



**CITY OF LA PALMA, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2003**



**CITY OF LA PALMA,
CALIFORNIA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

YEAR ENDED JUNE 30, 2003

**Prepared By
Finance Department**

**Robbeyn Bird, CPA
Director of Finance**



CITY OF LA PALMA
Comprehensive Annual Financial Report
Year ended June 30, 2003

TABLE OF CONTENTS

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

CITY OF LA PALMA
Comprehensive Annual Financial Report
Year ended June 30, 2003

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Required Supplementary Information: | |
| Notes to Required Supplementary Information | 72 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual: | |
| General Fund | 74 |
| Low/Moderate Income Housing Fund | 75 |
| Supplementary Schedules: | |
| Nonmajor Special Revenue Funds: | |
| Combining Balance Sheet | 78 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances | 80 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual: | |
| Asset Seizure | 82 |
| Streets | 83 |
| Measure M | 84 |
| Traffic Congestion Relief | 85 |
| Park Development | 86 |
| Air Quality Improvement | 87 |
| Supplemental Law Enforcement Service | 88 |
| Public Safety Augmentation | 89 |
| Abandoned Vehicles | 90 |
| Local Law Enforcement Block Grant | 91 |
| CA Law Enforcement Equipment Program | 92 |
| Urban Park Grant Fund | 93 |
| Major Debt Service Fund: | |
| Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual: | |
| CDC Debt Service Fund | 96 |
| Internal Service Funds: | |
| Combining Statement of Net Assets | 98 |
| Combining Statement of Revenues, Expenses and Changes in Fund Net Assets | 99 |
| Combining Statement of Cash Flows | 100 |
| Agency Funds: | |
| Combining Statement of Fiduciary Assets and Liabilities | 102 |
| Combining Statement of Changes in Fiduciary Assets and Liabilities | 103 |

CITY OF LA PALMA
Comprehensive Annual Financial Report
Year ended June 30, 2003

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| Capital Assets Used in the Operation of Governmental Funds: | |
| Comparative Schedules by Source | 104 |
| Schedule by Function and Activity | 105 |
| Schedule of Changes by Function and Activity | 106 |
| <u>STATISTICAL SECTION (UNAUDITED)</u> | |
| General Governmental Revenues and Expenditures by Source and Function- Last Ten Fiscal Years | 108 |
| Secured Tax Levies, Collections and Delinquencies-Last Ten Fiscal Years | 110 |
| Assessed Value of Taxable Property-Last Ten Fiscal Years | 111 |
| Property Tax Rate-Direct and Overlapping Governments-Last Ten Fiscal Years | 112 |
| Ten Largest Property Tax Payers Within the City Boundaries | 113 |
| Ratio of Net Bonded Debt to Assessed Value and Net Bonded Debt per Capita - Last Ten Fiscal Years | 114 |
| Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Expenditures | 115 |
| Computation of Legal Debt Margin | 116 |
| Water Revenue Bonds and Sewer Bonds Coverage-Last Ten Fiscal Years | 117 |
| Estimated Direct and Overlapping Bonded Debt | 118 |
| Construction Activity-Last Ten Fiscal Years | 119 |
| Miscellaneous Statistics | 120 |



INTRODUCTORY SECTION

Office of the City Manager

October 17, 2003

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, 2003.

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

The City’s financial statements have been audited by 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, 2003, 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, 2003, 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, 2003.

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 this 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 activities 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 City's financial fate is more often than not tied to the world around it and, like other cities have found, it is primarily external events at the state level that shape the City's economic

stability more than decisions it makes on its own. The long-term impact of the State budget crisis on City revenues, and consequently its ability to provide basic services, is in significant jeopardy as of this writing. Communications from State elected officials indicate a continued expectation that "cities make a contribution" to solving the State budget crisis.

The quality of life enjoyed by La Palma residents depends largely on income derived from the City's businesses. La Palma's top ten property tax payers are all large, corporate entities that contribute almost 50 percent of the annual property tax and redevelopment tax increment revenue received by the City and its Community Development Commission. When combined with sales tax, the City's largest revenue source, and the other revenue sources that businesses contribute; such as business license fees, utility users taxes and building and planning fees related to tenant improvements, the business sector is contributing 65% or more of the revenue coming into the General Fund.

La Palma has maintained a prudent approach to expanding services given the fragile nature of its General Fund revenue sources. Prone to fluctuate with the nation's economy, sales tax has steadily grown primarily due to the reliance on fuel and service station sales in La Palma. However, those components of the General Fund, sales tax (30%), property tax (16%) and the Vehicle License Fee (11%) continue to be manipulated by State leaders. Only the Utility Users Tax, which represents 15% of the City's General Fund Budget, is subject to local control. Overwhelmingly ratified by the voters in March 2002, the City feels that the voters spoke in that election that they value the current level of services provided to the community from their local government.

Long-term Financial Planning

At the forefront of financial issues for La Palma, along with all other California cities, is the debacle raised by the Legislature's pending decisions on how to handle the Vehicle License Fee (VLF) backfill. Taken from cities and counties in 1998, with a promise that it would always be replenished using State funds, the outcome of the VLF backfill dominates financial discussions, both short- and long-term.

La Palma has had the ability to invest in a Capital Outlay Reserve for the past five years, specifically with sales tax monies that came from one large company that operates within the jurisdiction. The company generates sales tax revenue which has large variances both due to the nation's economy and local receipt of funds is uncertain due to accounting methods employed by the firm. The Council and City staff have historically felt it was prudent to set-aside this money only for one-time capital expenditures.

With five years of experience, there was some confidence that this money could be used for operating needs and, in the Fiscal Year 2003/2004 Budget; a decision was made to cover some basic operating costs while allowing for continued investment in major capital projects with the remaining funds. As the confidence level in this company rises, additional, but not all, of the revenues could be used for long-term operating needs.

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, 2003 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 Postemployment 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 the 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 19 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 postemployment 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, 2002. This was the 4th 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, 2002. 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



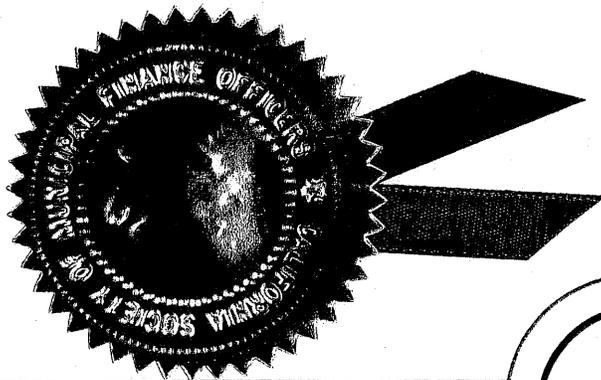
Robbeyn Bird, CPA
Director of Finance

*California Society of
Municipal Finance Officers*

Certificate of Award
Outstanding Financial Reporting 2001-2002

Presented to the

City of La Palma



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

February 24, 2003

Bret M. Plimlee

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, 2002

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



President

Executive Director

City of La Palma

Directory of Officials

June 30, 2003

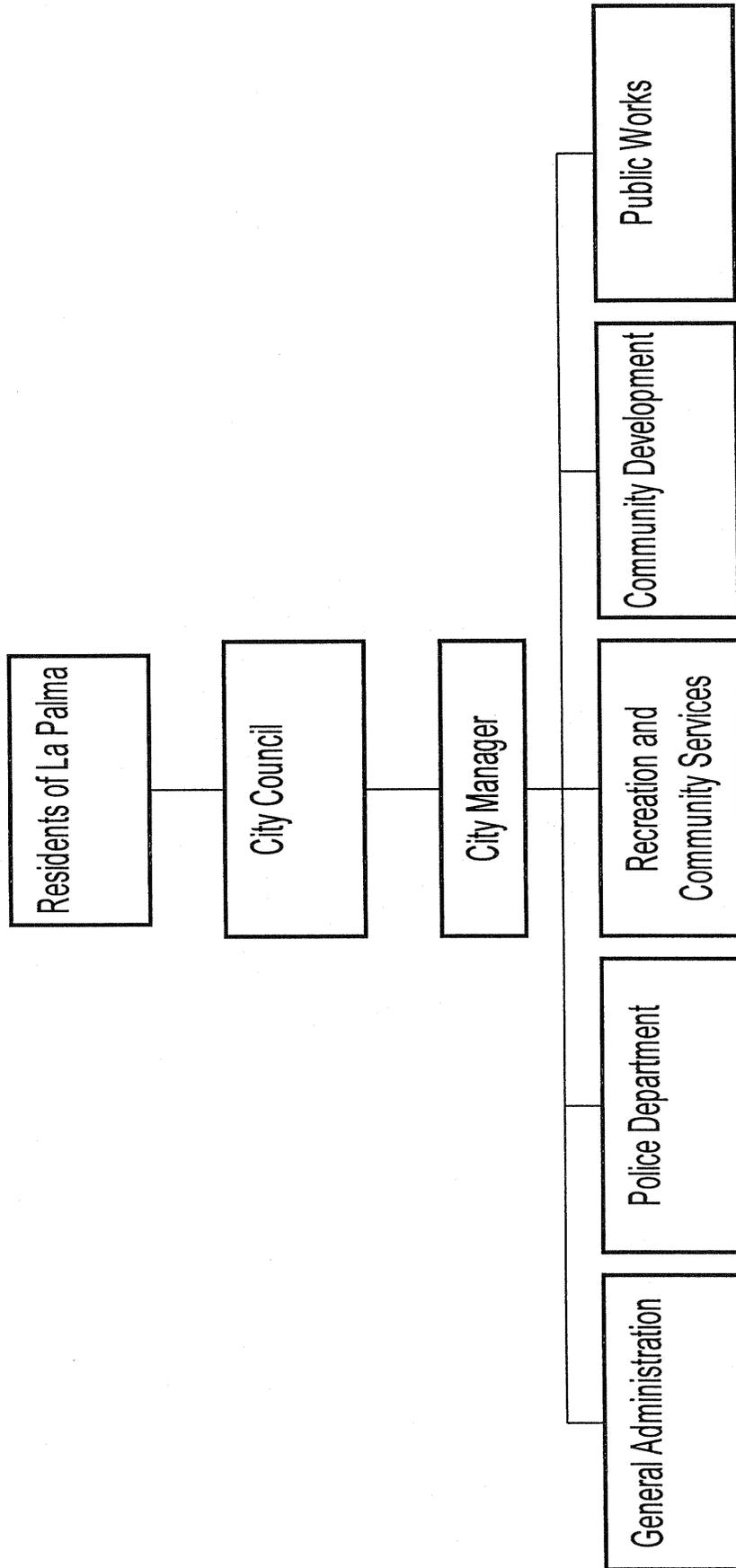
CITY COUNCIL

Christine M. Barnes, Mayor
Alta E. Duke, Mayor Pro Tem
Kenneth A. Blake, 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, 2003, 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 an opinion 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 opinion.

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, 2003, 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.

As discussed further in the notes to the basic financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required as a result of the implementation of GASB Statement No. 34 for the year ended June 30, 2003.

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 an opinion 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 17, 2003 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.

Conrad and Associates, L.L.P.

October 17, 2003

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, 2003. 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* uses 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 provided 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 off 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* follows:

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|---|--------------------------------|---------------------------------|
| Current and other assets | \$21,662,945 | 8,815,056 |
| Capital assets | <u>14,816,200</u> | <u>7,296,965</u> |
| Total assets | <u>36,479,145</u> | <u>16,112,021</u> |
| Other liabilities | 1,265,157 | 296,063 |
| Long-term debt outstanding | <u>10,205,704</u> | <u>-</u> |
| Total liabilities | <u>11,470,861</u> | <u>296,063</u> |
| Net assets: | | |
| Invested in capital assets, net of debt | 14,816,200 | 7,296,965 |
| Restricted | 5,799,782 | - |
| Unrestricted | <u>4,392,302</u> | <u>8,518,993</u> |
| Total net assets | <u>\$25,008,284</u> | <u>15,815,958</u> |

A summary of the government-wide *statement of activities* follows:

Table 2
Changes in Net Assets

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|---|--------------------------------|---------------------------------|
| Revenues | | |
| Program revenues: | | |
| Charges for services | \$ 875,562 | 1,890,771 |
| Operating Contributions and Grants | 823,999 | - |
| Capital Contributions and Grants | 312,831 | - |
| General revenues: | | |
| Property taxes | 3,049,918 | - |
| Sales taxes | 2,857,987 | - |
| Utility Users Tax | 1,165,104 | - |
| Motor Vehicle In Lieu Tax | 914,383 | - |
| Other general revenues | <u>1,014,862</u> | <u>265,984</u> |
| Total revenues | <u>\$11,014,646</u> | <u>2,156,755</u> |
| Program expenses | | |
| General government | 1,344,748 | - |
| Public safety | 4,052,154 | - |
| Public works | 1,663,734 | - |
| Recreation | 1,223,252 | - |
| Community development | 2,292,314 | - |
| Interest on long-term debt | 588,396 | - |
| Water | - | 1,761,328 |
| Sewer | - | <u>171,339</u> |
| Total expenses | <u>\$ 11,164,598</u> | <u>1,932,667</u> |
| Excess (deficiency) before special items and transfers | (149,952) | 224,088 |
| Transfers | 445,000 | (445,000) |
| Increase (decrease) in net assets | 295,048 | (220,912) |
| Beginning net assets | <u>24,713,236</u> | <u>16,036,870</u> |
| Ending net assets | <u>\$ 25,008,284</u> | <u>15,815,958</u> |

The City's total revenues, including transfers, for governmental activities were \$11,459,646, while the total cost of all programs and services was \$11,164,598 resulting in an increase in net assets of \$295,048. 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. Net assets of the City's governmental activities increased by a modest 1.2 percent; whereas the net assets of the City's business-type activities decreased by 1.4 percent.

Governmental Activities

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

- Revenues were \$493,542 lower than projected almost entirely attributable to declines in interest rates during the current year.

- Expenditures were \$743,331 lower than budgeted which was a direct result of a concerted effort made by City Management to control expenditures during the fiscal year. The City management was aware that interest income projections were going to be significantly lower than projected and made the necessary adjustments.

Business-Type Activities

During the year ended June 30, 2003, the financial condition of the City's business-type activities deteriorated as indicated by the decrease in business-type net assets in the amount of \$220,912.

The City's business-type activities total revenues were \$2,156,755 while the total cost of providing these services, including transfers, was \$2,377,667 resulting in a decrease in net assets of \$220,912. This was largely due to the fact that the City has not increased the rates for the water and sewer service in six years. However, the costs that the City incurs to provide those services continues to rise. Therefore, beginning in fiscal year 2003-04 the City found it necessary to increase water and sewer rates to ensure that the costs to provide the service are not more than the revenue collected from its customers.

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 \$5,562,220, while total fund balance reached \$9,132,527. 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 76 percent of total general fund expenditures, while total fund balance represents 125 percent of that same amount.

