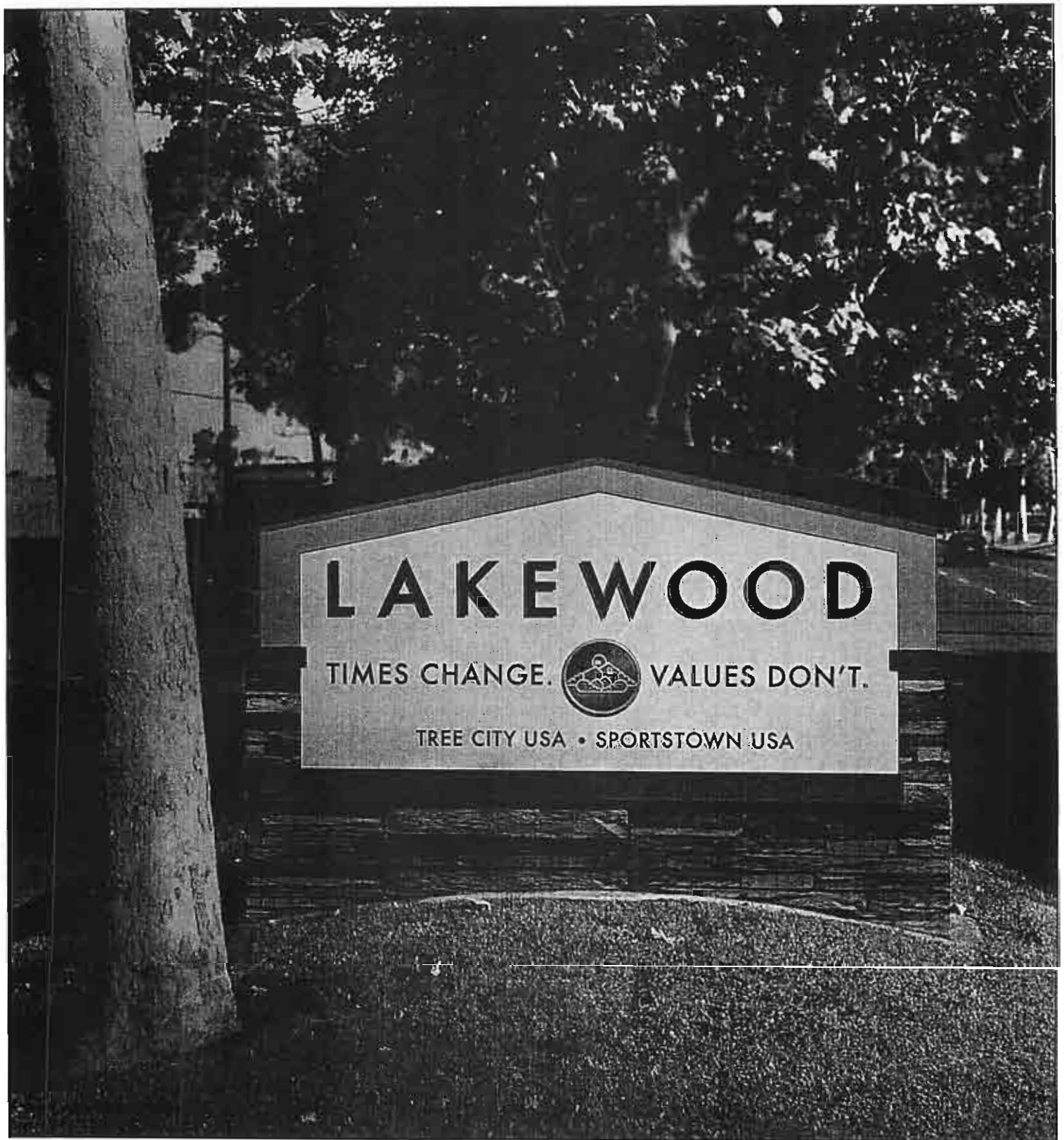


City of Lakewood • California



Comprehensive Annual Financial Report Year Ended June 30, 2006

CITY OF LAKEWOOD, CALIFORNIA

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2006**

**Prepared by
Department of Finance**

**Larry Schroeder
Director of Finance**



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COMPREHENSIVE ANNUAL FINANCIAL REPORT
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COMPREHENSIVE ANNUAL FINANCIAL REPORT

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Diane Dubois
Vice Mayor

Steve Croft
Council Member



Larry VanNostran
Mayor

Todd Rogers
Council Member

Joseph Esquivel
Council Member

December 20, 2006

The Honorable Mayor and City Council
City of Lakewood
Lakewood, California

TRANSMITTAL

State law requires that all general-purpose local governments publish within six months of the close of the fiscal year 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 licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Lakewood for the fiscal year ended June 30, 2006.

This report consists of management's representations concerning the finances of the City of Lakewood. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Lakewood has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Lakewood's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Lakewood'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 of Lakewood's financial statements have been audited by Diehl, Evans and Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Lakewood for the fiscal year ended June 30, 2006, 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 of Lakewood's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Lakewood was part of a broader, federally mandated "Single Audit" designed to meet the special needs of Federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of Federal awards. These reports are available in the City of Lakewood's separately issued Single Audit Report.

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

PROFILE OF THE GOVERNMENT

The City of Lakewood, incorporated in 1954, is located in Southern Los Angeles County, 20 miles South of the City of Los Angeles. Lakewood enjoys the benefits of the diversified economy of Southern California. The City is primarily a bedroom community providing housing for the Southern California subregion. The City of Lakewood occupies a land area of 9.5 square miles, and serves a population of 83,287 as of January 1, 2006.

The City of Lakewood has operated under the council-manager form of government since its incorporation. The City of Lakewood is a "contract city," having been the first in the country to adopt this form of government. Policy-making and legislative authority are vested in a governing council consisting of five council members. The governing council is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the governments, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members serve four-year overlapping terms. The mayor is selected by the council from among its members and serves in that special capacity for a one-year term.

The City of Lakewood provides a full range of services, including police protection, solid waste collection, construction and maintenance of highways, streets and infrastructure, planning and zoning activities, utilities (water), recreational activities, cultural events, and general administrative services. The City of Lakewood is a "contract" city, meaning that some of these services are provided by contract with other agencies (both public and private) and some services are delivered by the City's own employees. In addition to the services mentioned, the City provides services through three "component units": the Lakewood Redevelopment Agency, the Lakewood Housing Authority, and the Lakewood Public Financing Authority. Therefore, the activities of these component units are included in the reporting entity. Library services, fire protection services, and sewer services are provided by special districts of the County of Los Angeles. The City has excluded the County of Los Angeles as well as the State of California and various school districts because they do not meet the established criteria for inclusion.

The annual budget serves as the foundation for the City of Lakewood's financial planning and control. All departments of the City of Lakewood are required to submit requests for appropriation to the City Manager for inclusion in the annual budget. The City manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents a proposed budget to the council for review prior to July 1. The Council is required to hold a public hearing on the proposed budget and to adopt a final budget by no later than June 30, the close of the City of Lakewood's fiscal year. The appropriated budget is prepared by fund, function (e.g., solid waste collection), and department (e.g., Public Works). The city manager may authorize transfers of appropriations within and between departments and between funds. 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, this comparison is presented in the required supplementary information subsection of this report. For governmental funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the supplementary information subsection of this report.

Major Initiatives

For Fiscal Year 2005-2006. The focus areas were identified in the operating budget. These priorities included intergovernmental relations, Sheriff's station renovation, infrastructure improvements, information technology, water quality, economic development, recreation, neighborhood preservation and volunteers.

INTERGOVERNMENTAL RELATIONS. There has been a concentrated effort aimed at Sacramento to protect local housing land use and redevelopment authority, and assure that local revenues are protected and state takeaways stopped. City Council members and City staff continued to engage our legislators and members of the Governor's staff to insure minimal impact on cities and our residents.

PUBLIC SAFETY. Preparation for the work on the Lakewood Sheriff's Station renovation project began in 2004-2005. In 2005-2006, agreements with the County were finalized and the actual construction began on January 23, 2006. It is estimated that the project will be completed in the fall of 2007. Since this is and will remain a County facility, the majority of funding for this project will come from the County of Los Angeles.

Partial funding will come from grants and other sources. (The City is responsible for costs associated with design and contract management).

INFRASTRUCTURE IMPROVEMENTS. Lakewood continued its program of local street maintenance by use of CDBG funds and reserves, which were set-aside in economically good years. Providing well-maintained local streets for Lakewood residents will always be a local government priority.

The City provided for more comfortable and esthetically pleasing bus shelters at the various bus stops throughout the City. This replacement program was funded through restricted Proposition A transit funding.

Upholding our tradition of Tree City USA, the City planted an additional 1,383 street trees during the 2005-2006 fiscal year.

INFORMATION TECHNOLOGY. The City is proceeding with an Enterprise Resource Planning (ERP) Project for the replacement of its antiquated Financial Management Information System (FMIS). This is a system of computer programs that supports the City's financial functions and many non-financial uses, such as resident service requests. On July 1, 2006, the City went live on its core financial modules of the system and on December 12, 2006, the City went live on its news Service Request System. Other modules are scheduled for implementation in the next two years. This is a major project that will improve the functionality of the City's major software systems.

WATER QUALITY. Lakewood continues its commitment to excellent water quality. During fiscal year 2005-2006, the City constructed 2.5 miles of the water main replacement program. Also, the Cities of Lakewood and Long Beach entered into a joint project with the Metropolitan Water District of Southern California (MWD) to construct a water well that will be available for use by the City of Lakewood approximately seventy percent of the time. The well is funded by a \$2.4 million grant from Proposition 13.

ECONOMIC DEVELOPMENT. The City continued its collaboration with the community to encourage commercial development in Lakewood to provide our residents with both convenient shopping and employment opportunities. Besides the 18 acres of commercially zoned vacant land throughout the City, the City's Economic Development Committee also looks at opportunities to rejuvenate existing businesses in Lakewood.

RECREATION. In fiscal year 2005-2006, major improvement on the Weingart Senior Center began with landscaping, interior walls, parking lot, air conditioning system and roof.

NEIGHBORHOOD PRESERVATION. Lakewood continues to focus on the preservation of its homes, most of which are now more than fifty years old. In fiscal year 2005-2006, the City funded forty-four single-family rehabilitation loans and twenty fix-up/paint-up grants designed to assist low and moderate-income families in maintaining their homes to Lakewood standards. A \$600,000 home grant was approved by the State, and will be used to fund seven low interest substantial rehabilitation loans aimed at alleviating over crowding in single-family homes.

VOLUNTEERS. The City of Lakewood continues to recognize the selfless donation of time by the City's many volunteers who help make Lakewood a better place to live. Some of our numerous volunteers are in the areas of law enforcement, youth sports, and Volunteers in Action.

For Fiscal Year 2006-2007. The priorities for the coming 2006-2007 fiscal year are as follows:

INTERGOVERNMENTAL RELATIONS. The number one objective of the city government is intergovernmental relations. It is extremely important to continue our efforts aimed at Sacramento to protect local housing land use and redevelopment authority, and to assure that local revenues are protected and State takeaways stopped. City Council members and City staff will need to continue to engage our legislators and members of the Governor's staff to insure minimal impact on cities and our residents.

LAKEWOOD SHERIFF'S STATION. Work on major expansion and renovation of the Lakewood Sheriff's Station began in fiscal year 2005-2006. The expansion and modernization of the Sheriff's Station is great news for Lakewood, as well as for the four other cities which are served by the station. The station was originally built in 1959 for deputies patrolling Lakewood and five other communities. Nearly 300 Sheriff's personnel work out of the Lakewood Station. Although enlarged and modernized in 1985, the station's basic facilities haven't changed since then. The station has not kept up with the rapid transformation of law enforcement into a highly computerized field. Work on the Station is progressing well.

LOCAL STREET MAINTENANCE. Lakewood will continue its program of local street maintenance by use of CDBG funds and reserves, which were set aside in economically good years. Providing well-maintained local streets for Lakewood residents will always be a local government priority.

BUS SHELTERS. The City will be providing more comfortable and esthetically pleasing bus shelters at the various bus stops throughout the City. This replacement program is funded through restricted Proposition A transit funding and a Federal grant.

STREET TREES. Upholding our tradition of Tree City USA, the City plans on planting an additional 1500 street trees in fiscal year 2006-2007.

SOFTWARE SYSTEMS. The City is proceeding with an Enterprise Resource Planning (ERP) Project for the replacement of its antiquated Financial Management Information System (FMIS) in fiscal year 2006-2007. This is a system of computer programs that supports the City's financial functions and many non-financial uses such as resident service requests. The City's current system is over twenty-four years old, has been modified countless times, and is written in a now seldom-used programming code referred to as PIC. This will be a major project that will improve the functionality of the City's major software systems.

Additionally, appropriations are proposed to implement the 2005 Strategic Information Technology Plan and to prepare the 2007 biennial update.

WATER QUALITY. Lakewood continues its commitment to excellent water quality. During fiscal year 2005-2006, the City constructed 2.5 miles of water mains under the water main replacement program. Also, the Cities of Lakewood and Long Beach entered into a joint project with the Metropolitan Water District of Southern California (MWD) to construct a water well that will be available for use by the City of Lakewood approximately seventy percent of the time. The well is funded by a \$2.4 million grant from Proposition 13.

ECONOMIC DEVELOPMENT. The City continues its collaboration with the community to encourage commercial development in Lakewood that will serve to provide our residents with both convenient shopping and employment opportunities. The City is working with the Lakewood Center Mall on a replacement for the closed Robinsons May department store and with property owners of high potential retail centers elsewhere in the community.

WEINGART SENIOR CENTER. In fiscal year 2005-2006, major improvements to landscaping, interior walls, parking lot, air conditioning system and roof began at the Weingart Senior Center. These improvements will be completed in January, 2007.

NEIGHBORHOOD PRESERVATION. Lakewood continues to focus on the preservation of its neighborhoods. Most of Lakewood's homes are now more than fifty years old. In fiscal year 2006-2007, the City's goal is to fund forty-five single-family rehabilitation loans and forty-five fix-up/paint-up grants designed to assist low and moderate-income families maintain their homes to Lakewood standards. A \$600,000 home grant has been approved by the state and will be used to fund low interest substantial rehabilitation loans aimed at alleviating over crowding in single-family homes, as well as to provide assistance to qualified first-time home buyers to buy a home in Lakewood.

VOLUNTEERS. The City of Lakewood continues to recognize the selfless donation of time by the City's many volunteers who help make Lakewood a better place to live. Some of our numerous volunteers dedicate their time in the areas of law enforcement, youth sports and Volunteers in Action.

ASSESSING THE CITY'S ECONOMIC 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 of Lakewood operates.

The Economy. The State of California continues to face many fiscal challenges in the years ahead. According to the State Legislative Analyst web-site in November of 2006, "At the time the 2006-07 budget was passed last June, our longer-term revenue and expenditure projections indicated that California continued to face a significant budget problem. Although we estimated that California would conclude 2006-07 with a General Fund reserve of over \$2 billion, we projected that the state would face operating shortfalls (that is, annual differences between revenues and expenditures) in the range of \$4.5 billion to \$5 billion during the subsequent two fiscal years. Our updated projections suggest a larger reserve in 2006-07 than we previously forecast, but also larger projected operating shortfalls in the out years".

http://www.lao.ca.gov/2006/fiscal_outlook/fiscal_outlook_06.pdf).

The economic base of the City is primarily commercial/retail. Almost 1,600 businesses are located in Lakewood, and generated approximately \$10.8 million in taxable sales in fiscal year 2005-2006. Lakewood Center Mall, a regional shopping center, ranks among the top five Southern California shopping centers and contributes approximately 40 percent of the retail sales in the City. Lakewood's sales tax revenue for 2006-2007 will take a significant hit due to the closer of Robinsons May department store. However, it is expected that the Mall will reinvent itself and deliver a significantly better retailer.

"In its third quarterly report of 2006, the UCLA Anderson Forecast says that while, 'the U.S. economy appears to have seamlessly downshifted to a soft landing (and) we are not forecasting a recession ... the economy is about to get bumpy as the housing market continues to deteriorate.' The Forecast calls for a sustained period of 1.5-2.0% growth. In California, the housing market continues to soften and real estate employment has gone from an 'engine of growth' to 'a drag on growth in 2006.' In the absence of a recession, however, statewide home prices are unlikely to experience significant declines".

(http://www.uclaforecast.com/contents/archive/media_9_06_1.asp).

Considering early in the year fears were that the real estate prices would plummet, the City considers this news as encouraging.

Long-term financial planning. Capital improvements are considered apart from the operating budget of the City. Capital improvement projects typically involve large outlays and cover multiple years. The Legacy Capital Improvement Plan is the City of Lakewood's five-year capital improvement plan.

Cash management policies and practices. Cash temporarily idle during the year was invested in government agencies and the States Local Agency Investment Fund (LAIF). The maturities of the investments range from one to three years, with an average maturity of 15 months. The average yield on investments was 3.67 percent. 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 government intends to hold to maturity.

Risk management. The City of Lakewood is a member of the California Joint Powers Insurance Authority (CJPIA). With 109 city and public entity members, it is the largest joint powers insurance authority in California. Through the CJPIA, the City is self-insured against liability and workers' compensation claims. As protection against catastrophic loss, members fund a pool to finance large settlements. During 2005-2006, Lakewood continued its proactive liability risk management role through careful monitoring of losses, working closely with the CJPIA's third-party claims adjuster, and designing and implementing programs to minimize risks and reduce losses. In addition, The City's Safety Committee analyzes Workers' Compensation issues by monitoring work conditions and organizing and implementing safety training programs to reduce employee exposure to hazards. Additional information of the City of Lakewood's risk management activity can be found in Note 10 of the notes to the basic financial statements.

Pension and other post-employment benefits. The City of Lakewood is a member of the Public Employees Retirement System (PERS), which is a defined benefit plan covering all full-time and some part-time employees. The City of Lakewood is also a member of the Public Agency Retirement System (PARS), which is a defined contribution plan covering part-time employees who work less than 1,000 hours per year and provides a stackable defined benefit plan to full-time employees who retire from PERS and the City. The City does not pay Social Security. The City of Lakewood also offers two 457 deferred compensation plans and a 401(a) deferred compensation plan, to which the City does not contribute. The City provides limited supplemental payment for post-retirement health care benefits for full-time employees who have completed 20 years of service and have reached the age of 55, or who have completed 15 years and reached the age of 60, and who are retiring under the PERS.

AWARDS AND ACKNOWLEDGEMENTS

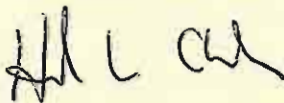
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lakewood for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. This was the 25th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

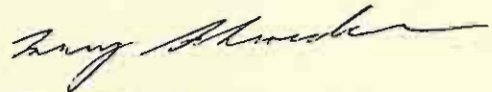
The California Society of Municipal Finance Officers awarded a Certificate of Award for Outstanding Financial Reporting to the City of Lakewood for its CAFR for the fiscal year ended June 30, 2005. The certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements. Next year, CSMFO will not offer a Certificate of Award to those agencies, like Lakewood, who have received the GFOA award for the previous year's report.

Preparation of this report was accomplished by the combined efforts of the Finance Department staff. We appreciate the high level of professionalism and dedication that these staff members bring to the City. The contributions made by Carol Moon, Senior Accountant; Maria D'Aloisio, Senior Accountant; Pamala Lau, Assistant Accountant; Ronnie Campbell, Assistant Director of Finance; Lillian Bish, Administrative Secretary; Kimberly Sides, Administrative Secretary; and Doug Butler, Deputy Treasurer, deserve special recognition. We would also like to thank the members of the City Council for their interest and support in the development of this report.

