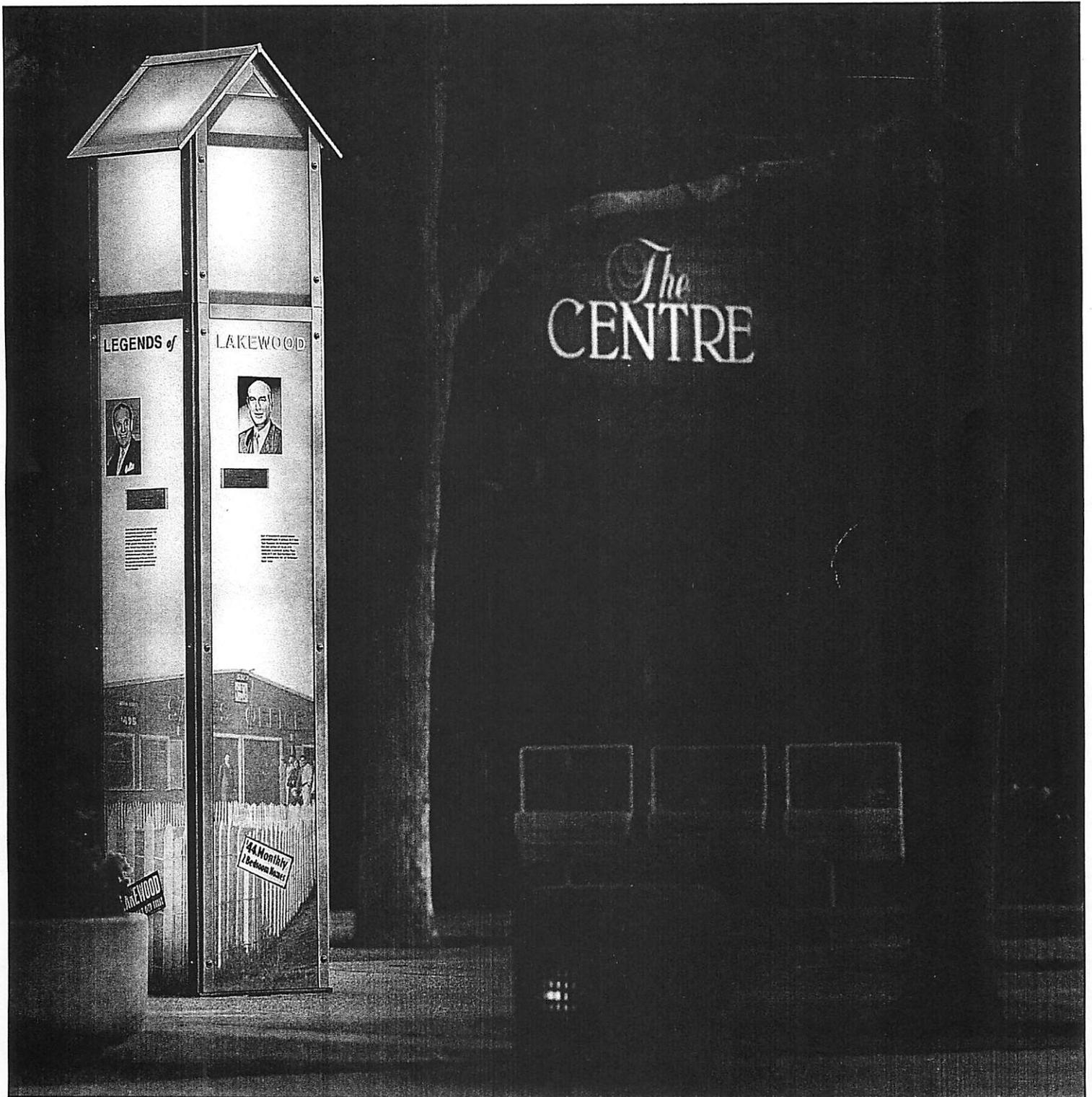


City of Lakewood • California



Comprehensive Annual Financial Report Year Ended June 30, 2005

CITY OF LAKEWOOD, CALIFORNIA

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

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

JUNE 30, 2005

**Prepared by
Department of Finance**

**Larry Schroeder
Director of Finance**



CITY OF LAKEWOOD
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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CITY OF LAKEWOOD
 COMPREHENSIVE ANNUAL FINANCIAL REPORT

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Larry Van Nostran
Vice Mayor

Steve Croft
Council Member



Joseph Esquivel
Mayor

Todd Rogers
Council Member

Diane DuBois
Council Member

December 19, 2005

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, 2005.

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, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Lakewood's financial statements for the fiscal year ended June 30, 2005, 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

Lakewood

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 83,674 as of January 1, 2005.

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, among other things, for 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 government, 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 2004-2005. The focus areas were identified in the operating budget. These priorities included intergovernmental relations, public safety, Sheriff's station renovation, street maintenance, information technology, economic development, water, neighborhood preservation, improving education in Lakewood's schools, and park improvements.

INTERGOVERNMENTAL RELATIONS was the top priority in 2004-2005. There was a concentrated effort aimed at Sacramento to assure that local revenues were protected and state takeaways would stop. 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.

Lakewood is constantly improving its **PUBLIC SAFETY PROGRAMS** to meet the needs of our citizens. The 2004-2005 budget funded a host of law enforcement field services including patrol deputies, community service officers, Sky Knight helicopter patrol, detectives, and special support teams for narcotics and gang suppression, as well as support personnel and the City Community Safety Center located at the Lakewood Mall.

Preparation for work on the Lakewood **SHERIFF'S STATION RENOVATION PROJECT** began in 2004-2005. The expansion and modernization of the Sheriff's station is great news for Lakewood and the four other cities 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 that much and they haven't kept up with the rapid transformation of law enforcement into a highly computerized field. The centerpiece of the project is a new, two-story structure that will tie the station's two buildings into a single, more efficient unit. The detective annex and main building will be combined under one roof to create a new, larger lobby and additional working space for detectives and deputies.

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.

INFORMATION TECHNOLOGY has become an indispensable tool in today's society. In 2004-2005 the City prepared for the replacement of its Financial Management Information System (FMIS). This is a system of computer programs that support the City's accounting, accounts payable, payroll, and utility billing functions. The City's current system is over 24 years old, has been modified countless times, and is written in a now seldom used programming code called PIC.

The City continued its collaboration with the community to encourage commercial development in Lakewood to provide our citizens with both convenient shopping and employment opportunities. Besides the 19.9 acres of commercially zoned vacant land throughout the City, the City's **ECONOMIC DEVELOPMENT** Committee also looked at opportunities to rejuvenate existing businesses in Lakewood.

Lakewood continued its commitment to excellent **WATER** quality. During 2004-2005, the City completed a rehabilitation project to prolong the life of two 1.5 million gallon steel tanks.

NEIGHBORHOOD PRESERVATION continues to be an important focus area for Lakewood. The City continued to focus on the preservation of its homes, most of which are now more than 50 years old. In 2004-2005 the City funded 45 single-family rehabilitation loans and 36 fix-up/paint-up grants designed to assist low and moderate-income families maintain their homes up to Lakewood standards.

IMPROVING EDUCATION IN LAKEWOOD SCHOOLS is a commitment of the Lakewood city council. The City is committed to the enhancement of the educational delivery system serving Lakewood. To that end, a new budget

division of Education Consultation was initiated. The funding for this division is to provide liaison service between the City and schools serving Lakewood, as well as providing consulting service to the City on school district formation issues.

Lakewood's parks add a great deal to the quality of life in our community. To preserve these recreation areas, PARK IMPROVEMENT PROJECTS completed during the year included a renovation of the picnic shelters at Rynerson Park and the design phase for a replacement activity building at Boyar Park were completed.

For The Future. In 2005-2006, the City returned to a two-year budget with greater assurance that the state would not take away further funding from cities. The priorities for the coming year are as follows:

INTERGOVERNMENTAL RELATIONS. There will be 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 will need to continue to engage our legislators and members of the Governor's staff to insure minimal impact on cities and our residents.

PUBLIC SAFETY. As previously mentioned, 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 will begin. 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 will also be involved in talks with the county concerning a movement to increase the cost of Sheriff's services to contract cities. The position of contract cities is that they currently pay their fair share.

Another issue that will be addressed is "countywide interoperability." Simply stated, this is the ability for all law enforcement agencies in Los Angeles County to be able to communicate via radio during times of multi-agency response to disasters and other emergencies.

INFRASTRUCTURE IMPROVEMENTS. 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.

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.

Upholding our tradition of Tree City USA, the City plans to plant an additional 500 street trees in each of the next two fiscal years.

INFORMATION TECHNOLOGY. The City is proceeding with an Enterprise Resource Planning (ERP) Project for the replacement of its antiquated Financial Management Information System (FMIS) in fiscal years 2005-2006 and 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 24 years old, has been modified countless times, and is written in a now seldom used programming code called 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.

WATER. Lakewood continues its commitment to excellent water quality. During fiscal years 2005-2006 and 2006-2007, the City will construct the next five miles of the water main replacement program. Also the Cities of Lakewood

and Long Beach will enter 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 will be funded by a grant from Proposition 13.

ECONOMIC DEVELOPMENT. The City continues 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, the Weingart Senior Center is scheduled for major improvements to landscaping, interior walls, parking lot, air conditioning system and roof.

If a state parks grant is received, Mae Boyar Park will receive a new 4,000 square foot multi-purpose recreation complex. Additionally, new playground equipment will be installed and the park's athletic facilities will be improved.

EDUCATION SYSTEM. The City of Lakewood is committed to the enhancement of the educational delivery system serving Lakewood. To that end, a new Education Liaison Budget Division has been initiated. The funding for this division is to provide liaison service between the City and schools serving Lakewood, as well as providing consulting service to the city council on school district formation issues.

NEIGHBORHOOD PRESERVATION. Lakewood continues to focus on the preservation of its homes, most of which are now more than 50 years old. Once again, the City's goal for fiscal year 2005-2006 is to fund 40 single-family rehabilitation loans and 46 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 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.

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.

Local Economy. The State of California continues to face many fiscal challenges in the years ahead. According to the State Legislative Analyst web site in December of 2005, "The state's budget outlook for 2006-07 and beyond has improved considerably as a result of a major increase in revenues and significant savings adopted in the 2005-06 budget plan. The state, however, still faces major operating deficits in the next several years." This could mean future raids on the City's funds which are not protected by voter approved Proposition 1-A.