The reasons for significant changes in expenditures of the City's' General Fund from the prior year resulted from a City-wide reduction of 1.8 percent for all departments.

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 \$1,609,260. The net increase in fund balance during the current year was \$205,300.

The reasons for significant changes in the revenues and expenditures of the City's Low and Moderate Income Housing Fund from the prior year are as follows:

- Tax increment increased by approximately \$144,000.
- Interest expense decreased by approximately \$66,000 due to refunding the 1991 Tax Allocation Bonds in the previous year.

The **CDC Debt Service Fund** has a negative fund balance of \$470,951. The net decrease in fund balance during the current year in the debt service fund was \$1,068,727.

The reasons for significant changes in the revenues and expenditures of the CDC's Debt Service Fund from the prior year are as follows:

- Tax increment increased during the year by approximately \$65,000.
- Interest income decreased by approximately \$6,000 due to the decline in interest rates during the year.

The **CDC Projects Fund** has a fund balance of \$2,112,869. The net decrease in fund balance during the year was \$42,306.

The main reason for this decrease was due to declines in the interest rates which resulted in approximately \$50,000 less in interest income for the current year.

The **Capital Outlay Reserve Fund** has a fund balance of \$4,538,673. The net increase in fund balance during the year was \$451,710. The reason for the net increase in this fund was as follows:

- Revenues for the current year were \$1,270,369; whereas expenditures were \$818,659. These expenditures were for various capital projects approved by the City Council as part of the Fiscal Year 2002-03 budget including median enhancement, street enhancement, and the design of the Community Activities Center.

Major Enterprise Funds. Unrestricted net assets of the **Water Fund** at the end of the year amounted to \$4,798,761 and those for the **Sewer Fund** amounted to \$3,720,232. The total decline in growth in net assets for both funds was \$220,912. 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

There were no differences between the original budget and the final budget of the General Fund.

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 \$273,375.
- Public Safety expenditures were under budget by \$103,171.
- Public Works expenditures were under budget by \$86,326.
- Recreation expenditures were under budget by \$111,481.
- Community Development expenditures were under budget by \$53,779.

In all cases, the amounts that each department was under budget was due to the uncertainty of continued funding from the State for various revenues and City Management made a concerted effort to only expend funds for essential goods and services.

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 | \$ 1,602,281 | 754,000 | 2,356,281 |
| Land rights related to streets | 5,104,472 | - | 5,104,472 |
| Buildings and improvements | 2,211,437 | 2,939,828 | 5,151,265 |
| Equipment | 760,190 | 134,987 | 895,177 |
| Vehicles | 551,511 | - | 551,511 |
| Furniture & Fixtures | 71,759 | - | 71,759 |
| Infrastructure | <u>4,514,550</u> | <u>3,468,150</u> | <u>7,982,700</u> |
| Total | <u>\$14,816,200</u> | <u>7,296,965</u> | <u>22,113,165</u> |

The major additions to capital assets during the year ended June 30, 2003 were as follows:

- The City purchased an emergency mobile command center for approximately \$165,000.
- Emergency replacement of the walker well engine was necessary in the amount of \$89,000.
- 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 \$9,710,000. The City's debt represents bonds secured solely by specified revenue sources (e.g., revenue bonds).

Outstanding Debt

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|------------------------------|------------------------------------|-------------------------------------|--------------|
| Tax Allocation Revenue Bonds | \$9,710,000 | - | 9,710,000 |

The City's total debt decreased by \$320,000 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, 2003

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|-------------------|
| Assets: | | | |
| Cash and investments (note 3) | \$ 15,424,606 | 7,354,650 | 22,779,256 |
| Cash and investments with fiscal agent (note 3) | 873,188 | - | 873,188 |
| Receivables: | | | |
| Taxes | 223,082 | - | 223,082 |
| Accounts | 29,025 | 409,537 | 438,562 |
| Interest | 47,031 | 50,869 | 97,900 |
| Loans (note 6) | 5,335,697 | - | 5,335,697 |
| Internal balances | (1,000,000) | 1,000,000 | - |
| Due from other governments | 717,324 | - | 717,324 |
| Prepaid items | 12,992 | - | 12,992 |
| Capital assets (note 8): | | | |
| Capital assets, not being depreciated | 6,706,753 | 754,000 | 7,460,753 |
| Capital assets being depreciated, net of accumulated depreciation | 8,109,447 | 6,542,965 | 14,652,412 |
| Total assets | 36,479,145 | 16,112,021 | 52,591,166 |
| Liabilities: | | | |
| Accounts payable | 354,020 | 279,877 | 633,897 |
| Other accrued liabilities (note 7) | 122,520 | 16,186 | 138,706 |
| Interest payable | 44,282 | - | 44,282 |
| Deferred revenue | 173,488 | - | 173,488 |
| Due to other governmental agencies (note 12) | 570,847 | - | 570,847 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| Compensated absences (note 9) | 40,977 | - | 40,977 |
| Tax allocation bonds (notes 9, 10 and 11) | 330,000 | - | 330,000 |
| Portion due beyond one year: | | | |
| Compensated absences (note 9) | 454,727 | - | 454,727 |
| Tax allocation bonds (notes 9, 10 and 11) | 9,380,000 | - | 9,380,000 |
| Total liabilities | 11,470,861 | 296,063 | 11,766,924 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 14,816,200 | 7,296,965 | 22,113,165 |
| Restricted for: | | | |
| Low and moderate income housing | 1,966,633 | - | 1,966,633 |
| Debt service | 873,188 | - | 873,188 |
| Specific projects and programs | 847,092 | - | 847,092 |
| Capital projects | 2,112,869 | - | 2,112,869 |
| Unrestricted | 4,392,302 | 8,518,993 | 12,911,295 |
| Total net assets | \$ 25,008,284 | 15,815,958 | 40,824,242 |

See accompanying notes to the basic financial statements.

CITY OF LA PALMA
Statement of Activities
Year ended June 30, 2003

| <u>Functions/Programs</u> | Program Revenues | | | |
|--------------------------------|-------------------|-------------------------|--|--|
| | Expenses | Charges for Services | Operating Contributions and Grants | Capital Contributions and Grants |
| Governmental activities: | | | | |
| General government | \$ 1,344,748 | 154,620 | 1,898 | - |
| Public safety | 4,052,154 | 184,865 | 263,534 | 20,728 |
| Public works | 1,663,734 | 14,299 | 558,567 | 279,123 |
| Recreation | 1,223,252 | 341,865 | - | - |
| Community development | 2,292,314 | 179,913 | - | 12,980 |
| Interest on long-term debt | 588,396 | - | - | - |
| Total governmental activities | 11,164,598 | 875,562 | 823,999 | 312,831 |
| Business-type activities: | | | | |
| Water | 1,761,328 | 1,687,091 | - | - |
| Sewer | 171,339 | 203,680 | - | - |
| Total business-type activities | 1,932,667 | 1,890,771 | - | - |
| Total | \$ 13,097,265 | 2,766,333 | 823,999 | 312,831 |

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 5)

 Total general revenues and transfers

 Change in net assets

Net assets at beginning of year, as restated

Net assets at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

| <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|--------------------|
| (1,188,230) | - | (1,188,230) |
| (3,583,027) | - | (3,583,027) |
| (811,745) | - | (811,745) |
| (881,387) | - | (881,387) |
| (2,099,421) | - | (2,099,421) |
| (588,396) | - | (588,396) |
| <u>(9,152,206)</u> | <u>-</u> | <u>(9,152,206)</u> |
| - | (74,237) | (74,237) |
| - | 32,341 | 32,341 |
| <u>-</u> | <u>(41,896)</u> | <u>(41,896)</u> |
| <u>(9,152,206)</u> | <u>(41,896)</u> | <u>(9,194,102)</u> |
| 3,049,918 | - | 3,049,918 |
| 2,857,987 | - | 2,857,987 |
| 1,165,104 | - | 1,165,104 |
| 296,180 | - | 296,180 |
| 143,148 | - | 143,148 |
| 914,383 | - | 914,383 |
| 444 | - | 444 |
| 474,346 | 261,945 | 736,291 |
| 1,617 | - | 1,617 |
| 99,127 | 4,039 | 103,166 |
| 445,000 | (445,000) | - |
| <u>9,447,254</u> | <u>(179,016)</u> | <u>9,268,238</u> |
| 295,048 | (220,912) | 74,136 |
| <u>24,713,236</u> | <u>16,036,870</u> | <u>40,750,106</u> |
| <u>\$ 25,008,284</u> | <u>15,815,958</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, 2003

| | General Fund | Special Revenue Low/Moderate Income Housing | Debt Service CDC Debt Service Fund |
|--|---------------------|---|--|
| <u>Assets</u> | | | |
| Cash and investments | \$ 4,760,314 | 1,712,596 | 607,166 |
| Cash and investments with fiscal agent | - | - | 873,188 |
| Receivables: | | | |
| Taxes | 252,107 } 223,082 | - | - |
| Accounts | 29,025 | - | - |
| Interest | 21,209 | 7,117 | 2,838 |
| Loans | - | 5,312,451 | - |
| Due from other funds (note 4) | 320,618 | - | - |
| Due from other governments | 573,412 | 2,549 | 10,196 |
| Prepaid items | 12,992 | - | - |
| Advances to other funds (note 4) <i>Unreserved, SR Housing, Loan</i> | 3,557,315 | - | - |
| Total assets | \$ 9,497,967 | 7,034,713 | 1,493,388 |
| <u>Liabilities and Fund Balances</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ 222,578 | 310 | 53,496 |
| Other accrued liabilities | 86,814 | 680 | - |
| Due to other funds (note 4) | - | 276,775 | 43,843 |
| Deferred revenue | 56,048 | 357,373 | - |
| Advances from other funds (note 4) | - | 4,790,315 | 1,867,000 |
| Total liabilities | 365,440 | 5,425,453 | 1,964,339 |
| Fund balances (deficit): | | | |
| Reserved for: | | | |
| Advances to other funds | 3,557,315 | - | - |
| Debt service | - | - | - |
| Prepaid items | 12,992 | - | - |
| Loans receivable | - | 4,955,078 | - |
| Unreserved, reported in: | | | |
| General fund | 5,562,220 | - | - |
| Special revenue funds | - | (3,345,818) | - |
| Debt service fund | - | - | (470,951) |
| Capital projects funds | - | - | - |
| Total fund balances | 9,132,527 | 1,609,260 | (470,951) |
| Total liabilities and fund balances | \$ 9,497,967 | 7,034,713 | 1,493,388 |

See accompanying notes to the basic financial statements.

| Capital Projects | | Nonmajor Governmental Funds | Totals | |
|------------------|------------------------------|-----------------------------------|-------------------|-------------------|
| CDC Projects | Capital Outlay Reserve | | 2003 | 2002 |
| | | | 2,104,830 | 4,050,737 |
| - | - | - | 873,188 | 879,956 |
| - | - | - | 223,082 | 228,208 |
| - | - | - | 29,025 | 66,439 |
| 9,205 | - | 6,662 | 47,031 | 83,201 |
| - | - | - | 5,312,451 | 5,326,038 |
| - | - | - | 320,618 | 747,341 |
| - | 30,874 | 100,293 | 717,324 | 776,654 |
| - | - | - | 12,992 | 14,788 |
| - | 500,000 | - | 4,057,315 | 2,648,376 |
| <u>2,114,035</u> | <u>4,581,611</u> | <u>1,011,352</u> | <u>25,733,066</u> | <u>25,134,103</u> |
| 486 | 18,250 | 39,848 | 334,968 | 507,689 |
| 680 | 24,688 | 6,972 | 119,834 | 159,831 |
| - | - | - | 320,618 | 747,341 |
| - | - | 117,440 | 530,861 | 400,247 |
| - | - | - | 6,657,315 | 4,871,376 |
| <u>1,166</u> | <u>42,938</u> | <u>164,260</u> | <u>7,963,596</u> | <u>6,686,484</u> |
| - | 500,000 | - | 4,057,315 | 2,648,376 |
| - | - | - | - | 974,776 |
| - | - | - | 12,992 | 14,788 |
| - | - | - | 4,955,078 | 5,016,038 |
| - | - | - | 5,562,220 | 6,642,524 |
| - | - | 847,092 | (2,498,726) | (2,591,021) |
| - | - | - | (470,951) | - |
| <u>2,112,869</u> | <u>4,038,673</u> | <u>-</u> | <u>6,151,542</u> | <u>5,742,138</u> |
| <u>2,112,869</u> | <u>4,538,673</u> | <u>847,092</u> | <u>17,769,470</u> | <u>18,447,619</u> |
| <u>2,114,035</u> | <u>4,581,611</u> | <u>1,011,352</u> | <u>25,733,066</u> | <u>25,134,103</u> |

CITY OF LA PALMA

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Assets

June 30, 2003

Fund balances of governmental funds \$ 17,769,470

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

Capital assets net of depreciation have not been included
as financial resources in governmental fund activity.

| | |
|--------------------------|-------------|
| Capital assets | 23,577,160 |
| Accumulated depreciation | (8,760,960) |

Long-term liabilities applicable to the City's governmental activities
are not due and payable in the current period and, accordingly, are not
reported as governmental fund liabilities. All liabilities (both current and
long-term) are reported in the Statement of Net Assets.

| | |
|----------------------|-------------|
| Compensated absences | (495,704) |
| Tax allocation bonds | (9,710,000) |

Accrued interest payable for the current portion of interest due on long-term
liabilities has not been reported in the governmental funds.

| | |
|---|----------|
| Accrued interest - tax allocation bonds | (44,282) |
|---|----------|

Deferred revenue balances relating to certain loans receivable are not
reported as liabilities in the Statement of Net Assets since recognition is not
based upon measurable and available criteria.

| | |
|---|---------|
| Deferred revenue - low and moderate income housing loans | 310,000 |
| Deferred revenue - senior citizens affordable rental housing loan | 47,373 |

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.

| | |
|---------------------------------------|----------------------|
| Cash and investments | 1,284,566 |
| Loans receivable | 23,246 |
| Advances to other funds | 1,600,000 |
| Accounts payable | (19,052) |
| Other accrued liabilities | (2,686) |
| Due to other governmental agencies | (570,847) |
| Net assets of governmental activities | <u>\$ 25,008,284</u> |

See accompanying notes to the basic financial statements.