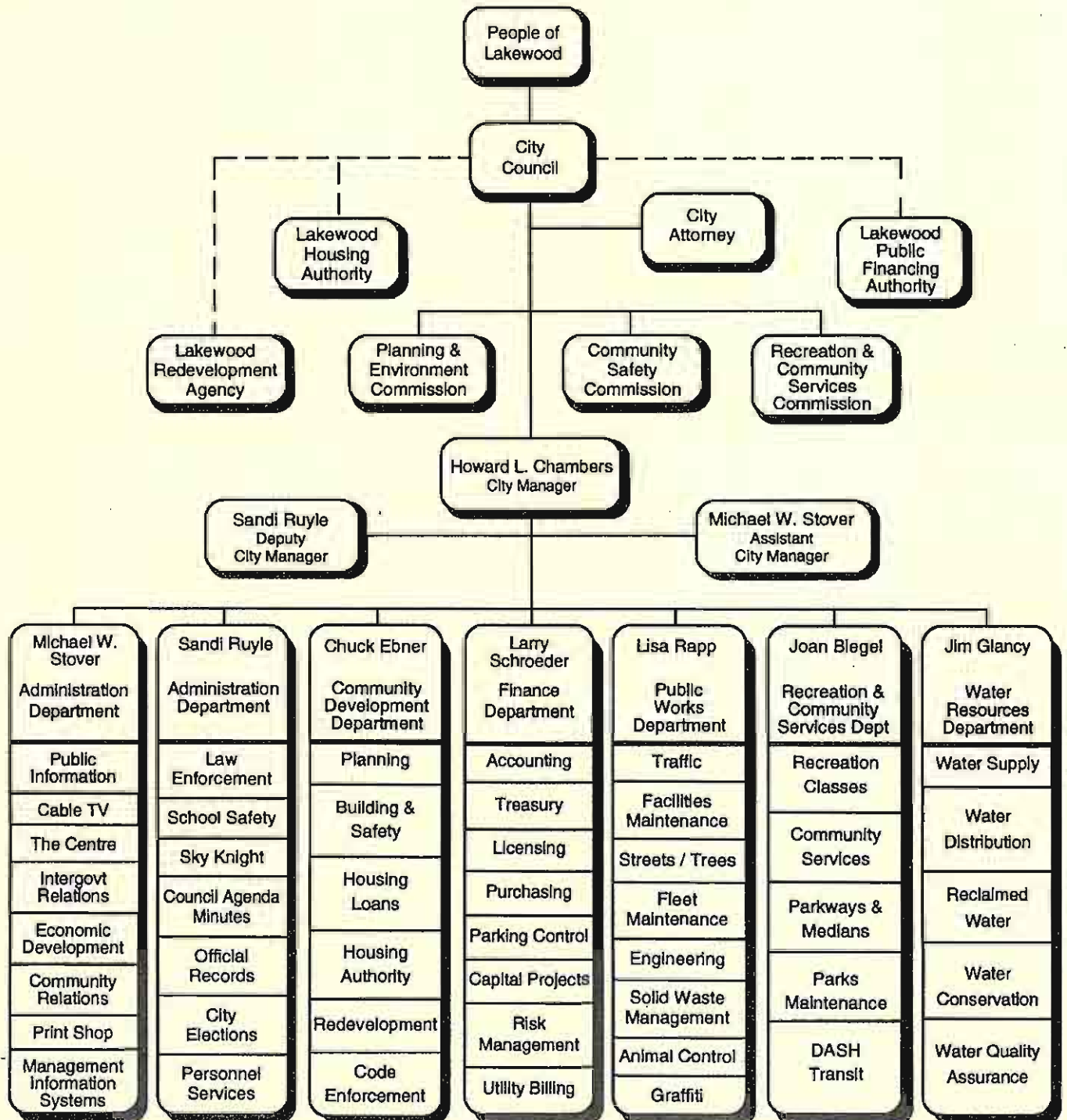
Respectfully submitted,



Howard L. Chambers
City Manager



Larry Schroeder
Director of Finance



CITY COUNCIL

LARRY VAN NOSTRAN
Mayor

DIANE DU BOIS
Vice Mayor

TODD ROGERS
Council Member

STEVE CROFT
Council Member

JOSEPH ESQUIVEL
Council Member

ADMINISTRATION AND DEPARTMENT DIRECTORS

HOWARD L. CHAMBERS
City Manager

STEVE SKOLNIK
City Attorney

MICHAEL W. STOVER
Assistant City Manager

LARRY SCHROEDER
Director of Finance

SANDRA L. RUYLE
Deputy City Manager

LISA A. RAPP
Director of Public Works

LISA LITZINGER
Director of Recreation
and Community Services

JACK GONSALVES
Director of Community
Development

JAMES B. GLANCY
Director of Water Resources

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lakewood
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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.



Carla E. Perry

President

Jeffrey R. Emer

Executive Director

*California Society of
Municipal Finance Officers*

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

City of Lakewood



*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, 2006

William J. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



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*A PROFESSIONAL CORPORATION

November 28, 2006

INDEPENDENT AUDITORS' REPORT

City Council
City of Lakewood
Lakewood, California

We have audited the accompany financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Lakewood, California, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lakewood's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City of Lakewood, California, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 28, 2006 on our consideration of the City of Lakewood's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison schedule as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, to the management's discussion and analysis, 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. The budgetary comparison schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lakewood's basic financial statements. The introductory section, supplementary information section and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section 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.

Diehl, Evans and Company, LLP

JUNE 30, 2006

As management of the City of Lakewood, California, (City) we offer readers of the City of Lakewood's financial statements this narrative overview and analysis of the financial activities of the City for fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report, and with the City's financial statements, which follow this discussion.

Financial Highlights

- The assets of the City (*which include the value of streets, sidewalks and other infrastructure*) exceeded its liabilities at June 30, 2006, by \$143,243,892 (*net assets*). Of this amount, \$39,072,080 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors, but is subject to designation for specific programs.
- The government's total net assets increased by \$5,671,870 during the fiscal year ended June 30, 2006. Much of this increase is attributable to an increase in revenue in Governmental Activities related to property tax.
- As of June 30, 2006, the City's governmental funds reported combined ending fund balances of \$45,412,009, an increase of \$934,713 in comparison with the prior year.
- At June 30, 2006, unreserved fund balance of the general fund was \$24,373,273 or 66% of total general fund expenditures. The majority of these funds are designated for specific purposes such as self-insurance, capital improvements, equipment replacement and infrastructure improvements.
- The City of Lakewood's total debt (noncurrent liabilities) decreased by \$1,123,350, approximately (6%) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Lakewood's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the City of Lakewood's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increase or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Lakewood is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Lakewood that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Lakewood include general government, public safety, transportation, community development, health and sanitation, and culture and leisure.

See independent auditors' report.

Government-wide financial statements (Continued)

The government-wide financial statements include not only the City of Lakewood, but also three component units: the Lakewood Redevelopment Agency, the Lakewood Housing Authority, and the Lakewood Public Financing Authority. Financial information for these component units is reported within the funds of the City. The Water Utility, although also legally separate, functions for all practical purposes as a department of the City of Lakewood, and therefore has been included as an integral part of the government.

The government-wide financial statements can be found on pages 13 - 15 of this report.

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *balances on spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City of Lakewood maintains twelve governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, redevelopment agency debt service and capital projects funds, all of which are considered to be major funds. Data from the other nine governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these other governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Lakewood adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget in the required supplementary information. Budgetary comparisons for other funds are provided elsewhere in this report.

The governmental fund financial statements can be found on pages 16 - 17 and 20 - 21 of this report.

Proprietary funds. The City of Lakewood maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Lakewood uses enterprise funds to account for its Water Utility operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Lakewood's various functions. The City of Lakewood uses internal service funds to account for its central stores, central garage, and print shop operations. Because all of these services predominately benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Utility operations. The Internal Service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The proprietary fund financial statements can be found on pages 23 - 27 of this report.

Fund financial statements (Continued)

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Lakewood's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statement can be found on page 28 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29 - 52 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Lakewood's general fund budgetary comparison schedule. Required supplementary information can be found on pages 54 - 55 of this report.

The combining statements referred to earlier in connection with other governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 57 - 75 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lakewood, assets exceeded liabilities by \$143,243,892 at the close of the most recent fiscal year.

City of Lakewood's
Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 64,425,561	\$ 64,041,762	\$ 8,360,564	\$ 7,930,100	\$ 72,786,125	\$ 71,971,862
Capital assets	75,031,207	73,036,013	19,813,668	17,630,867	94,844,875	90,666,880
Total Assets	<u>139,456,768</u>	<u>137,077,775</u>	<u>28,174,232</u>	<u>25,560,967</u>	<u>167,631,000</u>	<u>162,638,742</u>
Long-term liabilities outstanding	12,681,742	13,539,692	3,435,216	3,812,934	16,116,958	17,352,626
Other liabilities	6,374,764	6,718,642	1,895,386	995,452	8,270,150	7,714,094
Total Liabilities	<u>19,056,506</u>	<u>20,258,334</u>	<u>5,330,602</u>	<u>4,808,386</u>	<u>24,387,108</u>	<u>25,066,720</u>
Net assets:						
Invested in Capital Assets						
Net of Related Debt	75,031,207	73,036,013	15,974,851	13,431,784	91,006,058	86,467,797
Restricted	13,165,754	12,242,213	-	-	13,165,754	12,242,213
Unrestricted	32,203,301	31,541,215	6,868,779	7,320,797	39,072,080	38,862,012
Total Net Assets	<u>\$ 120,400,262</u>	<u>\$ 116,819,441</u>	<u>\$ 22,843,630</u>	<u>\$ 20,752,581</u>	<u>\$ 143,243,892</u>	<u>\$ 137,572,022</u>

By far the largest portion of the City of Lakewood's net assets (64%) reflects its investment in capital assets (i.e. land, buildings, machinery and equipment). The City of Lakewood uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lakewood's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Lakewood's net assets (9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$39,072,080) may be used to meet the government's ongoing obligation to citizens and creditors.

See independent auditors' report.

Government-wide Financial Analysis (Continued)

At the end of the current fiscal year, the City of Lakewood is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. At year-end, there was 70% of the City of Lakewood's business-type activities' net assets invested in capital assets.

- The City of Lakewood's net assets increased by \$5,671,870 during the current fiscal year. As mentioned, much of this increase is attributable to an increase of revenue in Governmental Activities related to property and sales tax.

City of Lakewood
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 9,558,512	\$ 8,818,101	\$ 7,213,658	\$ 6,867,123	\$ 16,772,170	\$ 15,685,224
Operating grants and contributions	7,323,457	6,706,916	-	-	7,323,457	6,706,916
Capital grants and contributions	759,981	641,047	-	-	759,981	641,047
General revenues:						
Property taxes	14,371,331	9,861,832	-	-	14,371,331	9,861,832
Other taxes	17,264,222	20,517,406	-	-	17,264,222	20,517,406
Grants and contributions not restricted to specific programs	745,400	137,952	-	-	745,400	137,952
Other	3,656,824	5,187,898	405,513	268,567	4,062,337	5,456,465
Total Revenues	53,679,727	51,871,152	7,619,171	7,135,690	61,298,898	59,006,842
Expenses:						
General government	7,349,163	6,188,887	-	-	7,349,163	6,188,887
Public safety	10,850,664	10,938,617	-	-	10,850,664	10,938,617
Transportation	5,214,752	4,149,697	-	-	5,214,752	4,149,697
Community development	10,402,500	9,517,641	-	-	10,402,500	9,517,641
Health and sanitation	3,808,855	4,245,217	-	-	3,808,855	4,245,217
Culture and leisure	8,570,789	7,748,336	-	-	8,570,789	7,748,336
Unallocated infrastructure depreciation	1,719,530	1,632,049	-	-	1,719,530	1,632,049
Interest on long term debt	2,182,653	2,475,189	-	-	2,182,653	2,475,189
Water	-	-	5,528,122	5,347,379	5,528,122	5,347,379
Total expenses	50,098,906	46,895,633	5,528,122	5,347,379	55,627,028	52,243,012
Increase in net assets	3,580,821	4,975,519	2,091,049	1,788,311	5,671,870	6,763,830
Net assets - at beginning of year	116,819,441	111,843,922	20,752,581	18,964,270	137,572,022	130,808,192
Net assets - at end of year	\$ 120,400,262	\$ 116,819,441	\$ 22,843,630	\$ 20,752,581	\$ 143,243,892	\$ 137,572,022

Governmental activities. Governmental activities increased the City of Lakewood's net assets by \$3,580,821, thereby accounting for 63% of the total increase in net assets of the City of Lakewood. Key elements of the change are as follows:

- Sales tax decreased by \$391,580 during the fiscal year. A large portion of this difference is attributable to the difference in ERAF (Education Reimbursement Augmentation Fund) payments for the "Triple Flip" received in 2004-2005 and 2005-2006.
- Property taxes increased by \$4,509,499 during the fiscal year. This is due to ERAF (Education Reimbursement Augmentation Fund) money received in-lieu of VLF (Vehicle License Fees) classified as property tax rather than VLF as in the prior year, and the return of the State "VLF Swap" from the prior year.
- Utility users taxes increased by \$156,859 during the fiscal year. Most of the increase resulted in UUT collected from gas and telephone providers located within the boundaries of the City of Lakewood.

Business-type activities. Business-type activities increased the City of Lakewood's net assets by \$2,091,049 accounting for 37% of the total increase in net assets. Most of this is attributable to an increase in revenues related to metered water sales, reclaimed water sales and the sale of excess pumping rights. This increase in "retained earnings" is necessary with an estimated \$5.3 million in capital improvements required over the next two years, as recommended by the Water Resources Committee. Such projects on the horizon include \$2.0 million in Water Main Replacement, \$1.2 million in Water Treatment for Plant #22 and \$1.6 million for Well Rehabilitation.

See independent auditors' report.

Financial Analysis of the Government's Funds

As noted earlier, the City of Lakewood uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Lakewood's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Lakewood's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Lakewood's governmental fund reported combined ending fund balances of \$45,412,009 an increase of \$934,713 in comparison with the prior year. Approximately 3% of this amount (\$1,525,164) constitutes unreserved fund balances, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchases of the prior period (\$431,651), 2) to pay debt service (\$1,501,266), 3) for a variety of other restricted purposes (\$41,953,928).

The general fund is the chief operating fund of the City of Lakewood. At the end of the current fiscal year, unreserved fund balance of the general fund was \$24,373,273, while total fund balance reached \$57,061,435. 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 66% of the total general fund expenditure, while total fund balance represents 155% of that same amount.

The fund balance of the City of Lakewood's general fund increased by \$2,173,583 during the current fiscal year. Key factors in this increase are as follows:

- Property taxes increased by \$605,372 (net of the VLF in-lieu adjustment) due to people capturing the equity in their old homes by selling in a strong real estate market
- Other revenues increased by \$420,000 when the City exchanged excess Proposition A Funds for General Funds for street projects
- Special Police Services revenue increase by \$331,155 when some cities participating in the Sky Knight program prepaid their share for a new helicopter purchased in 2006-2007
- Sales tax increased by \$250,246 due to increased sales spurred on by a strong economy
- Utility Users Tax increased by \$156,859 and refuse fees increased \$147,289 due to rate increases in utility costs

Proprietary funds. The City of Lakewood's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Enterprise at the end of the year amounted to \$7,193,278. The total growth in net assets was \$2,145,331. A portion of these funds will be used to fund future capital improvements. Other factors concerning the finance of this fund have already been addressed in the discussion of the City of Lakewood's business-type activities.

General Fund Budgetary Highlights

Differences between the general fund original budget and the final amended budget were approximately \$3,535,472 and can be briefly summarized as follows:

- An increase of almost \$1,214,677 in transportation provided for local street resurfacing.
- An increase of almost \$801,850 in public safety related expenses to include items for the Sheriff Station Expansion project, Mobile Command Center, and Special Suppression program.
- An increase of \$782,760 that provided funding for city entrance signs, extension of the West San Gabriel River Project Phase II, and enhancement to the City's Service Request System.

See independent auditors' report.

Redevelopment Agency Debt Service Fund Highlights

- The Agency reduced the total outstanding principal on bonds by \$790,000.
- The Agency was required to shift \$446,135 in property tax increment back to the State for the ERAF (Education Revenue Augmentation Fund).

Capital Asset and Debt Administration

Capital assets. The City of Lakewood's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$94,844,875 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, and bridges.

Major capital assets events during the fiscal year included the following:

- Traffic Improvements and local street resurfacing - \$1,087,590
- Major street resurfacing project - \$964,137
- Hardscape Repair - \$599,775
- Street Improvements (CDBG) - \$287,941

City of Lakewood Capital Assets (Net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 18,394,023	\$ 18,394,023	\$ 381,023	\$ 381,023	\$ 18,775,046	\$ 18,775,046
Construction in progress	2,334,961	2,123,935	2,589,700	1,561,505	4,924,661	3,685,440
Water rights	-	-	1,791,836	1,791,836	1,791,836	1,791,836
Infrastructure	33,128,192	31,963,361	-	-	33,128,192	31,963,361
Structures and improvements	19,118,230	19,022,775	14,614,203	13,488,760	33,732,433	32,511,535
Equipment	2,055,801	1,531,919	436,906	407,743	2,492,707	1,939,662
Total	<u>\$ 75,031,207</u>	<u>\$ 73,036,013</u>	<u>\$ 19,813,668</u>	<u>\$ 17,630,867</u>	<u>\$ 94,844,875</u>	<u>\$ 90,666,880</u>

Additional information on the City of Lakewood's capital assets can be found in Note 3 to the basic financial statements.

Long-term debt. At the end of the current fiscal year, the City of Lakewood had total long-term debt outstanding of \$17,943,166. 73% relates to Redevelopment Agency tax allocation bonds to be repaid by future tax increment revenue. Another 21% is revenue bonds to be paid out of revenues of the water utility.

City of Lakewood Summary of outstanding debt

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Tax allocation bonds	\$ 13,049,971	\$ 13,835,490	\$ -	\$ -	\$ 13,049,971	\$ 13,835,490
Compensated absences	1,054,378	1,031,944	-	-	1,054,378	1,031,944
Reclaimed water loan	-	-	101,162	162,309	101,162	162,309
Revenue bonds	-	-	3,737,655	4,036,773	3,737,655	4,036,773
Total	<u>\$ 14,104,349</u>	<u>\$ 14,867,434</u>	<u>\$ 3,838,817</u>	<u>\$ 4,199,082</u>	<u>\$ 17,943,166</u>	<u>\$ 19,066,516</u>

Additional information on the City of Lakewood's long-term debt can be found in Note 4 to the basic financial statements.

See independent auditors' report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Los Angeles County, of which the City of Lakewood is a part, is currently 4.5%, (*October 2006*) which is a decrease of 0.7% this same time period a year ago. This compares favorably to the state's average unemployment rate of 4.5% (*October 2006*) and the national average rate of 4.4% (*October 2006*).
- The economic base of Lakewood is primarily commercial/retail. Almost 2,300 businesses (including home occupations) are located in Lakewood.