The economic base of the City is primarily commercial/retail. Almost 1,600 businesses are located in Lakewood and generated approximately \$10.4 million in taxable sales in fiscal year 2004-2005. Lakewood Center Mall, a regional shopping center, ranks among the top five Southern California shopping centers and contributes approximately forty-three percent of the retail sales in the City. According to Jack Kyser, Senior Vice President and Chief Economist for the Los Angeles County Economic Development Corp., as reported in November 2005 in the *San Gabriel Valley Tribune*, "Modest but steady job gains should continue throughout next year, as the Southland economy continues to

strengthen despite a gradual cooling of the long-hot real estate market...” This is an indication that retail sales could remain strong through the next year. However, the steady rise in interest rates could have a dampening effect on automobile sales.

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. It is updated every two years.

Cash Management Policies and Practices. Cash temporarily idle during the year was invested in government agencies and the State’s Local Agency Investment Fund (LAIF). The maturities of the investments range from one to three years, with an average maturity of 17.8 months. The average yield on investments was 2.89 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 107 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 2004-2005, 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 on 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. 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

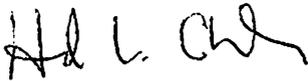
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lakewood for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. This was the 24th consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both 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, 2004. 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.

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; Pamala Lau, Assistant Accountant; Ronnie Campbell, Assistant Director of Finance; Toni Mikrut, 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,

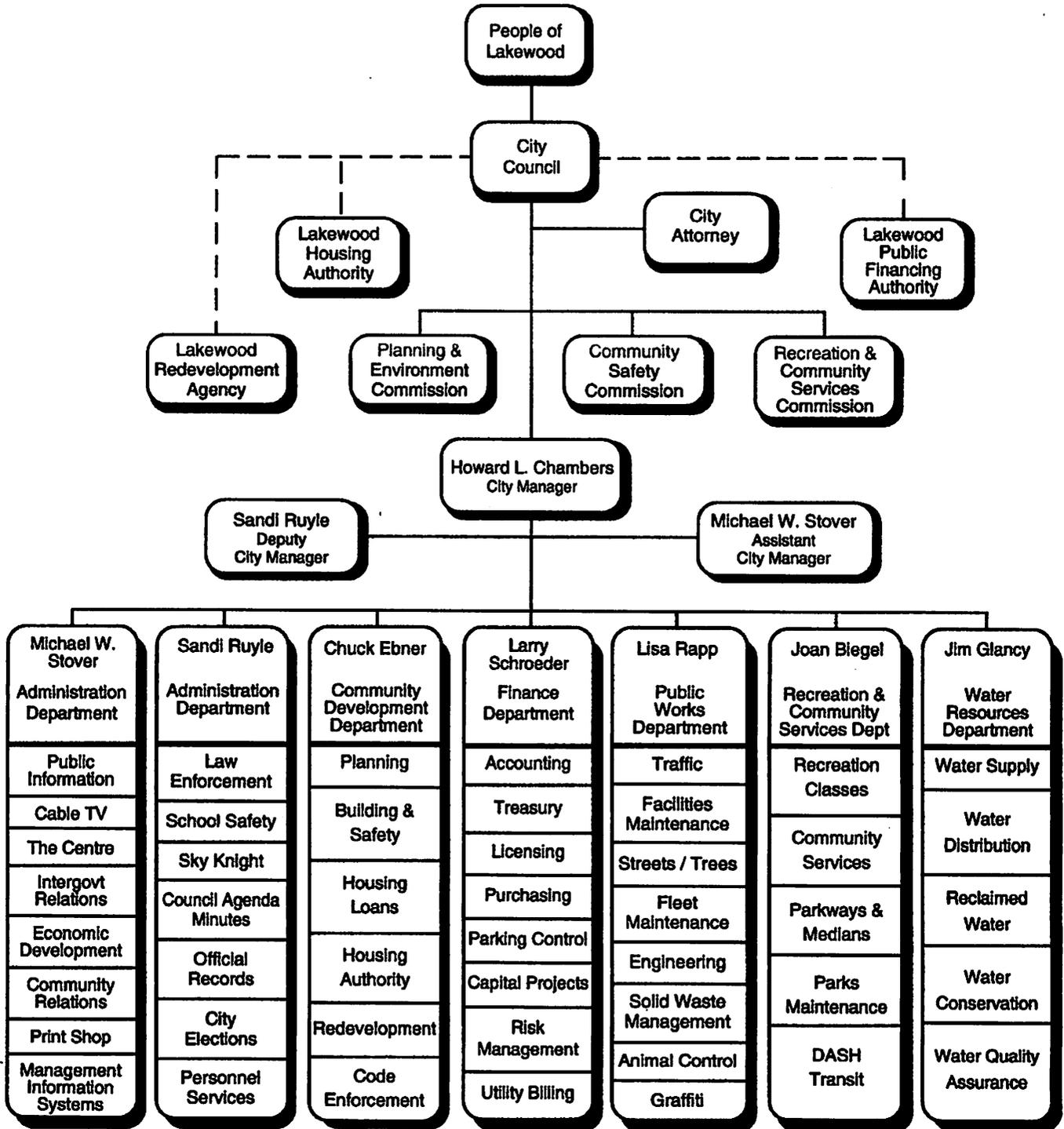


Howard L. Chambers
City Manager



Larry Schroeder
Director of Finance

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CITY COUNCIL

JOSEPH ESQUIVEL
Mayor

LARRY VAN NOSTRAN
Vice Mayor

TODD ROGERS
Council Member

STEVE CROFT
Council Member

DIANE DU BOIS
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

JOAN BIEGEL
Director of Recreation
and Community Services

CHARLES K. EBNER
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, 2004

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



Nancy L. Zjelke

President

Jeffrey R. Emmer

Executive Director

California Society of
Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2003-04

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, 2005

William A. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management





DIEHL, EVANS & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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KENNETH R. AMES, CPA

*A PROFESSIONAL CORPORATION

November 30, 2005

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, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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, 2005, 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 30, 2005 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 information 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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, 2005

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, 2005. 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, 2005, by \$137,572,022 (*net assets*). Of this amount, \$38,862,012 (*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 \$6,763,830 during the fiscal year ended June 30, 2005. Much of this increase is attributable to an increase in revenue in Governmental Activities related to sales and property tax.
- As of June 30, 2005, the City's governmental funds reported combined ending fund balances of \$44,477,296, an increase of \$3,875,350 in comparison with the prior year.
- At June 30, 2005, unreserved fund balance of the general fund was \$30,509,959 or 89% 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 (non-current liabilities) decreased by \$1,131,948, 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 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.

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.

See independent auditors' report.

Government-wide financial statements (Continued)

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 capital project and debt service fund, 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 non-major 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 statement 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.

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.

See independent auditors' report.

Fund financial statements (Continued)

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 page 54 of this report.

The combining statements referred to earlier in connection with nonmajor governmental fund 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 \$137,572,022 at the close of the most recent fiscal year.

City of Lakewood's
Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 64,041,762	\$ 59,222,990	\$ 7,930,100	\$ 6,631,299	\$ 71,971,862	\$ 65,854,289
Capital assets	73,036,013	73,171,034	17,630,867	17,464,463	90,666,880	90,635,497
Total Assets	137,077,775	132,394,024	25,560,967	24,095,762	162,638,742	156,489,786
Long-term liabilities outstanding	13,539,692	14,330,713	3,812,934	4,173,200	17,352,626	18,503,913
Other liabilities	6,718,642	6,219,389	995,452	958,292	7,714,094	7,177,681
Total Liabilities	20,258,334	20,550,102	4,808,386	5,131,492	25,066,720	25,681,594
Net assets:						
Invested in Capital Assets						
Net of Related Debt	73,036,013	73,171,034	13,431,784	12,498,286	86,467,797	85,669,320
Restricted	12,242,213	11,244,238	-	-	12,242,213	11,244,238
Unrestricted	31,541,215	27,428,650	7,320,797	6,465,984	38,862,012	33,894,634
Total Net Assets	\$ 116,819,441	\$ 111,843,922	\$ 20,752,581	\$ 18,964,270	\$ 137,572,022	\$ 130,808,192

By far the largest portion of the City of Lakewood's net assets (63%) 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 (\$38,862,012) may be used to meet the government's ongoing obligation to citizens and creditors.

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 65% of the City of Lakewood's business-type activities' net assets invested in capital assets.

See independent auditors' report.

Government-wide Financial Analysis (Continued)

- The City of Lakewood's net assets increased by \$6,763,830 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	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 8,818,101	\$ 8,040,212	\$ 6,867,123	\$ 6,977,418	\$ 15,685,224	\$ 15,017,630
Operating grants and contributions	6,706,916	7,685,891	-	-	6,706,916	7,685,891
Capital grants and contributions	641,047	932,599	-	-	641,047	932,599
General revenues:						
Property taxes	9,861,832	8,024,746	-	-	9,861,832	8,024,746
Other taxes	20,517,406	15,734,660	-	-	20,517,406	15,734,660
Grants and contributions not restricted to specific programs	137,952	2,075,274	-	-	137,952	2,075,274
Other	5,187,898	7,489,747	268,567	243,019	5,456,465	7,732,766
Total Revenues	51,871,152	49,983,129	7,135,690	7,220,437	59,006,842	57,203,566
Expenses:						
General government	6,188,887	6,469,288	-	-	6,188,887	6,469,288
Public safety	10,938,617	9,837,380	-	-	10,938,617	9,837,380
Transportation	4,149,697	5,874,797	-	-	4,149,697	5,874,797
Community development	9,517,641	9,395,361	-	-	9,517,641	9,395,361
Health and sanitation	4,245,217	3,500,490	-	-	4,245,217	3,500,490
Culture and leisure	7,748,336	7,354,906	-	-	7,748,336	7,354,906
Unallocated infrastructure depreciation	1,632,049	1,577,783	-	-	1,632,049	1,577,783
Interest on long term debt	2,475,189	2,603,529	-	-	2,475,189	2,603,529
Water	-	-	5,347,379	5,193,182	5,347,379	5,193,182
Total expenses	46,895,633	46,613,534	5,347,379	5,193,182	52,243,012	51,806,716
Increase in net assets	4,975,519	3,369,595	1,788,311	2,027,255	6,763,830	5,396,850
Net assets - at beginning of year (as restated)	111,843,922	108,474,327	18,964,270	16,937,015	130,808,192	125,411,342
Net assets - at end of year	\$ 116,819,441	\$ 111,843,922	\$ 20,752,581	\$ 18,964,270	\$ 137,572,022	\$ 130,808,192

Governmental activities. Governmental activities increased the City of Lakewood's net assets by \$4,975,519, thereby accounting for 74% of the total increase in net assets of the City of Lakewood. Key elements of this increase are as follows:

- Sales tax increased by \$1,336,981 during the fiscal year. This reflects an anticipated "true-up" payment of \$273,282 from the State for the adjustment of the triple-flip sales tax calculation. The remainder is attributable to increased sales tax receipts being driven by a strong economy.
- Property taxes increased by \$1,837,086 during the fiscal year. Most of this is being driven by low interest rates sparking increased home sales in the Lakewood community.
- Utility users taxes increased by almost \$200,000 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 \$1,788,311, accounting for 28% 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 three years, as recommended by the Water Resources Committee. Such projects on the horizon include \$2.0m in Water Main Replacement, \$1.2m in Water Treatment for Plant #22 and \$1.6m for Well Rehabilitation.