CITY OF LA PALMA
Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2003

| | General Fund | Special Revenue Low/Moderate Income Housing | Debt Service CDC Debt Service Fund |
|---|---------------------|---|--|
| Revenues: | | | |
| Taxes | \$ 4,571,604 | 399,060 | 1,596,241 |
| Intergovernmental | 925,172 | - | - |
| Licenses and permits | 268,441 | - | - |
| Fines and forfeitures | 164,329 | - | - |
| Investment income | 335,869 | 247,771 | 21,364 |
| Charges for services | 439,062 | - | - |
| Rental income | 148,219 | - | - |
| Miscellaneous | 305,762 | 5,000 | - |
| Total revenues | <u>7,158,458</u> | <u>651,831</u> | <u>1,617,605</u> |
| Expenditures: | | | |
| Current: | | | |
| General government | 1,471,025 | - | 29,744 |
| Public safety | 3,631,629 | - | - |
| Public works | 508,674 | - | - |
| Recreation | 1,137,569 | - | - |
| Community development | 420,421 | 226,567 | - |
| Capital outlay | 159,301 | - | - |
| Debt service: | | | |
| Principal | - | - | 320,000 |
| Interest | - | 219,964 | 582,020 |
| Refunding bond issuance costs | - | - | - |
| Advance refunding escrow | - | - | - |
| Pass-through payments | - | - | 178,101 |
| Payment to state education fund | - | - | 76,467 |
| Total expenditures | <u>7,328,619</u> | <u>446,531</u> | <u>1,186,332</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(170,161)</u> | <u>205,300</u> | <u>431,273</u> |
| Other financing sources (uses): | | | |
| Transfers in (note 5) | 497,000 | - | - |
| Transfers out (note 5) | - | - | (1,500,000) |
| Proceeds of refunding bonds, net | - | - | - |
| Proceeds of advances | - | - | - |
| Payment to refunded bond escrow agent | - | - | - |
| Total other financing sources (uses) | <u>497,000</u> | <u>-</u> | <u>(1,500,000)</u> |
| Net changes in fund balances | 326,839 | 205,300 | (1,068,727) |
| Fund balances at beginning of year, as restated (note 22) | 8,805,688 | 1,403,960 | 597,776 |
| Fund balances (deficit) at end of year | <u>\$ 9,132,527</u> | <u>1,609,260</u> | <u>(470,951)</u> |

See accompanying notes to the basic financial statements.

| CDC Projects | Capital Projects | Nonmajor Governmental Funds | Totals | |
|--------------------|------------------------------|-----------------------------------|-------------------|-------------------|
| | Capital Outlay Reserve | | 2003 | 2002 |
| | | | | |
| - | 1,200,000 | - | 7,766,905 | 7,990,144 |
| - | - | 822,622 | 1,747,794 | 1,681,431 |
| - | - | - | 268,441 | 226,618 |
| - | - | - | 164,329 | 173,375 |
| 58,124 | 1,229 | 24,576 | 688,933 | 848,756 |
| - | - | 8,611 | 447,673 | 416,163 |
| - | - | - | 148,219 | 257,470 |
| 209,983 | 69,140 | 2,121 | 592,006 | 341,082 |
| <u>268,107</u> | <u>1,270,369</u> | <u>857,930</u> | <u>11,824,300</u> | <u>11,935,039</u> |
| - | - | - | 1,500,769 | 1,548,135 |
| - | - | 284,286 | 3,915,915 | 3,859,866 |
| - | 362,333 | 214,025 | 1,085,032 | 733,028 |
| - | - | - | 1,137,569 | - |
| 1,692,833 | - | - | 2,339,821 | 1,865,003 |
| 117,580 | 456,326 | 481,584 | 1,214,791 | 1,816,810 |
| - | - | - | 320,000 | 460,792 |
| - | - | - | 801,984 | 931,825 |
| - | - | - | - | 222,179 |
| - | - | - | - | 664,184 |
| - | - | - | 178,101 | 175,464 |
| - | - | - | 76,467 | - |
| <u>1,810,413</u> | <u>818,659</u> | <u>979,895</u> | <u>12,570,449</u> | <u>12,277,286</u> |
| <u>(1,542,306)</u> | <u>451,710</u> | <u>(121,965)</u> | <u>(746,149)</u> | <u>(342,247)</u> |
| 1,500,000 | - | - | 1,997,000 | 362,500 |
| - | - | (52,000) | (1,552,000) | (19,200) |
| - | - | - | - | 6,035,897 |
| - | - | - | - | 10,000 |
| - | - | - | - | (5,331,714) |
| <u>1,500,000</u> | <u>-</u> | <u>(52,000)</u> | <u>445,000</u> | <u>1,057,483</u> |
| (42,306) | 451,710 | (173,965) | (301,149) | 715,236 |
| 2,155,175 | 4,086,963 | 1,021,057 | 18,070,619 | 17,732,383 |
| <u>2,112,869</u> | <u>4,538,673</u> | <u>847,092</u> | <u>17,769,470</u> | <u>18,447,619</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, 2003

| | |
|--|-------------------|
| Net change in fund balances - total governmental funds | \$ (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 | 788,993 |
| Depreciation expense | (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 | (68,592) |
| Accumulated depreciation on deleted capital assets | 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 | 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. | |
| | 1,078 |
| 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 | (28,454) |
| Compensated absences - current year retirements | 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. | |
| | 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. | |
| | 64,129 |
| Changes in net assets of governmental activities | <u>\$ 295,048</u> |

See accompanying notes to the basic financial statements.

PROPRIETARY FUNDS

ENTERPRISE FUNDS

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

Water – To account for revenues and expenses of the operations for the City's water utility. All activities necessary to provide this service are accounted for in this fund, including administration, operations, maintenance, 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, 2003

| | Business-type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Funds | Totals | |
|---|--|------------------|-------------------|--|-------------------|-------------------|
| | Water | Sewer | Total | | 2003 | 2002 |
| Assets: | | | | | | |
| Current assets: | | | | | | |
| Cash and investments | \$ 4,199,521 | 3,155,129 | 7,354,650 | 1,284,566 | 8,639,216 | 8,651,204 |
| Receivables: | | | | | | |
| Accounts | 365,285 | 44,252 | 409,537 | - | 409,537 | 495,158 |
| Interest | 29,056 | 21,813 | 50,869 | - | 50,869 | 73,826 |
| Loans | - | - | - | 23,246 | 23,246 | 22,674 |
| Total current assets | <u>4,593,862</u> | <u>3,221,194</u> | <u>7,815,056</u> | <u>1,307,812</u> | <u>9,122,868</u> | <u>9,242,862</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 | 4,247,789 | 2,295,176 | 6,542,965 | - | 6,542,965 | 3,151,996 |
| Advances to other funds (note 4) | 500,000 | 500,000 | 1,000,000 | 1,600,000 | 2,600,000 | 2,600,000 |
| Total noncurrent assets | <u>5,501,789</u> | <u>2,795,176</u> | <u>8,296,965</u> | <u>1,600,000</u> | <u>9,896,965</u> | <u>6,505,996</u> |
| Total assets | <u>10,095,651</u> | <u>6,016,370</u> | <u>16,112,021</u> | <u>2,907,812</u> | <u>19,019,833</u> | <u>15,748,858</u> |
| Liabilities: | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | 279,502 | 375 | 279,877 | 19,052 | 298,929 | 339,112 |
| Other accrued liabilities | 15,599 | 587 | 16,186 | 2,686 | 18,872 | 33,081 |
| Due to other governmental agencies - current portion | - | - | - | 302,487 | 302,487 | 274,015 |
| Total current liabilities | <u>295,101</u> | <u>962</u> | <u>296,063</u> | <u>324,225</u> | <u>620,288</u> | <u>646,208</u> |
| Noncurrent liabilities: | | | | | | |
| Due to other governmental agencies - noncurrent portion | - | - | - | 268,360 | 268,360 | 363,451 |
| Total liabilities | <u>295,101</u> | <u>962</u> | <u>296,063</u> | <u>592,585</u> | <u>888,648</u> | <u>1,009,659</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 5,001,789 | 2,295,176 | 7,296,965 | - | 7,296,965 | 3,905,996 |
| Unrestricted | 4,798,761 | 3,720,232 | 8,518,993 | 2,315,227 | 10,834,220 | 10,833,203 |
| Total net assets | <u>\$ 9,800,550</u> | <u>6,015,408</u> | <u>15,815,958</u> | <u>2,315,227</u> | <u>18,131,185</u> | <u>14,739,199</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, 2003

| | Business-type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Funds | Totals | |
|--|--|------------------|-------------------|--|-------------------|-------------------|
| | Water | Sewer | Total | | 2003 | 2002 |
| Operating revenues: | | | | | | |
| Charges for services | \$ 1,687,091 | 203,680 | 1,890,771 | 2,417,300 | 4,308,071 | 3,663,904 |
| Miscellaneous | 4,039 | - | 4,039 | 839 | 4,878 | 1,526 |
| Total operating revenues | <u>1,691,130</u> | <u>203,680</u> | <u>1,894,810</u> | <u>2,418,139</u> | <u>4,312,949</u> | <u>3,665,430</u> |
| Operating expenses: | | | | | | |
| Personnel services | 379,231 | 29,113 | 408,344 | 693,767 | 1,102,111 | 1,081,358 |
| Maintenance and operations | 1,109,677 | 20,167 | 1,129,844 | 18,285 | 1,148,129 | 986,358 |
| Contractual services | 31,966 | 21,472 | 53,438 | 13,389 | 66,827 | 89,846 |
| Depreciation | 168,095 | 90,787 | 258,882 | - | 258,882 | 176,898 |
| Settlement, claims and insurance | 70,300 | 9,800 | 80,100 | 1,628,728 | 1,708,828 | 1,293,791 |
| Administration | 2,059 | - | 2,059 | - | 2,059 | 2,808 |
| Total operating expenses | <u>1,761,328</u> | <u>171,339</u> | <u>1,932,667</u> | <u>2,354,169</u> | <u>4,286,836</u> | <u>3,631,059</u> |
| Operating income (loss) | <u>(70,198)</u> | <u>32,341</u> | <u>(37,857)</u> | <u>63,970</u> | <u>26,113</u> | <u>34,371</u> |
| Nonoperating revenues (expenses): | | | | | | |
| Investment income | 146,528 | 115,417 | 261,945 | 159 | 262,104 | 385,550 |
| Total nonoperating revenues (expenses) | <u>146,528</u> | <u>115,417</u> | <u>261,945</u> | <u>159</u> | <u>262,104</u> | <u>385,550</u> |
| Income (loss) before transfers | 76,330 | 147,758 | 224,088 | 64,129 | 288,217 | 419,921 |
| Transfers out (note 5) | (404,800) | (40,200) | (445,000) | - | (445,000) | (343,300) |
| Change in net assets | <u>(328,470)</u> | <u>107,558</u> | <u>(220,912)</u> | <u>64,129</u> | <u>(156,783)</u> | <u>76,621</u> |
| Add depreciation on assets acquired with capital grants | - | - | - | - | - | 81,435 |
| Net assets at beginning of year, as restated (note 22) | <u>10,129,020</u> | <u>5,907,850</u> | <u>16,036,870</u> | <u>2,251,098</u> | <u>18,287,968</u> | <u>11,574,247</u> |
| Net assets at end of year | <u>\$ 9,800,550</u> | <u>6,015,408</u> | <u>15,815,958</u> | <u>2,315,227</u> | <u>18,131,185</u> | <u>11,732,303</u> |

See accompanying notes to the basic financial statements.

CITY OF LA PALMA

Proprietary Funds

Statement of Cash Flows

Year ended June 30, 2003

| | Business-type Activities - Enterprise Funds | |
|---|--|------------------|
| | Water | Sewer |
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 1,763,765 | 212,627 |
| Cash received from user departments | - | - |
| Cash payments to suppliers for goods and services | (1,251,796) | (51,064) |
| Cash payments to employees for services | (370,841) | (28,742) |
| Cash received from (used for) other operating activities | 4,039 | - |
| Net cash provided by (used for) operating activities | <u>145,167</u> | <u>132,821</u> |
| Cash flows from noncapital financing activities: | | |
| Cash paid to other funds | (404,800) | (40,200) |
| Net cash provided by (used for) noncapital financing activities | <u>(404,800)</u> | <u>(40,200)</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (101,082) | - |
| Net cash provided by (used for) capital and related financing activities | <u>(101,082)</u> | <u>-</u> |
| Cash flows from investing activities: | | |
| Interest income received | 161,679 | 123,223 |
| Net cash provided by (used for) investing activities | <u>161,679</u> | <u>123,223</u> |
| Net increase (decrease) in cash and cash equivalents | (199,036) | 215,844 |
| Cash and cash equivalents at beginning of year | 4,398,557 | 2,939,285 |
| Cash and cash equivalents at end of year | <u>\$ 4,199,521</u> | <u>3,155,129</u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | |
| Operating income (loss) | \$ (70,198) | 32,341 |
| Adjustments to reconcile operating income (loss) to net income provided by (used for) operating activities: | | |
| Depreciation | 168,095 | 90,787 |
| (Increase) decrease in accounts receivable | 76,674 | 8,947 |
| (Increase) decrease in loans receivable | - | - |
| Increase (decrease) in accounts payable | (39,853) | 375 |
| Increase (decrease) in other accrued liabilities | 10,449 | 371 |
| Increase (decrease) in due to other governmental agencies | - | - |
| Total adjustments | <u>215,365</u> | <u>100,480</u> |
| Net cash provided by (used for) operating activities | <u>\$ 145,167</u> | <u>132,821</u> |

There were no noncash capital, financing or investing activities for the year ended June 30, 2003.

See accompanying notes to the basic financial statements.

| Governmental Activities - Internal Service | | Totals | |
|---|-------------|-------------|-------------|
| Total | Funds | 2003 | 2002 |
| 1,976,392 | - | 1,976,392 | 2,023,021 |
| - | 2,417,300 | 2,417,300 | 1,672,800 |
| (1,302,860) | (1,736,855) | (3,039,715) | (2,133,937) |
| (399,583) | (709,667) | (1,109,250) | (1,083,933) |
| 4,039 | 267 | 4,306 | (569) |
| 277,988 | (28,955) | 249,033 | 477,382 |
| (445,000) | - | (445,000) | (343,300) |
| (445,000) | - | (445,000) | (343,300) |
| (101,082) | - | (101,082) | (4,746) |
| (101,082) | - | (101,082) | (4,746) |
| 284,902 | 159 | 285,061 | 416,863 |
| 284,902 | 159 | 285,061 | 416,863 |
| 16,808 | (28,796) | (11,988) | 546,199 |
| 7,337,842 | 1,313,362 | 8,651,204 | 8,105,005 |
| 7,354,650 | 1,284,566 | 8,639,216 | 8,651,204 |
| (37,857) | 63,970 | 26,113 | 34,371 |
| 258,882 | - | 258,882 | 176,898 |
| 85,621 | - | 85,621 | 31,917 |
| - | (572) | (572) | (2,095) |
| (39,478) | (5,743) | (45,221) | 2,550 |
| 10,820 | (19,991) | (9,171) | (12,632) |
| - | (66,619) | (66,619) | 246,373 |
| 315,845 | (92,925) | 222,920 | 443,011 |
| 277,988 | (28,955) | 249,033 | 477,382 |



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, 2003

| | Agency Funds | |
|-------------------------------|--------------|--------|
| | 2003 | 2002 |
| <u>Assets</u> | | |
| Cash and investments (note 3) | \$ 23,094 | 22,098 |
| Interest receivable | - | 7 |
| | | |
| Total assets | \$ 23,094 | 22,105 |
| <u>Liabilities</u> | | |
| Liabilities: | | |
| Deposits payable | \$ 23,094 | 22,105 |
| Total liabilities | \$ 23,094 | 22,105 |

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, 2003

(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.