These factors were considered in preparing the City of Lakewood's amended budget for the 07-08 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$24,373,273. In January 2007 the City of Lakewood will begin preparation of its 2nd Two-Year Budget after being on a one-year budget cycle for a period of three consecutive years. As a part of this budgeting process, careful attention will also be given to the City's infrastructure needs as detailed and addressed in the (Legacy) Capital planning process. These two processes will blend into one budgetary presentation to City Council for consideration and adoption. The two-year approach (fiscal year 2007-08 and fiscal year 2008-09) for financial planning provides the City Council the opportunity to set policy and provide directions for operation and capital budgets in an efficient and productive manner.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Lakewood, Post Office Box 220, Lakewood, CA 90714-0220.

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BASIC FINANCIAL STATEMENTS

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CITY OF LAKEWOOD
STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities	Business-type Activity	Total
ASSETS:			
Cash and investments	\$ 51,624,389	\$ 7,403,646	\$ 59,028,035
Receivables:			
Accounts	6,613,357	461,978	7,075,335
Loans	2,797,267	-	2,797,267
Accrued revenue	478,496	631,468	1,109,964
Internal balances	335,721	(335,721)	-
Prepaid items	6,125	-	6,125
Inventories	120,118	44,281	164,399
Deferred charges	296,066	132,018	428,084
Land held for resale	652,756	-	652,756
Temporarily restricted assets:			
Cash and investments	-	21,751	21,751
Cash and investments with fiscal agent	1,501,266	1,143	1,502,409
Capital assets:			
Land	18,394,023	381,023	18,775,046
Water rights	-	1,791,836	1,791,836
Construction in progress	2,334,961	2,589,700	4,924,661
Depreciable infrastructure, net	33,128,192	-	33,128,192
Depreciable structures and improvements, net	19,118,230	14,614,203	33,732,433
Depreciable equipment, net	2,055,801	436,906	2,492,707
TOTAL ASSETS	<u>139,456,768</u>	<u>28,174,232</u>	<u>167,631,000</u>
LIABILITIES:			
Accounts payable and other current liabilities	4,355,533	1,436,725	5,792,258
Accrued interest payable	193,655	33,309	226,964
Unearned revenue	402,969	-	402,969
Liabilities payable from restricted assets:			
Customer deposits	-	21,751	21,751
Noncurrent liabilities:			
Due within one year	1,422,607	403,601	1,826,208
Due in more than one year	12,681,742	3,435,216	16,116,958
TOTAL LIABILITIES	<u>19,056,506</u>	<u>5,330,602</u>	<u>24,387,108</u>
NET ASSETS:			
Invested in capital assets, net of related debt	75,031,207	15,974,851	91,006,058
Restricted for:			
Debt service	1,501,266	-	1,501,266
Transportation	3,605,330	-	3,605,330
Community development	7,694,461	-	7,694,461
Other purposes	364,697	-	364,697
Unrestricted	<u>32,203,301</u>	<u>6,868,779</u>	<u>39,072,080</u>
TOTAL NET ASSETS	<u>\$ 120,400,262</u>	<u>\$ 22,843,630</u>	<u>\$ 143,243,892</u>

See independent auditors' report and notes to basic financial statements.

CITY OF LAKEWOOD

STATEMENT OF ACTIVITIES

For the year ended June 30, 2006

Functions/programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 7,349,163	\$ 840,154	\$ -	\$ -
Public safety	10,850,664	1,735,629	315,755	-
Transportation	5,214,752	-	4,645,938	759,981
Community development	10,402,500	1,294,667	1,768,666	-
Health and sanitation	3,808,855	4,098,993	473,801	-
Culture and leisure	8,570,789	1,589,069	119,297	-
Unallocated infrastructure depreciation	1,719,530	-	-	-
Interest on long term debt	2,182,653	-	-	-
Total governmental activities	50,098,906	9,558,512	7,323,457	759,981
Business-type activity:				
Water	5,528,122	7,213,658	-	-
Total	\$ 55,627,028	\$ 16,772,170	\$ 7,323,457	\$ 759,981

General revenues:

Taxes:

Sales taxes

Property taxes

Franchise taxes

Business operation taxes

Utility users taxes

Other taxes

Total taxes

Unrestricted motor vehicle in lieu

Grants and contributions not restricted to specific programs

Gain on sale of capital assets

Investment income

Total general revenues

Change in net assets

Net assets at beginning of year

Net assets at end of year

See independent auditors' report and notes to basic financial statements.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activity	Total
\$ (6,509,009)	\$ -	\$ (6,509,009)
(8,799,280)	-	(8,799,280)
191,167	-	191,167
(7,339,167)	-	(7,339,167)
763,939	-	763,939
(6,862,423)	-	(6,862,423)
(1,719,530)	-	(1,719,530)
(2,182,653)	-	(2,182,653)
<u>(32,456,956)</u>	<u>-</u>	<u>(32,456,956)</u>
<u>-</u>	<u>1,685,536</u>	<u>1,685,536</u>
<u>(32,456,956)</u>	<u>1,685,536</u>	<u>(30,771,420)</u>
11,849,134	-	11,849,134
14,371,331	-	14,371,331
1,143,817	-	1,143,817
524,675	-	524,675
3,223,998	-	3,223,998
522,598	-	522,598
<u>31,635,553</u>	<u>-</u>	<u>31,635,553</u>
576,720	-	576,720
745,400	-	745,400
-	187,000	187,000
<u>3,080,104</u>	<u>218,513</u>	<u>3,298,617</u>
<u>36,037,777</u>	<u>405,513</u>	<u>36,443,290</u>
3,580,821	2,091,049	5,671,870
<u>116,819,441</u>	<u>20,752,581</u>	<u>137,572,022</u>
<u>\$ 120,400,262</u>	<u>\$ 22,843,630</u>	<u>\$ 143,243,892</u>

CITY OF LAKEWOOD

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2006

	General Fund	Redevelopment Agency Debt Service Fund	Redevelopment Agency Capital Projects Fund
ASSETS			
Cash and investments	\$ 37,529,061	\$ 5,054,907	\$ 4,700,357
Cash and investments with fiscal agent	-	1,501,266	-
Accounts receivable	4,955,065	1,116,504	10,076
Loans receivable	478,496	-	2,797,267
Prepaid items	6,125	-	-
Due from other funds	26,589	-	-
Advances to other funds	27,496,646	-	203,607
Land held for resale	-	-	652,756
TOTAL ASSETS	\$ 70,491,982	\$ 7,672,677	\$ 8,364,063
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 1,927,712	\$ 753,300	\$ 2,889
Accrued liabilities	525,129	336,312	32,342
Due to other funds	71,137	-	7,663
Deferred revenue	10,906,569	-	2,797,267
Advances from other funds	-	27,700,253	-
TOTAL LIABILITIES	13,430,547	28,789,865	2,840,161
FUND BALANCES (DEFICIT):			
Reserved:			
Encumbrances	376,871	-	-
Continuing appropriations	8,357,048	-	-
Personnel benefits	4,135,737	-	-
Debt service	-	1,501,266	-
Land held for resale	-	-	652,756
Low and moderate housing	-	-	4,897,194
Prepaid items	6,125	-	-
Advances	18,805,124	-	203,607
Special revenue purposes	-	-	-
Other reserves	1,007,257	-	-
Unreserved, reported in:			
General fund	24,373,273	-	-
Debt service fund	-	(22,618,454)	-
Capital projects fund	-	-	(229,655)
TOTAL FUND BALANCES (DEFICIT)	57,061,435	(21,117,188)	5,523,902
TOTAL LIABILITIES AND FUND BALANCES	\$ 70,491,982	\$ 7,672,677	\$ 8,364,063

See independent auditors' report and notes to basic financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 4,227,330	\$ 51,511,655
-	1,501,266
531,712	6,613,357
-	3,275,763
-	6,125
138,245	164,834
-	27,700,253
-	652,756
<u>\$ 4,897,287</u>	<u>\$ 91,426,009</u>

\$ 653,756	\$ 3,337,657
20,786	914,569
71,113	149,913
207,772	13,911,608
-	27,700,253
<u>953,427</u>	<u>46,014,000</u>

54,780	431,651
1,821,574	10,178,622
-	4,135,737
-	1,501,266
-	652,756
-	4,897,194
-	6,125
-	19,008,731
2,067,506	2,067,506
-	1,007,257
-	24,373,273
-	(22,618,454)
-	(229,655)
<u>3,943,860</u>	<u>45,412,009</u>
<u>\$ 4,897,287</u>	<u>\$ 91,426,009</u>

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CITY OF LAKEWOOD

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2006

Fund balances - total governmental funds \$ 45,412,009

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds. Those assets consist of:

Land	\$ 18,394,023	
Construction in progress	2,334,961	
Infrastructure net of \$80,349,581 accumulated depreciation	33,128,192	
Structures and improvements, net of \$14,482,861 accumulated depreciation	19,118,230	
Equipment, net of \$7,741,117 accumulated depreciation	<u>1,747,229</u>	
		74,722,635

Some of the City's receivables for loans, operating and capital grant reimbursements, taxes and investment income will be collected after year end, but are not available soon enough to pay for current-period expenditures, and therefore are reported as deferred revenues in the funds. Balances at June 30, 2006 totaled:

13,508,639

Internal service funds are used by the City to charge the cost of materials and supplies, maintenance and repair of vehicles and equipment and printing services provided to the various departments of the City. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net activities. Internal Service funds net assets are:

758,917

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 fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term are reported in the Statement of Net Assets. Balances at June 30, 2006 are:

Accrued interest on bonds		(193,655)
Tax allocation bonds	\$ 13,100,000	
Less: Deferred amount on refunding, net of accumulated amortization	(104,047)	
Less: Deferred charges, net of accumulated amortization	(296,066)	
Plus: Bond issuance premium, net of accumulated amortization	54,018	
Compensated absences	<u>1,054,378</u>	
		<u>(13,808,283)</u>

Net assets of governmental activities \$ 120,400,262

See independent auditors' report and notes to basic financial statements.

CITY OF LAKEWOOD

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the year ended June 30, 2006

	General	Redevelopment Agency Debt Service Fund	Redevelopment Agency Capital Projects Fund
REVENUES:			
Taxes	\$ 21,350,707	\$ 6,282,702	\$ -
Licenses and permits	824,687	-	-
Fines and forfeitures	622,236	-	-
Investment income, rents and concessions	2,210,673	340,548	119,203
From other agencies	7,599,129	-	-
Current service charges	7,479,770	-	-
Other	941,149	-	437,303
TOTAL REVENUES	<u>41,028,351</u>	<u>6,623,250</u>	<u>556,506</u>
EXPENDITURES:			
Current:			
General government	7,156,198	-	-
Public safety	10,962,340	-	-
Transportation	3,413,868	-	-
Community development	3,687,752	1,656,934	3,067,875
Health and sanitation	3,789,774	-	-
Culture and leisure	7,917,301	-	-
Capital outlay:			
General government	-	-	-
Public safety	-	-	-
Transportation	-	-	-
Community development	-	-	233,388
Culture and leisure	-	-	-
Debt service:			
Owner participation agreement payments	-	760,019	-
Principal retirement	-	790,000	-
Interest and fiscal charges	-	2,160,673	-
TOTAL EXPENDITURES	<u>36,927,233</u>	<u>5,367,626</u>	<u>3,301,263</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>4,101,118</u>	<u>1,255,624</u>	<u>(2,744,757)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,801,197	-	5,184,785
Transfers out	(3,728,732)	(5,184,785)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,927,535)</u>	<u>(5,184,785)</u>	<u>5,184,785</u>
NET CHANGE IN FUND BALANCES	2,173,583	(3,929,161)	2,440,028
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	<u>54,887,852</u>	<u>(17,188,027)</u>	<u>3,083,874</u>
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 57,061,435</u>	<u>\$ (21,117,188)</u>	<u>\$ 5,523,902</u>

See independent auditors' report and notes to basic financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 2,492,240	\$ 30,125,649
38,959	863,646
-	622,236
144,228	2,814,652
3,775,232	11,374,361
-	7,479,770
40,753	1,419,205
<u>6,491,412</u>	<u>54,699,519</u>

53,437	7,209,635
-	10,962,340
1,436,866	4,850,734
1,854,803	10,267,364
-	3,789,774
-	7,917,301
303,694	303,694
445,368	445,368
2,761,071	2,761,071
14,822	248,210
437,430	437,430
-	760,019
-	790,000
-	2,160,673
<u>7,307,491</u>	<u>52,903,613</u>

<u>(816,079)</u>	<u>1,795,906</u>
------------------	------------------

3,962,385	10,948,367
<u>(2,896,043)</u>	<u>(11,809,560)</u>
<u>1,066,342</u>	<u>(861,193)</u>

250,263	934,713
<u>3,693,597</u>	<u>44,477,296</u>
<u>\$ 3,943,860</u>	<u>\$ 45,412,009</u>

CITY OF LAKEWOOD

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2006

Net change in fund balances - total governmental funds		\$	934,713
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 cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital expense (\$4,679,635) exceeded depreciation (\$2,816,578) the current period.			1,863,057
Governmental funds report long-term rehabilitation and business loans made as expenditures and repayments of those loans as revenues. However, these transactions have no effect in the Statement of Activities. The loan activity for the current period is as follows:			
Total amount of loans made	\$	810,000	
Total amount of loans repaid		(709,902)	
			100,098
The issuance of long term liabilities provides current financial resources to governmental funds, while the repayment of the principal of long term liabilities affects the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.			
Principal payments			790,000
Certain accrued revenues such as taxes, interest, grants, and sanitation service charges, do not provide current financial resources and therefore, are not reported in the governmental funds as revenues. This is the amount of the net change in these accrued revenue amounts during the current period.			(309,890)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:			
Accrued interest	\$	9,015	
Amortization of deferred amount on refunding, deferred charges and bond premium		(30,995)	
Change in compensated absences		(22,434)	
			(44,414)
Internal service funds are used by management to charge the costs of certain activities, such as fleet repair and maintenance, central stores and printing services to individual funds. The net revenue (expense) of these internal service funds are reported as governmental activities.			247,257
Change in net assets of governmental activities		\$	<u>3,580,821</u>

See independent auditors' report and notes to basic financial statements.

CITY OF LAKEWOOD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2006

	Business-type Activity- Water Enterprise Fund	Governmental Activities- Internal Service Funds
ASSETS		
CURRENT ASSETS:		
Cash and investments	\$ 7,403,646	\$ 112,734
Restricted cash and investments:		
Customer deposits	21,751	-
Revenue bond covenant accounts	1,143	-
Accounts receivable	461,978	-
Accrued revenue	631,468	-
Inventories	44,281	120,118
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	8,564,267	232,852
	<hr/>	<hr/>
NONCURRENT ASSETS:		
Deferred charges, net of accumulated amortization	132,018	-
	<hr/>	<hr/>
Capital assets:		
Land	381,023	-
Water rights	1,791,836	-
Source of supply	2,452,316	-
Pumping plant	549,304	-
Water treatment	100,129	-
Transmission/distribution	24,224,964	-
General plant	3,133,711	-
Equipment	-	1,522,599
Construction in progress	2,589,700	-
Less: accumulated depreciation	(15,409,315)	(1,214,027)
	<hr/>	<hr/>
Total capital assets (net of accumulated depreciation)	19,813,668	308,572
	<hr/>	<hr/>
TOTAL NONCURRENT ASSETS	19,945,686	308,572
	<hr/>	<hr/>
TOTAL ASSETS	28,509,953	541,424
	<hr/>	<hr/>

(Continued)

See independent auditors' report and notes to basic financial statements.

CITY OF LAKEWOOD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
(CONTINUED)

June 30, 2006

	Business-type Activity- Water Enterprise Fund	Governmental Activities- Internal Service Funds
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,286,365	\$ 86,185
Accrued liabilities	150,360	17,122
Due to the General Fund	11,222	3,699
Accrued revenue bond interest	33,309	-
Customer deposits	21,751	-
Current portion of revenue bonds	340,000	-
Current portion of reclaimed water loan	63,601	-
	<u>1,906,608</u>	<u>107,006</u>
TOTAL CURRENT LIABILITIES		
	1,906,608	107,006
NONCURRENT LIABILITIES:		
Revenue bonds	3,397,655	-
Reclaimed water loan	37,561	-
	<u>3,435,216</u>	<u>-</u>
TOTAL NONCURRENT LIABILITIES		
	3,435,216	-
TOTAL LIABILITIES	<u>5,341,824</u>	<u>107,006</u>
NET ASSETS		
Invested in capital assets, net of related debt	15,974,851	308,572
Unrestricted	7,193,278	125,846
	<u>23,168,129</u>	<u>\$ 434,418</u>
TOTAL NET ASSETS		
	23,168,129	\$ 434,418
Adjustment to reflect the consolidation of internal service fund activities related to the water enterprise fund	<u>(324,499)</u>	
Net assets of business-type activity	<u>\$ 22,843,630</u>	

See independent auditors' report and notes to basic financial statements.

CITY OF LAKEWOOD

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS

For the year ended June 30, 2006

	Business-type Activity- Water Enterprise Fund	Governmental Activities- Internal Service Funds
OPERATING REVENUES:		
Metered water sales	\$ 6,763,763	\$ -
Reclaimed water sales	172,999	-
Fire protection	24,454	-
Service initiation and restoration charges	38,860	-
Installation charges	3,845	-
Billings to departments	-	769,977
Other revenues	209,737	587
TOTAL OPERATING REVENUES	7,213,658	770,564
OPERATING EXPENSES:		
Operations:		
Supply, transmission and distribution	3,531,296	-
Customer service	570,992	-
Administration	323,279	-
Cost of goods sold	-	1,333,694
Depreciation	849,940	105,088
TOTAL OPERATING EXPENSES	5,275,507	1,438,782
OPERATING INCOME (LOSS)	1,938,151	(668,218)
NONOPERATING REVENUES (EXPENSES):		
Sales of pumping rights	187,000	-
Investment income	218,513	-
Interest expense on long-term debt	(175,382)	-
Amortization of deferred charges	(13,540)	-
Loss on disposal of assets	(9,411)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	207,180	-
INCOME (LOSS) BEFORE TRANSFERS	2,145,331	(668,218)
TRANSFERS IN	-	861,193
CHANGE IN NET ASSETS	2,145,331	192,975
NET ASSETS AT BEGINNING OF YEAR		241,443
NET ASSETS AT END OF YEAR		\$ 434,418
Change in net assets - water enterprise fund		
Adjustment to reflect the consolidation of internal service fund activities related to the water enterprise fund	(54,282)	
Change in net assets of business-type activity	\$ 2,091,049	

See independent auditors' report and notes to basic financial statements.

CITY OF LAKEWOOD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the year ended June 30, 2006

	Business-type Activity- Water Enterprise Fund	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 6,977,508	\$ -
Receipts from interfund services provided	-	752,977
Other operating receipts	209,737	-
Payments to suppliers	(1,921,791)	(808,827)
Payments to employees	(1,583,269)	(534,745)
Payments for interfund services used	-	587
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>3,682,185</u>	<u>(590,008)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers in	-	861,193
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the sale of pumping rights	187,000	-
Acquisition of capital assets	(3,042,152)	(237,225)
Principal paid on revenue bonds and state loan	(386,147)	-
Interest paid on revenue bonds and state loan	(152,750)	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,394,049)</u>	<u>(237,225)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	218,513	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	506,649	33,960
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,919,891	78,774
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 7,426,540</u>	<u>\$ 112,734</u>

(Continued)

See independent auditors' report and notes to basic financial statements.