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.

See independent auditors' report.

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 \$44,477,296, an increase of \$3,875,350 in comparison with the prior year. Approximately 21% of this amount (\$9,495,095) constitutes unreserved fund balance, 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 (\$2,272,761), 2) to pay debt service (\$1,484,832), 3) for a variety of other restricted purposes (\$31,224,608).

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 \$30,509,959, while total fund balance reached \$54,887,852. 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 89% of the total general fund expenditure, while total fund balance represents 161% of that same amount.

The fund balance of the City of Lakewood's general fund increased by \$4,241,483 during the current fiscal year. Key factors in this increase are as follows:

- Fiscal year 04-05 sales tax receipts were 12% higher than the previous year. 10% of the 04-05 fiscal year increase in sales tax receipts is attributable to a stronger local economy driven by increases in auto sales.
- Increase in property tax receipts is being driven by continued resale of homes within the Lakewood community. According to an August 2005 edition of the Los Angeles Times, the average sales price for a Lakewood home in July 2005 was over \$500,000.

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 \$7,591,014. The total growth in net assets was \$1,885,278. 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 \$3,282,000 and can be briefly summarized as follows:

- An increase of \$1,961,000 in general government to provide for complete replacement of the City's existing 24 year-old Financial Management Information System (FMIS). Although the full amount of the project was appropriated in FY04-05 the unexpended/unencumbered funds will carry forward into the following fiscal years. The entire project is projected to take approximately 18 months to complete. The targeted completion date is the summer of 2007.
- An increase of almost \$366,000 in public safety primarily for new emergency preparedness grants (\$195,000) and federal and state law enforcement grants (\$160,700).
- An increase of almost \$198,000 in transportation provided for major street rehabilitation and needs assessment of the SR91 and I-605 traffic issues.

Redevelopment Agency Debt Service Fund Highlights

- The agency reduced the total outstanding principal on bonds by \$820,000.

See independent auditors' report.

Redevelopment Agency Capital Projects Fund Highlights

- The Agency was required to shift \$452,501 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, 2005, amounts to \$90,666,880 (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:

- Major street resurfacing project - \$678,342
- Pre-construction costs for the Lakewood Sheriff's Station Expansion Project - \$433,854
- Hardscape Repair - \$390,792
- Traffic Improvements and local street resurfacing - \$367,478
- Street Improvements (CDBG) - \$285,677

City of Lakewood
Capital Assets (Net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 18,394,023	\$ 18,394,023	\$ 381,023	\$ 381,023	\$ 18,775,046	\$ 18,775,046
Construction in progress	2,123,935	1,249,736	1,561,505	1,094,990	3,685,440	2,344,726
Water rights	-	-	1,791,836	1,791,836	1,791,836	1,791,836
Infrastructure	31,963,361	32,590,530	-	-	31,963,361	32,590,530
Structures and Improvements	19,022,775	19,476,237	13,491,131	13,718,879	32,513,906	33,195,116
Equipment	1,531,919	1,460,508	405,372	477,735	1,937,291	1,938,243
Total	\$ 73,036,013	\$ 73,171,034	\$ 17,630,867	\$ 17,464,463	\$ 90,666,880	\$ 90,635,497

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 \$19,066,516. 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	
	2005	2004	2005	2004	2005	2004
Tax allocation bonds	\$ 13,835,490	\$ 14,651,009	\$ -	\$ -	\$ 13,835,490	\$ 14,651,009
Compensated absences	1,031,944	995,466	-	-	1,031,944	995,466
Reclaimed water loan	-	-	162,309	221,098	162,309	221,098
Revenue bonds	-	-	4,036,773	4,330,891	4,036,773	4,330,891
Total	\$ 14,867,434	\$ 15,646,475	\$ 4,199,082	\$ 4,551,989	\$ 19,066,516	\$ 20,198,464

See independent auditors' report.

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

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 4.4%, (*October 2005*) which is a decrease from a rate of 1.6% this same time period a year ago. This compares favorably to the state's average unemployment rate of 5.0% (*October 2005*) and the national average rate of 5.0% (*November 2005*).
- 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 budget for the 05-06 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$30,509,959. In January 2006 the City of Lakewood will begin the review process of the second year of its 2-year budget cycle. At that time, careful review will be given to major contracts contained within the previously adopted fiscal 06-07 budget that may require modification. Careful attention will also be given to the City's infrastructure needs as detailed and addressed in the (*Legacy*) Capital planning process.

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, 2005

	Governmental Activities	Business-type Activity	Total
ASSETS:			
Cash and investments	\$ 50,158,882	\$ 6,890,902	\$ 57,049,784
Receivables:			
Accounts	7,667,343	449,378	8,116,721
Loans	3,175,663	-	3,175,663
Accrued revenue	47,297	617,655	664,952
Internal balances	278,493	(278,493)	-
Prepaid items	56,478	-	56,478
Inventories	103,118	76,110	179,228
Deferred charges	322,580	145,559	468,139
Land held for resale	747,076	-	747,076
Temporarily restricted assets:			
Cash and investments	-	28,580	28,580
Cash and investments with fiscal agent	1,484,832	409	1,485,241
Capital assets:			
Land	18,394,023	381,023	18,775,046
Water rights	-	1,791,836	1,791,836
Construction in progress	2,123,935	1,561,505	3,685,440
Depreciable infrastructure, net	31,963,361	-	31,963,361
Depreciable structures and improvements, net	19,022,775	13,488,760	32,511,535
Depreciable equipment, net	1,531,919	407,743	1,939,662
TOTAL ASSETS	<u>137,077,775</u>	<u>25,560,967</u>	<u>162,638,742</u>
LIABILITIES:			
Accounts payable and other current liabilities	4,929,594	544,165	5,473,759
Accrued interest payable	202,670	36,559	239,229
Unearned revenue	258,636	-	258,636
Liabilities payable from restricted assets	-	28,580	28,580
Noncurrent liabilities:			
Due within one year	1,327,742	386,148	1,713,890
Due in more than one year	13,539,692	3,812,934	17,352,626
TOTAL LIABILITIES	<u>20,258,334</u>	<u>4,808,386</u>	<u>25,066,720</u>
NET ASSETS:			
Invested in capital assets, net of related debt	73,036,013	13,431,784	86,467,797
Restricted for:			
Debt service	1,282,162	-	1,282,162
Transportation	3,503,855	-	3,503,855
Community development	7,161,582	-	7,161,582
Other purposes	294,614	-	294,614
Unrestricted	31,541,215	7,320,797	38,862,012
TOTAL NET ASSETS	<u>\$ 116,819,441</u>	<u>\$ 20,752,581</u>	<u>\$ 137,572,022</u>

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

CITY OF LAKEWOOD

STATEMENT OF ACTIVITIES

For the year ended June 30, 2005

Functions/programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 6,188,887	\$ 754,006	\$ 271,777	\$ -
Public safety	10,938,617	1,309,730	429,757	-
Transportation	4,149,697	-	3,978,356	641,047
Community development	9,517,641	1,277,257	1,938,579	-
Health and sanitation	4,245,217	3,947,546	64,985	-
Culture and Leisure	7,748,336	1,529,562	23,462	-
Unallocated infrastructure depreciation	1,632,049	-	-	-
Interest on long term debt	2,475,189	-	-	-
Total governmental activities	46,895,633	8,818,101	6,706,916	641,047
Business-type activity:				
Water	5,347,379	6,867,123	-	-
Total	\$ 52,243,012	\$ 15,685,224	\$ 6,706,916	\$ 641,047

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, as restated

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
\$ (5,163,104)	\$ -	\$ (5,163,104)
(9,199,130)	-	(9,199,130)
469,706	-	469,706
(6,301,805)	-	(6,301,805)
(232,686)	-	(232,686)
(6,195,312)	-	(6,195,312)
(1,632,049)	-	(1,632,049)
(2,475,189)	-	(2,475,189)
<u>(30,729,569)</u>	<u>-</u>	<u>(30,729,569)</u>
-	1,519,744	1,519,744
<u>(30,729,569)</u>	<u>1,519,744</u>	<u>(29,209,825)</u>
12,240,714	-	12,240,714
9,861,832	-	9,861,832
1,117,100	-	1,117,100
496,604	-	496,604
3,067,139	-	3,067,139
3,595,849	-	3,595,849
<u>30,379,238</u>	<u>-</u>	<u>30,379,238</u>
2,041,412	-	2,041,412
137,952	-	137,952
-	120,000	120,000
<u>3,146,486</u>	<u>148,567</u>	<u>3,295,053</u>
<u>35,705,088</u>	<u>268,567</u>	<u>35,973,655</u>
4,975,519	1,788,311	6,763,830
<u>111,843,922</u>	<u>18,964,270</u>	<u>130,808,192</u>
<u>\$ 116,819,441</u>	<u>\$ 20,752,581</u>	<u>\$ 137,572,022</u>