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.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

(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.
- 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.
- Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by Proprietary Fund Types.

The City reports the following major governmental funds:

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

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.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

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.

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.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

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.

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.

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 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.

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.

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)

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.

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.

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)

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.

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.

CITY OF PLACENTIA

Notes to the Basic Financial Statements

(Continued)

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

(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.

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) Comparative Data

Comparative total data for the prior year have been presented in the accompanying fund financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

(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.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(2) Change in Accounting Principle

During the year ended June 30, 2003, the City implemented GASB Statement No. 34, which changed the financial reporting model of local governmental units. As a result, government-wide financial statements presented in accordance with the accrual basis of accounting and the economic resources measurement focus are required as a part of the basic financial statements. In addition, fund financial statements are required to be presented with a focus on the major funds of that local government. Previously, financial reporting for local governments had focused on reporting by fund type.

(3) Cash and Investments

Cash and investments held by the City consist of the following at June 30, 2003:

| | |
|---|----------------------|
| Petty cash | \$ 7,725 |
| Demand deposits | 892,590 |
| Certificates of deposit | 100,000 |
| Local Agency Investment Fund | 21,775,569 |
| Federal agency securities | <u>26,466</u> |
| Total cash and investments held by City | <u>\$ 22,802,350</u> |

Cash and investments held with fiscal agent consist of the following at June 30, 2003:

| | |
|---|-------------------|
| Mutual funds – money market | <u>\$ 873,188</u> |
| Total cash and investments held with fiscal agent | <u>\$ 873,188</u> |

Cash and investments at June 30, 2003 are presented in the accompanying basic financial statements as follows:

| | |
|--|----------------------|
| Statement of Net Assets: | |
| Cash and investments | \$ 22,779,256 |
| Statement of Fiduciary Assets and Liabilities: | |
| Cash and investments | <u>23,094</u> |
| Total cash and investments | <u>\$ 22,802,350</u> |

| | |
|--|-------------------|
| Statement of Net Assets: | |
| Cash and investments with fiscal agent | <u>\$ 873,188</u> |
| Total cash and investments with fiscal agent | <u>\$ 873,188</u> |

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(3) 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 | \$200,000 | 709,362 | - | 909,362 | 892,590 |
| Certificates of deposit | - | 100,000 | - | 100,000 | 100,000 |
| Total deposits | <u>\$200,000</u> | <u>809,362</u> | <u>-</u> | <u>1,009,362</u> | <u>992,590</u> |

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(3) 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 | \$26,466 | - | - | 26,466 |
| | <u>\$26,466</u> | <u>-</u> | <u>-</u> | 26,466 |
| Investments held by City not subject to categorization: | | | | |
| Investment in Local Agency Investment Fund | | | | 21,775,569 |
| Investments held with fiscal agent not subject to categorization: | | | | |
| Mutual funds – money market | | | | <u>873,188</u> |
| Total investments | | | | <u>\$ 22,675,223</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)

(3) 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.

(4) Interfund Receivables and Payables

Current interfund receivables and payables as of June 30, 2003 are as follows:

Due to/from other funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|-----------------------------|------------------|
| General Fund | Low/Moderate Income Housing | \$276,775 |
| General Fund | CDC Debt Service Fund | <u>43,843</u> |
| | | <u>\$320,618</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.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(4) Interfund Receivables and Payables, (Continued)

Long-term interfund receivables and payables at June 30, 2003 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 | \$ 1,690,315 (a) |
| General Fund | CDC Debt Service Fund | <u>1,867,000 (b, c)</u> |
| | | 3,557,315 |
| 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>\$ 6,657,315</u> |

The terms for significant advances between funds reflected above are as follows:

- (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, 2003 is \$4,790,315 and is recorded as an advance from various City funds to the Low/Moderate Income Housing Special Revenue Fund.
- (b) The City Council has authorized loans to the Commission with an outstanding balance totaling \$367,000 at an interest rate of 10%. The loans are repayable to the City as tax increment funds become available to the Commission. The loans are classified as advances from the General Fund to the Commission's Debt Service Fund.
- (c) 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, 2003 is \$1,500,000 and is recorded as an advance from the City's General Fund to the Commission's Debt Service Fund.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(5) Interfund Transfers

Interfund transfers for the year ended June 30, 2003 are as follows:

| <u>Transfers In</u> | <u>Transfers Out</u> | <u>Amount</u> |
|---------------------|-----------------------------|----------------------|
| General Fund | Nonmajor governmental funds | \$ 52,000 (a) |
| General Fund | Water | 404,800 (b) |
| General Fund | Sewer | 40,200 (b) |
| | | <u>497,000</u> |
| CDC Projects | CDC Debt Service Fund | <u>1,500,000 (c)</u> |
| | Total interfund transfers | <u>\$1,997,000</u> |

Purpose of Interfund Transfers

- (a) The General Fund charged various nonmajor governmental funds \$52,000 for building, vehicle and computer maintenance and replacement.
- (b) The General Fund charged the Water and Sewer Funds \$404,800 and \$40,200, respectively, for administrative costs.
- (c) The CDC Debt Service Fund transferred the proceeds of an advance from the General Fund in the amount of \$1,500,000 to the CDC Projects Fund in order to meet an obligation under an owner participation agreement.

(6) Loans Receivable

Loans receivable consists of the following at June 30, 2003:

| | <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 | \$5,002,451 |
| Deferred low and moderate income housing loans | 310,000 |
| Other loans | <u>23,246</u> |
| Total | <u>\$5,335,697</u> |

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(7) Other Accrued Liabilities

Other accrued liabilities was comprised of the following as of June 30, 2003:

| | <u>Salaries Payable</u> | <u>Retentions Payable</u> | <u>Other Accrued Liabilities</u> | <u>Total</u> |
|-----------------------------|-----------------------------|-------------------------------|--------------------------------------|----------------|
| General Fund | \$ 85,253 | - | 1,561 | 86,814 |
| Low/Moderate Income Housing | 680 | - | - | 680 |
| CDC Projects | 680 | - | - | 680 |
| Capital Outlay Reserve | - | 24,688 | - | 24,688 |
| Water | 7,548 | 8,051 | - | 15,599 |
| Sewer | 587 | - | - | 587 |
| Nonmajor and other funds | <u>8,161</u> | <u>-</u> | <u>1,497</u> | <u>9,658</u> |
| Totals | <u>\$102,909</u> | <u>32,739</u> | <u>3,058</u> | <u>138,706</u> |

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(8) Capital Assets

A summary of capital asset activity for the year ended June 30, 2003 follows:

| | Balance at July 1, 2002, as Restated (see note 2) | <u>Additions</u> | <u>Deletions</u> | <u>Balance at June 30, 2003</u> |
|--|--|------------------|------------------|-------------------------------------|
| <u>Governmental Activities:</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,602,281 | - | - | 1,602,281 |
| Land rights related to streets | 5,104,472 | - | - | 5,104,472 |
| Construction in progress | 406,567 | 115,553 | (522,120) | - |
| Total capital assets not being depreciated | <u>7,113,320</u> | <u>115,553</u> | <u>(522,120)</u> | <u>6,706,753</u> |
| Capital assets being depreciated: | | | | |
| Building and improvements | 3,250,661 | 522,120 | - | 3,772,781 |
| Equipment | 1,542,272 | 38,841 | (26,800) | 1,554,313 |
| Vehicles | 1,142,740 | 217,429 | - | 1,360,169 |
| Furniture and fixtures | 193,729 | - | - | 193,729 |
| Infrastructure – streets network | 9,157,597 | 417,170 | (41,792) | 9,532,975 |
| Infrastructure – storm drains | 456,440 | - | - | 456,440 |
| Total capital assets being depreciated | <u>15,743,439</u> | <u>1,195,560</u> | <u>(68,592)</u> | <u>16,870,407</u> |
| Less accumulated depreciation for: | | | | |
| Building and improvements | (1,491,109) | (70,235) | - | (1,561,344) |
| Equipment | (638,995) | (172,453) | 17,325 | (794,123) |
| Vehicles | (652,502) | (156,156) | - | (808,658) |
| Furniture and fixtures | (92,273) | (29,697) | - | (121,970) |
| Infrastructure – streets network | (5,027,321) | (197,216) | 41,792 | (5,182,745) |
| Infrastructure – storm drains | (286,032) | (6,088) | - | (292,120) |
| Total accumulated depreciation | <u>(8,188,232)</u> | <u>(631,845)</u> | <u>59,117</u> | <u>(8,760,960)</u> |
| Capital assets being depreciated, net | <u>7,555,207</u> | <u>563,715</u> | <u>(9,475)</u> | <u>8,109,447</u> |
| Governmental activity capital assets, net | <u>\$14,668,527</u> | <u>679,268</u> | <u>(531,595)</u> | <u>14,816,200</u> |

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(8) Capital Assets, (Continued)

| | Balance at July 1, 2002, as Restated (see note 21) | <u>Additions</u> | <u>Deletions</u> | Balance at June 30, 2003 |
|---|---|------------------|------------------|-----------------------------|
| <u>Business-Type Activities:</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 754,000 | - | - | 754,000 |
| Capital assets being depreciated: | | | | |
| Building and improvements | 7,757,512 | - | - | 7,757,512 |
| Machinery and equipment | 149,684 | 101,082 | - | 250,766 |
| Water system and other improvements | 2,867,808 | - | - | 2,867,808 |
| Sewer system and other improvements | 3,179,677 | - | - | 3,179,677 |
| Total capital assets being depreciated | <u>13,954,681</u> | <u>101,082</u> | <u>-</u> | <u>14,055,763</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (4,649,347) | (168,337) | - | (4,817,684) |
| Machinery and equipment | (105,853) | (9,926) | - | (115,779) |
| Water system and other improvements | (1,172,489) | (38,242) | - | (1,210,731) |
| Sewer system and other improvements | (1,326,227) | (42,377) | - | (1,368,604) |
| Total accumulated depreciation | <u>(7,253,916)</u> | <u>(258,882)</u> | <u>-</u> | <u>(7,512,798)</u> |
| Capital assets being depreciated, net | <u>6,700,765</u> | <u>(157,800)</u> | <u>-</u> | <u>6,542,965</u> |
| Business-type activities capital assets, net | <u>\$ 7,454,765</u> | <u>(157,800)</u> | <u>-</u> | <u>7,296,965</u> |

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(8) Capital Assets, (Continued)

Depreciation expense was charged to functions for the year ended June 30, 2003 as follows:

| | |
|----------------------------------|------------------|
| Governmental activities: | |
| General government | \$ 51,513 |
| Public safety | 181,386 |
| Public works | 301,211 |
| Recreation | 87,992 |
| Community development | <u>9,743</u> |
| Total – governmental activities | <u>\$631,845</u> |
| Business-type activities: | |
| Water | 168,095 |
| Sewer | <u>90,787</u> |
| Total – business-type activities | <u>\$258,882</u> |

(9) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2003 is as follows:

| | Balance at July 1, 2002 | Additions | Retirements | Balance at June 30, 2003 | Portion Due Within One Year | Portion Due Beyond One Year |
|---------------------------------|----------------------------|---------------|------------------|-----------------------------|-----------------------------------|-----------------------------------|
| <u>Governmental Activities:</u> | | | | | | |
| 1993 Tax Allocation Bonds | \$ 3,955,000 | - | (145,000) | 3,810,000 | 150,000 | 3,660,000 |
| 2001 Tax Allocation Bonds | <u>6,075,000</u> | <u>-</u> | <u>(175,000)</u> | <u>5,900,000</u> | <u>180,000</u> | <u>5,720,000</u> |
| Subtotal | 10,030,000 | - | (320,000) | 9,710,000 | 330,000 | 9,380,000 |
| Compensated absences | <u>536,681</u> | <u>28,454</u> | <u>(69,431)</u> | <u>495,704</u> | <u>40,977</u> | <u>454,727</u> |
| Total long-term liabilities | <u>\$10,566,681</u> | <u>28,454</u> | <u>(389,431)</u> | <u>10,205,704</u> | <u>370,977</u> | <u>9,834,727</u> |

Compensated absences are generally liquidated by the General Fund.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(10) 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, 2003, \$3,810,000 of the bonds were outstanding.

Debt service requirements on the 1993 tax allocation bonds at June 30, 2003, are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2004 | \$ 150,000 | 230,820 |
| 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>\$3,810,000</u> | <u>2,320,830</u> |

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(10) 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, 2003, \$5,900,000 of 2001 refunding tax allocation bonds were outstanding.

Debt service requirements on the 2001 refunding tax allocation bonds at June 30, 2003 are as follows:

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | |
|----------------------------|--------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2004 | \$ 180,000 | 300,568 |
| 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>\$5,900,000</u> | <u>3,736,423</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, 2003, the reserve was \$872,999.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(11) 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. The City has determined that no arbitrage rebate liability exists as of June 30, 2003.

(12) 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 \$49,907 for the year ended June 30, 2003.

(13) 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.

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.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

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 \$8,570,641. There is a \$5,000 per loss deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Earthquake and flood insurance – The City purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the CJPIA. The City's property currently has earthquake protection in the amount of \$6,721,920. 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.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

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>Employee Benefits</u> |
|---|------------------------------|
| <u>Workers' Compensation:</u> | |
| Amount of accrued claims at June 30, 2001 | \$ 30,262 |
| 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 | 14,572 |
| Payments on claims attributable to events of both the current fiscal year and prior fiscal years | <u>(27,437)</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 | <u>\$ 1,497</u> |

(14) Defined Benefit Pension Plan (PERS)

Plan Description

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.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. For the year ended June 30, 2003, the amount contributed by the City on behalf of the employees was \$292,702. The City is required to contribute at an actuarially determined rate calculated as a percentage of covered payroll. The employer contribution rate for the year ended June 30, 2003 was 2.252% for safety employees and 0.000% for miscellaneous employees. Separately funded plans have been established for each employee group. Benefit provisions and all other requirements are established by state statute and city contract with employee bargaining groups.

Annual Pension Cost

For the year ended June 30, 2003, the City's annual pension cost (employer contribution) of \$38,904 for safety and \$0 for miscellaneous employees was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2000, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market effect). PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. PERS has combined the prior service unfunded liability and the current service unfunded liability into a single initial unfunded liability. The single funding horizon for this initial unfunded liability is June 30, 2023 and June 30, 2038, for safety and miscellaneous plans, respectively.