CITY OF LAKEWOOD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(CONTINUED)

For the year ended June 30, 2006

	Business-type Activity- Water Enterprise Fund	Governmental Activities- Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 1,938,151	\$ (668,218)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	849,940	105,088
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivables	(12,600)	-
(Increase) decrease accrued revenue	(13,813)	-
(Increase) decrease in inventories	31,829	(17,000)
(Increase) decrease in prepaid items	-	-
Increase (decrease) in accounts payable	884,475	62,768
Increase (decrease) in accrued liabilities	11,032	(72,646)
Increase (decrease) in customer deposits	(6,829)	-
Total adjustments	1,744,034	78,210
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 3,682,185	\$ (590,008)

See independent auditors' report and notes to basic financial statements.

CITY OF LAKEWOOD

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2006

	<u>Agency Funds</u>
ASSETS:	
Cash and investments	\$ 15,883,379
Accounts receivable	81,894
Loans receivable	<u>1,213,403</u>
 TOTAL ASSETS	 <u><u>\$ 17,178,676</u></u>
LIABILITIES:	
Accounts payable	\$ 1,530,995
Deposits	14,384,359
Due to HUD	<u>1,263,322</u>
 TOTAL LIABILITIES	 <u><u>\$ 17,178,676</u></u>

See independent auditors' report and notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The reporting entity, "City of Lakewood," includes the accounts of the City, the Lakewood Redevelopment Agency (Agency), the Housing Authority of the City of Lakewood (Housing Authority), and the Lakewood Public Financing Authority (Financing Authority).

The City of Lakewood was incorporated April 16, 1954, under the general laws of the State of California and enjoys all the rights and privileges pertaining to "General Law" cities.

The Lakewood Redevelopment Agency was established November 1972, pursuant to the State of California Health and Safety Code Section 33000. The primary purpose of the Agency is to encourage private redevelopment of property and to rehabilitate areas suffering from physical and economic blight. The Agency has established three redevelopment project areas known as Town Center Project Area No. 1, approximately 261 acres; Project Area No. 2, approximately 160 acres; and Project Area No. 3, approximately 218 acres.

The Lakewood Housing Authority was created by resolution in July 1984, so that the City could apply directly to the U. S. Department of Housing and Urban Development for rental assistance on behalf of Lakewood residents.

The Lakewood Public Financing Authority was created on December 12, 1995, by a Joint Exercise of Powers Agreement between the City and the Agency pursuant to the State of California Joint Exercise of Powers Act. The primary purpose of the Financing Authority is assisting in the financing and refinancing of certain public programs and projects of the City or the Agency.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement 14. The City of Lakewood is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the City appoints a voting majority of the component unit's board or because the component unit will provide a financial benefit or impose a financial burden on the City. The City has accounted for the Agency, Housing Authority, and Financing Authority as "blended" component units. Despite being legally separate, these entities are so intertwined with the City that they are, in substance, part of the City's operations. Accordingly, the balances and transactions of these component units are reported within the funds of the City. Balances for the Agency are reported as separate funds in the Debt Service and Capital Projects Funds. The Housing Authority transactions are set forth as a separate fund in the Special Revenue Funds. The Financing Authority balances and transactions are reported as part of the Water Enterprise Fund. The following specific criteria were used in determining that the Agency, Housing Authority, and Financing Authority were blended component units:

1. The members of the City Council also act as the governing bodies of the Agency, the Housing Authority, and the Financing Authority.
2. The City and the Agency are financially interdependent. The City makes loans to the Agency for use on redevelopment projects. Property tax revenues of the Agency are used to repay the loans from the City.
3. The Agency, the Housing Authority, and the Financing Authority are managed by employees of the City. A portion of the City's salary and overhead expenses is billed to the Agency each year. No such allocation is made to the Housing Authority or the Financing Authority.
4. The City and the Financing Authority are financially interdependent. The Financing Authority arranges financing issues for the City. The City pays the debt service on the Financing Authority's financing issues.

Financial statements for the Agency can be obtained from the City of Lakewood Finance Department. No individual financial statements are prepared for the Housing Authority or Financing Authority.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Under the economic resources measurement focus, all assets and liabilities (current and long-term) are reported. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year in which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all the eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water enterprise fund and of the government's internal service funds are charges to customers for services. Operating expenses for the proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, generally only current assets and current liabilities are reported in the governmental funds. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for principal and interest on general long-term liabilities, claims and judgments, and compensated absences which are recognized as expenditures only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The accounts of the City are organized and operated on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts, established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The City reports the following major governmental funds:

General Fund

The General Fund is used to account for all revenues and activities financed by the City, except those required to be accounted for in another fund.

Redevelopment Agency Debt Service Fund

The Redevelopment Agency Debt Service Fund is used to account for the current interest and principal payments on the tax allocation bonds, interest on interfund loans from the City, and payments pursuant to ownership participation agreements.

Redevelopment Agency Capital Projects Fund

The Redevelopment Agency Capital Projects Fund is used to account for resources used in developing the project areas as well as the administrative costs incurred in sustaining Agency activities.

The City reports the following major enterprise fund:

Water Enterprise Fund

The Water Enterprise Fund is used to account for the construction, operation, and maintenance of the City water system.

Additionally, the City reports the following fund types:

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action for specified purposes.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities not accounted for in other funds.

Internal Service Funds

Internal Service Funds account for the financing of materials and supplies, maintenance, repair and replacement of vehicles and equipment, and printing services used by various departments of the City.

The City applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989 to the government-wide financial statements and proprietary fund financial statements, unless those pronouncements contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments

Investments are stated at fair value (quoted market price or the best available estimate thereof).

E. Cash and Cash Equivalents

A high level of funds are in short-term obligations of less than 30 days, including \$26,734,944 on deposit with the California Local Agency Investment Fund. For purposes of the statements of cash flows, all cash and investments held by the enterprise and internal service funds (including restricted cash and investments) are considered to be short term and, accordingly, are classified as cash and cash equivalents.

F. Capital Assets

Capital assets, which include land, site improvements, buildings and improvements, equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure assets consist of roads, bridges, streetlights, traffic signals and sewer lines. Capital assets are defined by the City as assets, with an initial cost of more than \$100 (\$25,000 for infrastructure assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Structures and improvements	50 years
Equipment	5 - 7 years
Infrastructure	20 - 50 years
Water treatment plant	10 years
General Plant	5 - 20 years
Transmission/distribution	20 - 40 years
Source of supply	30 years
Pumping plant	30 years

G. Inventories

Inventories are valued at cost on a weighted average basis. The inventories are recorded as expenditures when consumed. Water Enterprise Fund inventories consist primarily of water pipe, valves, and fittings. Governmental Activities inventories consist primarily of recreation equipment, maintenance and repair supplies, fuel, and office supplies.

H. Prepaid Items

Prepaid items are recorded as expenditures when consumed.

I. Land Held for Resale

Land held for resale is recorded at the lower of acquisition cost or net realizable value in the Redevelopment Agency Capital Projects Fund.

J. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick leave (compensated absences). All vacation pay and eligible sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. Amounts expected to be liquidated in the current period with expendable available resources are reported in the governmental funds that will pay it (primarily the General Fund).

Unpaid compensated absences of proprietary funds are recorded as a liability in those funds as the vested benefits to the employees accrue.

See independent auditors' report.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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 Lakewood accrues only those taxes which are received from the county within 60 days after year end.

Lien Date	January 1
Levy Date	June 30
Due Dates	November 1 and February 1
Collection Dates	December 10 and April 10

L. Claims and Judgments

When it is probable that a claim liability has been incurred at year-end and the amount of the loss can be reasonably estimated, the City records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2006, the City Attorney estimated no additional claim liability. Small dollar claims and judgments are recorded as expenditures when paid.

The City's self-insurance program is administered through a Joint Powers Authority (the Authority), which is described at Note 10. The Authority is a public entity risk pool. Claims losses recorded in the Authority include both current claims and Incurred But Not Reported claims (IBNR). Deposits to the Authority are recorded by the City as insurance expenditures in the General Fund when paid. These deposits are subject to retrospective adjustment. Favorable claims experience in prior years results in a refund of deposits from the Authority and such refunds, if any, are recorded as a reduction of insurance expenditures. Adverse claims experience in prior years results in the payment of additional deposits and such deposits, if any, are recorded as insurance expenditures when paid.

A designation for self-insurance totaling \$3,467,000 is recorded in the General Fund. (See Note 8).

M. Deferred Amounts

Deferred charges (bond issuance costs) and deferred amounts for issuance premiums and on refunding debt are being amortized over the life of the respective issues on a straight-line basis.

N. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Specifically, the City has made certain estimates and assumptions related to the collectibility of its receivables, the depreciation of its capital assets and the ultimate outcome of claims and judgments. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2006 are classified in the accompanying financial statements as follows:

	Government- Wide Statement of Net Assets	Fiduciary Fund Statement of Assets and Liabilities	Total
Unrestricted assets:			
Cash and investments	\$ 59,028,035	\$ 15,883,379	\$ 74,911,414
Temporarily restricted assets:			
Cash and investments	21,751	-	21,751
Cash and investments with fiscal agent	<u>1,502,409</u>	<u>-</u>	<u>1,502,409</u>
Total Cash and Investments	<u>\$ 60,552,195</u>	<u>\$ 15,883,379</u>	<u>\$ 76,435,574</u>

See independent auditors' report.

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Cash and investments at June 30, 2006 consisted of the following:

Cash on hand	\$ 2,700
Deposits with financial institutions	1,978,407
Investments	<u>74,454,467</u>
Total Cash and Investments	<u>\$ 76,435,574</u>

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed (2)	Maximum Investment in One Issuer
U.S. Treasury Bills, Bonds and Notes	5 years (1)	None	None
U.S. Government Sponsored Enterprise Securities	5 years (1)	None	None
Banker's Acceptances Notes	180 days	35%	30%
Negotiable Certificates of Deposits	5 years	30%	None
Repurchase Agreements	1 year	15%	None
Medium-Term Corporate Notes	5 years	30%	None
Commercial Paper	270 days	25%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None
Mutual Funds	5 years	15%	10%
Los Angeles County Pooled Fund	N/A	None	None

(1) Treasury notes and bonds and FNMA and FHLB debentures with maturities up to 7 years can be purchased subject to pre-approval of the City's Board. A maximum of 25% of the City's funds can be invested in such securities between 5 and 7 years.

(2) At least 40% of the City's funds must be invested in securities with a maturity less than 1 year.

N/A - Not Applicable

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. Investments authorized for funds held by bond trustee include, U.S. Treasury Obligations, U.S. Government Sponsored Enterprise Securities, Certificates of Deposits, Commercial Paper, Local Agency Bonds, Banker's Acceptance, Money Market Mutual Funds, Investment Agreements, Repurchase Agreements, Local Agency Investment Fund of the State of California and any other investments permitted in writing by bond insurer. There were no limitations on the maximum amount that can be invested in one issuer, maximum percentage allowed or the maximum maturity of an investment.

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Remaining Maturity (in Months)			Total
	12 Months or Less	13 - 24 Months	25 - 60 Months	
Local Agency Investment Fund	\$ 26,734,944	\$ -	\$ -	\$ 26,734,944
U.S. Government Sponsored Enterprise Securities:				
Federal Home Loan Mortgage Corporation (FHLMC)	9,878,654	960,000	1,992,170	12,830,824
Federal Home Loan Bank (FHLB)	8,889,375	4,894,688	4,930,000	18,714,063
Federal Farm Credit Bank (FFCB)	989,375	3,898,750	4,865,625	9,753,750
Federal National Mortgage Association (FNMA)	2,965,938	1,955,313	-	4,921,251
Held by Bond Trustee:				
Money Market Mutual Funds	1,499,635	-	-	1,499,635
	<u>\$ 50,957,921</u>	<u>\$ 11,708,751</u>	<u>\$ 11,787,795</u>	<u>\$ 74,454,467</u>

Disclosures Relating to Credit Risk

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

Investment Type	Total as of June 30, 2006	Minimum Legal Rating	AAA	A	Unrated
Local Agency Investment Fund	\$ 26,734,944	N/A	\$ -	\$ -	\$ 26,734,944
U.S. Government Sponsored Enterprise Securities	46,219,888	AAA	46,219,888	-	-
Held by Bond Trustee: Money Market Funds	1,499,635	A	-	1,499,635	-
	<u>\$ 74,454,467</u>		<u>\$ 46,219,888</u>	<u>\$ 1,499,635</u>	<u>\$ 26,734,944</u>

N/A - Not Applicable

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total City's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Mortgage Corporation	U.S. Government Sponsored Enterprise Securities	\$ 12,830,824
Federal Home Loan Bank	U.S. Government Sponsored Enterprise Securities	18,714,063
Federal Farm Credit Bank	U.S. Government Sponsored Enterprise Securities	9,753,750
Federal National Mortgage Association	U.S. Government Sponsored Enterprise Securities	4,921,251

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2006, the City deposits (bank balances) were insured by the Federal Depository Insurance Corporation up to \$100,000 and the remaining balance of the deposits of \$344,693 were collateralized under California Law.

Investment in State Investment Pool

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.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

Governmental Activities:

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 18,394,023	\$ -	\$ -	\$ 18,394,023
Construction in progress	2,123,935	3,990,893	(3,779,867)	2,334,961
Total capital assets, not being depreciated	20,517,958	3,990,893	(3,779,867)	20,728,984
Capital assets, being depreciated:				
Structures and improvements	32,859,658	741,433	-	33,601,091
Equipment	9,930,905	1,080,040	-	11,010,945
Infrastructure	110,593,412	2,884,361	-	113,477,773
Total capital assets, being depreciated	153,383,975	4,705,834	-	158,089,809
Less accumulated depreciation for:				
Structures and improvements	(13,836,883)	(645,978)	-	(14,482,861)
Equipment	(8,398,986)	(556,158)	-	(8,955,144)
Infrastructure	(78,630,051)	(1,719,530)	-	(80,349,581)
Total accumulated depreciation	(100,865,920)	(2,921,666)	-	(103,787,586)
Total capital assets, being depreciated, net	52,518,055	1,784,168	-	54,302,223
Total governmental activities capital, net	\$ 73,036,013	\$ 5,775,061	\$ (3,779,867)	\$ 75,031,207

NOTE 3 - CAPITAL ASSETS (CONTINUED)

Business-type Activity:

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006
Capital assets, not being depreciated				
Land	\$ 381,023	\$ -	\$ -	\$ 381,023
Water rights	1,791,836	-	-	1,791,836
Construction in progress	1,561,505	2,905,991	(1,877,796)	2,589,700
Total capital assets, not being depreciated	3,734,364	2,905,991	(1,877,796)	4,762,559
Capital assets, being depreciated:				
Source of supply	2,452,316	-	-	2,452,316
Pumping plant	549,304	-	-	549,304
Water treatment	100,129	-	-	100,129
Transmission/distribution	22,319,984	1,914,635	(9,655)	24,224,964
General plant	3,034,389	99,322	-	3,133,711
Total capital assets, being depreciated	28,456,122	2,013,957	(9,655)	30,460,424
Less accumulated depreciation for:				
Source of supply	(1,379,608)	(209,302)	-	(1,588,910)
Pumping plant	(482,782)	(4,386)	-	(487,168)
Water treatment	(65,336)	(5,541)	-	(70,877)
Transmission/distribution	(10,005,247)	(560,552)	244	(10,565,555)
General plant	(2,626,646)	(70,159)	-	(2,696,805)
Total accumulated depreciation	(14,559,619)	(849,940)	244	(15,409,315)
Total capital assets, being depreciated, net	13,896,503	1,164,017	(9,411)	15,051,109
Total business-type activity, capital assets, net	\$ 17,630,867	\$ 4,070,008	\$ (1,887,207)	\$ 19,813,668

Depreciation expense:

Depreciation expense was charged to City functions/programs as follows:

Governmental activities:

General government	\$ 223,360
Public safety	77,538
Transportation	50,267
Community development	158,358
Health and sanitation	1,901
Culture and leisure	585,624
Internal service funds depreciation charged to programs	105,088
Unallocated infrastructure depreciation	1,719,530

Total depreciation expense - governmental activities \$ 2,921,666

Business type activity:

Water \$ 849,940

NOTE 4 - LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions for the year ended June 30, 2006:

Governmental Activities:

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006	Due Within One Year
Agency Tax Allocation Bonds:					
1999 Series A	\$ 6,055,000	\$ -	\$ (310,000)	\$ 5,745,000	\$ 360,000
2003 Series A	5,205,000	-	(330,000)	4,875,000	340,000
2003 Series B	2,630,000	-	(150,000)	2,480,000	160,000
Plus (less) deferred amounts:					
For issuance premium	58,855	-	(4,837)	54,018	-
On refunding	(113,365)	-	9,318	(104,047)	-
Total Agency Tax Allocation Bonds	13,835,490	-	(785,519)	13,049,971	860,000
Compensated absences	1,031,944	856,797	(834,363)	1,054,378	562,607
Total Governmental Activities	14,867,434	856,797	(1,619,882)	14,104,349	1,422,607
Business-type Activity:					
Water Revenue Bonds:					
2004 Bonds	4,315,000	-	(325,000)	3,990,000	340,000
Plus (less) deferred amounts:					
For issuance premiums	93,407	-	(8,689)	84,718	-
On refunding	(371,634)	-	34,571	(337,063)	-
Total Water Revenue Bonds	4,036,773	-	(299,118)	3,737,655	340,000
Loan payable to State of California	162,309	-	(61,147)	101,162	63,601
Total Business-type Activity	4,199,082	-	(360,265)	3,838,817	403,601
City Total	\$ 19,066,516	\$ 856,797	\$ (1,980,147)	\$ 17,943,166	\$ 1,826,208

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)

Governmental Activities**A. Agency Tax Allocation Bonds - Series 1999A, Series 2003A and Series 2003B**Series 1999A

On October 1, 1999, the Agency issued \$6,760,000 Redevelopment Project No. 1 Tax Allocation Parity Refunding Bonds, 1999 Series A, to refinance a portion of the 1992A Bonds and to finance certain obligations under a Participation Agreement with Lakewood Mall Business Company. The 1999A Bonds are secured by a pledge of tax increment revenue from Project Area No. 1.

The 1999A Bonds are serial bonds maturing annually each September 1 through the calendar year 2017, and bear interest at rates ranging from 4.0% to 5.4%. Interest is payable semiannually on March 1 and September 1. The 1999A Bonds maturing on or after September 1, 2010, are subject to redemption prior to maturity at the option of the Agency as a whole, or in part, on or after September 1, 2009, by such maturities as designated by the Agency and by lot within a maturity, at a redemption price equal to the principal amount to be redeemed, plus a premium (expressed as a percentage of the principal amount of bonds to be redeemed) plus accrued interest to the redemption date. The redemption prices range from 100% to 102%.

As of June 30, 2006 the balance of the Series 1999A Bonds is \$5,745,000.

Total debt service requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 360,000	\$ 281,445	\$ 641,445
2008	375,000	265,088	640,088
2009	390,000	247,583	637,583
2010	410,000	228,777	638,777
2011	430,000	208,613	638,613
2012 - 2016	2,550,000	680,308	3,230,308
2017 - 2018	1,230,000	67,079	1,297,079
Total	<u>\$ 5,745,000</u>	<u>\$ 1,978,893</u>	<u>\$ 7,723,893</u>

Series 2003A

On October 28, 2003, the Agency issued \$5,565,000 Redevelopment Project No. 1 Tax Allocation Parity Refunding Bonds, 2003 Series A, to refinance the outstanding 1992A Bonds. The Series 2003A Bonds were issued at a premium of \$66,514. This premium is being amortized on a straight-line basis as an adjustment to interest expense on the statement of activities through the year 2017. The 2003A Bonds are secured by a pledge of tax increment revenue from Project Area No. 1 on a parity with the remaining 1999A Bonds.