CITY OF LAKEWOOD

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2005

	General Fund	Redevelopment Agency Debt Service Fund	Redevelopment Agency Capital Projects Fund
ASSETS			
Cash and investments	\$ 38,188,494	\$ 5,406,672	\$ 2,136,786
Cash and investments with fiscal agent	-	1,484,832	-
Accounts receivable	7,084,950	189,936	4,150
Loans receivable	643,093	-	2,532,570
Accrued revenue	-	47,297	-
Prepaid items	56,478	-	-
Due from other funds	90,362	-	-
Advances to other funds	23,094,050	-	226,230
Land held for resale	-	-	747,076
TOTAL ASSETS	\$ 69,157,427	\$ 7,128,737	\$ 5,646,812
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 2,038,017	\$ 996,484	\$ 30,368
Accrued liabilities	1,297,910	-	-
Due to other funds	117,015	-	-
Deferred revenue	10,816,633	-	2,532,570
Advances from other funds	-	23,320,280	-
TOTAL LIABILITIES	14,269,575	24,316,764	2,562,938
FUND BALANCES (DEFICIT):			
Reserved:			
Encumbrances	1,911,837	-	250,600
Continuing appropriations	2,809,526	-	-
Personnel benefits	4,101,361	-	-
Debt service	-	1,484,832	-
Land held for resale	-	-	747,076
Low and moderate housing	-	-	4,201,973
Prepaid items	56,478	-	-
Advances	15,291,648	-	226,230
Special revenue purposes	-	-	-
Other reserves	207,043	-	-
Unreserved, reported in:			
General fund	30,509,959	-	-
Debt service fund	-	(18,672,859)	-
Capital projects fund	-	-	(2,342,005)
TOTAL FUND BALANCES (DEFICIT)	54,887,852	(17,188,027)	3,083,874
TOTAL LIABILITIES AND FUND BALANCES	\$ 69,157,427	\$ 7,128,737	\$ 5,646,812

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

Other Governmental Funds	Total Governmental Funds
\$ 4,348,156	\$ 50,080,108
-	1,484,832
388,307	7,667,343
-	3,175,663
-	47,297
-	56,478
458,156	548,518
-	23,320,280
-	747,076
<u>\$ 5,194,619</u>	<u>\$ 87,127,595</u>

\$ 906,183	\$ 3,971,052
15,837	1,313,747
343,979	460,994
235,023	13,584,226
-	23,320,280
<u>1,501,022</u>	<u>42,650,299</u>

110,324	2,272,761
1,895,474	4,705,000
-	4,101,361
-	1,484,832
-	747,076
-	4,201,973
-	56,478
-	15,517,878
1,687,799	1,687,799
-	207,043
-	30,509,959
-	(18,672,859)
-	(2,342,005)
<u>3,693,597</u>	<u>44,477,296</u>
<u>\$ 5,194,619</u>	<u>\$ 87,127,595</u>

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CITY OF LAKEWOOD

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

June 30, 2005

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

Fund balances - total governmental funds		\$ 44,477,296
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	2,123,935	
Infrastructure net of \$78,630,051 accumulated depreciation	31,963,361	
Structures and improvements, net of \$13,836,883 accumulated depreciation	19,022,775	
Equipment, net of \$7,290,047 accumulated depreciation	<u>1,355,484</u>	
		72,859,578
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, 2005 totaled:		13,718,431
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:		511,660
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, 2005 are:		
Accrued interest on bonds		(202,670)
Tax allocation bonds	\$ 13,890,000	
Less: Deferred amount on refunding, net of accumulated amortization	(113,365)	
Less: Deferred charges, net of accumulated amortization	(322,580)	
Plus: Bond issuance premium, net of accumulated amortization	58,855	
Compensated absences	<u>1,031,944</u>	
		<u>(14,544,854)</u>
Net assets of governmental activities		<u>\$ 116,819,441</u>

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, 2005

	General	Redevelopment Agency Debt Service Fund	Redevelopment Agency Capital Projects Fund
REVENUES:			
Taxes	\$ 19,434,475	\$ 6,739,340	\$ -
Licenses and permits	790,743	-	-
Fines and forfeitures	569,626	-	-
Investment income, rents and concessions	3,726,275	193,151	95,736
From other agencies	7,110,616	-	-
Current service charges	6,811,857	-	-
Other	295,730	-	490,686
TOTAL REVENUES	<u>38,739,322</u>	<u>6,932,491</u>	<u>586,422</u>
EXPENDITURES:			
Current:			
General government	5,898,051	-	-
Public safety	10,260,258	-	-
Transportation	3,272,039	-	-
Community development	3,359,746	1,376,281	2,757,907
Health and sanitation	4,254,469	-	-
Culture and leisure	7,100,285	-	-
Capital outlay:			
General government	-	-	-
Public safety	-	-	-
Transportation	-	-	-
Community development	-	-	-
Culture and leisure	-	-	-
Debt service:			
Owner participation agreement payments	-	1,005,470	-
Principal retirement	-	820,000	-
Interest and fiscal charges	-	2,479,841	-
TOTAL EXPENDITURES	<u>34,144,848</u>	<u>5,681,592</u>	<u>2,757,907</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>4,594,474</u>	<u>1,250,899</u>	<u>(2,171,485)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	2,489,179	-	1,761,712
Transfers out	(2,842,170)	(1,761,712)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(352,991)</u>	<u>(1,761,712)</u>	<u>1,761,712</u>
NET CHANGE IN FUND BALANCES	4,241,483	(510,813)	(409,773)
FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR	<u>50,646,369</u>	<u>(16,677,214)</u>	<u>3,493,647</u>
FUND BALANCES (DEFICIT) AT END OF YEAR	<u>\$ 54,887,852</u>	<u>\$ (17,188,027)</u>	<u>\$ 3,083,874</u>

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

Other Governmental Funds	Total Governmental Funds
\$ 2,194,292	\$ 28,368,107
-	790,743
-	569,626
93,728	4,108,890
3,536,702	10,647,318
-	6,811,857
239,278	1,025,694
<u>6,064,000</u>	<u>52,322,235</u>
-	5,898,051
-	10,260,258
850,931	4,122,970
1,656,429	9,150,363
-	4,254,469
-	7,100,285
6,794	6,794
454,808	454,808
2,112,737	2,112,737
88,927	88,927
186,273	186,273
-	1,005,470
-	820,000
-	2,479,841
<u>5,356,899</u>	<u>47,941,246</u>
<u>707,101</u>	<u>4,380,989</u>
2,563,861	6,814,752
(2,716,509)	(7,320,391)
<u>(152,648)</u>	<u>(505,639)</u>
554,453	3,875,350
<u>3,139,144</u>	<u>40,601,946</u>
<u>\$ 3,693,597</u>	<u>\$ 44,477,296</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, 2005

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

Net change in fund balances - total governmental funds \$ 3,875,350

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 depreciation (\$ 2,808,019) exceeded capital expense (\$ 2,781,189) the current period. (26,830)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets. (20,098)

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	\$ 1,789,606	
Total amount of loans repaid	<u>(1,541,058)</u>	248,548

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		820,000
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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. 110,342

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	\$ 9,133	
Amortization of deferred amount on refunding, deferred charges and bond premium	(30,994)	
Change in compensated absences	<u>(36,478)</u>	(58,339)

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. 26,546

Change in net assets of governmental activities		<u>\$ 4,975,519</u>
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See independent auditors' report and notes to basic financial statements.

CITY OF LAKEWOOD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2005

ASSETS	Business-type Activity- Water Enterprise Fund		Governmental Activities- Internal Service Funds
	Current Year	Prior Year	
CURRENT ASSETS:			
Cash and investments	\$ 6,890,902	\$ 5,335,328	\$ 78,774
Restricted cash and investments:			
Customer deposits	28,580	33,383	-
Revenue bond covenant accounts	409	7,034	-
Accounts receivable	449,378	521,368	-
Accrued revenue	617,655	684,266	-
Inventories	76,110	64,071	103,118
TOTAL CURRENT ASSETS	8,063,034	6,645,450	181,892
NONCURRENT ASSETS:			
Deferred charges, net of accumulated amortization	145,559	159,099	-
Capital assets:			
Land	381,023	381,023	-
Water rights	1,791,836	1,791,836	-
Source of supply	2,452,316	2,452,316	-
Pumping plant	549,304	547,139	-
Water treatment	100,129	94,896	-
Transmission/distribution	22,319,984	21,816,936	-
General plant	3,034,389	3,034,389	-
Equipment	-	-	1,285,374
Construction in progress	1,561,505	1,094,990	-
Less: accumulated depreciation	(14,559,619)	(13,749,062)	(1,108,939)
Total capital assets (net of accumulated depreciation)	17,630,867	17,464,463	176,435
TOTAL NONCURRENT ASSETS	17,776,426	17,623,562	176,435
TOTAL ASSETS	25,839,460	24,269,012	358,327

(Continued)

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

CITY OF LAKEWOOD

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 (CONTINUED)

June 30, 2005

	Business-type Activity - Water Enterprise Fund		Governmental Activities- Internal Service Funds
	Current Year	Prior Year	
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	\$ 544,165	\$ 512,954	\$ 23,417
Accrued liabilities	-	-	14,219
Due to the General Fund	8,276	-	79,248
Accrued revenue bond interest	36,559	33,166	-
Customer deposits	28,580	33,383	-
Current portion of revenue bonds	325,000	320,000	-
Current portion of reclaimed water loan	61,148	58,789	-
TOTAL CURRENT LIABILITIES	1,003,728	958,292	116,884
NONCURRENT LIABILITIES:			
Revenue bonds	3,711,773	4,010,891	-
Reclaimed water loan	101,161	162,309	-
TOTAL NONCURRENT LIABILITIES	3,812,934	4,173,200	-
TOTAL LIABILITIES	4,816,662	5,131,492	116,884
NET ASSETS			
Invested in capital assets, net of related debt	13,431,784	12,498,286	176,435
Unrestricted	7,591,014	6,639,234	65,008
TOTAL NET ASSETS	21,022,798	\$ 19,137,520	\$ 241,443
Adjustment to reflect the consolidation of internal service fund activities related to the water enterprise fund	(270,217)		
Net assets of business-type activity	\$ 20,752,581		

