<u>79,782</u>	<u>79,782</u>	<u>79,782</u>	-	<u>105,652</u>
Fund balances at end of year	<u><u>\$ (7,318)</u></u>	<u><u>(3,318)</u></u>	<u><u>59,346</u></u>	<u><u>62,664</u></u>	<u><u>79,782</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, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ 15,000	15,000	12,030	(2,970)	20,538
Investment income	400	400	299	(101)	500
Total revenues	<u>15,400</u>	<u>15,400</u>	<u>12,329</u>	<u>(3,071)</u>	<u>21,038</u>
Expenditures:					
Public safety	14,100	14,100	14,040	60	10,530
Total expenditures	<u>14,100</u>	<u>14,100</u>	<u>14,040</u>	<u>60</u>	<u>10,530</u>
Net changes in fund balances	1,300	1,300	(1,711)	(3,011)	10,508
Fund balances at beginning of year	23,741	23,741	23,741	-	13,233
Fund balances at end of year	<u><u>\$ 25,041</u></u>	<u><u>25,041</u></u>	<u><u>22,030</u></u>	<u><u>(3,011)</u></u>	<u><u>23,741</u></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, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ -	-	-	-	14,103
Investment income	1,000	1,000	621	(379)	773
Total revenues	1,000	1,000	621	(379)	14,876
Expenditures:					
Current:					
Capital outlay	-	-	-	-	45,617
Total expenditures	-	-	-	-	45,617
Net change in fund balances	1,000	1,000	621	(379)	(30,741)
Fund balances at beginning of year	29,469	29,469	29,469	-	60,210
Fund balances at end of year	<u>\$ 30,469</u>	<u>30,469</u>	<u>30,090</u>	<u>(379)</u>	<u>29,469</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, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ -	-	-	-	17,626
Investment income	1,000	1,000	304	(696)	3,102
Total revenues	1,000	1,000	304	(696)	20,728
Expenditures:					
Current:					
Public safety	-	-	-	-	4,428
Capital outlay	-	-	-	-	117,845
Total expenditures	-	-	-	-	122,273
Net changes in fund balances	1,000	1,000	304	(696)	(101,545)
Fund balances at beginning of year	10,715	10,715	10,715	-	112,260
Fund balances at end of year	\$ 11,715	11,715	11,019	(696)	10,715

CITY OF LA PALMA
Urban Park Grant Fund

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

Year ended June 30, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Intergovernmental	\$ 1,062,400	1,325,300	-	(1,325,300)	-
Investment income	-	-	2,490	2,490	822
Total revenues	<u>1,062,400</u>	<u>1,325,300</u>	<u>2,490</u>	<u>(1,322,810)</u>	<u>822</u>
Expenditures:					
Capital projects	1,174,400	1,174,400	-	1,174,400	-
Total expenditures	<u>1,174,400</u>	<u>1,174,400</u>	<u>-</u>	<u>1,174,400</u>	<u>-</u>
Net changes in fund balances	(112,000)	150,900	2,490	(148,410)	822
Fund balances at beginning of year	822	822	822	-	-
Fund balances (deficit) at end of year	<u>\$ (111,178)</u>	<u>151,722</u>	<u>3,312</u>	<u>(148,410)</u>	<u>822</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, 2004

	2004			Variance with Final Budget Positive (Negative)	2003 Actual
	Original Budget	Final Budget	Actual		
Revenues:					
Taxes	\$ 1,535,000	1,535,000	1,657,567	122,567	1,596,241
Investment income	8,000	8,000	9,862	1,862	21,364
Miscellaneous	-	-	4,200	4,200	-
Total revenues	<u>1,543,000</u>	<u>1,543,000</u>	<u>1,671,629</u>	<u>128,629</u>	<u>1,617,605</u>
Expenditures:					
Current:					
General government	101,000	101,000	39,478	61,522	29,744
Debt service:					
Principal	330,000	330,000	330,000	-	320,000
Interest	721,400	721,400	718,087	3,313	582,020
Pass-through payments	163,000	241,300	229,722	11,578	178,101
Payment to state education fund	-	-	-	-	76,467
Total expenditures	<u>1,315,400</u>	<u>1,393,700</u>	<u>1,317,287</u>	<u>76,413</u>	<u>1,186,332</u>
Excess (deficiency) of revenues over (under) expenditures	<u>227,600</u>	<u>149,300</u>	<u>354,342</u>	<u>205,042</u>	<u>431,273</u>
Other financing sources (uses):					
Transfers out	-	-	-	-	(1,500,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,500,000)</u>
Net changes in fund balances	227,600	149,300	354,342	205,042	(1,068,727)
Fund balances (deficit) at beginning of year	<u>(470,951)</u>	<u>(470,951)</u>	<u>(470,951)</u>	<u>-</u>	<u>597,776</u>
Fund balances (deficit) at end of year	<u>\$ (243,351)</u>	<u>(321,651)</u>	<u>(116,609)</u>	<u>205,042</u>	<u>(470,951)</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, 2004