The 2003A Bonds are serial bonds maturing annually each September 1 through the calendar year 2017, in amounts ranging from \$340,000 to \$490,000, and bear interest at rates ranging from 2.5% to 4.15%. Interest is payable semiannually on March 1 and September 1. The 2003A Bonds maturing on or after September 1, 2014, are subject to redemption prior to maturity at the option of the Agency as a whole, or in part, on or after September 1, 2013, by such maturities as designated by the Agency and by lot within a maturity, at a redemption price equal to one hundred percent (100%) of the principal amount to be redeemed, plus accrued interest to the redemption date.

As of June 30, 2006, the balance of the Series 2003A Bonds is \$4,875,000.

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)

Governmental Activities (Continued)

A. Agency Tax Allocation Bonds - Series 1999A, Series 2003A and Series 2003B (Continued)

Series 2003A (Continued)

Series 2003A total debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest	Total
2007	\$ 340,000	\$ 169,592	\$ 509,592
2008	345,000	160,167	505,167
2009	360,000	149,593	509,593
2010	370,000	138,180	508,180
2011	380,000	125,518	505,518
2012 - 2016	2,115,000	404,659	2,519,659
2017 - 2018	965,000	40,002	1,005,002
Total	<u>\$ 4,875,000</u>	<u>\$ 1,187,711</u>	<u>\$ 6,062,711</u>

Series 2003B

On October 28, 2003, the Agency issued \$2,085,000 Redevelopment Project No. 1 Taxable Tax Allocation Parity Refunding Bonds, 2003 Series B, to refinance the outstanding 1992B Bonds. The 2003B Bonds are secured by a pledge of tax increment revenue from Project Area No. 1 on a parity with the remaining 1999A Bonds.

The 2003B Bonds are serial bonds maturing annually each September 1 through the calendar year 2017, in amounts ranging from \$160,000 to \$270,000, and bear interest at rates ranging from 3.89% to 5.59%. Interest is payable semiannually on March 1 and September 1. The 2003B Bonds maturing September 1, 2017, are subject to redemption prior to maturity at the option of the Agency as a whole, or in part, on or after September 1, 2013, by such maturities as designated by the Agency and by lot within a maturity, at a redemption price equal to one hundred percent (100%) of the principal amount to be redeemed, plus accrued interest to the redemption date.

As of June 30, 2006, the balance of the Series 2003B Bonds is \$2,480,000.

Series 2003B total debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 160,000	\$ 122,650	\$ 282,650
2008	165,000	116,329	281,329
2009	170,000	109,813	279,813
2010	180,000	101,880	281,880
2011	190,000	92,372	282,372
2012 - 2016	1,090,000	301,196	1,391,196
2017 - 2018	525,000	29,767	554,767
Total	<u>\$ 2,480,000</u>	<u>\$ 874,007</u>	<u>\$ 3,354,007</u>

B. Compensated Absences

There is no fixed payment schedule for earned but unpaid compensated absences.

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)

Business-type Activity:**C. Water Revenue Bonds Payable**

On April 15, 2004 the City issued \$4,635,000 Water Refunding Bonds to refinance the outstanding 1996 Water-Bond. The 2004 Bonds are secured by a charge and lien on net revenue of the water enterprise.

The 2004 Bonds are revenue bonds maturing annually each April 1 through the calendar year 2016, in amounts ranging from \$340,000 to \$460,000, and bear interest at rates ranging from 3% to 4%. Interest is payable semiannually on April 1 and October 1.

The annual requirements to amortize the bonds outstanding at June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 340,000	\$ 133,238	\$ 473,238
2008	355,000	119,638	474,638
2009	370,000	105,438	475,438
2010	380,000	94,338	474,338
2011	390,000	82,938	472,938
2012 - 2016	<u>2,155,000</u>	<u>222,131</u>	<u>2,377,131</u>
Total	<u>\$ 3,990,000</u>	<u>\$ 757,721</u>	<u>\$ 4,747,721</u>

D. Loan Payable to State of California

The water utility constructed a six-mile reclaimed waterline funded in part by a loan from the State of California Water Resources Control Board. A loan of \$864,831 was received in February, 1989. The term of the loan is 18-1/2 years at an interest rate of 4.01%. Principal and interest payments are due on May 31 of each year, beginning May 31, 1990. The final payment is due December 22, 2007.

The annual requirements to amortize the loan outstanding at June 30, 2006, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 63,601	\$ 4,059	\$ 67,660
2008	<u>37,561</u>	<u>847</u>	<u>38,408</u>
Total	<u>\$ 101,162</u>	<u>\$ 4,906</u>	<u>\$ 106,068</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances were as follows at June 30, 2006:

Due To / From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Redevelopment Agency Capital Projects	\$ 7,663
	Other Governmental	4,005
	Water Enterprise	11,222
	Internal Service	3,699
Other Governmental	General	71,137
	Other Governmental	67,108
		<u>\$ 164,834</u>

The interfund payable balances in the Central Stores Internal Service Fund and General Fund represent routine cash flow assistance from the General Fund and Other Governmental Funds, respectively. The interfund payable in the Other Governmental Funds represents a net amount owed to the Redevelopment Agency from the City.

Advances From / To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Redevelopment Agency Debt Service	\$ 27,496,646
Redevelopment Agency Capital Projects	Redevelopment Agency Debt Service	203,607
		<u>\$ 27,700,253</u>

The City provides advances to the Redevelopment Agency to assist the Agency with its operating budget and redevelopment activities. The interest rate on the advances is 12% per annum compounded annually on the outstanding principal portion only. Accrued unpaid interest totaling \$8,688,402 at June 30, 2006 is included in the advance balance. Since the accrued unpaid interest due to the City is not available as a resource to meet expenditures of the current year, it has been recorded as deferred revenue in the General Fund.

Transfers

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 1,801,197
Redevelopment Agency Capital Projects Fund	Redevelopment Agency Debt Service Fund	5,184,785
Other Governmental Funds	General Fund	2,867,539
	Other Governmental Funds	1,094,846
Central Stores Internal Service Fund	General Fund	36,608
Central Garage Internal Service Fund	General Fund	590,027
Print Shop Internal Service Fund	General Fund	234,558
		<u>\$ 11,809,560</u>

Transfers provided funding for capital projects, capital acquisitions, debt service, central stores services, central garage service and print shop services.

NOTE 6 - DEFINED BENEFIT PENSION PLAN

Plan Description

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions, as well as other requirements, is established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

The City makes all of the contributions required of City employees on their behalf and for their account. The employee portion of the rates is set by statute and therefore remains unchanged from year to year. The member rate as a percentage of wages for local miscellaneous members is 7%.

Additionally, the City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2005-06 was 10.424% for local miscellaneous members. The contribution requirements of the plan members are established by State statute and the employer contribution rates were established and may be amended by CalPERS.

Annual Pension Cost

For fiscal year 2005-06, the City's actual and contributed pension cost was \$2,149,780. The required contribution for fiscal year 2005-06 was determined as part of the June 30, 2003, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) a 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by age, length of service and type of employment from 3.25% to 14.45%, (c) a 3.0% inflation rate; (d) a 3.25% payroll growth rate; and (e) a merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.0% and an annual production growth of 0.25%. The actuarial value of the Plan's assets were determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three-year period. Initial unfunded liabilities are amortized over a closed period that depends on the Plan's date of entry into CalPERS. Subsequent Plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the Plan are amortized over a rolling period which results in an amortization of 10% of unamortized gains and losses each year. If the Plan's accrued liability exceeds the actuarial value of Plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Funding Status and Progress

Three-Year Trend Information for the Miscellaneous Plan:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
<u>Miscellaneous Employees</u>			
6/30/04	\$ 780,780	100%	\$ -
6/30/05	1,153,940	100%	-
6/30/06	2,149,780	100%	-

See independent auditors' report.

NOTE 6 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Schedule of Funding Progress for PERS

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess Assets)	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
6/30/03	\$ 52,848,559	\$ 50,547,536	\$ 2,301,023	95.6%	\$10,913,894	21.1%
6/30/04	56,706,337	52,531,669	4,174,668	92.6%	11,170,184	37.4%
6/30/05	61,504,528	56,360,327	5,144,201	91.6%	11,913,171	43.2%

NOTE 7 - DEFERRED COMPENSATION PLAN

The City has made available to its employees two deferred compensation plans, whereby employees authorize the City to withhold funds from salary to be invested in the ICMA Retirement Corporation or the California Public Employees Retirement System (PERS) California Employees Deferred Compensation Plan. Funds may be withdrawn by participants upon termination of employment or retirement. The City makes no contributions under the plans. The City withholds employee contributions from employee's payroll checks and transmits these monies to the plan providers on a bi-weekly basis. The City makes distributions from the plans based solely upon authorizations from the plan administrator.

Pursuant to changes in Internal Revenue Code (IRC) Section 457 on November 26, 1997, the City formally established a plan level trust in which all assets and income of the 457 plan were placed. The assets, all property and rights purchased with such amount, and all income attributable to such amounts, property, or rights are held in trust for the exclusive benefit of the participants and their beneficiaries. These assets are no longer the property of the City and, as such, are no longer subject to the claims of the City's general creditors. As a result, the assets of the 457 plan are no longer reflected in the Agency fund in which they were previously recorded. The City had minimal involvement in the administration of the 457 plan and, therefore, lacks the fiduciary accountability that would have required the 457 plan be recorded in an expendable trust fund.

NOTE 8 - RESERVES AND DESIGNATIONS OF FUND BALANCES

A city may set up "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" also may be established to indicate tentative plans for financial resource utilization in a future period.

The City's reserves and designations at June 30, 2006, are tabulated below, followed by explanations as to the nature and purpose of each reserve and designation.

Reserves	General Fund	Redevelopment Agency Debt Service Fund	Redevelopment Agency Capital Projects Fund	Other Governmental Funds
Encumbrances	\$ 376,871	\$ -	\$ -	\$ 54,780
Continuing appropriations	8,357,048	-	-	1,821,574
Personnel benefits	4,135,737	-	-	-
Debt service	-	1,501,266	-	-
Land held for resale	-	-	652,756	-
Low and moderate housing	-	-	4,897,194	-
Prepaid items	6,125	-	-	-
Advances	18,805,124	-	203,607	-
Special revenue purposes	-	-	-	2,067,506
Other reserves	1,007,257	-	-	-
Total reserves	\$ 32,688,162	\$ 1,501,266	\$ 5,753,557	\$ 3,943,860

See independent auditors' report.

NOTE 8 - RESERVES AND DESIGNATIONS OF FUND BALANCES (CONTINUED)

Designations	General Fund
Self-Insurance	\$ 3,467,000
Capital improvements	3,445,907
Facilities replacement	3,378,068
Equipment replacement	3,451,907
General contingencies	5,016,259
Infrastructure improvements	4,000,000
Refuse disposal rate stabilization	614,132
Civic Center improvements	<u>1,000,000</u>
Total designations	<u>\$ 24,373,273</u>

A. Reserve for Encumbrances

Amounts reserved for encumbrances are commitments for materials and services on purchase orders and contracts which are unperformed.

B. Reserve for Continuing Appropriations

Appropriations for capital projects which are unexpended as of June 30, 2006, will carry forward as continuing appropriations to be expended in 2006-07.

C. Reserve for Personnel Benefits

This reserve provides for additional negotiated personnel benefits, as provided in the memorandum of understanding effective July 1, 2006.

D. Reserve for Debt Service

The Tax Increment Bond Resolutions require that reserves be established.

E. Reserve for Land Held for Resale

This reserve is provided to indicate that land held for resale is not "available" as a resource to meet expenditures of the current year.

F. Reserve for Low and Moderate Housing

These funds are reserved for low and moderate housing, as required by the State of California Health and Safety Code Sections 33334.2 and 33334.3.

G. Reserve for Prepaid Items

This reserve is provided to indicate that prepaid items are not "available" as a resource to meet expenditures of the current year.

H. Reserve for Advances

This reserve is provided to indicate that advances are not "available" as a resource to meet expenditures of the current year.

See independent auditors' report.

NOTE 8 - RESERVES AND DESIGNATIONS OF FUND BALANCES (CONTINUED)

I. Reserve for Special Revenue Purposes

These funds are reserved for the specific special revenue purposes as restricted by law or administrative action. They include funds which may only be used for street maintenance and construction, park and recreation purposes, sewer reconstruction, certain transportation purposes, federal housing grants, prevention of drug abuse, and to reduce air pollution from mobile sources.

J. Other Reserves

Other reserves have been established for economic development loans funded by grants.

K. Designated for Self-Insurance

These funds have been designated to provide for the general liability and workers' compensation insurance programs. The City is a member of the CALIFORNIA Joint Powers Insurance Authority as described in Note 10.

L. Designated for Capital Improvements

These funds are designated to provide for new capital additions as determined by the City Council.

M. Designated for Facilities Replacement

These funds are designated to provide primarily for the replacement of existing buildings which are expected to require reconstruction or major renovation in the future.

N. Designated for Equipment Replacement

These funds are designated to provide primarily for replacement of major City equipment, such as office and computer equipment and equipment at City swimming pools.

O. Designated for General Contingencies

The remainder of the unreserved fund balance at June 30, 2006, in the General Fund has been designated for general contingencies.

P. Designated for Infrastructure Improvements

These funds are designated to provide for new infrastructure improvements as determined by the City Council.

Q. Designated for Refuse Disposal Rate Stabilization

These funds are designated to provide for refuse disposal rate stabilization as determined by the City Council.

R. Designated for Civic Center Improvements

These funds are designated to provide for a Civic Center Master Plan and its eventual implementation.

NOTE 9 - HOUSING AND COMMUNITY DEVELOPMENT LOAN PROGRAM

The City makes deferred loans to senior citizens, the physically handicapped, and low- and moderate-income residents which are not repaid until the title to the property changes. In Fiscal Year 1996-97, the City began to use Redevelopment Agency low and moderate housing 20% set-aside funds to provide housing rehabilitation loans to eligible applicants. Through Fiscal Year 1997-98, the City also used Housing and Community Development Block Grant (CDBG) funds to provide these loans. The rehabilitation loans made from Redevelopment Agency low and moderate housing 20% set-aside funds are reflected in the Lakewood Redevelopment Agency Capital Projects Fund. Due to the long-term nature of the loans, the City has deferred recognition of revenues until receipt. The rehabilitation loans made from CDBG funds and all HUD cash held for rehabilitation loans are reflected in the Housing Rehabilitation Agency Fund. Since the Department of Housing and Urban Development has a claim to any funds remaining when the program is terminated, these funds are reported as "Due to Other Governments" in the Agency Fund.

NOTE 10 - LIABILITY, PROPERTY AND WORKERS' COMPENSATION PROTECTION

A. Description of Self-insurance Pool Pursuant to Joint Powers Agreement

The City is a member of the California Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is composed of 109 California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500 et. seq. The purpose of the Insurance Authority is to arrange and administer programs for the pooling of self-insured losses, purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for the property and other coverages. The Insurance Authority'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 9-member Executive Committee.

B. Self-insurance Programs of the Authority

General Liability Insurance. 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. Claims are pooled separately between police and nonpolice. Loss development reserves are allocated by pool and by loss layer. Costs are spread to members as follows: the first \$30,000 of each occurrence is charged directly to the member; costs from \$30,000 to \$750,000 and the loss development reserves associated with losses up to \$750,000 are pooled based on the member's share of losses under \$30,000. Losses from \$750,000 to \$10,000,000 and the loss development reserve associated with losses \$750,000 to \$10,000,000 are pooled based on payroll. Costs of covered claims above \$10,000,000 are currently paid by excess insurance. The protection for each member is \$50,000,000 per occurrence and \$50,000,000 annual aggregate. Administrative expenses are paid from the Insurance Authority's investment earnings.

Workers' Compensation. The City also participates in the workers' compensation pool administered by the Insurance Authority. Claims are pooled separately between public safety and nonpublic safety. Loss development reserves are allocated by pool and by loss layer. Members retain the first \$50,000 of each claim. Losses from \$50,000 to \$100,000 and the loss development reserve associated with losses up to \$100,000 are pooled based on the member's share of losses under \$50,000. Losses from \$100,000 to \$2,000,000 are pooled based on payroll. Costs from \$2,000,000 to \$150,000,000 are transferred to an excess insurance policy. Costs in excess of \$150,000,000 are pooled among the Members based on payroll. Administrative expenses are paid from the Insurance Authority's investment earnings.

C. Insurance Coverage

Property Insurance. The City participates in the all-risk property protection program of the Insurance Authority. 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 Insurance Authority. Total all-risk property insurance coverage is \$36,998,501. 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 Authority. City property currently has earthquake protection in the amount of \$24,128,630. 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.

NOTE 10 - LIABILITY, PROPERTY AND WORKERS' COMPENSATION PROTECTION (CONTINUED)

C. Insurance Coverage (Continued)

Fidelity Bonds. The City purchases blanket fidelity bond coverage in the amount of \$5,000,000 with a \$2,500 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retroactive adjustments.

Environmental Insurance. The City participates in the pollution legal liability and remediation legal liability insurance which is available through the Insurance Authority. 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 Insurance Authority has a limit of \$50,000,000 for the 3-year period from July 1, 2005 through July 1, 2008. Each member of the Insurance Authority has a \$10,000,000 limit during the 3-year term of the policy.

Special Event Tenant User Liability Insurance. The City further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain activities on City property. The insurance premium is paid by the tenant user and is paid to the City according to a schedule. The City then pays for the insurance. The insurance is arranged by the Authority.

Separate financial statements of the Insurance Authority may be obtained at 4952 La Palma Avenue, La Palma, California 90623.

D. 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 insurance liability coverage from coverage in the prior year.

NOTE 11 - POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 7, the City provides a post-retirement medical care benefit under the terms of a Memorandum of Understanding (MOU) between the City and its employees. The benefit is in the form of a monthly supplemental payment to assist qualified retirees with premium payment on medical insurance. Effective July 1, 1989, this benefit is available to all employees retiring under the Public Employees Retirement System directly from Lakewood City service on or after attaining age 60 and who have completed at least 15 years of continuous service to the City as a full-time, regular employee immediately prior to retiring. Effective July 1, 2001, this benefit was modified and is also available to all employees retiring under the Public Employees Retirement System directly from Lakewood City service on or after age 55 and who have completed at least 20 years of continuous service to the City as a full-time, regular employee immediately prior to retiring. The benefit is a "defined dollar benefit" set at \$302 per month on July 1, 2004, continuing until the retiree has met the insured status requirements for Medicare. Thereafter, the payment is decreased to \$266 per month. The benefit is increased annually according to the terms of the MOU. The maximum term of benefits paid a qualifying employee is equal to the number of months of continuous Lakewood City service.

Expenditures for this post-retirement benefit are recognized as retirees file claims. During the year, expenditures of \$88,992 were recognized. 26 employees were covered by the plan.

NOTE 12 - CONTINGENT LIABILITIES

- A. Numerous claims and suits have been filed against the City in the normal course of business. Based upon information received from the City Attorney and the self-insurance administrator, the estimated liability under such claims would be adequately covered by self-insurance designations and insurance coverage.
- B. The City contracts for policing services through the Los Angeles County Sheriff's Department. As part of the agreement for services, the City is required to pay an additional 6% premium over the contract price to the Sheriff's Department for liability insurance. This amount is held by the County in a Liability Trust Fund and provides for the payment of claims brought against the Sheriff's Department.