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> |
|--------------------|--|--|-----------------------------------|
| 6/30/01 | \$105,197 | 100% | - |
| 6/30/02 | 101,792 | 100% | - |
| 6/30/03 | 38,904 | 100% | - |

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

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

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> |
|-----------------------|---|----------------------------------|--|----------------------|-------------------------------|--------------------------------|
| 6/30/99 | 12,154,787 | 13,557,222 | (1,402,435) | 111.5% | 1,617,336 | (86.713%) |
| 6/30/00 | 13,061,886 | 15,142,222 | (2,080,336) | 115.9% | 1,588,089 | (130.996%) |
| 6/30/01 | 14,038,812 | 15,708,001 | (1,669,189) | 111.9% | 1,711,883 | (97.506%) |

*UAAL refers to *unfunded actuarial accrued liability*.

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> |
|--------------------|--|--------------------------------------|-------------------------------|
| 6/30/01 | - | 100% | - |
| 6/30/02 | - | 100% | - |
| 6/30/03 | - | 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> |
|-----------------------|---|----------------------------------|--|----------------------|-------------------------------|--------------------------------|
| 6/30/99 | 6,340,471 | 8,968,124 | (2,627,653) | 141.4% | 1,862,187 | (141.106%) |
| 6/30/00 | 6,898,355 | 10,065,977 | (3,167,622) | 145.9% | 1,949,545 | (162.480%) |
| 6/30/01 | 7,512,633 | 10,584,773 | (3,072,140) | 140.9% | 2,064,034 | (148.842%) |

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(15) 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, 2003, the amount contributed by the City was \$6,667. Employees are fully vested at all times. The City has entered into an agreement with Phase II Systems to provide trust administrator services.

(16) 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.

(17) 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 21. 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 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 participants' proportionate share of fund equity as of June 30, 2003. Upon dissolution of the Authority, all surplus money and property of the Authority will be conveyed or distributed to each member in proportion to all funds provided to the Authority by that member or by the County on behalf of that member during its membership. Separate audited financial statements may be obtained from the Authority at 180 South Water Street, Orange, California 92866.

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(18) 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, 2003. The total amount remitted by the City under this agreement through June 30, 2003 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 \$20,909 of this amount during the year ended June 30, 2003. The total amount remitted by the City under this agreement through June 30, 2003 was approximately \$124,909.

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, 2003 was \$0.

(19) 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:

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(19) Fund Balances, (Continued)

| | 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 | \$3,557,315 | - | - | - | 500,000 | - | 4,057,315 |
| Debt service | - | - | - | - | - | - | - |
| Prepaid items | 12,992 | - | - | - | - | - | 12,992 |
| Loans receivable | - | 4,955,078 | - | - | - | - | 4,955,078 |
| | <u>3,570,307</u> | <u>4,955,078</u> | <u>-</u> | <u>-</u> | <u>500,000</u> | <u>-</u> | <u>9,025,385</u> |
| Unreserved, designated for: | | | | | | | |
| Maintenance and replacement of capital assets | 2,288,778 | - | - | - | - | - | 2,288,778 |
| Capital projects | - | - | - | 2,112,869 | 4,038,673 | - | 6,151,542 |
| | <u>2,288,778</u> | <u>-</u> | <u>-</u> | <u>2,112,869</u> | <u>4,038,673</u> | <u>-</u> | <u>8,440,320</u> |
| Unreserved, undesignated | <u>3,273,442</u> | <u>(3,345,818)</u> | <u>(470,951)</u> | <u>-</u> | <u>-</u> | <u>847,092</u> | <u>303,765</u> |
| Total fund balances | <u>\$9,132,527</u> | <u>1,609,260</u> | <u>(470,951)</u> | <u>2,112,869</u> | <u>4,538,673</u> | <u>847,092</u> | <u>17,769,470</u> |

(20) Expenditures in Excess of Appropriations

Expenditures exceeded appropriations in the following funds:

| | Appropriations | Expenditures | Variance Positive (Negative) |
|---|----------------|--------------|------------------------------------|
| Nonmajor special revenue funds: | | | |
| Supplemental Law Enforcement Services Fund | \$ 105,100 | 105,884 | (784) |
| Local Law Enforcement Block Grant Fund | 45,000 | 45,617 | (617) |
| California Law Enforcement Equipment Program Fund | 116,800 | 122,273 | (5,473) |

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(21) Deficit Fund Balances

The following fund reported a deficit fund balance as of June 30, 2003:

| | <u>Amount</u> |
|-----------------------|---------------|
| CDC Debt Service Fund | \$(470,951) |

The deficit in the CDC Debt Service Fund was caused by the reporting of \$1,867,000 of interfund advances, which were accounted for in the General Long-Term Debt Account Group in previous years (see note 22). The deficit will be reduced as the advances are repaid in future years with available tax increment.

(22) Restatement of Beginning Fund Balances and Net Assets

During the year ended June 30, 2003, the City restated its CDC Debt Service Fund to properly reflect a liability for the City's advances to the Commission. In previous years, these advances were accounted for as liabilities in the General Long-Term Debt Account Group. The following summarizes the effects of the restatement to beginning fund balances as of June 30, 2003:

| | <u>Debt Service Fund</u> |
|---|----------------------------------|
| Fund balances at beginning of year, as previously reported | \$974,776 |
| To properly reflect a reduction in loans receivable | - |
| To properly record advances from the City to the Commission as a liability in the Debt Service Fund | <u>(377,000)</u> |
| Fund balances at beginning of year, as restated | <u>\$597,776</u> |

During the year ended June 30, 2003, the City implemented the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in Statement No. 34. Under GASB Statement No. 34, retained earnings and contributed capital, the two components of equity in the proprietary funds, are now combined and presented as net assets. The City also restated its Water and Sewer funds to include infrastructure capital assets, net of accumulated depreciation, that were not recorded in previous years. The following summarizes the effects of the restatements to beginning net assets as of June 30, 2003:

CITY OF LA PALMA

Notes to the Basic Financial Statements

(Continued)

(22) Restatement of Beginning Fund Balances and Net Assets, (Continued)

| | <u>Enterprise Funds</u> | | <u>Internal Service</u> | <u>Total</u> |
|--|-------------------------|------------------|-------------------------|-------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Funds</u> | |
| Retained earnings at beginning of year, as previously reported | \$ 5,915,727 | 3,565,478 | 2,251,098 | 11,732,303 |
| To reflect prior years' contributed capital as net assets | 2,517,974 | 488,922 | - | 3,006,896 |
| To record water and sewer infrastructure capital assets, net of accumulated depreciation | <u>1,695,319</u> | <u>1,853,450</u> | <u>-</u> | <u>3,548,769</u> |
| Net assets at beginning of year, as restated | <u>\$10,129,020</u> | <u>5,907,850</u> | <u>2,251,098</u> | <u>18,287,968</u> |



REQUIRED SUPPLEMENTARY INFORMATION



GENERAL FUND

The General Fund has been classified as a major fund and is used to account for all of the general revenues of the City not specifically levied or collected for other City funds and for expenditures related to the rendering of the general services by the City. The General Fund is generally used to account for all the resources not required to be accounted for in another fund. The budget-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, 2003

(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.
- 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

Notes to Required Supplementary Information

(Continued)

(2) Expenditures in Excess of Appropriations

Expenditures exceeded appropriations in the following funds:

| | <u>Appropriations</u> | <u>Expenditures</u> | <u>Positive (Negative)</u> |
|--|-----------------------|---------------------|--------------------------------|
| Nonmajor special revenue funds: | | | |
| Supplemental Law Enforcement Services Fund | \$ 105,100 | 105,884 | (784) |
| Local Law Enforcement Block Grant Fund | 45,000 | 45,617 | (617) |
| California Law Enforcement Equipment Program Fund | 116,800 | 122,273 | (5,473) |

CITY OF LA PALMA
General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Year ended June 30, 2003

| | 2003 | | | Variance with Final Budget Positive (Negative) | 2002 Actual |
|---|----------------------------|-------------------------|-------------------------|---|-------------------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Taxes | \$ 4,842,000 | 4,842,000 | 4,571,604 | (270,396) | 4,753,508 |
| Intergovernmental | 911,300 | 911,300 | 925,172 | 13,872 | 912,611 |
| Licenses and permits | 229,400 | 229,400 | 268,441 | 39,041 | 226,618 |
| Fines and forfeitures | 180,000 | 180,000 | 164,329 | (15,671) | 173,375 |
| Investment income | 719,500 | 719,500 | 335,869 | (383,631) | 528,983 |
| Charges for services | 355,200 | 355,200 | 439,062 | 83,862 | 416,163 |
| Rental income | 148,000 | 148,000 | 148,219 | 219 | 257,470 |
| Miscellaneous | 266,600 | 266,600 | 305,762 | 39,162 | 302,018 |
| Total revenues | <u>7,652,000</u> | <u>7,652,000</u> | <u>7,158,458</u> | <u>(493,542)</u> | <u>7,570,746</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 1,737,100 | 1,744,400 | 1,471,025 | 273,375 | 1,523,844 |
| Public safety | 3,742,100 | 3,734,800 | 3,631,629 | 103,171 | 3,602,160 |
| Public works | 595,000 | 595,000 | 508,674 | 86,326 | 476,244 |
| Recreation | 1,248,400 | 1,249,050 | 1,137,569 | 111,481 | - |
| Community development | 474,200 | 474,200 | 420,421 | 53,779 | 1,281,333 |
| Capital outlay | 274,500 | 274,500 | 159,301 | 115,199 | 181,348 |
| Total expenditures | <u>8,071,300</u> | <u>8,071,950</u> | <u>7,328,619</u> | <u>743,331</u> | <u>7,064,929</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(419,300)</u> | <u>(419,950)</u> | <u>(170,161)</u> | <u>249,789</u> | <u>505,817</u> |
| Other financing sources (uses): | | | | | |
| Transfers in | 467,900 | 467,900 | 497,000 | 29,100 | 362,500 |
| Total other financing sources (uses) | <u>467,900</u> | <u>467,900</u> | <u>497,000</u> | <u>29,100</u> | <u>362,500</u> |
| Net changes in fund balances | 48,600 | 47,950 | 326,839 | 278,889 | 868,317 |
| Fund balances at beginning of year | <u>8,805,688</u> | <u>8,805,688</u> | <u>8,805,688</u> | <u>-</u> | <u>7,937,371</u> |
| Fund balances at end of year | <u><u>\$ 8,854,288</u></u> | <u><u>8,853,638</u></u> | <u><u>9,132,527</u></u> | <u><u>278,889</u></u> | <u><u>8,805,688</u></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, 2003

| | 2003 | | | Variance with Final Budget Positive (Negative) | 2002 Actual |
|---------------------------------------|---------------------|------------------|------------------|---|------------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Taxes | \$ 380,000 | 380,000 | 399,060 | 19,060 | 382,563 |
| Investment income | 70,000 | 70,000 | 247,771 | 177,771 | 124,494 |
| Miscellaneous | - | - | 5,000 | 5,000 | - |
| Total revenues | <u>450,000</u> | <u>450,000</u> | <u>651,831</u> | <u>201,831</u> | <u>507,057</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Community development | 321,600 | 321,600 | 226,567 | 95,033 | 263,701 |
| Debt service: | | | | | |
| Principal | 56,700 | 56,700 | - | 56,700 | - |
| Interest | 312,500 | 312,500 | 219,964 | 92,536 | 284,699 |
| Total expenditures | <u>690,800</u> | <u>690,800</u> | <u>446,531</u> | <u>244,269</u> | <u>548,400</u> |
| Net changes in fund balances | (240,800) | (240,800) | 205,300 | 446,100 | (41,343) |
| Fund balances at beginning of year | <u>1,403,960</u> | <u>1,403,960</u> | <u>1,403,960</u> | - | <u>1,445,303</u> |
| Fund balances at end of year | <u>\$ 1,163,160</u> | <u>1,163,160</u> | <u>1,609,260</u> | <u>446,100</u> | <u>1,403,960</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, 2003

| | Asset Seizure | Streets | Measure M | Traffic Congestion Relief | Park Development | Air Quality Improvement |
|---|------------------|----------------|----------------|---------------------------------|---------------------|----------------------------|
| <u>Assets</u> | | | | | | |
| Cash and investments | \$ 14,829 | 146,379 | 262,540 | 30,595 | 130,680 | 48,126 |
| Receivables: | | | | | | |
| Interest | 104 | 976 | 1,777 | 214 | 915 | 317 |
| Due from other governments | - | 32,704 | 34,166 | 10,825 | - | 4,683 |
| Total assets | <u>\$ 14,933</u> | <u>180,059</u> | <u>298,483</u> | <u>41,634</u> | <u>131,595</u> | <u>53,126</u> |
| <u>Liabilities and Fund Balances</u> | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 11,154 | 5,576 | - | - | - | 42 |
| Other accrued liabilities | - | 3,005 | - | - | - | - |
| Deferred revenue | - | - | - | - | - | - |
| Total liabilities | <u>11,154</u> | <u>8,581</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>42</u> |
| Fund balances: | | | | | | |
| Unreserved, reported in special revenue funds | <u>3,779</u> | <u>171,478</u> | <u>298,483</u> | <u>41,634</u> | <u>131,595</u> | <u>53,084</u> |
| Total fund balances | <u>3,779</u> | <u>171,478</u> | <u>298,483</u> | <u>41,634</u> | <u>131,595</u> | <u>53,084</u> |
| Total liabilities and fund balances | <u>\$ 14,933</u> | <u>180,059</u> | <u>298,483</u> | <u>41,634</u> | <u>131,595</u> | <u>53,126</u> |

| Supplemental Law Enforcement Service | Public Safety Augmentation | Abandoned Vehicles | Local Law Enforcement Block Grant | CA Law Enforcement Equipment Program | Urban Park Grant | Totals | |
|---|----------------------------------|-----------------------|---|---|------------------------|------------------|------------------|
| | | | | | | 2003 | 2002 |
| 3,860 | 74,240 | 15,351 | 29,264 | 31,093 | 117,440 | 904,397 | 984,315 |
| 67 | 514 | 132 | 205 | 619 | 822 | 6,662 | 12,972 |
| - | 9,657 | 8,258 | - | - | - | 100,293 | 84,384 |
| <u>3,927</u> | <u>84,411</u> | <u>23,741</u> | <u>29,469</u> | <u>31,712</u> | <u>118,262</u> | <u>1,011,352</u> | <u>1,081,671</u> |
| - | 2,079 | - | - | 20,997 | - | 39,848 | 34,625 |
| 1,417 | 2,550 | - | - | - | - | 6,972 | 25,989 |
| - | - | - | - | - | 117,440 | 117,440 | - |
| <u>1,417</u> | <u>4,629</u> | <u>-</u> | <u>-</u> | <u>20,997</u> | <u>117,440</u> | <u>164,260</u> | <u>60,614</u> |
| 2,510 | 79,782 | 23,741 | 29,469 | 10,715 | 822 | 847,092 | 1,021,057 |
| <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>3,927</u> | <u>84,411</u> | <u>23,741</u> | <u>29,469</u> | <u>31,712</u> | <u>118,262</u> | <u>1,011,352</u> | <u>1,081,671</u> |