	Insurance	Employee Benefits	Totals	
			2004	2003
Assets:				
Current assets:				
Cash and investments	\$ 445,082	1,004,036	1,449,118	1,284,566
Receivables:				
Accounts	-	6,756	6,756	-
Loans	-	12,856	12,856	23,246
Prepaid items	-	8,179	8,179	-
Due from other government agencies - current portion	-	12,707	12,707	-
Total current assets	445,082	1,044,534	1,489,616	1,307,812
Noncurrent assets:				
Due from other government agencies - noncurrent portion	-	146,373	146,373	-
Advances to other funds	600,000	1,000,000	1,600,000	1,600,000
Total noncurrent assets	600,000	1,146,373	1,746,373	1,600,000
Total assets	1,045,082	2,190,907	3,235,989	2,907,812
Liabilities:				
Current liabilities:				
Accounts payable	677	15,911	16,588	19,052
Salaries payable	-	13,034	13,034	1,189
Other accrued liabilities	-	1,497	1,497	1,497
Due to other governmental agencies - current portion	-	-	-	302,487
Total current liabilities	677	30,442	31,119	324,225
Noncurrent liabilities:				
Due to other governmental agencies - noncurrent portion	8,791	-	8,791	268,360
Total liabilities	9,468	30,442	39,910	592,585
Net assets:				
Unrestricted	\$ 1,035,614	2,160,465	3,196,079	2,315,227

CITY OF LA PALMA
Internal Service Funds

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

Year ended June 30, 2004

	Insurance	Employee Benefits	Totals	
			2004	2003
Operating revenues:				
Charges for services	\$ 380,900	2,248,500	2,629,400	2,417,300
Miscellaneous	-	274	274	839
Total operating revenues	380,900	2,248,774	2,629,674	2,418,139
Operating expenses:				
Personnel services	-	888,146	888,146	693,767
Maintenance and operations	-	12,221	12,221	18,285
Contractual services	-	14,048	14,048	13,389
Settlement, claims and insurance	235,961	598,446	834,407	1,628,728
Total operating expenses	235,961	1,512,861	1,748,822	2,354,169
Operating income (loss)	144,939	735,913	880,852	63,970
Nonoperating revenues (expenses):				
Investment income	-	-	-	159
Change in net assets	144,939	735,913	880,852	64,129
Net assets at beginning of year	890,675	1,424,552	2,315,227	2,251,098
Net assets at end of year	\$ 1,035,614	2,160,465	3,196,079	2,315,227

CITY OF LA PALMA
Internal Service Funds
Combining Statement of Cash Flows
Year ended June 30, 2004

	Insurance	Employee Benefits	Totals	
			2004	2003
Cash flows from operating activities:				
Cash received from user departments	\$ 380,900	2,241,744	2,622,644	2,417,300
Cash payments to suppliers for goods and services	(486,900)	(1,105,555)	(1,592,455)	(1,736,855)
Cash payments to employees for services	-	(876,301)	(876,301)	(709,667)
Cash received from (used for) other operating activities	-	10,664	10,664	267
Net cash provided by (used for) operating activities	(106,000)	270,552	164,552	(28,955)
Cash flows from investing activities:				
Interest income	-	-	-	159
Net cash provided by (used for) investing activities	-	-	-	159
Net increase (decrease) in cash and cash equivalents	(106,000)	270,552	164,552	(28,796)
Cash and cash equivalents at beginning of year	551,082	733,484	1,284,566	1,313,362
Cash and cash equivalents at end of year	\$ 445,082	1,004,036	1,449,118	1,284,566
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 144,939	735,913	880,852	63,970
Adjustments to reconcile operating income (loss) to net income provided by (used for) operating activities:				
(Increase) decrease in accounts receivable	-	(6,756)	(6,756)	-
(Increase) decrease in loans receivable	-	10,390	10,390	(572)
(Increase) decrease in prepaid items	-	(8,179)	(8,179)	-
Increase (decrease) in due from other governmental agencies	-	(159,080)	(159,080)	-
Increase (decrease) in accounts payable	562	(3,026)	(2,464)	(5,743)
Increase (decrease) in salaries payable	-	11,845	11,845	-
Increase (decrease) in other accrued liabilities	-	-	-	(19,991)
Increase (decrease) in due to other governmental agencies	(251,501)	(310,555)	(562,056)	(66,619)
Total adjustments	(250,939)	(465,361)	(716,300)	(92,925)
Net cash provided by (used for) operating activities	\$ (106,000)	270,552	164,552	(28,955)