NOTE 13 - EDA REVOLVING LOAN FUND GRANT

The Gateway Cities Council of Governments has received grant funds for economic development from the Economic Development Administration (EDA). On August 24, 1999, the City of Lakewood approved an agreement with the Gateway Cities Council of Governments, of which the City of Lakewood is a member, to receive \$666,725 of these funds as a sub-grantee. These funds were used to establish a commercial revolving loan fund to provide for business expansion, economic development, and job creation in Lakewood. The revolving loan fund particularly targets industrial, manufacturing, and commercial businesses adjacent to the Boeing plant and Long Beach Airport and at the 19-acre former Rockwell site in Lakewood. This is a matching grant program. The funds received from the EDA have been matched with \$85,000 from a California Trade and Commerce Agency Defense Adjustment Matching Grant and \$168,245 in Community Development Block Grant (CDBG) funds. The outstanding balance, which is reported in the General Fund, as of June 30, 2006 was \$478,496.

NOTE 14 - HOUSING REHABILITATION LOAN PROGRAM

The Agency makes deferred loans to senior citizens, the physically handicapped, and low- and moderate-income residents which are not repaid until the title to the property changes. In Fiscal Year 1996-97, the Agency began to use Redevelopment Agency low and moderate housing 20% set-aside funds to provide housing rehabilitation loans to eligible applicants. The rehabilitation loans made from Redevelopment Agency low and moderate housing 20% set-aside funds are reported in the Lakewood Redevelopment Agency Capital Projects Fund. Due to the long-term nature of the loans, the Agency has deferred recognition of revenues until receipt. As of June 30, 2006, outstanding loans under this program totaled \$2,797,267 in the Redevelopment Agency Capital Projects Fund.

NOTE 15 - OTHER AGREEMENTS

On June 13, 1989, the Agency entered into an agreement for the allocation of tax increment revenue generated from Project Area No. 2. As part of the agreement, the Agency is required to reimburse the Consolidated Fire Protection District of Los Angeles County 17.26% of tax increment revenues and Los Angeles County 54.59% of tax increment revenue. The Los Angeles County portion may be deferred in any year under certain terms of the agreement until total tax increment of the Agency reaches a cumulative total of \$60,000,000. After the total reaches \$60,000,000, the Agency is required to reimburse Los Angeles County 100% of tax increment revenue (net of the allocation to the Consolidated Fire Protection District of Los Angeles County) until the deferred sums have been repaid. Interest on any deferral amounts was prepaid in a lump sum of \$842,000 in Fiscal Year 1990-91. At June 30, 2006, the Agency's outstanding deferral balance is \$522,498.

On September 14, 1999, the Agency also approved an agreement to lease 1,900 parking stalls from the Lakewood Mall Business Company to provide public parking. Rent is comprised of basic rent and additional rent. The basic rent is \$450,000 per year. The additional rent is based on the amount of additional tax increment received above a base year amount and is capped at \$300,000 per year. The agreement also allows for catch up payments in the event that additional rent is less than the cap in the first three years of the lease. Catch up payments are only due when additional rent exceeds the \$300,000 annual cap in future years. The Agency also entered into a sublease with the developer in order for the developer to operate and maintain the premises as public facilities. The annual lease payments will be paid with tax increment revenues generated by the Mall. For the fiscal year ended June 30, 2006, the Agency's obligation under this agreement totaled \$750,000.

On August 27, 2002, the Lakewood Redevelopment Agency entered into a twelve-year agreement with Pacific Ford, Inc., and HJCH II for a rehabilitation reimbursement in the amount not to exceed \$1,890,000 to be paid quarterly based on a tax revenue generated by the Ford dealership and any other dealership on the property acquired and to be acquired by HJCH II. Pacific Ford and HJCH II guarantee for the term of the agreement a minimum amount of sales per year subject to California sales tax. In the event the minimum is not achieved in the aggregate for the term of the agreement, the participant shall reimburse the City of Lakewood for the amount of sales tax revenue not generated. In addition, the Agency extended its existing lease of a parcel on Cherry Avenue to Pacific Ford and renewed the option to purchase that parcel. For the year ended June 30, 2006, the Agency made no payments in relation to this agreement.

NOTE 15 - OTHER AGREEMENTS (CONTINUED)

On December 16, 1998, the Agency entered into a participation agreement with Golden State Health Centers, Inc., which reimburses all tax increment revenues which the Agency receives from the redevelopment of the site located at 11695 Del Amo Boulevard, excluding: (1) the property taxes levied and assessed against the site as of January 1, 1998; (2) the amount required to be set aside for the low-and moderate-income housing fund equal to 20%; and (3) that amount of tax increment the Agency is required to pay to other taxing agencies which is currently approximately 20% of such tax increment. Such payments shall be made to the owner in semi-annual installments within 60 days after the Agency's receipt of its tax increment for the Redevelopment Project from the County tax collector. The owner shall submit a written statement each year to the Agency requesting such payment together with a copy of its property tax bill(s) for all real property within the site, whether billed to the owner or any tenant. For the year ended June 30, 2006, the Agency paid \$10,019 pursuant to this agreement.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKEWOOD
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 19,954,731	\$ 19,954,731	\$ 21,350,707	\$ 1,395,976
Licenses and permits	688,350	688,350	824,687	136,337
Fines and forfeitures	600,000	600,000	622,236	22,236
Investment income, rents and concessions	1,554,883	1,546,883	2,210,673	663,790
From other agencies	7,577,681	7,872,248	7,599,129	(273,119)
Current service charges	6,865,160	6,865,160	7,479,770	614,610
Other	577,716	579,316	941,149	361,833
TOTAL REVENUES	37,818,521	38,106,688	41,028,351	2,921,663
EXPENDITURES:				
General government	6,547,927	9,070,678	7,156,198	1,914,480
Public safety	11,894,861	12,188,452	10,962,340	1,226,112
Transportation	3,186,204	3,581,688	3,413,868	167,820
Community development	4,488,285	4,499,639	3,687,752	811,887
Health and sanitation	4,312,947	4,335,629	3,789,774	545,855
Culture and leisure	7,822,901	8,112,511	7,917,301	195,210
TOTAL EXPENDITURES	38,253,125	41,788,597	36,927,233	4,861,364
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(434,604)	(3,681,909)	4,101,118	7,783,027
OTHER FINANCING SOURCES (USES):				
Transfers in	2,331,317	2,331,317	1,801,197	(530,120)
Transfers out	(3,959,032)	(10,019,495)	(3,728,732)	6,290,763
TOTAL OTHER FINANCING SOURCES (USES)	(1,627,715)	(7,688,178)	(1,927,535)	5,760,643
NET CHANGE IN FUND BALANCE	(2,062,319)	(11,370,087)	2,173,583	13,543,670
FUND BALANCE AT BEGINNING OF YEAR	54,887,852	54,887,852	54,887,852	-
FUND BALANCE AT END OF YEAR	\$ 52,825,533	\$ 43,517,765	\$ 57,061,435	\$ 13,543,670

See independent auditors' report and note to required supplementary information.

NOTE 1 - BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The annual budget adopted by the City Council provides for the general operation of the City. It includes proposed expenditures and the means of financing them.
2. The City Council approves total budgeted appropriations and any amendments to appropriations throughout the year. This "appropriated budget" covers substantially all City expenditures, with the exception of debt service on bond issues and capital improvement projects, which expenditures constitute legally-authorized "non-appropriated budget." There were no significant non-budgeted financial activities. Actual expenditures may not exceed budgeted appropriations at the fund level. However, the City Manager is authorized to transfer budgeted amounts between funds and between functional categories.
3. Formal budgetary integration is employed as a management control device. Commitments for materials and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations which are encumbered at year end lapse, and then are added to the following year's budgeted appropriations. However, encumbrances at year end are reported as reservations of fund balance.
4. Budgets for the General and Special Revenue Funds are adopted on a basis substantially consistent with accounting principles generally accepted in the United States of America. Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items. No budgetary comparisons are presented for the Redevelopment Agency Debt Service Fund and the Drug Forfeiture Special Revenue Fund since no budgets are adopted for these funds. No budgetary comparisons are presented for Proprietary Funds as the City is not legally required to adopt a budget for these types of funds.
5. Capital project budgets are long term in nature and, accordingly, no budgetary comparisons are reflected in the accompanying financial statements.
6. Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2006, based on calculations by City Management, proceeds of taxes did not exceed related appropriations. Further, Section 5 of Article XIII B allows the City to designate a portion of fund balance for general contingencies, to be used in future years without limitation. In 2005-06, the City Council passed a resolution setting aside all unappropriated fund balances in the General Fund as contingency funds.

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OTHER GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for taxes and other revenues set aside in accordance with law or administrative regulation for a specific purpose.

State Gasoline Tax Fund - To account for state gasoline taxes received by the City. These funds may be used for street maintenance, right-of-way acquisition, and street construction.

Park Dedication Fund - To account for business taxes collected on the construction of dwelling units. These funds are used only for park and recreation land and facilities.

Sewer Reconstruction Fund - To account for charges collected on construction permits to be used for the reconstruction of sanitary sewers.

Prop A Transit Fund - To account for Los Angeles County special ½ cent transportation sales tax which became effective July 1, 1982. These funds may be used only for certain transportation purposes.

Housing Authority Fund - To account for revenues and expenditures for federal housing grants to the Lakewood Housing Authority.

Drug Forfeiture Fund - To account for revenues from the seizure of property related to drug crimes. These funds may be used only for programs related to the prevention of drug abuse.

Prop C Transportation Fund - To account for Los Angeles County additional special ½ cent transportation sales tax which became effective July 1, 1992. These funds may be used only for certain transportation purposes.

AB 2766 Fund - To account for motor vehicle registration fees authorized by Assembly Bill 2766. These funds are to be used solely to reduce air pollution from mobile sources.

CAPITAL PROJECTS FUND

Lakewood Capital Improvements Fund - To account for the receipt and disbursement of monies used for the construction of major capital facilities which generally require more than one budgetary cycle to complete. These projects are funded by the General Fund, Gas Tax Fund, and federal and state grants.

CITY OF LAKEWOOD

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS

June 30, 2006

	Special Revenue Funds			
	State Gasoline Tax	Park Dedication	Sewer Reconstruction	Prop A Transit
ASSETS				
Cash and investments	\$ -	\$ 136,586	\$ 91,395	\$ 362,612
Accounts receivable	251,629	-	-	125,959
Due from other funds	-	-	-	-
TOTAL ASSETS	\$ 251,629	\$ 136,586	\$ 91,395	\$ 488,571
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ -	\$ 48,669
Accrued liabilities	-	-	-	16,774
Due to other funds	-	11,375	-	3,089
Deferred revenue	-	-	-	-
TOTAL LIABILITIES	-	11,375	-	68,532
FUND BALANCES:				
Reserved:				
Encumbrances	-	-	-	30,274
Continuing appropriations	-	40,225	-	16,581
Special revenue purposes	251,629	84,986	91,395	373,184
TOTAL FUND BALANCES	251,629	125,211	91,395	420,039
TOTAL LIABILITIES AND FUND BALANCES	\$ 251,629	\$ 136,586	\$ 91,395	\$ 488,571

See independent auditors' report.

Special Revenue Funds (Continued)				Capital Projects Fund		Total Other Governmental Funds
Housing Authority	Drug Forfeiture	Prop C Transportation	AB 2766	Total Special Revenue Funds	Lakewood Capital Improvements	
\$ 648,381	\$ -	\$ 2,865,441	\$ 122,915	\$ 4,227,330	\$ -	\$ 4,227,330
-	-	127,241	26,883	531,712	-	531,712
-	-	-	-	-	138,245	138,245
<u>\$ 648,381</u>	<u>\$ -</u>	<u>\$ 2,992,682</u>	<u>\$ 149,798</u>	<u>\$ 4,759,042</u>	<u>\$ 138,245</u>	<u>\$ 4,897,287</u>
\$ 466,776	\$ -	\$ 66	\$ -	\$ 515,511	\$ 138,245	\$ 653,756
-	-	2,623	1,389	20,786	-	20,786
-	-	56,331	318	71,113	-	71,113
181,605	-	-	26,167	207,772	-	207,772
<u>648,381</u>	<u>-</u>	<u>59,020</u>	<u>27,874</u>	<u>815,182</u>	<u>138,245</u>	<u>953,427</u>
-	-	24,506	-	54,780	-	54,780
-	-	1,764,768	-	1,821,574	-	1,821,574
-	-	1,144,388	121,924	2,067,506	-	2,067,506
<u>-</u>	<u>-</u>	<u>2,933,662</u>	<u>121,924</u>	<u>3,943,860</u>	<u>-</u>	<u>3,943,860</u>
<u>\$ 648,381</u>	<u>\$ -</u>	<u>\$ 2,992,682</u>	<u>\$ 149,798</u>	<u>\$ 4,759,042</u>	<u>\$ 138,245</u>	<u>\$ 4,897,287</u>

CITY OF LAKEWOOD

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS

For the year ended June 30, 2006

	Special Revenue Funds			
	State Gasoline Tax	Park Dedication	Sewer Reconstruction	Prop A Transit
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ 1,340,099
Licenses and permits	-	38,959	-	-
Investment income, rents and concessions	25,179	-	-	9,625
From other agencies	1,873,196	-	-	-
Other	-	-	-	-
TOTAL REVENUES	1,898,375	38,959	-	1,349,724
EXPENDITURES:				
Current:				
General government	-	-	-	32,907
Transportation	-	-	-	1,298,410
Community development	-	-	7,341	37,089
Capital outlay:				
General government	-	-	-	-
Public safety	-	-	-	-
Transportation	-	-	-	-
Community development	-	-	-	-
Culture and leisure	-	-	-	-
TOTAL EXPENDITURES	-	-	7,341	1,368,406
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,898,375	38,959	(7,341)	(18,682)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(1,790,483)	(24,775)	-	(54,989)
TOTAL OTHER FINANCING SOURCES (USES)	(1,790,483)	(24,775)	-	(54,989)
NET CHANGE IN FUND BALANCES	107,892	14,184	(7,341)	(73,671)
FUND BALANCES AT BEGINNING OF YEAR	143,737	111,027	98,736	493,710
FUND BALANCES AT END OF YEAR	\$ 251,629	\$ 125,211	\$ 91,395	\$ 420,039

See independent auditors' report.

Special Revenue Funds (Continued)					Capital Projects Fund	
Housing Authority	Drug Forfeiture	Prop C Transportation	AB 2766	Total Special Revenue Funds	Lakewood Capital Improvements	Total Other Governmental Funds
\$ -	\$ -	\$ 1,152,141	\$ -	\$ 2,492,240	\$ -	\$ 2,492,240
-	-	-	-	38,959	-	38,959
19,158	-	86,878	3,388	144,228	-	144,228
1,791,215	-	-	110,821	3,775,232	-	3,775,232
-	10,714	30,039	-	40,753	-	40,753
<u>1,810,373</u>	<u>10,714</u>	<u>1,269,058</u>	<u>114,209</u>	<u>6,491,412</u>	<u>-</u>	<u>6,491,412</u>
-	-	-	20,530	53,437	-	53,437
-	-	81,850	56,606	1,436,866	-	1,436,866
1,810,373	-	-	-	1,854,803	-	1,854,803
-	-	-	-	-	303,694	303,694
-	-	-	-	-	445,368	445,368
-	-	-	-	-	2,761,071	2,761,071
-	-	-	-	-	14,822	14,822
-	-	-	-	-	437,430	437,430
<u>1,810,373</u>	<u>-</u>	<u>81,850</u>	<u>77,136</u>	<u>3,345,106</u>	<u>3,962,385</u>	<u>7,307,491</u>
-	10,714	1,187,208	37,073	3,146,306	(3,962,385)	(816,079)
-	-	-	-	-	3,962,385	3,962,385
-	(10,714)	(1,015,082)	-	(2,896,043)	-	(2,896,043)
-	(10,714)	(1,015,082)	-	(2,896,043)	3,962,385	1,066,342
-	-	172,126	37,073	250,263	-	250,263
-	-	2,761,536	84,851	3,693,597	-	3,693,597
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,933,662</u>	<u>\$ 121,924</u>	<u>\$ 3,943,860</u>	<u>\$ -</u>	<u>\$ 3,943,860</u>

CITY OF LAKEWOOD

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

STATE GASOLINE TAX SPECIAL REVENUE FUND

For the year ended June 30, 2006

	Final Budgeted Amounts	Actual	Variance Final Budget Positive (Negative)
REVENUES:			
Investment income, rents and concessions	\$ 20,000	\$ 25,179	\$ 5,179
From other agencies	1,491,500	1,873,196	381,696
TOTAL REVENUES	1,511,500	1,898,375	386,875
OTHER FINANCING USES:			
Transfers out	(1,511,500)	(1,790,483)	(278,983)
NET CHANGE IN FUND BALANCE	-	107,892	107,892
FUND BALANCE AT BEGINNING OF YEAR	143,737	143,737	-
FUND BALANCE AT END OF YEAR	\$ 143,737	\$ 251,629	\$ 107,892

See independent auditors' report.

CITY OF LAKEWOOD

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PARK DEDICATION SPECIAL REVENUE FUND

For the year ended June 30, 2006

	Final Budgeted Amounts	Actual	Variance Final Budget Positive (Negative)
REVENUES:			
Licenses and permits	\$ 50,000	\$ 38,959	\$ (11,041)
OTHER FINANCING USES:			
Transfers out	(66,246)	(24,775)	41,471
NET CHANGE IN FUND BALANCE	(16,246)	14,184	30,430
FUND BALANCE AT BEGINNING OF YEAR	111,027	111,027	-
FUND BALANCE AT END OF YEAR	\$ 94,781	\$ 125,211	\$ 30,430

See independent auditors' report.

CITY OF LAKEWOOD

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

SEWER RECONSTRUCTION SPECIAL REVENUE FUND

For the year ended June 30, 2006

	Final Budgeted Amounts	Actual	Variance Final Budget Positive (Negative)
REVENUES:			
Licenses and permits	\$ 500	\$ -	\$ (500)
EXPENDITURES:			
Current:			
Community development	7,341	7,341	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(6,841)	(7,341)	(500)
FUND BALANCE AT BEGINNING OF YEAR	98,736	98,736	-
FUND BALANCE AT END OF YEAR	<u>\$ 91,895</u>	<u>\$ 91,395</u>	<u>\$ (500)</u>

See independent auditors' report.

CITY OF LAKEWOOD

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PROP A TRANSIT SPECIAL REVENUE FUND

For the year ended June 30, 2006

	Final Budgeted Amounts	Actual	Variance Final Budget Positive (Negative)
REVENUES:			
Taxes	\$ 1,200,000	\$ 1,340,099	\$ 140,099
Investment income, rents and concessions	10,000	9,625	(375)
TOTAL REVENUES	<u>1,210,000</u>	<u>1,349,724</u>	<u>139,724</u>
EXPENDITURES:			
Current:			
General government	167,471	32,907	134,564
Transportation	1,327,677	1,298,410	29,267
Community development	46,899	37,089	9,810
TOTAL EXPENDITURES	<u>1,542,047</u>	<u>1,368,406</u>	<u>173,641</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(332,047)	(18,682)	313,365
OTHER FINANCING USES:			
Transfers out	(74,307)	(54,989)	19,318
NET CHANGE IN FUND BALANCE	(406,354)	(73,671)	332,683
FUND BALANCE AT BEGINNING OF YEAR	<u>493,710</u>	<u>493,710</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 87,356</u>	<u>\$ 420,039</u>	<u>\$ 332,683</u>

See independent auditors' report.