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, 2005

	Business-type Activity - Water Enterprise Fund		Governmental Activities- Internal Service Funds
	Current Year	Prior Year	
OPERATING REVENUES:			
Metered water sales	\$ 6,538,585	\$ 6,602,442	\$ -
Reclaimed water sales	159,078	180,684	-
Fire protection	25,011	22,976	-
Service initiation and restoration charges	33,375	30,995	-
Installation charges	120	160	-
Billings to departments	-	-	651,953
Other revenues	110,954	140,161	460
TOTAL OPERATING REVENUES	6,867,123	6,977,418	652,413
OPERATING EXPENSES:			
Operations:			
Supply, transmission and distribution	3,440,621	3,344,011	-
Customer service	495,438	457,583	-
Administration	293,950	247,647	-
Cost of goods sold	-	-	1,125,058
Depreciation	810,679	786,956	103,415
TOTAL OPERATING EXPENSES	5,040,688	4,836,197	1,228,473
OPERATING INCOME (LOSS)	1,826,435	2,141,221	(576,060)
NONOPERATING REVENUES (EXPENSES):			
Sales of pumping rights	120,000	135,005	-
Investment income	148,567	108,014	-
Interest expense on long-term debt	(190,231)	(251,276)	-
Amortization of deferred charges	(13,540)	(11,954)	-
Loss on disposal of assets	(5,953)	(5,742)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	58,843	(25,953)	-
INCOME (LOSS) BEFORE TRANSFERS	1,885,278	2,115,268	(576,060)
TRANSFERS IN	-	-	505,639
CHANGE IN NET ASSETS	1,885,278	2,115,268	(70,421)
NET ASSETS AT BEGINNING OF YEAR		17,022,252	311,864
NET ASSETS AT END OF YEAR		\$ 19,137,520	\$ 241,443
Change in net assets - water enterprise fund			
Adjustment to reflect the consolidation of internal service fund activities related to the water enterprise fund		(96,967)	
Change in net assets of business-type activity	\$ 1,788,311		

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, 2005

	Business-type Activity - Water Enterprise Fund		Governmental Activities- Internal Service Funds
	Current Year	Prior Year	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 6,894,770	\$ 6,574,696	\$ -
Receipts from interfund services provided	-	-	646,049
Other operating receipts	110,954	140,161	-
Payments to suppliers	(2,866,493)	(2,817,482)	(698,937)
Payments to employees	(1,340,871)	(1,237,364)	(406,051)
Payments for interfund services used	-	-	460
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>2,798,360</u>	<u>2,660,011</u>	<u>(458,479)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	-	-	505,639
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from the sale of pumping rights	120,000	135,005	-
Proceeds from issuance of refunding bonds	-	4,635,000	-
Receipt of bond premium	-	103,906	-
Payment to advance refunding escrow agent	-	(4,554,486)	-
Acquisition of capital assets	(983,036)	(1,560,217)	(15,322)
Principal paid on revenue bonds and state loan	(378,789)	(311,521)	-
Interest paid on revenue bonds and state loan	(160,956)	(266,845)	-
Bond issuance costs	-	(161,920)	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,402,781)</u>	<u>(1,981,078)</u>	<u>(15,322)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	148,567	108,014	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,544,146	786,947	31,838
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,375,745</u>	<u>4,588,798</u>	<u>46,936</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,919,891</u>	<u>\$ 5,375,745</u>	<u>\$ 78,774</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, 2005

	Business-type Activity - Water Enterprise Fund		Governmental Activities- Internal Service Funds
	Current Year	Prior Year	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 1,826,435	\$ 2,141,221	\$ (576,060)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	810,679	786,956	103,415
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivables	71,990	(118,587)	-
(Increase) decrease accrued revenue	66,611	(143,974)	-
(Increase) decrease in inventories	(12,039)	4,085	(5,904)
(Increase) decrease in prepaid items	-	9,417	-
Increase (decrease) in accounts payable	24,213	(9,994)	3,211
Increase (decrease) in accrued liabilities	15,274	-	16,859
Increase (decrease) in customer deposits	(4,803)	(9,113)	-
Total adjustments	971,925	518,790	117,581
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 2,798,360	\$ 2,660,011	\$ (458,479)

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

CITY OF LAKEWOOD

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2005

	<u>Agency Funds</u>
ASSETS:	
Cash and investments	\$ 2,532,248
Loans receivable	<u>1,258,911</u>
 TOTAL ASSETS	 <u>\$ 3,791,159</u>
 LIABILITIES:	
Deposits	\$ 2,428,920
Due to HUD	<u>1,362,239</u>
 TOTAL LIABILITIES	 <u>\$ 3,791,159</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2005

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.

See independent auditors' report.

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 \$19,771,230 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. 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.

I. 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)

J. 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

K. 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, 2005, 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 (\$560,866 in 2004-05). 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 (\$35,642 in 2004-05). 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 \$3,917,000 is recorded in the General Fund. (See Note 8).

L. Deferred Charges

Deferred charges (bond issuance costs) are being amortized over the life of the issue on a straight-line basis.

M. 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, 2005 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	\$ 57,049,784	\$ 2,532,248	\$ 59,582,032
Temporarily restricted assets:			
Cash and investments	28,580	-	28,580
Cash and investments with fiscal agent	1,485,241	-	1,485,241
Total Cash and Investments	<u>\$ 58,563,605</u>	<u>\$ 2,532,248</u>	<u>\$ 61,095,853</u>

See independent auditors' report.

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Cash and investments at June 30, 2005 consisted of the following:

Cash on hand	\$ 2,700
Deposits with financial institutions	1,269,122
Investments	<u>59,824,031</u>
Total Cash and Investments	<u>\$ 61,095,853</u>

Investment 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed (2)</u>	<u>Maximum Investment in One Issuer</u>
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	\$ 19,771,230	\$ -	\$ -	\$ 19,771,230
U.S. Government Sponsored Enterprise Securities:				
Federal Home Loan Mortgage Corporation (FHLMC)	3,966,579	2,957,354	982,500	7,906,433
Federal Home Loan Bank (FHLB)	9,869,250	4,919,063	4,977,500	19,765,813
Federal Farm Credit Bank (FFCB)	987,812	984,688	2,993,750	4,966,250
Federal National Mortgage Association (FNMA)	987,188	2,959,375	1,982,500	5,929,063
Held by Bond Trustee:				
Money Market Mutual Funds	<u>1,485,242</u>	-	-	<u>1,485,242</u>
	<u>\$ 37,067,301</u>	<u>\$ 11,820,480</u>	<u>\$ 10,936,250</u>	<u>\$ 59,824,031</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 as of year end for each investment type:

Investment Type	Total as of June 30, 2005	Minimum Legal Rating	Rating		
			AAA	A	Unrated
Local Agency Investment Fund	\$ 19,771,230	N/A	\$ -	\$ -	\$ 19,771,230
U.S. Government Sponsored Enterprise Securities	38,567,559	AAA	38,567,559	-	-
Held by Bond Trustee: Money Market Funds	<u>1,485,242</u>	A	-	<u>1,485,242</u>	-
	<u>\$ 59,824,031</u>		<u>\$ 38,567,559</u>	<u>\$ 1,485,242</u>	<u>\$ 19,771,230</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	7,906,433
Federal Home Loan Bank	U.S. Government Sponsored Enterprise Securities	19,765,813
Federal Farm Credit Bank	U.S. Government Sponsored Enterprise Securities	4,966,250
Federal National Mortgage Association	U.S. Government Sponsored Enterprise Securities	5,929,063

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, 2005, 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.

See independent auditors' report.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

Governmental Activities:

	Balance at July 1, 2004 As Restated	Additions	Deletions	Balance at June 30, 2005
Capital assets, not being depreciated:				
Land	\$ 18,394,023	\$ -	\$ -	\$ 18,394,023
Construction in progress	<u>945,956</u>	<u>2,592,529</u>	<u>(1,414,550)</u>	<u>2,123,935</u>
Total capital assets, not being depreciated	<u>19,339,979</u>	<u>2,592,529</u>	<u>(1,414,550)</u>	<u>20,517,958</u>
Capital assets, being depreciated:				
Structures and improvements	32,674,520	185,138	-	32,859,658
Equipment	9,626,049	428,514	(123,658)	9,930,905
Infrastructure	<u>109,588,532</u>	<u>1,004,880</u>	<u>-</u>	<u>110,593,412</u>
Total capital assets, being depreciated	<u>151,889,101</u>	<u>1,618,532</u>	<u>(123,658)</u>	<u>153,383,975</u>
Less accumulated depreciation for:				
Structures and improvements	(13,198,283)	(638,600)	-	(13,836,883)
Equipment	(7,861,761)	(640,785)	103,560	(8,398,986)
Infrastructure	<u>(76,998,002)</u>	<u>(1,632,049)</u>	<u>-</u>	<u>(78,630,051)</u>
Total accumulated depreciation	<u>(98,058,046)</u>	<u>(2,911,434)</u>	<u>103,560</u>	<u>(100,865,920)</u>
Total capital assets, being depreciated, net	<u>53,831,055</u>	<u>(1,292,902)</u>	<u>(20,098)</u>	<u>52,518,055</u>
Total governmental activities capital, net	<u>\$ 73,171,034</u>	<u>\$ 1,299,627</u>	<u>\$ (1,434,648)</u>	<u>\$ 73,036,013</u>

The beginning balance of construction in progress has been decreased by \$876,311 of costs associated with the construction of infrastructure assets that had been completed and already included in the infrastructure asset category. Also, the beginning balance of equipment accumulated depreciation has been decreased by \$303,780 to remove an amount associated with assets that were disposed of in prior years. The governmental activities net assets at the beginning of the year have also been decreased on the statement of activities by \$572,531 for the effect of these two corrections.