CITY OF LA PALMA
Nonmajor Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2003

| | Asset Seizure | Streets | Measure M | Traffic Congestion Relief | Park Development | Air Quality Improvement |
|---|------------------|-----------------|-----------------|---------------------------------|---------------------|----------------------------|
| Revenues: | | | | | | |
| Intergovernmental | \$ - | 298,727 | 188,512 | 40,955 | - | 18,205 |
| Investment income | 441 | 2,406 | 7,830 | 679 | 3,547 | 1,253 |
| Charges for services | - | - | - | - | 8,611 | - |
| Miscellaneous | - | 2,121 | - | - | - | - |
| Total revenues | <u>441</u> | <u>303,254</u> | <u>196,342</u> | <u>41,634</u> | <u>12,158</u> | <u>19,458</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Public safety | 11,154 | - | - | - | - | - |
| Public works | - | 210,464 | 1,461 | - | - | 2,100 |
| Capital outlay | - | 35,294 | 243,082 | 39,746 | - | - |
| Total expenditures | <u>11,154</u> | <u>245,758</u> | <u>244,543</u> | <u>39,746</u> | <u>-</u> | <u>2,100</u> |
| Excess (deficiency) of revenues over expenditures | <u>(10,713)</u> | <u>57,496</u> | <u>(48,201)</u> | <u>1,888</u> | <u>12,158</u> | <u>17,358</u> |
| Other financing sources (uses): | | | | | | |
| Transfers out | - | (51,000) | (1,000) | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>(51,000)</u> | <u>(1,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net changes in fund balances | <u>(10,713)</u> | <u>6,496</u> | <u>(49,201)</u> | <u>1,888</u> | <u>12,158</u> | <u>17,358</u> |
| Fund balances at beginning of year | <u>14,492</u> | <u>164,982</u> | <u>347,684</u> | <u>39,746</u> | <u>119,437</u> | <u>35,726</u> |
| Fund balances at end of year | <u>\$ 3,779</u> | <u>171,478</u> | <u>298,483</u> | <u>41,634</u> | <u>131,595</u> | <u>53,084</u> |

| Supplemental Law Enforcement Service | Public Safety Augmentation | Abandoned Vehicles | Local Law Enforcement Block Grant | CA Law Enforcement Equipment Program | Urban Park Grant | Totals | |
|---|----------------------------------|-----------------------|---|---|------------------------|----------------|------------------|
| | | | | | | 2003 | 2002 |
| 100,029 | 123,927 | 20,538 | 14,103 | 17,626 | - | 822,622 | 768,820 |
| 730 | 2,493 | 500 | 773 | 3,102 | 822 | 24,576 | 60,279 |
| - | - | - | - | - | - | 8,611 | - |
| - | - | - | - | - | - | 2,121 | 2,430 |
| <u>100,759</u> | <u>126,420</u> | <u>21,038</u> | <u>14,876</u> | <u>20,728</u> | <u>822</u> | <u>857,930</u> | <u>831,529</u> |
| 105,884 | 152,290 | 10,530 | - | 4,428 | - | 284,286 | 257,706 |
| - | - | - | - | - | - | 214,025 | 256,784 |
| - | - | - | 45,617 | 117,845 | - | 481,584 | 693,413 |
| <u>105,884</u> | <u>152,290</u> | <u>10,530</u> | <u>45,617</u> | <u>122,273</u> | <u>-</u> | <u>979,895</u> | <u>1,207,903</u> |
| (5,125) | (25,870) | 10,508 | (30,741) | (101,545) | 822 | (121,965) | (376,374) |
| - | - | - | - | - | - | (52,000) | (19,200) |
| - | - | - | - | - | - | (52,000) | (19,200) |
| (5,125) | (25,870) | 10,508 | (30,741) | (101,545) | 822 | (173,965) | (395,574) |
| 7,635 | 105,652 | 13,233 | 60,210 | 112,260 | - | 1,021,057 | 1,416,631 |
| <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> |

CITY OF LA PALMA
Asset Seizure Fund

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

Year ended June 30, 2003

| | 2003 | | | Variance with Final Budget Positive (Negative) | 2002 Actual |
|---------------------------------------|--------------------|-----------------|----------|--|----------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Intergovernmental | \$ - | - | - | - | 1,454 |
| Investment income | 800 | 800 | 441 | (359) | 589 |
| Total revenues | 800 | 800 | 441 | (359) | 2,043 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public safety | 13,000 | 13,000 | 11,154 | 1,846 | - |
| Total expenditures | 13,000 | 13,000 | 11,154 | 1,846 | - |
| Net changes in fund balances | (12,200) | (12,200) | (10,713) | 1,487 | 2,043 |
| Fund balances at beginning of year | 14,492 | 14,492 | 14,492 | - | 12,449 |
| Fund balances at end of year | \$ 2,292 | 2,292 | 3,779 | 1,487 | 14,492 |

CITY OF LA PALMA
Streets Fund

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

Year ended June 30, 2003

| | 2003 | | | Variance with Final Budget Positive (Negative) | 2002 Actual |
|---|---------------------------|------------------------|-----------------------|--|-----------------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Intergovernmental | \$ 293,000 | 293,000 | 298,727 | 5,727 | 297,948 |
| Investment income | 14,000 | 14,000 | 2,406 | (11,594) | 11,756 |
| Miscellaneous | - | - | 2,121 | 2,121 | 2,430 |
| Total revenues | <u>307,000</u> | <u>307,000</u> | <u>303,254</u> | <u>(3,746)</u> | <u>312,134</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public works | 314,600 | 314,600 | 210,464 | 104,136 | 252,093 |
| Capital outlay | 170,000 | 170,000 | 35,294 | 134,706 | 139,392 |
| Total expenditures | <u>484,600</u> | <u>484,600</u> | <u>245,758</u> | <u>238,842</u> | <u>391,485</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(177,600)</u> | <u>(177,600)</u> | <u>57,496</u> | <u>235,096</u> | <u>(79,351)</u> |
| Other financing sources (uses): | | | | | |
| Transfers out | <u>(51,000)</u> | <u>(51,000)</u> | <u>(51,000)</u> | <u>-</u> | <u>(16,800)</u> |
| Total other financing sources (uses) | <u>(51,000)</u> | <u>(51,000)</u> | <u>(51,000)</u> | <u>-</u> | <u>(16,800)</u> |
| Net changes in fund balances | <u>(228,600)</u> | <u>(228,600)</u> | <u>6,496</u> | <u>235,096</u> | <u>(96,151)</u> |
| Fund balances at beginning of year | <u>164,982</u> | <u>164,982</u> | <u>164,982</u> | <u>-</u> | <u>261,133</u> |
| Fund balances at end of year | <u><u>\$ (63,618)</u></u> | <u><u>(63,618)</u></u> | <u><u>171,478</u></u> | <u><u>235,096</u></u> | <u><u>164,982</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, 2003

| | 2003 | | | Variance with Final Budget Positive (Negative) | 2002 Actual |
|---|--------------------|------------------|-----------------|--|-----------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Intergovernmental | \$ 100,000 | 100,000 | 188,512 | 88,512 | 148,460 |
| Investment income | 16,000 | 16,000 | 7,830 | (8,170) | 10,398 |
| Total revenues | <u>116,000</u> | <u>116,000</u> | <u>196,342</u> | <u>80,342</u> | <u>158,858</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public works | 36,300 | 36,300 | 1,461 | 34,839 | 1,051 |
| Capital outlay | 225,000 | 225,000 | 243,082 | (18,082) | 203,230 |
| Total expenditures | <u>261,300</u> | <u>261,300</u> | <u>244,543</u> | <u>16,757</u> | <u>204,281</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(145,300)</u> | <u>(145,300)</u> | <u>(48,201)</u> | <u>97,099</u> | <u>(45,423)</u> |
| Other financing sources (uses): | | | | | |
| Transfers out | <u>(1,000)</u> | <u>(1,000)</u> | <u>(1,000)</u> | <u>-</u> | <u>(600)</u> |
| Total other financing sources (uses) | <u>(1,000)</u> | <u>(1,000)</u> | <u>(1,000)</u> | <u>-</u> | <u>(600)</u> |
| Net changes in fund balances | <u>(146,300)</u> | <u>(146,300)</u> | <u>(49,201)</u> | <u>97,099</u> | <u>(46,023)</u> |
| Fund balances at beginning of year | <u>347,684</u> | <u>347,684</u> | <u>347,684</u> | <u>-</u> | <u>393,707</u> |
| Fund balances at end of year | <u>\$ 201,384</u> | <u>201,384</u> | <u>298,483</u> | <u>97,099</u> | <u>347,684</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, 2003

| | 2003 | | | Variance with Final Budget Positive (Negative) | 2002 Actual |
|---------------------------------------|-------------------------|----------------------|----------------------|--|----------------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Intergovernmental | \$ 46,000 | 46,000 | 40,955 | (5,045) | 39,073 |
| Investment income | 2,000 | 2,000 | 679 | (1,321) | 673 |
| Total revenues | <u>48,000</u> | <u>48,000</u> | <u>41,634</u> | <u>(6,366)</u> | <u>39,746</u> |
| Expenditures | | | | | |
| Capital outlay | <u>48,000</u> | <u>48,000</u> | <u>39,746</u> | <u>8,254</u> | <u>-</u> |
| Total expenditures | <u>48,000</u> | <u>48,000</u> | <u>39,746</u> | <u>8,254</u> | <u>-</u> |
| Net changes in fund balances | - | - | 1,888 | 1,888 | 39,746 |
| Fund balances at beginning of year | <u>39,746</u> | <u>39,746</u> | <u>39,746</u> | - | - |
| Fund balances at end of year | <u><u>\$ 39,746</u></u> | <u><u>39,746</u></u> | <u><u>41,634</u></u> | <u><u>1,888</u></u> | <u><u>39,746</u></u> |

CITY OF LA PALMA
Park Development Fund

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

Year ended June 30, 2003

| | 2003 | | | Variance with Final Budget Positive (Negative) | 2002 Actual |
|---------------------------------------|--------------------------|-----------------------|-----------------------|--|-----------------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Investment income | \$ 20,000 | 20,000 | 3,547 | (16,453) | 17,371 |
| Charges for services | - | - | 8,611 | 8,611 | - |
| Total revenues | <u>20,000</u> | <u>20,000</u> | <u>12,158</u> | <u>(7,842)</u> | <u>17,371</u> |
| Expenditures: | | | | | |
| Capital outlay | - | - | - | - | 275,924 |
| Total expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>275,924</u> |
| Net changes in fund balances | 20,000 | 20,000 | 12,158 | (7,842) | (258,553) |
| Fund balances at beginning of year | <u>119,437</u> | <u>119,437</u> | <u>119,437</u> | <u>-</u> | <u>377,990</u> |
| Fund balances at end of year | <u><u>\$ 139,437</u></u> | <u><u>139,437</u></u> | <u><u>131,595</u></u> | <u><u>(7,842)</u></u> | <u><u>119,437</u></u> |

CITY OF LA PALMA
Air Quality Improvement Fund

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

Year ended June 30, 2003

| | 2003 | | | Variance with Final Budget Positive (Negative) | 2002 Actual |
|--|--------------------|-----------------|---------------|--|-----------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Intergovernmental | \$ 18,000 | 18,000 | 18,205 | 205 | 17,812 |
| Investment income | 3,000 | 3,000 | 1,253 | (1,747) | 2,772 |
| Total revenues | <u>21,000</u> | <u>21,000</u> | <u>19,458</u> | <u>(1,542)</u> | <u>20,584</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public works | 2,100 | 2,100 | 2,100 | - | 3,640 |
| Capital outlay | - | - | - | - | 38,359 |
| Total expenditures | <u>2,100</u> | <u>2,100</u> | <u>2,100</u> | <u>-</u> | <u>41,999</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>18,900</u> | <u>18,900</u> | <u>17,358</u> | <u>(1,542)</u> | <u>(21,415)</u> |
| Other financing sources (uses): | | | | | |
| Transfers out | - | - | - | - | (700) |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(700)</u> |
| Net changes in fund balances | <u>18,900</u> | <u>18,900</u> | <u>17,358</u> | <u>(1,542)</u> | <u>(22,115)</u> |
| Fund balances at beginning of year | <u>35,726</u> | <u>35,726</u> | <u>35,726</u> | <u>-</u> | <u>57,841</u> |
| Fund balances at end of year | <u>\$ 54,626</u> | <u>54,626</u> | <u>53,084</u> | <u>(1,542)</u> | <u>35,726</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, 2003

| | 2003 | | | Variance with Final Budget Positive (Negative) | 2002 Actual |
|---------------------------------------|------------------------|---------------------|---------------------|--|---------------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Intergovernmental | \$ 100,000 | 100,000 | 100,029 | 29 | 100,087 |
| Investment income | 5,000 | 5,000 | 730 | (4,270) | 2,952 |
| Total revenues | <u>105,000</u> | <u>105,000</u> | <u>100,759</u> | <u>(4,241)</u> | <u>103,039</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public safety | 105,100 | 105,100 | 105,884 | (784) | 144,887 |
| Total expenditures | <u>105,100</u> | <u>105,100</u> | <u>105,884</u> | <u>(784)</u> | <u>144,887</u> |
| Net changes in fund balances | (100) | (100) | (5,125) | (5,025) | (41,848) |
| Fund balances at beginning of year | <u>7,635</u> | <u>7,635</u> | <u>7,635</u> | <u>-</u> | <u>49,483</u> |
| Fund balances at end of year | <u><u>\$ 7,535</u></u> | <u><u>7,535</u></u> | <u><u>2,510</u></u> | <u><u>(5,025)</u></u> | <u><u>7,635</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, 2003

| | 2003 | | | Variance with Final Budget Positive (Negative) | 2002 Actual |
|---|--------------------|-----------------|-----------------|--|----------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Intergovernmental | \$ 126,000 | 126,000 | 123,927 | (2,073) | 122,495 |
| Investment income | 6,000 | 6,000 | 2,493 | (3,507) | 5,074 |
| Total revenues | <u>132,000</u> | <u>132,000</u> | <u>126,420</u> | <u>(5,580)</u> | <u>127,569</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public safety | 220,000 | 220,000 | 152,290 | 67,710 | 81,690 |
| Capital outlay | - | - | - | - | 33,661 |
| Total expenditures | <u>220,000</u> | <u>220,000</u> | <u>152,290</u> | <u>67,710</u> | <u>115,351</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(88,000)</u> | <u>(88,000)</u> | <u>(25,870)</u> | <u>62,130</u> | <u>12,218</u> |
| Other financing sources (uses): | | | | | |
| Transfers out | - | - | - | - | (1,100) |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,100)</u> |
| Net changes in fund balances | <u>(88,000)</u> | <u>(88,000)</u> | <u>(25,870)</u> | <u>62,130</u> | <u>11,118</u> |
| Fund balances at beginning of year | <u>105,652</u> | <u>105,652</u> | <u>105,652</u> | <u>-</u> | <u>94,534</u> |
| Fund balances at end of year | <u>\$ 17,652</u> | <u>17,652</u> | <u>79,782</u> | <u>62,130</u> | <u>105,652</u> |