CITY OF LAKEWOOD

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

HOUSING AUTHORITY SPECIAL REVENUE FUND

For the year ended June 30, 2006

	Final Budgeted Amounts	Actual	Variance Final Budget Positive (Negative)
REVENUES:			
Investment income, rents and concessions	\$ 10,000	\$ 19,158	\$ 9,158
From other agencies	1,896,082	1,791,215	(104,867)
 TOTAL REVENUES	 1,906,082	 1,810,373	 (95,709)
EXPENDITURES:			
Current:			
Community development	1,906,082	1,810,373	95,709
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 -	 -	 -
 FUND BALANCE AT BEGINNING OF YEAR	 -	 -	 -
 FUND BALANCE AT END OF YEAR	 \$ -	 \$ -	 \$ -

See independent auditors' report.

CITY OF LAKEWOOD

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PROP C TRANSPORTATION SPECIAL REVENUE FUND

For the year ended June 30, 2006

	Final Budgeted Amounts	Actual	Variance Final Budget Positive (Negative)
REVENUES:			
Taxes	\$ 975,000	\$ 1,152,141	\$ 177,141
Investment income, rents and concessions	60,000	86,878	26,878
Other	-	30,039	30,039
TOTAL REVENUES	1,035,000	1,269,058	234,058
EXPENDITURES:			
Current:			
Transportation	75,598	81,850	(6,252)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	959,402	1,187,208	227,806
OTHER FINANCING USES:			
Transfers out	(2,804,355)	(1,015,082)	1,789,273
NET CHANGE IN FUND BALANCE	(1,844,953)	172,126	2,017,079
FUND BALANCE AT BEGINNING OF YEAR	2,761,536	2,761,536	-
FUND BALANCE AT END OF YEAR	\$ 916,583	\$ 2,933,662	\$ 2,017,079

See independent auditors' report.

CITY OF LAKEWOOD

SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

AB 2766 SPECIAL REVENUE FUND

For the year ended June 30, 2006

	Final Budgeted Amounts	Actual	Variance Final Budget Positive (Negative)
REVENUES:			
Investment income, rents and concessions	\$ 2,000	\$ 3,388	\$ 1,388
From other agencies	92,000	110,821	18,821
TOTAL REVENUES	94,000	114,209	20,209
EXPENDITURES:			
Current:			
General government	21,700	20,530	1,170
Transportation	63,112	56,606	6,506
TOTAL EXPENDITURES	84,812	77,136	7,676
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	9,188	37,073	27,885
FUND BALANCE AT BEGINNING OF YEAR	84,851	84,851	-
FUND BALANCE AT END OF YEAR	\$ 94,039	\$ 121,924	\$ 27,885

See independent auditors' report.

INTERNAL SERVICE FUNDS

Central Stores Fund - To account for the financing of materials and supplies provided to various departments of the City. Costs of the material and supplies are billed to the various department at actual cost at the time the material is used.

Central Garage Fund - To account for maintenance and repair of vehicles and equipment used by various departments of the City. Costs are billed to the various departments as the work is completed.

Print Shop Fund - To account for the printing services provided to the various departments of the City. Costs of materials, supplies and services are billed as the work is completed.

CITY OF LAKEWOOD
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

June 30, 2006

ASSETS	Central Stores	Central Garage	Print Shop	Totals
CURRENT ASSETS:				
Cash and investments	\$ 5,728	\$ 91,530	\$ 15,476	\$ 112,734
Inventories	94,217	25,901	-	120,118
TOTAL CURRENT ASSETS	<u>99,945</u>	<u>117,431</u>	<u>15,476</u>	<u>232,852</u>
NONCURRENT ASSETS				
Capital assets:				
Equipment	-	1,522,599	-	1,522,599
Less: accumulated depreciation	-	(1,214,027)	-	(1,214,027)
Total capital assets (net of accumulated depreciation)	<u>-</u>	<u>308,572</u>	<u>-</u>	<u>308,572</u>
TOTAL ASSETS	<u>99,945</u>	<u>426,003</u>	<u>15,476</u>	<u>541,424</u>
 LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	-	79,080	7,105	86,185
Accrued liabilities	-	10,233	6,889	17,122
Due to the General Fund	-	2,217	1,482	3,699
TOTAL CURRENT LIABILITIES	<u>-</u>	<u>91,530</u>	<u>15,476</u>	<u>107,006</u>
 NET ASSETS				
Invested in capital assets, net of related debt	-	308,572	-	308,572
Unrestricted	99,945	25,901	-	125,846
TOTAL NET ASSETS	<u>\$ 99,945</u>	<u>\$ 334,473</u>	<u>\$ -</u>	<u>\$ 434,418</u>

See independent auditors' report.

CITY OF LAKEWOOD

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS - INTERNAL SERVICE FUNDS

For the year ended June 30, 2006

	Central Stores	Central Garage	Print Shop	Totals
OPERATING REVENUES:				
Billings to departments	\$ 153,560	\$ 517,704	\$ 98,713	\$ 769,977
Other revenues	290	11	286	587
TOTAL OPERATING REVENUES	<u>153,850</u>	<u>517,715</u>	<u>98,999</u>	<u>770,564</u>
OPERATING EXPENSES:				
Operations:				
Cost of goods sold	129,183	870,954	333,557	1,333,694
Depreciation	-	105,088	-	105,088
TOTAL OPERATING EXPENSES	<u>129,183</u>	<u>976,042</u>	<u>333,557</u>	<u>1,438,782</u>
INCOME (LOSS) BEFORE TRANSFERS	24,667	(458,327)	(234,558)	(668,218)
TRANSFERS IN	<u>36,608</u>	<u>590,027</u>	<u>234,558</u>	<u>861,193</u>
CHANGE IN NET ASSETS	61,275	131,700	-	192,975
NET ASSETS AT BEGINNING OF YEAR	<u>38,670</u>	<u>202,773</u>	<u>-</u>	<u>241,443</u>
NET ASSETS AT END OF YEAR	<u>\$ 99,945</u>	<u>\$ 334,473</u>	<u>\$ -</u>	<u>\$ 434,418</u>

See independent auditors' report.

CITY OF LAKEWOOD

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

For the year ended June 30, 2006

	Central Stores	Central Garage	Print Shop	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from interfund services provided	\$ 136,123	\$ 518,141	\$ 98,713	\$ 752,977
Payments to suppliers	(209,831)	(484,039)	(114,957)	(808,827)
Payments to employees	-	(323,441)	(211,304)	(534,745)
Payments for interfund services used	290	11	286	587
NET CASH USED BY OPERATING ACTIVITIES	(73,418)	(289,328)	(227,262)	(590,008)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	36,608	590,027	234,558	861,193
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	-	(237,225)	-	(237,225)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,810)	63,474	7,296	33,960
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	42,538	28,056	8,180	78,774
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,728	\$ 91,530	\$ 15,476	\$ 112,734
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 24,667	\$ (458,327)	\$ (234,558)	\$ (668,218)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:				
Depreciation	-	105,088	-	105,088
Changes in operating assets and liabilities:				
(Increase) decrease in inventories	(17,437)	437	-	(17,000)
Increase (decrease) in accounts payable	(4,040)	60,752	6,056	62,768
Increase (decrease) in accrued liabilities	(76,608)	2,722	1,240	(72,646)
TOTAL ADJUSTMENTS	(98,085)	168,999	7,296	78,210
NET CASH USED BY OPERATING ACTIVITIES	\$ (73,418)	\$ (289,328)	\$ (227,262)	\$ (590,008)

See independent auditors' report.

FIDUCIARY FUNDS

AGENCY FUNDS

Deposit Fund - To account for collection and payment of such items as performance bond deposits.

Housing Rehabilitation Fund - To account for the housing rehabilitation loans financed by the Community Development Block Grant of the Department of Housing and Urban Development.

Sheriff Station Renovation Fund - To account for the County funds used for the renovation and expansion of the Sheriff Station.

CITY OF LAKEWOOD

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2006

	Agency Funds			Totals
	Deposit	Housing Rehabilitation	Sheriff Station Renovation	
ASSETS:				
Cash and investments	\$ 699,291	\$ 550,639	\$ 14,633,449	\$ 15,883,379
Accounts receivable	-	-	81,894	81,894
Loans receivable	-	1,213,403	-	1,213,403
TOTAL ASSETS	\$ 699,291	\$ 1,764,042	\$ 14,715,343	\$ 17,178,676
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ 1,530,995	\$ 1,530,995
Deposits	699,291	500,720	13,184,348	14,384,359
Due to HUD	-	1,263,322	-	1,263,322
TOTAL LIABILITIES	\$ 699,291	\$ 1,764,042	\$ 14,715,343	\$ 17,178,676

See independent auditors' report.

CITY OF LAKEWOOD

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
ALL AGENCY FUNDS

For the year ended June 30, 2006

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
DEPOSIT FUND				
ASSETS:				
Cash and investments	\$ 1,905,612	\$ 742,346	\$ 1,948,667	\$ 699,291
LIABILITIES:				
Deposits	\$ 1,905,612	\$ 1,318,598	\$ 2,524,919	\$ 699,291
HOUSING REHABILITATION FUND				
ASSETS:				
Cash and investments	\$ 626,636	\$ 903,790	\$ 979,787	\$ 550,639
Loans receivable	1,258,911	968	46,476	1,213,403
TOTAL ASSETS	\$ 1,885,547	\$ 904,758	\$ 1,026,263	\$ 1,764,042
LIABILITIES:				
Deposits	\$ 523,308	\$ 1,625,968	\$ 1,648,556	\$ 500,720
Due to HUD	1,362,239	56,250	155,167	1,263,322
TOTAL LIABILITIES	\$ 1,885,547	\$ 1,682,218	\$ 1,803,723	\$ 1,764,042
SHERIFF STATION RENOVATION				
ASSETS:				
Cash and investments	\$ -	\$ 16,247,114	\$ 1,613,665	\$ 14,633,449
Accounts receivable	-	81,894	-	81,894
TOTAL ASSETS	\$ -	\$ 16,329,008	\$ 1,613,665	\$ 14,715,343
LIABILITIES:				
Accounts payable	\$ -	\$ 2,954,974	\$ 1,423,979	\$ 1,530,995
Deposits	-	16,329,007	3,144,659	13,184,348
TOTAL LIABILITIES	\$ -	\$ 19,283,981	\$ 4,568,638	\$ 14,715,343
TOTAL - ALL AGENCY FUNDS				
ASSETS:				
Cash and investments	\$ 2,532,248	\$ 17,893,250	\$ 4,542,119	\$ 15,883,379
Accounts receivable	-	81,894	-	81,894
Loans receivable	1,258,911	968	46,476	1,213,403
TOTAL ASSETS	\$ 3,791,159	\$ 17,976,112	\$ 4,588,595	\$ 17,178,676
LIABILITIES:				
Accounts payable	\$ -	\$ 2,954,974	\$ 1,423,979	\$ 1,530,995
Deposits	2,428,920	19,273,573	7,318,134	14,384,359
Due to HUD	1,362,239	56,250	155,167	1,263,322
TOTAL LIABILITIES	\$ 3,791,159	\$ 22,284,797	\$ 8,897,280	\$ 17,178,676

See independent auditors' report.

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DESCRIPTION OF STATISTICAL SECTION CONTENTS

June 30, 2006

This part of the City of Lakewood's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the government's overall financial health.

Contents:

Pages

Financial Trends - These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

79 - 83

Revenue Capacity - These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

84 - 87

Debt Capacity - These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

88 - 95

Demographic and Economic Information - These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

97 - 98

Operating Information - These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

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CITY OF LAKEWOOD

Net Assets by Component

Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities:				
Invested in capital assets, net of related debt	\$ 76,305,577	\$ 73,743,565	\$ 73,036,013	\$ 75,031,207
Restricted	11,941,950	11,244,238	12,242,213	13,165,754
Unrestricted	22,938,019	27,428,650	31,541,215	32,203,301
Total governmental activities net assets	<u>\$ 111,185,546</u>	<u>\$ 112,416,453</u>	<u>\$ 116,819,441</u>	<u>\$ 120,400,262</u>
Business-type activities:				
Invested in capital assets, net of related debt	\$ 11,892,836	\$ 12,498,286	\$ 13,431,784	\$ 15,974,851
Restricted	-	-	-	-
Unrestricted	5,044,179	6,465,984	7,320,797	6,868,779
Total business-type activities net assets	<u>\$ 16,937,015</u>	<u>\$ 18,964,270</u>	<u>\$ 20,752,581</u>	<u>\$ 22,843,630</u>
Primary government:				
Invested in capital assets, net of related debt	\$ 88,198,413	\$ 86,241,851	\$ 86,467,797	\$ 91,006,058
Restricted	11,941,950	11,244,238	12,242,213	13,165,754
Unrestricted	27,982,198	33,894,634	38,862,012	39,072,080
Total primary government net assets	<u>\$ 128,122,561</u>	<u>\$ 131,380,723</u>	<u>\$ 137,572,022</u>	<u>\$ 143,243,892</u>

*The City of Lakewood implemented GASB 34 for the fiscal year ended June 30, 2003.
Information prior to the implementation of GASB 34 is not available.*

CITY OF LAKEWOOD

Changes in Net Assets

Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Expenses:				
Governmental activities:				
General government	\$ 6,483,636	\$ 6,469,288	\$ 6,188,887	\$ 7,349,163
Public safety	9,642,211	9,837,380	10,938,617	10,850,664
Transportation	5,984,110	5,874,797	4,149,697	5,214,752
Community development	6,886,063	9,395,361	9,517,641	10,402,500
Health and sanitation	4,130,482	3,500,490	4,245,217	3,808,855
Culture and leisure	8,318,769	7,354,906	7,748,336	8,570,789
Unallocated infrastructure depreciation	1,519,198	1,577,783	1,632,049	1,719,530
Interest on long-term debt	2,563,185	2,603,529	2,475,189	2,182,653
Total governmental activities expenses	<u>45,527,654</u>	<u>46,613,534</u>	<u>46,895,633</u>	<u>50,098,906</u>
Business-type activities:				
Water	<u>5,435,676</u>	<u>5,193,182</u>	<u>5,347,379</u>	<u>5,528,122</u>
Total primary government expenses	<u>\$ 50,963,330</u>	<u>\$ 51,806,716</u>	<u>\$ 52,243,012</u>	<u>\$ 55,627,028</u>
Program revenues:				
Governmental activities:				
Charges for services:				
General government	\$ 53,855	\$ 54,431	\$ 754,006	\$ 840,154
Public safety	1,722,616	1,621,435	1,309,730	1,735,629
Community development	1,065,511	1,267,453	1,277,257	1,294,667
Health and sanitation	3,755,914	3,815,916	3,947,546	4,098,993
Culture and leisure	1,389,452	1,280,977	1,529,562	1,589,069
Operating grants and contributions	7,044,959	7,685,891	6,706,916	7,323,457
Capital grants and contributions	2,228,881	932,599	641,047	759,981
Total governmental activities program revenues	<u>17,261,188</u>	<u>16,658,702</u>	<u>16,166,064</u>	<u>17,641,950</u>
Business-type activities:				
Charges for services:				
Water	<u>6,253,378</u>	<u>6,977,418</u>	<u>6,867,123</u>	<u>7,213,658</u>
Total primary government program revenues	<u>\$ 23,514,566</u>	<u>\$ 23,636,120</u>	<u>\$ 23,033,187</u>	<u>\$ 24,855,608</u>
Net revenues (expenses):				
Governmental activities	<u>\$(28,266,466)</u>	<u>\$(29,954,832)</u>	<u>\$(30,729,569)</u>	<u>\$(32,456,956)</u>
Business-type activities	<u>817,702</u>	<u>1,784,236</u>	<u>1,519,744</u>	<u>1,685,536</u>
Total net revenues (expenses)	<u>\$(27,448,764)</u>	<u>\$(28,170,596)</u>	<u>\$(29,209,825)</u>	<u>\$(30,771,420)</u>

*The City of Lakewood implemented GASB 34 for the fiscal year ended June 30, 2003.
Information prior to the implementation of GASB 34 is not available.*

CITY OF LAKEWOOD

Changes in Net Assets

Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
General revenues and other changes in net assets:				
Governmental activities:				
Taxes:				
Sales taxes	\$ 10,357,711	\$ 10,903,733	\$ 12,240,714	\$ 11,849,134
Property taxes	6,850,543	8,024,746	9,861,832	14,371,331
Franchise taxes	1,045,746	1,078,926	1,117,100	1,143,817
Business operation taxes	501,266	511,999	496,604	524,675
Utility users taxes	2,589,173	2,868,671	3,067,139	3,223,998
Other taxes	273,571	371,331	3,595,849	522,598
Unrestricted, motor vehicle in lieu	5,476,123	5,037,029	2,041,412	576,720
Grants and contributions not restricted to specific programs	655,455	2,075,274	137,952	745,400
Investment income	2,973,411	2,452,718	3,146,486	3,080,104
Total governmental activities	<u>30,722,999</u>	<u>33,324,427</u>	<u>35,705,088</u>	<u>36,037,777</u>
Business-type activities:				
Gain on sale of capital assets	-	135,005	120,000	187,000
Investment income	146,031	108,014	148,567	218,513
Total business-type activities	<u>146,031</u>	<u>243,019</u>	<u>268,567</u>	<u>405,513</u>
Total primary government	<u>\$ 30,869,030</u>	<u>\$ 33,567,446</u>	<u>\$ 35,973,655</u>	<u>\$ 36,443,290</u>
Changes in net assets				
Governmental activities	\$ 2,456,533	\$ 3,369,595	\$ 4,975,519	\$ 3,580,821
Business-type activities	963,733	2,027,255	1,788,311	2,091,049
Total primary government	<u>\$ 3,420,266</u>	<u>\$ 5,396,850</u>	<u>\$ 6,763,830</u>	<u>\$ 5,671,870</u>

*The City of Lakewood implemented GASB 34 for the fiscal year ended June 30, 2003.
Information prior to the implementation of GASB 34 is not available.*

CITY OF LAKEWOOD

Fund Balances of Governmental Funds

Last Four Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
General fund:				
Reserved	\$ 20,376,339	\$ 21,930,821	\$ 24,377,893	\$ 32,688,162
Unreserved	26,954,935	28,715,548	30,509,959	24,373,273
Total general fund	<u>\$ 47,331,274</u>	<u>\$ 50,646,369</u>	<u>\$ 54,887,852</u>	<u>\$ 57,061,435</u>
All other governmental funds:				
Reserved	\$ 9,973,327	\$ 9,179,910	\$ 10,604,308	\$ 11,198,683
Unreserved, reported in:				
Debt service fund	(16,817,964)	(18,177,791)	(18,672,859)	(22,618,454)
Capital projects fund	<u>(127,020)</u>	<u>(1,046,542)</u>	<u>(2,342,005)</u>	<u>(229,655)</u>
Total all other governmental funds	<u>\$ (6,971,657)</u>	<u>\$(10,044,423)</u>	<u>\$(10,410,556)</u>	<u>\$(11,649,426)</u>

The City of Lakewood has elected to show only four years of data for this schedule.