NOTE 3 - CAPITAL ASSETS (CONTINUED)

Business-type Activity:

	Balance at July 1, 2004	Additions	Deletions	Balance at June 30, 2005
Capital assets, not being depreciated				
Land	\$ 381,023	\$ -	\$ -	\$ 381,023
Water rights	1,791,836	-	-	1,791,836
Construction in progress	<u>1,094,990</u>	<u>466,515</u>	-	<u>1,561,505</u>
Total capital assets, not being depreciated	<u>3,267,849</u>	<u>466,515</u>	-	<u>3,734,364</u>
Capital assets, being depreciated:				
Source of supply	2,452,316	-	-	2,452,316
Pumping plant	547,139	2,165	-	549,304
Water treatment	94,896	5,233	-	100,129
Transmission/distribution	21,816,936	509,000	(5,952)	22,319,984
General plant	<u>3,034,389</u>	-	-	<u>3,034,389</u>
Total capital assets, being depreciated	<u>27,945,676</u>	<u>516,398</u>	<u>(5,952)</u>	<u>28,456,122</u>
Less accumulated depreciation for:				
Source of supply	(1,170,306)	(209,302)	-	(1,379,608)
Pumping plant	(478,561)	(4,221)	-	(482,782)
Water treatment	(60,016)	(5,320)	-	(65,336)
Transmission/distribution	(9,483,525)	(521,844)	122	(10,005,247)
General plant	<u>(2,556,654)</u>	<u>(69,992)</u>	-	<u>(2,626,646)</u>
Total accumulated depreciation	<u>(13,749,062)</u>	<u>(810,679)</u>	<u>122</u>	<u>(14,559,619)</u>
Total capital assets, being depreciated, net	<u>14,196,614</u>	<u>(294,281)</u>	<u>(5,830)</u>	<u>13,896,503</u>
Total business-type activity, capital assets, net	<u>\$ 17,464,463</u>	<u>\$ 172,234</u>	<u>\$ (5,830)</u>	<u>\$ 17,630,867</u>

Depreciation expense:

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

Governmental activities:

General government	\$ 256,932
Public safety	92,348
Transportation	57,431
Community development	170,311
Health and sanitation	2,265
Culture and leisure	596,683
Internal service funds depreciation charged to programs	103,415
Unallocated infrastructure depreciation	<u>1,632,049</u>

Total depreciation expense - governmental activities \$ 2,911,434

Business type activity:

Water \$ 810,679

See independent auditors' report.

NOTE 4 - LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions for the year ended June 30, 2005:

Governmental Activities:

	Balance at July 1, 2004	Additions	Deletions	Balance at June 30, 2005	Due Within One Year
Agency Tax Allocation Bonds:					
1999 Series A	\$ 6,340,000	\$ -	\$ (285,000)	\$ 6,055,000	\$ 310,000
2003 Series A	5,565,000	-	(360,000)	5,205,000	330,000
2003 Series B	2,805,000	-	(175,000)	2,630,000	150,000
Plus (less) deferred amounts:					
For issuance premium	63,692	-	(4,837)	58,855	-
On refunding	<u>(122,683)</u>	<u>-</u>	<u>9,318</u>	<u>(113,365)</u>	<u>-</u>
Total Agency Tax Allocation Bonds	14,651,009	-	(815,519)	13,835,490	790,000
Compensated absences	<u>995,466</u>	<u>754,727</u>	<u>(718,249)</u>	<u>1,031,944</u>	<u>537,742</u>
Total Governmental Activities	<u>15,646,475</u>	<u>754,727</u>	<u>(1,533,768)</u>	<u>14,867,434</u>	<u>1,327,742</u>
Business-type Activity:					
Water Revenue Bonds:					
2004 Bonds	4,635,000	-	(320,000)	4,315,000	325,000
Plus (less) deferred amounts:					
For issuance premiums	102,096	-	(8,689)	93,407	-
On refunding	<u>(406,205)</u>	<u>-</u>	<u>34,571</u>	<u>(371,634)</u>	<u>-</u>
Total Water Revenue Bonds	4,330,891	-	(294,118)	4,036,773	325,000
Loan payable to State of California	<u>221,098</u>	<u>-</u>	<u>(58,789)</u>	<u>162,309</u>	<u>61,148</u>
Total Business-type Activity	<u>4,551,989</u>	<u>-</u>	<u>(352,907)</u>	<u>4,199,082</u>	<u>386,148</u>
City Total	<u>\$ 20,198,464</u>	<u>\$ 754,727</u>	<u>\$ (1,886,675)</u>	<u>\$ 19,066,516</u>	<u>\$ 1,713,890</u>

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, 2005 the balance of the Series 1999A Bonds is \$6,055,000.

Total debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest	Total
2006	\$ 310,000	\$ 296,030	\$ 606,030
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 - 2015	2,440,000	793,521	3,233,521
2016 - 2018	1,770,000	162,480	1,932,480
Total	<u>\$ 6,055,000</u>	<u>\$ 2,274,924</u>	<u>\$ 8,329,924</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 advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$81,827. This difference, reported as a deduction from bonds payable, is being amortized on a straight-line basis as interest expense on the statement of activities through the year 2017. The Agency completed the advance refunding to reduce its total debt service over the next 14 years by \$1,175,505 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$768,185.

The 2003A Bonds are serial bonds maturing annually each September 1 through the calendar year 2017, in amounts ranging from \$330,000 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, 2005, the balance of the Series 2003A Bonds is \$5,205,000.

See independent auditors' report.

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
2006	\$ 330,000	\$ 177,967	\$ 507,967
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 - 2015	2,055,000	481,969	2,536,969
2016 - 2018	<u>1,405,000</u>	<u>88,210</u>	<u>1,493,210</u>
Total	<u>\$ 5,205,000</u>	<u>\$ 1,365,678</u>	<u>\$ 6,570,678</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 advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$46,291. This difference, reported as a deduction from bonds payable, is being amortized on a straight-line basis as interest expense on the statement of activities through the year 2017. The Agency completed the advance refunding to reduce its total debt service over the next 14 years by \$689,052 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$418,886.

The 2003B Bonds are serial bonds maturing annually each September 1 through the calendar year 2017, in amounts ranging from \$150,000 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, 2005, the balance of the Series 2003B Bonds is \$2,630,000.

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

Year Ending June 30.	Principal	Interest	Total
2006	\$ 150,000	\$ 128,679	\$ 278,679
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 - 2015	1,050,000	357,513	1,407,513
2016 - 2018	<u>755,000</u>	<u>65,822</u>	<u>820,822</u>
Total	<u>\$ 2,630,000</u>	<u>\$ 1,002,686</u>	<u>\$ 3,632,686</u>

See independent auditors' report.

NOTE 4 - LONG-TERM LIABILITIES (CONTINUED)

Governmental Activities (Continued)

B. Compensated Absences

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

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 \$325,000 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, 2005, are as follows:

Year Ending June 30	Principal	Interest	Total
2006	\$ 325,000	\$ 146,238	\$ 471,238
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 - 2015	2,085,000	288,969	2,373,969
2016	<u>460,000</u>	<u>16,100</u>	<u>476,100</u>
Total	<u>\$ 4,315,000</u>	<u>\$ 903,959</u>	<u>\$ 5,218,959</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, 2005, are as follows:

Year Ending June 30	Principal	Interest	Total
2006	\$ 61,148	\$ 6,513	\$ 67,661
2007	63,601	3,999	67,600
2008	<u>37,560</u>	<u>845</u>	<u>38,405</u>
Total	<u>\$ 162,309</u>	<u>\$ 11,357</u>	<u>\$ 173,666</u>

See independent auditors' report.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances were as follows at June 30, 2005:

Due To / From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental	\$ 2,838
	Water Enterprise	8,276
	Internal Service	79,248
Other Governmental	General	117,015
	Other Governmental	341,141
		<u>\$ 548,518</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	\$ 23,094,050
Redevelopment Agency Capital Projects	Redevelopment Agency Debt Service	226,230
		<u>\$ 23,320,280</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 \$7,802,402 at June 30, 2005 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	\$ 2,489,179
Redevelopment Agency Capital Projects Fund	Redevelopment Agency Debt Service Fund	1,761,712
Other Governmental Funds	General Fund	2,336,531
	Other Governmental Funds	227,330
Central Garage Internal Service Fund	General Fund	338,921
Print Shop Internal Service Fund	General Fund	166,718
		<u>\$ 7,320,391</u>

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

See independent auditors' report.

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 2004-05 was 2.797% 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 2004-05, the City's actual and contributed pension cost was \$1,153,940. The required contribution for fiscal year 2004-05 was determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) an 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by age, length of service and type of employment from 3.75% to 14.2%; (c) a 3.5% inflation rate; (d) a 3.75% payroll growth rate; and (e) a merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.50% 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:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<u>Miscellaneous Employees</u>			
6/30/03	\$ 736,338	100%	\$ -
6/30/04	780,780	100%	-
6/30/05	1,153,940	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
6/30/02	\$ 45,183,199	\$ 50,746,094	\$ (5,562,895)	112.3%	\$10,123,577	(54.9%)
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%

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 EQUITY

A city may set up "reserves" of fund equity to segregate fund balances which are not appropriate 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, 2005, 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	\$ 1,911,837	\$ -	\$ 250,600	\$ 110,324
Continuing appropriations	2,809,526	-	-	1,895,474
Personnel benefits	4,101,361	-	-	-
Debt service	-	1,484,832	-	-
Land held for resale	-	-	747,076	-
Low and moderate housing	-	-	4,201,973	-
Prepaid items	56,478	-	-	-
Advances	15,291,648	-	226,230	-
Special revenue purposes	-	-	-	1,687,799
Other reserves	207,043	-	-	-
Total reserves	\$ 24,377,893	\$ 1,484,832	\$ 5,425,879	\$ 3,693,597

See independent auditors' report.

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

<u>Designations</u>	<u>General Fund</u>
Self-Insurance	\$ 3,917,000
Capital improvements	5,295,907
Facilities replacement	5,053,068
Equipment replacement	5,551,907
General contingencies	4,980,213
Infrastructure improvements	4,000,000
Refuse disposal rate stabilization	538,242
Economic uncertainty	<u>1,173,622</u>
 Total designations	 <u>\$ 30,509,959</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, 2005, will carry forward as continuing appropriations to be expended in 2005-06.

C. Reserve for Personnel Benefits

This reserve provides for additional negotiated personnel benefits, as provided in the memorandum of understanding effective July 1, 2005.

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 EQUITY (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, 2005, 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 Economic Uncertainty

These funds are designated to provide for economic uncertainty in light of the State budget crises and its potential impact on local revenues.

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 (Authority). The Authority is comprised of 107 California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500, et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverages. The Authority's pool began covering claims of its members in 1978. Each member government has a representative on the Board of Directors. The Board operates through a nine-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. Costs are spread to members as follows: the first \$30,000 of each occurrence is charged directly to the City; costs from \$30,001 to \$750,000 are pooled based on a member's share of costs under \$30,000; costs from \$750,001 to \$15,000,000 are pooled based on payroll. Costs of covered claims above \$15,000,000 are currently paid by reinsurance. The protection for the City is \$50,000,000 per occurrence and \$50,000,000 annual aggregate.