CITY OF LA PALMA
Abandoned Vehicles Fund

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

Year ended June 30, 2003

| | 2003 | | | Variance with Final Budget Positive (Negative) | 2002 Actual |
|---------------------------------------|-------------------------|---------------------|----------------------|--|----------------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Intergovernmental | \$ 6,000 | 6,000 | 20,538 | 14,538 | 6,652 |
| Investment income | 400 | 400 | 500 | 100 | 373 |
| Total revenues | <u>6,400</u> | <u>6,400</u> | <u>21,038</u> | <u>14,638</u> | <u>7,025</u> |
| Expenditures: | | | | | |
| Public safety | - | 10,530 | 10,530 | - | - |
| Total expenditures | <u>-</u> | <u>10,530</u> | <u>10,530</u> | <u>-</u> | <u>-</u> |
| Net changes in fund balances | 6,400 | (4,130) | 10,508 | 14,638 | 7,025 |
| Fund balances at beginning of year | <u>13,233</u> | <u>13,233</u> | <u>13,233</u> | <u>-</u> | <u>6,208</u> |
| Fund balances at end of year | <u><u>\$ 19,633</u></u> | <u><u>9,103</u></u> | <u><u>23,741</u></u> | <u><u>14,638</u></u> | <u><u>13,233</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, 2003

| | 2003 | | | Variance with Final Budget Positive (Negative) | 2002 Actual |
|---------------------------------------|--------------------|-----------------|----------|--|----------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Intergovernmental | \$ - | - | 14,103 | 14,103 | - |
| Investment income | 3,000 | 3,000 | 773 | (2,227) | 2,645 |
| Total revenues | 3,000 | 3,000 | 14,876 | 11,876 | 2,645 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Capital outlay | - | 45,000 | 45,617 | (617) | - |
| Total expenditures | - | 45,000 | 45,617 | (617) | - |
| Net changes in fund balances | 3,000 | (42,000) | (30,741) | 11,259 | 2,645 |
| Fund balances at beginning of year | 60,210 | 60,210 | 60,210 | - | 57,565 |
| Fund balances at end of year | \$ 63,210 | 18,210 | 29,469 | 11,259 | 60,210 |

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, 2003

| | 2003 | | | Variance with Final Budget Positive (Negative) | 2002 Actual |
|---------------------------------------|--------------------------|----------------------|----------------------|--|-----------------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Intergovernmental | \$ 35,000 | 35,000 | 17,626 | (17,374) | 34,839 |
| Investment income | 6,500 | 6,500 | 3,102 | (3,398) | 5,676 |
| Total revenues | <u>41,500</u> | <u>41,500</u> | <u>20,728</u> | <u>(20,772)</u> | <u>40,515</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Public safety | - | - | 4,428 | (4,428) | 31,129 |
| Capital outlay | 17,300 | 116,800 | 117,845 | (1,045) | 2,847 |
| Total expenditures | <u>17,300</u> | <u>116,800</u> | <u>122,273</u> | <u>(5,473)</u> | <u>33,976</u> |
| Net changes in fund balances | 24,200 | (75,300) | (101,545) | (26,245) | 6,539 |
| Fund balances at beginning of year | <u>112,260</u> | <u>112,260</u> | <u>112,260</u> | - | <u>105,721</u> |
| Fund balances at end of year | <u><u>\$ 136,460</u></u> | <u><u>36,960</u></u> | <u><u>10,715</u></u> | <u><u>(26,245)</u></u> | <u><u>112,260</u></u> |

CITY OF LA PALMA
Urban Park Grant Fund

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

Year ended June 30, 2003

| | 2003 | | | Variance with Final Budget Positive (Negative) | 2002 Actual |
|---------------------------------------|--------------------|------------------|-------------------|--|-----------------|
| | Original Budget | Final Budget | Actual | | |
| Revenues: | | | | | |
| Intergovernmental | \$ 1,174,400 | 1,174,400 | - | (1,174,400) | - |
| Investment income | - | - | 822 | 822 | - |
| Total revenues | <u>1,174,400</u> | <u>1,174,400</u> | <u>822</u> | <u>(1,173,578)</u> | <u>-</u> |
| Expenditures: | | | | | |
| Capital projects | <u>1,174,400</u> | <u>1,174,400</u> | <u>-</u> | <u>1,174,400</u> | <u>-</u> |
| 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 | - | - | 822 | 822 | - |
| Fund balances at beginning of year | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances at end of year | <u><u>\$ -</u></u> | <u><u>-</u></u> | <u><u>822</u></u> | <u><u>822</u></u> | <u><u>-</u></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, 2003

2003

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) | 2002 Actual |
|---|--------------------|--------------------|--------------------|--|------------------|
| Revenues: | | | | | |
| Taxes | \$ 1,520,000 | 1,520,000 | 1,596,241 | 76,241 | 1,530,252 |
| Investment income | 24,000 | 24,000 | 21,364 | (2,636) | 27,401 |
| Total revenues | <u>1,544,000</u> | <u>1,544,000</u> | <u>1,617,605</u> | <u>73,605</u> | <u>1,557,653</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 32,000 | 32,000 | 29,744 | 2,256 | 24,291 |
| Debt service: | | | | | |
| Principal | 320,000 | 320,000 | 320,000 | - | 460,792 |
| Interest | 604,400 | 604,400 | 582,020 | 22,380 | 647,126 |
| Refunding bond issuance costs | - | - | - | - | 222,179 |
| Advance refunding escrow | - | - | - | - | 664,184 |
| Pass-through payments | 238,000 | 250,100 | 178,101 | 71,999 | 175,464 |
| Payment to state education fund | - | - | 76,467 | (76,467) | - |
| Total expenditures | <u>1,194,400</u> | <u>1,206,500</u> | <u>1,186,332</u> | <u>20,168</u> | <u>2,194,036</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>349,600</u> | <u>337,500</u> | <u>431,273</u> | <u>93,773</u> | <u>(636,383)</u> |
| Other financing sources (uses): | | | | | |
| Transfers out | - | (1,500,000) | (1,500,000) | - | - |
| Proceeds of refunding bonds, net | - | - | - | - | 6,035,897 |
| Payment to refunded bond escrow agent | - | - | - | - | (5,331,714) |
| Total other financing sources (uses) | <u>-</u> | <u>(1,500,000)</u> | <u>(1,500,000)</u> | <u>-</u> | <u>704,183</u> |
| Net changes in fund balances | <u>349,600</u> | <u>(1,162,500)</u> | <u>(1,068,727)</u> | <u>93,773</u> | <u>67,800</u> |
| Fund balances at beginning of year, as restated | | | | | |
| | <u>597,776</u> | <u>597,776</u> | <u>597,776</u> | <u>-</u> | <u>906,976</u> |
| Fund balances (deficit) at end of year | | | | | |
| | <u>\$ 947,376</u> | <u>(564,724)</u> | <u>(470,951)</u> | <u>93,773</u> | <u>974,776</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, 2003

| | Insurance | Employee Benefits | Totals | |
|---|------------|----------------------|-----------|-----------|
| | | | 2003 | 2002 |
| Assets: | | | | |
| Current assets: | | | | |
| Cash and investments | \$ 551,082 | 733,484 | 1,284,566 | 1,313,362 |
| Receivables: | | | | |
| Loans | - | 23,246 | 23,246 | 22,674 |
| Total current assets | 551,082 | 756,730 | 1,307,812 | 1,336,036 |
| Noncurrent assets: | | | | |
| Advances to other funds | 600,000 | 1,000,000 | 1,600,000 | 1,600,000 |
| Total assets | 1,151,082 | 1,756,730 | 2,907,812 | 2,936,036 |
| Liabilities: | | | | |
| Current liabilities: | | | | |
| Accounts payable | 115 | 18,937 | 19,052 | 24,795 |
| Other accrued liabilities | - | 2,686 | 2,686 | 22,677 |
| Due to other governmental agencies - current portion | 134,943 | 167,544 | 302,487 | 274,015 |
| Total current liabilities | 135,058 | 189,167 | 324,225 | 321,487 |
| Noncurrent liabilities: | | | | |
| Due to other governmental agencies - noncurrent portion | 125,349 | 143,011 | 268,360 | 363,451 |
| Total liabilities | 260,407 | 332,178 | 592,585 | 684,938 |
| Net assets: | | | | |
| Unrestricted | \$ 890,675 | 1,424,552 | 2,315,227 | 2,251,098 |

CITY OF LA PALMA
Internal Service Funds

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

Year ended June 30, 2003

| | Insurance | Employee Benefits | Totals | |
|-----------------------------------|------------|----------------------|-----------|-----------|
| | | | 2003 | 2002 |
| Operating revenues: | | | | |
| Charges for services | \$ 497,000 | 1,920,300 | 2,417,300 | 1,672,800 |
| Miscellaneous | - | 839 | 839 | 1,198 |
| Total operating revenues | 497,000 | 1,921,139 | 2,418,139 | 1,673,998 |
| Operating expenses: | | | | |
| Personnel services | - | 693,767 | 693,767 | 693,510 |
| Maintenance and operations | - | 18,285 | 18,285 | 11,640 |
| Contractual services | - | 13,389 | 13,389 | 32,240 |
| Settlement, claims and insurance | 539,241 | 1,089,487 | 1,628,728 | 1,235,091 |
| Total operating expenses | 539,241 | 1,814,928 | 2,354,169 | 1,972,481 |
| Operating income (loss) | (42,241) | 106,211 | 63,970 | (298,483) |
| Nonoperating revenues (expenses): | | | | |
| Investment income | - | 159 | 159 | 250 |
| Change in net assets | (42,241) | 106,370 | 64,129 | (298,233) |
| Net assets at beginning of year | 932,916 | 1,318,182 | 2,251,098 | 2,549,331 |
| Net assets at end of year | \$ 890,675 | 1,424,552 | 2,315,227 | 2,251,098 |

CITY OF LA PALMA
Internal Service Funds

Combining Statement of Cash Flows

Year ended June 30, 2003

| | Insurance | Employee Benefits | Totals | |
|---|-------------|-------------------|-------------|-------------|
| | | | 2003 | 2002 |
| Cash flows from operating activities: | | | | |
| Cash received from user departments | \$ 497,000 | 1,920,300 | 2,417,300 | 1,672,800 |
| Cash payments to suppliers for goods and services | (546,927) | (1,189,928) | (1,736,855) | (1,059,576) |
| Cash payments to employees for services | - | (709,667) | (709,667) | (692,897) |
| Cash received from (used for) other operating activities | - | 267 | 267 | (897) |
| Net cash provided by (used for) operating activities | (49,927) | 20,972 | (28,955) | (80,570) |
| Cash flows from investing activities: | | | | |
| Interest income received | - | 159 | 159 | 18,796 |
| Net cash provided by (used for) investing activities | - | 159 | 159 | 18,796 |
| Net increase (decrease) in cash and cash equivalents | (49,927) | 21,131 | (28,796) | (61,774) |
| Cash and cash equivalents at beginning of year | 601,009 | 712,353 | 1,313,362 | 1,375,136 |
| Cash and cash equivalents at end of year | \$ 551,082 | 733,484 | 1,284,566 | 1,313,362 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Operating income (loss) | \$ (42,241) | 106,211 | 63,970 | (298,483) |
| Adjustments to reconcile operating income (loss) to net income provided by (used for) operating activities: | | | | |
| (Increase) decrease in loans receivable | - | (572) | (572) | (2,095) |
| Increase (decrease) in accounts payable | 115 | (5,858) | (5,743) | (14,113) |
| Increase (decrease) in other accrued liabilities | - | (19,991) | (19,991) | (12,252) |
| Increase (decrease) in due to other governmental agencies | (7,801) | (58,818) | (66,619) | 246,373 |
| Total adjustments | (7,686) | (85,239) | (92,925) | 217,913 |
| Net cash provided by (used for) operating activities | \$ (49,927) | 20,972 | (28,955) | (80,570) |

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, 2003

| | City Trust | 800 MHz Communication System | Totals | |
|------------------------|------------------|------------------------------------|---------------|---------------|
| | | | 2003 | 2002 |
| <u>Assets</u> | | | | |
| Cash and investments | \$ 12,172 | 10,922 | 23,094 | 22,098 |
| Interest receivable | - | - | - | 7 |
| Total assets | <u>\$ 12,172</u> | <u>10,922</u> | <u>23,094</u> | <u>22,105</u> |
| <u>Liabilities</u> | | | | |
| Liabilities: | | | | |
| Deposits payable | \$ 12,172 | 10,922 | 23,094 | 22,105 |
| Total liabilities | <u>\$ 12,172</u> | <u>10,922</u> | <u>23,094</u> | <u>22,105</u> |

CITY OF LA PALMA
Agency Funds

Combining Statement of Changes in Fiduciary Assets and Liabilities

Year ended June 30, 2003

| | <u>Balance at</u> <u>July 1, 2002</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at</u> <u>June 30, 2003</u> |
|-------------------------------------|--|------------------|------------------|---|
| <u>City Trust</u> | | | | |
| Assets: | | | | |
| Cash and investments | \$ 21,429 | 51,441 | (60,698) | 12,172 |
| Liabilities: | | | | |
| Deposits payable | \$ 21,429 | 80,915 | (90,172) | 12,172 |
| <u>800 MHz Communication System</u> | | | | |
| Assets: | | | | |
| Cash and investments | \$ 669 | 10,253 | - | 10,922 |
| Interest receivable | 7 | - | (7) | - |
| Total assets | \$ 676 | 10,253 | (7) | 10,922 |
| Liabilities: | | | | |
| Deposits payable | \$ 676 | 10,253 | (7) | 10,922 |
| Total liabilities | \$ 676 | 10,253 | (7) | 10,922 |
| <u>Totals - All Agency Funds</u> | | | | |
| Assets: | | | | |
| Cash and investments | \$ 22,098 | 61,694 | (60,698) | 23,094 |
| Interest receivable | 7 | - | (7) | - |
| Total assets | \$ 22,105 | 61,694 | (60,705) | 23,094 |
| Liabilities: | | | | |
| Deposits payable | \$ 22,105 | 91,168 | (90,179) | 23,094 |
| Total liabilities | \$ 22,105 | 91,168 | (90,179) | 23,094 |