CITY OF LAKEWOOD

Changes in Fund Balances of Governmental Funds

Last Four Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Revenues:				
Taxes	\$ 23,805,100	\$ 25,793,195	\$ 28,368,107	\$ 30,125,649
Licenses and permits	659,201	852,446	790,743	863,646
Fines and forfeitures	612,967	563,936	569,626	622,236
Investment income, rents and concessions	2,876,540	1,905,643	4,108,890	2,814,652
From other agencies	11,543,865	10,016,274	10,647,318	11,374,361
Current service charges	6,069,882	6,462,339	6,811,857	7,479,770
Other	1,013,740	2,912,843	1,025,694	1,419,205
Total revenues	<u>46,581,295</u>	<u>48,506,676</u>	<u>52,322,235</u>	<u>54,699,519</u>
Expenditures:				
Current:				
General government	5,983,811	6,368,463	5,898,051	7,209,635
Public safety	9,570,375	9,747,244	10,260,258	10,962,340
Transportation	3,610,737	5,664,657	4,122,970	4,850,734
Community development	6,272,891	9,472,107	9,150,363	10,267,364
Health and sanitation	4,147,217	3,515,646	4,254,469	3,789,774
Culture and leisure	6,205,909	6,500,490	7,100,285	7,917,301
Capital outlay:				
General government	188,277	-	6,794	303,694
Public safety	113,303	273,949	454,808	445,368
Transportation	3,445,983	1,757,205	2,112,737	2,761,071
Community development	534,184	2,200	88,927	248,210
Culture and leisure	1,833,116	282,749	186,273	437,430
Debt service:				
Owner participation agreement payments	533,023	1,012,281	1,005,470	760,019
Advance refunding escrow	-	994,037	-	-
Bond issuance costs	-	364,559	-	-
Principal retirement	500,000	550,000	820,000	790,000
Interest and fiscal charges	2,572,497	2,553,708	2,479,841	2,160,673
Total expenditures	<u>45,511,323</u>	<u>49,059,295</u>	<u>47,941,246</u>	<u>52,903,613</u>
Excess of revenues over (under) expenditures	<u>1,069,972</u>	<u>(552,619)</u>	<u>4,380,989</u>	<u>1,795,906</u>
Other financing sources (uses):				
Transfers in	9,339,721	6,766,278	6,814,752	10,948,367
Transfers out	(9,762,223)	(7,158,906)	(7,320,391)	(11,809,560)
Refunding bonds issued	-	8,370,000	-	-
Bond premium	-	66,514	-	-
Payment to bond escrow agent	-	(7,248,938)	-	-
Total other financing sources (uses)	<u>(422,502)</u>	<u>794,948</u>	<u>(505,639)</u>	<u>(861,193)</u>
Net change in fund balances	<u>\$ 647,470</u>	<u>\$ 242,329</u>	<u>\$ 3,875,350</u>	<u>\$ 934,713</u>
Debt service as a percentage of noncapital expenditures	9.15%	11.71%	9.55%	7.62%

The City of Lakewood has elected to show only four years of data for this schedule.

Source: Department of Finance, City of Lakewood

CITY OF LAKEWOOD

Assessed Value and Estimated Actual Value of Taxable Property

Last Ten Fiscal Years
(in thousands of dollars)

Fiscal Year Ended June 30	Secured	Nonunitary	Unsecured	Taxable Assessed Value	Total Direct Tax Rate
1997	\$ 3,506,451	2,710	110,269	3,619,430	0.156%
1998	3,499,974	1,859	99,581	3,601,414	0.153%
1999	3,571,555	1,775	105,133	3,678,463	0.153%
2000	3,705,897	1,318	101,163	3,808,378	0.155%
2001	3,921,097	1,244	104,499	4,026,840	0.156%
2002	4,150,896	1,330	121,253	4,273,479	0.161%
2003	4,378,849	1,219	121,478	4,501,546	0.160%
2004	4,705,822	1,355	110,380	4,817,557	0.158%
2005	5,129,355	1,627	120,676	5,251,658	0.169%
2006	5,685,313	2,089	123,017	5,810,419	0.167%

NOTE:

In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

CITY OF LAKEWOOD

Direct and Overlapping Property Tax Rates
(Rate per \$100 of assessed value)

Last Ten Fiscal Years

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
City Direct Rates:										
City basic rate	\$ 0.1557	\$ 0.1526	\$ 0.1533	\$ 0.1553	\$ 0.1558	\$ 0.1607	\$ 0.1600	\$ 0.1577	\$ 0.1688	\$ 0.1666
Overlapping Rates:										
Los Angeles County	0.0018	0.0016	0.0016	0.0014	0.0013	0.0011	0.0010	0.0009	0.0009	0.0008
School Districts	0.0032	0.0046	0.0307	0.0971	0.0985	0.1094	0.1186	0.1236	0.1272	0.1186
Sanitation and Water	0.0027	0.0021	0.0228	0.0016	0.0013	0.0010	-	-	0.0002	-
Water Districts	0.0089	0.0089	0.0089	0.0089	0.0088	0.0077	0.0067	0.0061	0.0058	0.0052
Other	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Total Direct Rate	<u>\$ 1.1723</u>	<u>\$ 1.1698</u>	<u>\$ 1.2173</u>	<u>\$ 1.2643</u>	<u>\$ 1.2657</u>	<u>\$ 1.2799</u>	<u>\$ 1.2863</u>	<u>\$ 1.2883</u>	<u>\$ 1.3029</u>	<u>\$ 1.2912</u>

NOTE:

In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of the School District bonds.

CITY OF LAKEWOOD
Principal Property Tax Payers
Current Year and Nine Years Ago

Taxpayer	2006		1997	
	Taxable Assessed Value	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
Macerich Lakewood LLC	\$ 289,223,499	4.98%	N/A	N/A
Lakewood Associated LLC	36,529,773	0.63%	N/A	N/A
Lakewood Marketplace LLC	32,844,134	0.57%	N/A	N/A
Advanced Group 05-86	59,373,000	1.02%	N/A	N/A
Regency Center LLC	24,623,983	0.42%	N/A	N/A
Macy's West Inc	19,972,446	0.34%	N/A	N/A
Carwood Investors	23,212,000	0.40%	N/A	N/A
PPR Lakewood Adjacent LLC	10,421,028	0.18%	N/A	N/A
Vons Companies Inc	11,559,777	0.20%	N/A	N/A
Wal Mart Real Estated Business Trust	<u>17,835,496</u>	<u>0.31%</u>	N/A	N/A
	<u>\$ 525,595,136</u>	<u>9.05%</u>		

The amounts shown above include assessed value data for both the City and the Redevelopment Agency.

CITY OF LAKEWOOD

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
1997	\$ 2,030,556	\$ 1,814,736	89.37%	\$ 25,703	\$ 1,840,439	90.64%
1998	1,995,892	1,937,757	97.09%	42,694	1,980,451	99.23%
1999	2,054,891	2,045,061	99.52%	9,204	2,054,265	99.97%
2000	2,114,842	2,268,538	107.27%	33,183	2,301,721	108.84%
2001	2,242,359	2,479,668	110.58%	3,108	2,482,776	110.72%
2002	2,359,786	2,378,123	100.78%	9,626	2,387,749	101.18%
2003	2,478,507	2,612,402	105.40%	30,440	2,642,842	106.63%
2004	2,642,717	2,606,161	98.62%	15,717	2,621,878	99.21%
2005	2,832,544	3,045,518	107.52%	38,056	3,083,574	108.86%
2006	2,925,491	3,449,685	117.92%	235,732	3,685,417	125.98%

NOTE:

The amounts presented include City property taxes and Redevelopment Agency tax increment. This schedule also includes amounts collected by the City and Redevelopment Agency that were passed-through to other agencies.

CITY OF LAKEWOOD

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities			
	General Obligation Bonds	Tax Allocation Bonds	Loans	Total Governmental Activities
1997	\$ -	\$ 19,085,000	\$ 634,326	\$ 19,719,326
1998	-	18,630,000	592,429	19,222,429
1999	-	18,150,000	547,717	18,697,717
2000	-	15,940,000	500,000	16,440,000
2001	-	15,670,000	-	15,670,000
2002	-	15,380,000	-	15,380,000
2003	-	14,880,000	-	14,880,000
2004	-	14,710,000	-	14,710,000
2005	-	13,890,000	-	13,890,000
2006	-	13,100,000	-	13,100,000

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

¹ These ratios are calculated using personal income and population for the prior calendar year.

Business-type Activities			Total Primary Government	Percentage of Personal Income ¹	Debt Per Capita ¹
Water Revenue Bonds	Loan Payable to State of California	Total Business-type Activities			
\$ 5,875,000	\$ 573,784	\$ 6,448,784	\$ 26,168,110	1.39%	\$ 339
5,675,000	529,148	6,204,148	25,426,577	1.29%	326
5,470,000	482,721	5,952,721	24,650,438	1.15%	312
5,255,000	434,431	5,689,431	22,129,431	0.99%	278
5,030,000	384,203	5,414,203	21,084,203	0.89%	260
4,795,000	331,959	5,126,959	20,506,959	0.84%	255
4,550,000	277,619	4,827,619	19,707,619	0.79%	242
4,635,000	221,098	4,856,098	19,566,098	0.76%	238
4,315,000	162,309	4,477,309	18,367,309	0.67%	221
3,990,000	101,162	4,091,162	17,191,162	N/A	207

CITY OF LAKEWOOD

Ratio of General Bonded Debt Outstanding

Last Ten Fiscal Years
(In Thousands, except Per Capita)

Fiscal Year Ended June 30	Outstanding General Bonded Debt			Percent of Assessed Value ¹	Per Capita
	General Obligation Bonds	Tax Allocation Bonds	Total		
1997	\$ -	\$ 19,085	\$ 19,085	0.53%	\$ -
1998	-	18,630	18,630	0.52%	-
1999	-	18,150	18,150	0.49%	-
2000	-	15,940	15,940	0.42%	-
2001	-	15,670	15,670	0.39%	-
2002	-	15,380	15,380	0.36%	-
2003	-	14,880	14,880	0.33%	-
2004	-	14,710	14,710	0.31%	-
2005	-	13,890	13,890	0.26%	-
2006	-	13,100	13,100	0.23%	-

General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in enterprise funds (of which, the City has none).

¹ Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

CITY OF LAKEWOOD

Direct and Overlapping Debt

June 30, 2006

City Assessed Valuation
Redevelopment Agency Incremental Valuation
Total Assessed Valuation

\$ 4,500,492,372
654,963,219
\$ 5,155,455,591

	Percentage Applicable ¹	Outstanding Debt 6/30/06	Estimated Share of Overlapping Debt
Overlapping Debt:			
LA County Detention Facilities 1987 Debt Service	0.702%	\$ 8,395,000	\$ 58,933
LA County Flood Control Storm Drain Bonds No. 4 Debt Service	0.712%	1,080,000	7,690
*Central Basin Municipal Water District	0.758%	182,369,156	1,382,358
Cerritos Community College District 2004 Series A	7.067%	10,035,000	709,173
Cerritos Community College District 2005 Refunding Bonds	7.067%	26,670,994	1,884,839
Compton Community College District 2002 Series A	2.823%	39,100,000	1,103,793
Long Beach Community College District 2002 Series A, 2003 Debt Service	8.636%	7,675,000	662,813
Long Beach Community College District 2002 Series B, 2005 Debt Service	8.636%	91,274,898	7,882,500
ABC Unified School District 2003 Refunding Series A Debt Service	9.930%	17,870,000	1,774,491
ABC Unified School District 1997 Series B Debt Service	9.930%	37,454,966	3,719,278
Long Beach Unified School District 1999 Series A Debt Service	8.634%	22,600,000	1,951,284
Long Beach Unified School District 1999 Series B Debt Service	8.634%	27,670,000	2,389,028
Long Beach Unified School District 1999 Series C Debt Service	8.634%	55,920,000	4,828,133
Long Beach Unified School District 1999 Series D Debt Service	8.634%	38,300,000	3,306,822
Long Beach Unified School District 1999 Series E Debt Service	8.634%	58,145,000	5,020,239
Long Beach Unified School District 1999 Series F Debt Service	8.634%	49,600,000	4,282,464
Paramount Unified School District 1998 Series A Debt Service	9.969%	7,714,976	769,106
Paramount Unified School District 1998 Series B Debt Service	9.969%	26,060,000	2,597,921
Total overlapping debt		<u>707,934,990</u>	<u>44,330,866</u>
City direct debt			<u>13,100,000</u>
Total direct and overlapping debt			<u>\$ 57,430,866</u>

Notes:

¹ For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the city's boundaries and dividing it by each unit's total taxable assessed value.

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

CITY OF LAKEWOOD

Legal Debt Margin Information

Last Ten Fiscal Years

	Fiscal Year		
	1997	1998	1999
Assessed valuation (In thousands)	\$ 3,619,430	\$ 3,601,414	\$ 3,678,463
Debt limit percentage	15%	15%	15%
Debt limit (In thousands)	542,915	540,212	551,769
Total net debt applicable to limit: General obligation bonds (In thousands)	-	-	-
Legal debt margin (In thousands)	<u>\$ 542,915</u>	<u>\$ 540,212</u>	<u>\$ 551,769</u>
Total debt applicable to the limit as a percentage of debt limit	0.0%	0.0%	0.0%

Section 43605 of the Government Code of the State of California limits the amount of indebtedness for public improvements to 15% of the assessed valuation of all real and personal property of the City.

The City of Lakewood has no general bonded indebtedness.

Fiscal Year						
2000	2001	2002	2003	2004	2005	2006
\$ 3,808,378	\$ 4,026,840	\$ 4,273,479	\$ 4,501,546	\$ 4,817,557	\$ 5,251,658	\$ 5,810,419
15%	15%	15%	15%	15%	15%	15%
571,257	604,026	641,022	675,232	722,634	787,749	871,563
-	-	-	-	-	-	-
<u>\$ 571,257</u>	<u>\$ 604,026</u>	<u>\$ 641,022</u>	<u>\$ 675,232</u>	<u>\$ 722,634</u>	<u>\$ 787,749</u>	<u>\$ 871,563</u>
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

CITY OF LAKEWOOD

Pledged-Revenue Coverage

Last Ten Fiscal Years
(In Thousands)

Fiscal Year Ended June 30	Water Revenue Bonds						
	Water Revenue	Less Operating Expenses	Net Available Revenue	Debt Service		Coverage	
				Principal	Interest		
1997	\$ 5,351	\$ 4,395	\$ 956	\$ 165	\$ 334	\$ 1.92	
1998	4,973	4,291	682	200	302	1.36	
1999	5,320	4,548	772	205	294	1.55	
2000	5,803	4,631	1,172	215	286	2.34	
2001	5,357	4,495	862	225	277	1.72	
2002	6,064	4,901	1,163	235	268	2.31	
2003	6,253	5,036	1,217	245	258	2.42	
2004	6,977	4,836	2,141	255	247	4.26	
2005	6,867	5,041	1,826	265	235	3.65	
2006	7,214	5,276	1,938	325	146	4.11	

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest or depreciation expenses.

CITY OF LAKEWOOD

Pledged-Revenue Coverage

Last Ten Fiscal Years
(In Thousands)

Fiscal Year Ended June 30	Tax Allocation Bonds				
	Tax Increment	Debt Service		Coverage	
		Principal	Interest		
1997	\$ 4,518	\$ 430	\$ 1,296	\$ 2.62	
1998	3,393	455	1,272	1.96	
1999	3,383	480	1,246	1.96	
2000	3,618	505	1,118	2.23	
2001	4,002	270	984	3.19	
2002	4,017	290	965	3.20	
2003	4,341	500	942	3.01	
2004	5,277	550	911	3.61	
2005	6,739	820	631	4.64	
2006	6,283	790	603	4.51	

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest or depreciation expenses.

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CITY OF LAKEWOOD

Demographic and Economic Statistics

Last Ten Calendar Years

Calendar Year	Population (1)	Personal Income (in thousands) (2)	Per Capita Personal Income (2)	Unemployment Rate (3)
1996	77,200	\$ 1,884,298	\$ 24,408	N/A
1997	78,100	1,971,166	25,239	N/A
1998	78,900	2,147,658	27,220	N/A
1999	79,700	2,229,448	27,973	N/A
2000	81,000	2,367,792	29,232	3.2%
2001	80,347	2,450,825	30,503	3.4%
2002	81,415	2,509,862	30,828	4.1%
2003	82,341	2,589,789	31,452	4.2%
2004	82,988	2,753,459	33,179	3.9%
2005	83,175	N/A	N/A	3.2%

Sources:

- (1) California Department of Finance
- (2) Office of Economic Development (data shown is for the County)
- (3) State of California Employment Development Department

CITY OF LAKEWOOD

Principal Employers

Current Year and Nine Years Ago

Employer	2006		1997	
	Number of Employees	Percent of Total Employment	Number of Employees	Percent of Total Employment
Lakewood Regional Medical Center	700	1.62%	N/A	N/A
County of Los Angeles - Department of Children	500	1.16%	N/A	N/A
Toyota Motor Manufacturing North America Inc	450	1.04%	N/A	N/A
Long Beach Unified School District	325	0.75%	N/A	N/A
JC Penney Corporation Inc	271	0.63%	N/A	N/A
Bellflower Unified School District	200	0.46%	N/A	N/A
Home Depot USA Inc	200	0.46%	N/A	N/A
Elephant Bar Restaurant	200	0.46%	N/A	N/A
ABC Unified School District	173	0.40%	N/A	N/A
Mervyn's LLC	170	0.39%	N/A	N/A

Note: Information from nine years ago is not readily available

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

CITY OF LAKEWOOD

Full-time and Part-time City Employees by Function

Last Ten Fiscal Years

Division	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
City Administration	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	30
City Clerk	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5
Finance	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	20
Community Development	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	15
Public Works	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	31
Recreation and Community Services	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	59
Water Resources	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	19
Total	-	-	-	-	-	-	-	-	-	179

Note: Information from prior years not readily available

CITY OF LAKEWOOD

Operating Indicators
by Function

Last Ten Fiscal Years

	Fiscal Year				
	1997	1998	1999	2000	2001
Public works:					
Street resurfacing (miles)	N/A	N/A	N/A	N/A	N/A
Recreation and community services:					
Number of recreation classes	1,592	1,631	1,576	1,478	1,436
Number of facility rentals	N/A	N/A	N/A	7,745	7,206
Water:					
New connections	N/A	N/A	N/A	N/A	N/A
Number of consumers	19,873	19,873	19,873	19,897	19,873
Average daily consumption (thousands of gallons)	8,812	7,689	7,903	8,200	8,200
Community development:					
Number of building permits issued	1,407	1,421	1,411	1,408	1,559

Fiscal Year				
2002	2003	2004	2005	2006
N/A	N/A	N/A	N/A	13
1,576	1,745	1,664	1,631	1,734
7,546	7,207	7,725	7,258	7,559
N/A	N/A	N/A	N/A	8
20,415	20,412	20,313	20,101	20,125
8,250	8,100	8,475	7,893	7,332
1,619	1,912	1,950	2,104	2,001

CITY OF LAKEWOOD

Capital Asset Statistics by Function

Last Ten Fiscal Years

	Fiscal Year				
	1997	1998	1999	2000	2001
Public works:					
Streets (miles)	196	196	196	196	196
Streetlights	6,639	6,639	6,654	6,654	6,654
Recreation and community services:					
Number of recreation facilities	13	13	13	13	13
Acreage of facilities	152	152	152	152	152
Number of pools	2	2	2	2	2
Water:					
Water mains (miles)	195.00	195.00	195.00	195.00	195.00
Wastewater:					
Sewers (miles)	167.00	167.00	167.00	167.00	167.00

Fiscal Year				
2002	2003	2004	2005	2006
196	196	196	196	196
6,654	6,654	6,654	6,654	6,654
13	13	13	13	13
152	152	152	152	152
2	2	2	2	2
195.00	195.00	195.00	195.00	195.00
167.00	167.00	167.00	167.00	167.00

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