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, 2004

	City Trust	800 MHz Communication System	Totals	
			2004	2003
<u>Assets</u>				
Cash and investments	\$ 15,720	168	15,888	23,094
Total assets	\$ 15,720	168	15,888	23,094
<u>Liabilities</u>				
Liabilities:				
Deposits payable	\$ 15,720	168	15,888	23,094
Total liabilities	\$ 15,720	168	15,888	23,094

CITY OF LA PALMA
Agency Funds

Combining Statement of Changes in Fiduciary Assets and Liabilities

Year ended June 30, 2004

	Balance at July 1, 2003	Additions	Deletions	Balance at June 30, 2004
<u>City Trust</u>				
Assets:				
Cash and investments	\$ 12,172	30,229	(26,681)	15,720
Liabilities:				
Deposits payable	\$ 12,172	56,596	(53,048)	15,720
<u>800 MHz Communication System</u>				
Assets:				
Cash and investments	\$ 10,922	146	(10,900)	168
Liabilities:				
Deposits payable	\$ 10,922	-	(10,754)	168
<u>Totals - All Agency Funds</u>				
Assets:				
Cash and investments	\$ 23,094	30,375	(37,581)	15,888
Total assets	\$ 23,094	30,375	(37,581)	15,888
Liabilities:				
Deposits payable	\$ 23,094	56,596	(63,802)	15,888
Total liabilities	\$ 23,094	56,596	(63,802)	15,888

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

Comparative Schedule by Source

June 30, 2004 and 2003

	Totals	
	2004	2003
Governmental funds capital assets:		
Land	\$ 1,602,281	1,602,281
Land rights related to streets	5,104,472	5,104,472
Building and improvements	3,772,781	3,772,781
Equipment	1,579,765	1,554,313
Vehicles	1,441,522	1,360,169
Furniture and fixtures	193,729	193,729
Infrastructure	10,103,501	9,989,415
	<u>\$ 23,798,051</u>	<u>23,577,160</u>
Investments in governmental funds capital assets by source:		
General fund and other sources	\$ 22,493,524	22,272,633
Civic Center Authority	650,773	650,773
Federal and state grants	530,519	530,519
Donations	123,235	123,235
	<u>\$ 23,798,051</u>	<u>23,577,160</u>

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

Schedule by Function and Activity

June 30, 2004

	Land	Buildings and Improvements	Equipment	Vehicles	Furniture and Fixtures	Totals	
						2004	2003
General							
government	\$1,218,281	239,554	249,423	-	106,284	1,813,542	1,807,774
Public safety	-	867,910	757,660	656,193	49,266	2,331,029	2,328,443
Public works	79,000	273,235	306,789	676,953	16,169	1,352,146	1,263,590
Recreation	305,000	2,392,082	244,203	56,094	12,493	3,009,872	3,001,213
Community development	-	-	21,690	52,282	9,517	83,489	82,253
	<u>\$1,602,281</u>	<u>3,772,781</u>	<u>1,579,765</u>	<u>1,441,522</u>	<u>193,729</u>	8,590,078	8,483,273
Land rights related to streets						5,104,472	5,104,472
Infrastructure						10,103,501	9,989,415
Totals						<u>\$23,798,051</u>	<u>23,577,160</u>

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

Schedule of Changes by Function

Year ended June 30, 2004

	<u>Balance at July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2004</u>
General government	\$ 1,807,774	5,768	-	1,813,542
Public safety	2,328,443	2,586	-	2,331,029
Public works	1,263,590	123,728	(35,172)	1,352,146
Recreation	3,001,213	8,659	-	3,009,872
Community development	82,253	1,236	-	83,489
	<u>8,483,273</u>	<u>141,977</u>	<u>(35,172)</u>	<u>8,590,078</u>
Land rights related to streets	5,104,472	-	-	5,104,472
Infrastructure	<u>9,989,415</u>	<u>123,931</u>	<u>(9,845)</u>	<u>10,103,501</u>
Totals	<u><u>\$ 23,577,160</u></u>	<u><u>265,908</u></u>	<u><u>(45,017)</u></u>	<u><u>23,798,051</u></u>