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

Comparative Schedule by Source

June 30, 2003 and 2002

| | Totals | |
|---|---------------|------------|
| | 2003 | 2002 |
| Governmental funds capital assets: | | |
| Land | \$ 1,602,281 | 1,602,281 |
| Land rights related to streets | 5,104,472 | 5,104,472 |
| Construction in progress | - | 406,567 |
| Building and improvements | 3,772,781 | 3,250,661 |
| Equipment | 1,554,313 | 1,542,272 |
| Vehicles | 1,360,169 | 1,142,740 |
| Furniture and fixtures | 193,729 | 193,729 |
| Infrastructure | 9,989,415 | 9,614,037 |
| | \$ 23,577,160 | 22,856,759 |
| Investments in governmental funds capital assets by source: | | |
| General fund and other sources | \$ 22,272,633 | 21,582,103 |
| Civic Center Authority | 650,773 | 650,773 |
| Federal and state grants | 530,519 | 503,148 |
| Donations | 123,235 | 120,735 |
| | \$ 23,577,160 | 22,856,759 |

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

Schedule by Function and Activity

June 30, 2003

| | Land | Buildings and Improvements | Equipment | Vehicles | Furniture and Fixtures | Totals | |
|--------------------------------------|---------------------|-------------------------------|------------------|------------------|---------------------------|---------------------|-------------------|
| | | | | | | 2003 | 2002 |
| General | | | | | | | |
| government | \$ 1,218,281 | 239,554 | 243,655 | - | 106,284 | 1,807,774 | 1,795,667 |
| Public safety | - | 867,910 | 755,074 | 656,193 | 49,266 | 2,328,443 | 1,636,050 |
| Public works | 79,000 | 273,235 | 299,586 | 595,600 | 16,169 | 1,263,590 | 1,228,004 |
| Recreation | 305,000 | 2,392,082 | 235,544 | 56,094 | 12,493 | 3,001,213 | 2,990,877 |
| Community development | - | - | 20,454 | 52,282 | 9,517 | 82,253 | 81,085 |
| | <u>\$ 1,602,281</u> | <u>3,772,781</u> | <u>1,554,313</u> | <u>1,360,169</u> | <u>193,729</u> | <u>8,483,273</u> | <u>7,731,683</u> |
| Land rights related to streets | | | | | | 5,104,472 | 5,104,472 |
| Construction in progress | | | | | | - | 406,567 |
| Infrastructure | | | | | | <u>9,989,415</u> | <u>9,614,037</u> |
| Totals | | | | | | <u>\$23,577,160</u> | <u>22,856,759</u> |

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

Schedule of Changes by Function

Year ended June 30, 2003

| | Balance at July 1, 2002 | Additions | Deletions | Balance at June 30, 2003 |
|-----------------------------------|-----------------------------|-------------------------|-------------------------|---|
| General government | \$ 1,795,667 | 13,607 | (1,500) | 1,807,774 |
| Public safety | 1,636,050 | 717,693 | (25,300) | 2,328,443 |
| Public works | 1,228,004 | 35,586 | - | 1,263,590 |
| Recreation | 2,990,877 | 10,336 | - | 3,001,213 |
| Community development | 81,085 | 1,168 | - | 82,253 |
| | <u>7,731,683</u> | <u>778,390</u> | <u>(26,800)</u> | <u>8,483,273</u> |
| Land rights related to streets | 5,104,472 | - | - | 5,104,472 |
| Construction in progress | 406,567 | 115,553 | (522,120) | - |
| Infrastructure | <u>9,614,037</u> | <u>417,170</u> | <u>(41,792)</u> | <u>9,989,415</u> |
| Totals | <u><u>\$ 22,856,759</u></u> | <u><u>1,311,113</u></u> | <u><u>(590,712)</u></u> | <u><u>23,577,116</u></u> 18,472,688 |

STATISTICAL
SECTION



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

| Revenues: | 2003 | 2002 | 2001 | 2000 |
|---------------------------|----------------------|----------------------|----------------------|----------------------|
| Taxes and assessments | \$ 7,766,905 | \$ 7,990,144 | \$ 7,928,915 | \$ 7,142,913 |
| Licenses and permits | 268,441 | 226,618 | 223,556 | 237,631 |
| Intergovernmental revenue | 1,747,794 | 1,681,431 | 1,906,145 | 1,490,200 |
| Charges for services | 447,673 | 416,163 | 417,670 | 408,602 |
| Fines and forfeitures | 164,329 | 173,375 | 158,922 | 195,618 |
| Interest income | 688,933 | 848,756 | 1,318,721 | 1,147,400 |
| Rental income | 148,219 | 257,470 | 36,832 | 48,073 |
| Other revenue | 592,006 | 341,082 | 487,780 | 110,095 |
| Total Revenues | <u>\$ 11,824,300</u> | <u>\$ 11,935,039</u> | <u>\$ 12,478,541</u> | <u>\$ 10,780,532</u> |

| Expenditures: | 2003 | 2002 | 2001 | 2000 |
|----------------------------|----------------------|----------------------|----------------------|----------------------|
| General government | \$ 1,500,769 | \$ 1,548,135 | \$ 1,677,366 | \$ 1,655,420 |
| Public safety | 3,915,915 | 3,859,866 | 3,730,790 | 3,595,537 |
| Public works | 1,085,032 | 733,028 | 746,615 | 796,478 |
| Recreation | 1,137,569 | | | |
| Community development | 2,339,821 | 1,865,003 | 1,643,999 | 2,219,238 |
| Loss on litigation claim | | - | - | 149,061 |
| Payments to other agencies | 254,568 | 175,464 | 191,241 | 237,527 |
| Capital outlay | 1,214,791 | 1,816,810 | 1,165,202 | 2,964,685 |
| Debt service | 1,121,984 | 2,278,980 | 1,406,344 | 2,332,690 |
| Total Expenditures | <u>\$ 12,570,449</u> | <u>\$ 12,277,286</u> | <u>\$ 10,561,557</u> | <u>\$ 13,950,636</u> |

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

Source: City Finance Department

| 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|----------------------|---------------------|----------------------|---------------------|---------------------|---------------------|
| \$ 6,704,952 | \$ 6,276,527 | \$ 5,645,091 | \$ 5,300,781 | \$ 4,793,574 | \$ 5,305,824 |
| 225,096 | 305,016 | 117,005 | 130,863 | 147,626 | 211,292 |
| 1,531,033 | 1,399,329 | 1,364,095 | 1,376,573 | 1,319,574 | 1,415,889 |
| 378,288 | 503,585 | 1,690,499 | 1,779,393 | 1,567,581 | 1,571,785 |
| 139,357 | 66,853 | 71,031 | 22,195 | 23,131 | 24,870 |
| 1,034,786 | 771,277 | 994,369 | 891,704 | 709,883 | 891,260 |
| 47,530 | 33,773 | 28,107 | 13,540 | 17,793 | 22,603 |
| 300,160 | 164,139 | 172,262 | 215,243 | 188,966 | 408,360 |
| <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> | <u>\$ 9,851,883</u> |

| 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|---------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
| \$ 1,184,060 | \$ 969,834 | \$ 925,248 | \$ 1,344,137 | \$ 1,199,776 | \$ 1,086,806 |
| 3,387,223 | 3,368,348 | 3,040,463 | 2,812,797 | 2,692,243 | 2,689,943 |
| 1,090,235 | 1,214,267 | 2,294,248 | 2,078,519 | 2,209,559 | 2,231,376 |
| 1,406,926 | 1,175,296 | 1,452,833 | 1,192,251 | 2,236,860 | 2,977,160 |
| - | - | - | - | - | - |
| 208,101 | 120,313 | 135,281 | 119,190 | 390,871 | 756,481 |
| 1,136,135 | 857,538 | 532,967 | 324,938 | 185,639 | 410,016 |
| 1,340,211 | 1,265,738 | 1,494,819 | 1,568,809 | 1,566,609 | 2,424,994 |
| <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> | <u>\$ 12,576,776</u> |

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

| Fiscal Year | Secured Ending Tax Levy (1) | Amount Collected (2) |
|----------------|--------------------------------|-------------------------|
| 1994 | 907,134 | 907,134 |
| 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 |

(1) Includes only City of La Palma General Fund.

(2) Through an agreement with Orange County, effective for fiscal years beginning 1993-94, the City of La Palma will receive 100% of its property tax levy in the current fiscal year.

(3) Includes \$6,427 in secured property taxes collected by County withheld from the City of La Palma as of June 30, 1996 because of the County bankruptcy.

Source: Orange County Auditor-Controller

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

| Fiscal Year | Secured Value | Public Utility | Unsecured Value | Total Assessed Value | % Change |
|----------------|------------------|-------------------|--------------------|----------------------------|-------------|
| 1994 | 834,369,201 | 50,762 | 61,592,304 | 896,012,267 | -1.1% |
| 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% |

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> |
|--------------------|-------------------------|--------------------------------------|----------------------|-----------------------------|------------------------------------|--------------|
| 1993 | 0.0000 | 1.0000 | 0.0001 | 0.0008 | 0.0089 | 1.0098 |
| 1994 | 0.0000 | 1.0000 | 0.0001 | 0.0007 | 0.0089 | 1.0097 |
| 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 |

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, 2003

| Property Owner's Name | Assessed Valuation of Property | Number of Taxable Parcels | Percentage of Market Value |
|--|--------------------------------------|---------------------------------|----------------------------------|
| 1. Arden Realty Limited | \$ 85,689,899 | 11 | 7.02% |
| 2. Steadfast Mc Cord | 23,579,091 | 1 | 1.93% |
| 3. La Palma Paper Limited Partnership | 17,049,555 | 1 | 1.40% |
| 4. ADP Inc. | 15,171,263 | 3 | 1.24% |
| 5. Anaheim Union High School District | 13,330,696 | 5 | 1.09% |
| 6. Sepulveda Zombar Royale Limited Partnership | 12,692,880 | 1 | 1.04% |
| 7. Huntington-Humboldt | 11,905,693 | 1 | 0.98% |
| 8. Casa La Veta Associates | 11,245,763 | 1 | 0.92% |
| 9. La Quinta Development Partners | 10,185,438 | 1 | 0.83% |
| 10. Wallace Computer Services | 10,116,990 | 1 | 0.83% |
| | <u>\$210,967,268</u> | | <u>17.28%</u> |

Source: Orange County Assessor

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

| Fiscal Year | Population | Assessed Value | Gross Bonded Debt | Debt Service Monies Available | Net Bonded Debt | Ratio of Net Bonded Debt to Assessed Values | Net Bonded Debt Per Capital |
|-------------|------------|----------------|-------------------|-------------------------------|-----------------|---|-----------------------------|
| 1994 | 15,682 | 896,012,267 | 11,315,000 | 1,152,789 | 10,162,211 | 1.13 | 648.02 |
| 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 |

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> |
|------------------------|------------------|-----------------|-----------------------------------|---|--|
| 1993/94 | \$275,000 | \$600,946 | \$875,946 | \$12,576,776 | 0.069647917 |
| 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 |

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, 2003

| | |
|---|------------------------|
| Assessed value: | <u>\$1,156,203,351</u> |
| Debt limit: 15% of assessed value | \$ 173,430,503 |
| Total amount of debt applicable to debt limit | <u>0</u> |
| Legal debt margin | <u>\$ 173,430,503</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 | Direct Operating Expense (1) | Net Revenue Available for Debt Service | Principal | Interest | Total | Coverage |
|-------------|---------------|------------------------------|--|-----------|----------|--------|----------|
| 1994 | 1,771,400 | 897,666 | 873,734 | 55,000 | 7,050 | 62,050 | 14.08 |
| 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 |

SEWER:

| Fiscal Year | Gross Revenue | Direct Operating Expense (1) | Net Revenue Available for Debt Service | Principal | Interest | Total | Coverage |
|-------------|---------------|------------------------------|--|-----------|----------|--------|----------|
| 1994 | 231,688 | 32,756 | 198,932 | 30,000 | 2,340 | 32,340 | 6.15 |
| 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 |

(1) 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, 2003

2002-03 Assessed Valuation: \$954,986,331 (after deducting \$200,795,839 redevelopment incremental valuation)

| <u>Direct and Overlapping Tax and Assessment Debt:</u> | <u>% Applicable</u> | <u>Debt 6/30/03</u> |
|--|---------------------|---------------------|
| Orange County Teeter Plan Obligations | 0.393 | \$ 488,990 |
| Metropolitan Water District | 0.085 | 377,651 |
| North Orange County Joint Community College District | 1.744 | 2,424,160 |
| Anaheim Union High School District | 3.256 | 2,995,507 |
| Fullerton Joint Union High School District | 1.593 | 605,307 |
| Buena Park School District | 8.478 | 1,133,083 |
| Centralia School District | 18.475 | 2,216,998 |
| City of La Palma | 100.000 | - |
| Total Direct and Overlapping Tax and Assessment Debt | | \$ 10,241,696 |
| <u>Overlapping Lease Obligation Debt:</u> | | |
| Orange County General Fund Obligations | 0.393 | \$ 3,832,493 |
| Orange County Pension Obligations | 0.393 | 474,636 |
| Orange County Board of Education Certificates of Participation | 0.393 | 78,521 |
| Orange County Transit District Authority | 0.393 | 24,268 |
| Municipal Water District of Orange County Water Facilities Corporation | 0.477 | 228,411 |
| Orange County Sanitation District Certificates of Participation | 0.582 | 908,357 |
| Anaheim Union High School District Certificates of Participation | 3.256 | 879,120 |
| Fullerton Joint Union High School District Certificates of Participation | 1.593 | 92,633 |
| Centralia School District Certificates of Participation | 18.475 | 796,273 |
| Orange County Fire Authority General Fund Obligations | 0.993 | 251,726 |
| Total Gross Overlapping Lease Obligation Debt | | \$ 7,566,438 |
| Less: Orange County Transit Authority (80% self-supporting) | | 19,414 |
| MWDOC Water Facilities Corporation | | 228,411 |
| Total Net Overlapping Debt | | \$ 7,318,613 |
| Gross Combined Total Debt | | \$ 17,808,134 (1) |
| Net Combined Total Debt | | \$ 17,560,309 |

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

Ratios to 2002-03 Assessed Valuation:

| | |
|--|--------|
| Direct Debt | 0.00% |
| Total Direct and Overlapping Tax and Assessment Debt | 89.00% |

Ratios to Adjusted Assessed Valuation:

| | |
|---------------------------|-------|
| Gross Combined Total Debt | 1.86% |
| Net Combined Total Debt | 1.84% |

State School Building Aid Repayable as of 6/30/03: \$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> |
|--------------------|--|-----------------------|----------------------------|-----------------------|
| 1994 | 365 | -13.5% | 4,683,521 | 22.5% |
| 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% |

Source: City Building Department

CITY OF LA PALMA
Miscellaneous Statistics
June 30, 2003

| | |
|--|------------------------------------|
| 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