Workers' Compensation. The City also participates in the workers' compensation pool administered by the Authority. Members retain the first \$50,000 of each claim. Claims are pooled separately between public safety and nonpublic safety. Loss development reserves are allocated by pool and by loss layer (\$0-\$100,000 allocated by retained amount and \$100,000 to \$2,000,000 by payroll). Losses from \$50,000 to \$100,000 and the loss development reserve associated with losses up to \$100,000 are pooled based on the member's share of losses under \$50,000. Losses from \$100,000 to \$2,000,000 and loss development reserves associated with losses from \$100,000 to \$2,000,000 are pooled based on payroll. Costs from \$2,000,000 to \$50,000,000 are transferred to an excess insurance policy. Costs in excess of \$50,000,000 are pooled among the Members based on payroll. Administrative expenses are paid from the Authority's investment earnings.

C. Insurance Coverage

Property Insurance. The City participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. City property is currently insured according to a schedule of covered property submitted by the City to the Authority. Total all-risk property insurance coverage is \$36,998,051. 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.

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.

See independent auditors' report.

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

C. Insurance Coverage (Continued)

Environmental Insurance. The City participates in the pollution legal liability and remediation legal liability insurance which is available through the 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 Authority has a limit of \$120,000,000 for the 3-year period from July 1, 2002 through June 30, 2005. Each member of the 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.

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 \$221 per month on July 1, 2003, continuing until the retiree has met the insured status requirements for Medicare. Thereafter, the payment is decreased to \$101 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 \$81,810 were recognized. 27 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 will be used to establish a commercial revolving loan fund to provide for business expansion, economic development, and job creation in Lakewood. The revolving loan fund will particularly target 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 are 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, 2005 was \$643,093.

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, 2005, outstanding loans under this program totaled \$2,532,570 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, 2005, the Agency's outstanding deferral balance is \$472,451.

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, 2005, the Agency's obligation under this agreement totaled \$996,484.

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, 2005, 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, 2005, the Agency paid \$8,986 pursuant to this agreement.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKEWOOD

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance
	Original	Final		Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 18,963,500	\$ 18,963,500	\$ 19,434,475	\$ 470,975
Licenses and permits	569,250	569,250	790,743	221,493
Fines and forfeitures	600,000	600,000	569,626	(30,374)
Investment income, rents and concessions	2,231,262	2,231,262	3,726,275	1,495,013
From other agencies	5,970,515	6,247,185	7,110,616	863,431
Current service charges	6,158,225	6,158,225	6,811,857	653,632
Other	335,668	341,751	295,730	(46,021)
TOTAL REVENUES	34,828,420	35,111,173	38,739,322	3,628,149
EXPENDITURES:				
General government	6,103,563	8,253,320	5,898,051	2,355,269
Public safety	9,981,612	10,347,592	10,260,258	87,334
Transportation	1,000,738	1,198,153	3,272,039	(2,073,886)
Community development	3,338,847	3,583,052	3,359,746	223,306
Health and sanitation	4,210,352	4,256,346	4,254,469	1,877
Culture and leisure	6,089,063	6,368,045	7,100,285	(732,240)
TOTAL EXPENDITURES	30,724,175	34,006,508	34,144,848	(138,340)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	4,104,245	1,104,665	4,594,474	3,489,809
OTHER FINANCING SOURCES (USES):				
Transfers in	2,114,538	2,114,538	2,489,179	374,641
Transfers out	(5,318,034)	(5,318,034)	(2,842,170)	2,475,864
TOTAL OTHER FINANCING SOURCES (USES)	(3,203,496)	(3,203,496)	(352,991)	2,850,505
NET CHANGE IN FUND BALANCE	900,749	(2,098,831)	4,241,483	6,340,314
FUND BALANCE AT BEGINNING OF YEAR	50,646,369	50,646,369	50,646,369	-
FUND BALANCE AT END OF YEAR	\$ 51,547,118	\$ 48,547,538	\$ 54,887,852	\$ 6,340,314

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, 2005, 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 2004-05, the City Council passed a resolution setting aside all unappropriated fund balances in the General Fund as contingency funds.

See independent auditors' report.

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NONMAJOR 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
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

	<u>Special Revenue Funds</u>			
	<u>State Gasoline Tax</u>	<u>Park Dedication</u>	<u>Sewer Reconstruction</u>	<u>Prop A Transit</u>
ASSETS				
Cash and investments	\$ -	\$ 111,027	\$ 98,736	\$ 756,727
Accounts receivable	143,737	-	-	113,080
Due from other funds	-	-	-	-
TOTAL ASSETS	<u>\$ 143,737</u>	<u>\$ 111,027</u>	<u>\$ 98,736</u>	<u>\$ 869,807</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ -	\$ 20,176
Accrued liabilities	-	-	-	12,577
Due to other funds	-	-	-	343,344
Deferred revenue	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>376,097</u>
FUND BALANCES:				
Reserved:				
Encumbrances	-	-	-	-
Continuing appropriations	-	-	-	21,443
Special revenue purposes	143,737	111,027	98,736	472,267
TOTAL FUND BALANCES	<u>143,737</u>	<u>111,027</u>	<u>98,736</u>	<u>493,710</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 143,737</u>	<u>\$ 111,027</u>	<u>\$ 98,736</u>	<u>\$ 869,807</u>

See independent auditors' report.

Special Revenue Funds (Continued)

Special Revenue Funds (Continued)				Total Special Revenue Funds	Capital Projects Fund Lakewood Capital Improvements	Total Nonmajor Governmental Funds
Housing Authority	Drug Forfeiture	Prop C Transportation	AB 2766	Total Special Revenue Funds	Capital Projects Fund Lakewood Capital Improvements	Total Nonmajor Governmental Funds
\$ 635,418	\$ -	\$ 2,660,403	\$ 85,845	\$ 4,348,156	\$ -	\$ 4,348,156
-	-	103,676	27,814	388,307	-	388,307
-	-	-	-	-	458,156	458,156
<u>\$ 635,418</u>	<u>\$ -</u>	<u>\$ 2,764,079</u>	<u>\$ 113,659</u>	<u>\$ 4,736,463</u>	<u>\$ 458,156</u>	<u>\$ 5,194,619</u>
\$ 427,851	\$ -	\$ -	\$ -	\$ 448,027	\$ 458,156	\$ 906,183
-	-	2,129	1,131	15,837	-	15,837
-	-	414	221	343,979	-	343,979
207,567	-	-	27,456	235,023	-	235,023
<u>635,418</u>	<u>-</u>	<u>2,543</u>	<u>28,808</u>	<u>1,042,866</u>	<u>458,156</u>	<u>1,501,022</u>
-	-	110,324	-	110,324	-	110,324
-	-	1,874,031	-	1,895,474	-	1,895,474
-	-	777,181	84,851	1,687,799	-	1,687,799
-	-	2,761,536	84,851	3,693,597	-	3,693,597
<u>\$ 635,418</u>	<u>\$ -</u>	<u>\$ 2,764,079</u>	<u>\$ 113,659</u>	<u>\$ 4,736,463</u>	<u>\$ 458,156</u>	<u>\$ 5,194,619</u>

CITY OF LAKEWOOD

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

For the year ended June 30, 2005

	Special Revenue Funds			
	State Gasoline Tax	Park Dedication	Sewer Reconstruction	Prop A Transit
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ 1,199,276
Investment income, rents and concessions	12,961	-	-	12,957
From other agencies	1,520,262	-	-	-
Other	-	-	-	104,872
TOTAL REVENUES	<u>1,533,223</u>	<u>-</u>	<u>-</u>	<u>1,317,105</u>
EXPENDITURES:				
Current:				
Transportation	-	-	-	701,262
Community development	-	-	-	-
Capital outlay:				
General government	-	-	-	-
Public safety	-	-	-	-
Transportation	-	-	-	-
Community development	-	-	-	-
Culture and leisure	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>701,262</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,533,223</u>	<u>-</u>	<u>-</u>	<u>615,843</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	(1,538,268)	(20,639)	-	(348,808)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,538,268)</u>	<u>(20,639)</u>	<u>-</u>	<u>(348,808)</u>
NET CHANGE IN FUND BALANCES	(5,045)	(20,639)	-	267,035
FUND BALANCES AT BEGINNING OF YEAR	<u>148,782</u>	<u>131,666</u>	<u>98,736</u>	<u>226,675</u>
FUND BALANCES AT END OF YEAR	<u>\$ 143,737</u>	<u>\$ 111,027</u>	<u>\$ 98,736</u>	<u>\$ 493,710</u>

See independent auditors' report.

Special Revenue Funds (Continued)				Capital Projects Fund	Total Nonmajor Governmental Funds	
Housing Authority	Drug Forfeiture	Prop C Transportation	AB 2766	Total Special Revenue Funds	Lakewood Capital Improvements	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 995,016	\$ -	\$ 2,194,292	\$ -	\$ 2,194,292
9,035	-	57,549	1,226	93,728	-	93,728
1,647,394	-	-	83,368	3,251,024	285,678	3,536,702
-	130,452	-	3,954	239,278	-	239,278
<u>1,656,429</u>	<u>130,452</u>	<u>1,052,565</u>	<u>88,548</u>	<u>5,778,322</u>	<u>285,678</u>	<u>6,064,000</u>
-	-	66,891	82,778	850,931	-	850,931
1,656,429	-	-	-	1,656,429	-	1,656,429
-	-	-	-	-	6,794	6,794
-	-	-	-	-	454,808	454,808
-	-	-	-	-	2,112,737	2,112,737
-	-	-	-	-	88,927	88,927
-	-	-	-	-	186,273	186,273
<u>1,656,429</u>	<u>-</u>	<u>66,891</u>	<u>82,778</u>	<u>2,507,360</u>	<u>2,849,539</u>	<u>5,356,899</u>
-	130,452	985,674	5,770	3,270,962	(2,563,861)	707,101
-	-	-	-	-	2,563,861	2,563,861
-	(130,452)	(678,342)	-	(2,716,509)	-	(2,716,509)
-	(130,452)	(678,342)	-	(2,716,509)	2,563,861	(152,648)
-	-	307,332	5,770	554,453	-	554,453
-	-	2,454,204	79,081	3,139,144	-	3,139,144
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,761,536</u>	<u>\$ 84,851</u>	<u>\$ 3,693,597</u>	<u>\$ -</u>	<u>\$ 3,693,597</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, 2005