STATISTICAL
SECTION



CITY OF LA PALMA

General Governmental Revenues and Expenditures
by Source and Function (1)

Last Ten Fiscal Years

Revenues:	2004	2003	2002	2001
Taxes and assessments	\$ 9,603,741	\$ 7,766,905	\$ 7,990,144	\$ 7,928,915
Licenses and permits	247,974	268,441	226,618	223,556
Intergovernmental revenue	1,489,853	1,747,794	1,681,431	1,906,145
Charges for services	480,289	447,673	416,163	417,670
Fines and forfeitures	146,619	164,329	173,375	158,922
Investment income	721,190	688,933	848,756	1,318,721
Rental income	145,556	148,219	257,470	36,832
Miscellaneous	370,319	592,006	341,082	487,780
Total Revenues	\$ 13,205,541	\$ 11,824,300	\$ 11,935,039	\$ 12,478,541

Expenditures:	2004	2003	2002	2001
General government	\$ 1,909,436	\$ 1,500,769	\$ 1,548,135	\$ 1,677,366
Public safety	4,002,515	3,915,915	3,859,866	3,730,790
Public works	811,906	1,085,032	733,028	746,615
Recreation	1,131,298	1,137,569	-	-
Community development	946,502	2,339,821	1,865,003	1,643,999
Loss on litigation claim	-	-	-	-
Payments to other agencies	229,722	254,568	175,464	191,241
Capital outlay	973,863	1,214,791	1,816,810	1,165,202
Debt service	1,233,252	1,121,984	2,278,980	1,406,344
Total Expenditures	\$ 11,238,494	\$ 12,570,449	\$ 12,277,286	\$ 10,561,557

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

Source: City Finance Department

2000	1999	1998	1997	1996	1995
\$ 7,142,913	\$ 6,704,952	\$6,276,527	\$ 5,645,091	\$5,300,781	\$ 4,793,574
237,631	225,096	305,016	117,005	130,863	147,626
1,490,200	1,531,033	1,399,329	1,364,095	1,376,573	1,319,574
408,602	378,288	503,585	1,690,499	1,779,393	1,567,581
195,618	139,357	66,853	71,031	22,195	23,131
1,147,400	1,034,786	771,277	994,369	891,704	709,883
48,073	47,530	33,773	28,107	13,540	17,793
110,095	300,160	164,139	172,262	215,243	188,966
<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>\$ 8,768,128</u>

2000	1999	1998	1997	1996	1995
\$ 1,655,420	\$ 1,184,060	\$ 969,834	\$ 925,248	\$1,344,137	\$ 1,199,776
3,595,537	3,387,223	3,368,348	3,040,463	2,812,797	2,692,243
796,478	1,090,235	1,214,267	2,294,248	2,078,519	2,209,559
-	-	-	-	-	-
2,219,238	1,406,926	1,175,296	1,452,833	1,192,251	2,236,860
149,061	-	-	-	-	-
237,527	208,101	120,313	135,281	119,190	390,871
2,964,685	1,136,135	857,538	532,967	324,938	185,639
2,332,690	1,340,211	1,265,738	1,494,819	1,568,809	1,566,609
<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>	<u>\$ 10,481,557</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>
1995	\$ 914,519	\$ 914,519 (3)
1996	915,309	915,309
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

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

<u>Fiscal Year</u>	<u>Secured Value</u>	<u>Public Utility</u>	<u>Unsecured Value</u>	<u>Total Assessed Value</u>	<u>% Change</u>
1995	\$ 820,676,140	\$ 58,957	\$ 52,702,338	\$ 873,437,435	-2.5%
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%

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>
1995	0.0000	1.0000	0.0001	0.0007	0.0089	1.0097
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

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, 2004

Property Owner's Name	Assessed Valuation of Property	Number of Taxable Parcels	Percentage of Market Value
1. Arden Realty Finance IV LLC	\$ 87,399,955	11	6.80%
2. Steadfast Mc Cord CLP	24,053,108	1	1.87%
3. ADP Inc.	19,581,736	4	1.52%
4. La Palma Paper Limited Partnership	17,486,882	1	1.36%
5. Anaheim Union High School District	13,597,308	5	1.06%
6. Fresca Industrial Park Limited Partnership	12,946,737	1	1.01%
7. Huntington-Humboldt	12,143,806	1	0.94%
8. Casa La Veta Associates	11,470,678	1	0.89%
9. La Quinta Development Partners	10,340,715	1	0.80%
10. Wallace Computer Services	10,150,790	1	0.79%
	\$ 219,171,715		17.04%

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
1995	15,781	\$ 873,437,435	\$11,090,000	\$ 805,062	\$ 10,284,938	1.18	\$ 651.73
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

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Expenditures (1)</u>	<u>Ratio of Debt Service to Total General Expenditures</u>
1994/95	170,000	735,203	\$905,203	10,481,557	0.086361454
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

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, 2004

Assessed value:	<u>\$ 1,222,750,037</u>
Debt limit: 15% of assessed value	\$ 183,412,506
Total amount of debt applicable to debt limit	<u>-</u>
Legal debt margin	<u>\$ 183,412,506</u>

Source: City Finance Department

CITY OF LA PALMA

Water Revenue Bonds and Sewer Bonds Coverage

Last Ten Fiscal Years

WATER:

Fiscal Year	Gross Revenue (1)	Direct Operating Expense (2)	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage
1995	\$ 1,831,961	\$ 995,777	\$ 836,184	\$ 55,000	\$ 4,800	\$ 59,800	13.98
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

SEWER:

Fiscal Year	Gross Revenue	Direct Operating Expense (1)	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage
1995	\$ 225,334	\$ 37,404	\$ 187,930	\$ 30,000	\$ 1,170	\$ 31,170	6.03
1996	258,418	34,483	223,935	-	-	-	N/A
1997	237,841	51,859	185,982	-	-	-	N/A
1998	183,600	27,553	156,047	-	-	-	N/A
1999	225,934	31,943	193,991	-	-	-	N/A
2000	238,308	42,463	195,845	-	-	-	N/A
2001	242,146	35,291	206,855	-	-	-	N/A
2002	209,255	53,351	155,904	-	-	-	N/A
2003	319,097	80,552	238,545	-	-	-	N/A
2004	403,026	78,645	324,381	-	-	-	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, 2004

2003-04 Assessed Valuation: \$1,009,416,892 (after deducting \$213,235,957 redevelopment incremental valuation)

<u>Direct and Overlapping Tax and Assessment Debt:</u>	<u>% Applicable</u>	<u>Debt 6/30/04</u>
Orange County Teeter Plan Obligations	0.389	\$ 484,013
Metropolitan Water District	0.083	371,404
North Orange County Joint Community College District	1.776	4,223,932
Anaheim Union High School District	3.571	4,189,996
Fullerton Joint Union High School District	1.534	557,193
Buena Park School District	8.002	1,048,661
Centralia School District	19.412	2,329,438
City of La Palma	100.000	-
Total Direct and Overlapping Tax and Assessment Debt		\$ 13,204,637
 <u>Overlapping General Fund Obligation Debt:</u>		
Orange County General Fund Obligations	0.389	3,603,381
Orange County Pension Obligations	0.389	454,245
Orange County Board of Education Certificates of Participation	0.389	77,606
Orange County Transit District Authority	0.389	19,217
Municipal Water District of Orange County Water Facilities Corporation	0.466	194,392
Orange County Sanitation District Certificates of Participation	0.580	866,897
Anaheim Union High School District Certificates of Participation	3.571	944,351
Fullerton Joint Union High School District Certificates of Participation	1.534	74,016
Centralia School District Certificates of Participation	19.412	764,833
Orange County Fire Authority General Fund Obligations	0.972	219,235
Total Gross Overlapping General Fund Obligation Debt		\$ 7,218,173
Less: Orange County Transit Authority (80% self-supporting)		15,373
MWDOC Water Facilities Corporation		194,392
Total Net Overlapping General Fund Obligation Debt		\$ 7,008,408
Gross Combined Total Debt		\$ 20,422,810 (1)
Net Combined Total Debt		\$ 20,213,045

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

Ratios to 2003-04 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	1.08%

Ratios to Adjusted Assessed Valuation:

Gross Combined Total Debt	2.02%
Net Combined Total Debt	2.00%

State School Building Aid Repayable as of 6/30/04: \$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>
1995	297	-18.6%	\$3,988,844	-14.8%
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%

Source: City Building Department

CITY OF LA PALMA

Miscellaneous Statistics

June 30, 2004

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	30
Electrical utility	Southern California Edison Company
Gas utility	Southern California Gas Company
Telephone	Pacific Bell and GTE

Source: City Finance Department