	Final Budgeted Amounts	Actual	Variance Final Budget Positive (Negative)
REVENUES:			
Investment income, rents and concessions	\$ 20,000	\$ 12,961	\$ (7,039)
From other agencies	<u>1,491,500</u>	<u>1,520,262</u>	<u>28,762</u>
TOTAL REVENUES	1,511,500	1,533,223	21,723
OTHER FINANCING USES:			
Transfers out	<u>(1,511,500)</u>	<u>(1,538,268)</u>	<u>(26,768)</u>
NET CHANGE IN FUND BALANCE	-	(5,045)	(5,045)
FUND BALANCE AT BEGINNING OF YEAR	<u>148,782</u>	<u>148,782</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 148,782</u>	<u>\$ 143,737</u>	<u>\$ (5,045)</u>

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, 2005

	Final Budgeted Amounts	Actual	Variance Final Budget Positive (Negative)
REVENUES:			
Licenses and permits	\$ 50,000	\$ -	\$ (50,000)
OTHER FINANCING USES:			
Transfers out	<u>(21,885)</u>	<u>(20,639)</u>	<u>1,246</u>
NET CHANGE IN FUND BALANCE	28,115	(20,639)	(48,754)
FUND BALANCE AT BEGINNING OF YEAR	<u>131,666</u>	<u>131,666</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 159,781</u>	<u>\$ 111,027</u>	<u>\$ (48,754)</u>

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, 2005

	Final Budgeted Amounts	Actual	Variance Final Budget Positive (Negative)
REVENUES:			
Licenses and permits	\$ 500	\$ -	\$ (500)
EXPENDITURES:			
Current:			
Community development	<u>7,341</u>	<u>-</u>	<u>7,341</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(6,841)	-	6,841
FUND BALANCE AT BEGINNING OF YEAR	<u>98,736</u>	<u>98,736</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 91,895</u></u>	<u><u>\$ 98,736</u></u>	<u><u>\$ 6,841</u></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, 2005

	Final Budgeted Amounts	Actual	Variance Final Budget Positive (Negative)
REVENUES:			
Taxes	\$ 1,100,000	\$ 1,199,276	\$ 99,276
Investment income, rents and concessions	30,000	12,957	(17,043)
Other	-	104,872	104,872
TOTAL REVENUES	1,130,000	1,317,105	187,105
EXPENDITURES:			
Current:			
Transportation	760,151	701,262	58,889
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	369,849	615,843	245,994
OTHER FINANCING USES:			
Transfers out	(370,251)	(348,808)	(21,443)
NET CHANGE IN FUND BALANCE	(402)	267,035	267,437
FUND BALANCE AT BEGINNING OF YEAR	226,675	226,675	-
FUND BALANCE AT END OF YEAR	\$ 226,273	\$ 493,710	\$ 267,437

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, 2005

	Final Budgeted Amounts	Actual	Variance Final Budget Positive (Negative)
REVENUES:			
Investment income, rents and concessions	\$ 10,000	\$ 9,035	\$ (965)
From other agencies	<u>1,773,336</u>	<u>1,647,394</u>	<u>(125,942)</u>
TOTAL REVENUES	1,783,336	1,656,429	(126,907)
EXPENDITURES:			
Current:			
Community development	<u>1,783,336</u>	<u>1,656,429</u>	<u>126,907</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-
FUND BALANCE AT BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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, 2005

	Final Budgeted Amounts	Actual	Variance Final Budget Positive (Negative)
REVENUES:			
Taxes	\$ 975,000	\$ 995,016	\$ 20,016
Investment income, rents and concessions	45,000	57,549	12,549
TOTAL REVENUES	1,020,000	1,052,565	32,565
EXPENDITURES:			
Current:			
Transportation	67,603	66,891	712
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	952,397	985,674	33,277
OTHER FINANCING USES:			
Transfers out	(2,662,697)	(678,342)	1,984,355
NET CHANGE IN FUND BALANCE	(1,710,300)	307,332	2,017,632
FUND BALANCE AT BEGINNING OF YEAR	2,454,204	2,454,204	-
FUND BALANCE AT END OF YEAR	\$ 743,904	\$ 2,761,536	\$ 2,017,632

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, 2005

	Final Budgeted Amounts	Actual	Variance Final Budget Positive (Negative)
REVENUES:			
Investment income, rents and concessions	\$ 2,000	\$ 1,226	\$ (774)
From other agencies	92,000	83,368	(8,632)
Other	-	3,954	3,954
TOTAL REVENUES	94,000	88,548	(5,452)
EXPENDITURES:			
Current:			
Transportation	88,195	82,778	5,417
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	5,805	5,770	(35)
FUND BALANCE AT BEGINNING OF YEAR	79,081	79,081	-
FUND BALANCE AT END OF YEAR	<u>\$ 84,886</u>	<u>\$ 84,851</u>	<u>\$ (35)</u>

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, 2005

ASSETS	Central Stores	Central Garage	Print Shop	Totals
CURRENT ASSETS:				
Cash and investments	\$ 42,538	\$ 28,056	\$ 8,180	\$ 78,774
Inventories	76,780	26,338	-	103,118
TOTAL CURRENT ASSETS	119,318	54,394	8,180	181,892
NONCURRENT ASSETS				
Capital assets:				
Equipment	-	1,285,374	-	1,285,374
Less: accumulated depreciation	-	(1,108,939)	-	(1,108,939)
Total capital assets (net of accumulated depreciation)	-	176,435	-	176,435
TOTAL ASSETS	119,318	230,829	8,180	358,327
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	4,040	18,328	1,049	23,417
Accrued liabilities	-	8,176	6,043	14,219
Due to the General Fund	76,608	1,552	1,088	79,248
TOTAL CURRENT LIABILITIES	80,648	28,056	8,180	116,884
NET ASSETS				
Invested in capital assets, net of related debt	-	176,435	-	176,435
Unrestricted	38,670	26,338	-	65,008
TOTAL NET ASSETS	\$ 38,670	\$ 202,773	\$ -	\$ 241,443

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, 2005

	Central Stores	Central Garage	Print Shop	Totals
OPERATING REVENUES:				
Billings to departments	\$ 151,505	\$ 385,352	\$ 115,096	\$ 651,953
Other revenues	210	23	227	460
TOTAL OPERATING REVENUES	151,715	385,375	115,323	652,413
OPERATING EXPENSES:				
Operations:				
Cost of goods sold	147,331	694,908	282,819	1,125,058
Depreciation	-	103,415	-	103,415
TOTAL OPERATING EXPENSES	147,331	798,323	282,819	1,228,473
INCOME (LOSS) BEFORE TRANSFERS	4,384	(412,948)	(167,496)	(576,060)
TRANSFERS IN	-	338,921	166,718	505,639
CHANGE IN NET ASSETS	4,384	(74,027)	(778)	(70,421)
NET ASSETS AT BEGINNING OF YEAR	34,286	276,800	778	311,864
NET ASSETS AT END OF YEAR	\$ 38,670	\$ 202,773	\$ -	\$ 241,443

See independent auditors' report.

CITY OF LAKEWOOD

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

For the year ended June 30, 2005

	Central Stores	Central Garage	Print Shop	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from interfund services provided	\$ 151,597	\$ 379,356	\$ 115,096	\$ 646,049
Payments to suppliers	(145,779)	(448,315)	(104,843)	(698,937)
Payments to employees	-	(230,677)	(175,374)	(406,051)
Payments for interfund services used	210	23	227	460
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	6,028	(299,613)	(164,894)	(458,479)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	-	338,921	166,718	505,639
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	-	(15,322)	-	(15,322)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,028	23,986	1,824	31,838
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	36,510	4,070	6,356	46,936
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 42,538	\$ 28,056	\$ 8,180	\$ 78,774
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating loss	\$ 4,384	\$ (412,948)	\$ (167,496)	\$ (576,060)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation	-	103,415	-	103,415
Changes in operating assets and liabilities:				
(Increase) decrease in inventories	92	(5,996)	-	(5,904)
Increase (decrease) in accounts payable	1,552	6,188	(4,529)	3,211
Increase (decrease) in accrued liabilities	-	9,728	7,131	16,859
TOTAL ADJUSTMENTS	1,644	113,335	2,602	117,581
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 6,028	\$ (299,613)	\$ (164,894)	\$ (458,479)

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.

CITY OF LAKEWOOD

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2005

	Agency Funds		Totals
	Deposit	Housing Rehabilitation	
ASSETS:			
Cash and investments	\$ 1,905,612	\$ 626,636	\$ 2,532,248
Loans receivable	-	1,258,911	1,258,911
TOTAL ASSETS	<u>\$ 1,905,612</u>	<u>\$ 1,885,547</u>	<u>\$ 3,791,159</u>
LIABILITIES:			
Deposits	\$ 1,905,612	\$ 523,308	\$ 2,428,920
Due to HUD	-	1,362,239	1,362,239
TOTAL LIABILITIES	<u>\$ 1,905,612</u>	<u>\$ 1,885,547</u>	<u>\$ 3,791,159</u>

See independent auditors' report.

CITY OF LAKEWOOD

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
ALL AGENCY FUNDS

For the year ended June 30, 2005

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
DEPOSIT FUND				
ASSETS:				
Cash and investments	\$ 555,474	\$ 1,756,342	\$ 406,204	\$ 1,905,612
LIABILITIES:				
Deposits	\$ 555,474	\$ 2,168,970	\$ 818,832	\$ 1,905,612
HOUSING REHABILITATION FUND				
ASSETS:				
Cash and investments	\$ 642,546	\$ 1,072,364	\$ 1,088,274	\$ 626,636
Loans receivable	1,441,209	-	182,298	1,258,911
TOTAL ASSETS	\$ 2,083,755	\$ 1,072,364	\$ 1,270,572	\$ 1,885,547
LIABILITIES				
Deposits	\$ 434,314	\$ 1,638,892	\$ 1,549,898	\$ 523,308
Due to HUD	1,649,441	206,843	494,045	1,362,239
TOTAL LIABILITIES	\$ 2,083,755	\$ 1,845,735	\$ 2,043,943	\$ 1,885,547
TOTAL - ALL AGENCY FUNDS				
ASSETS:				
Cash and investments	\$ 1,198,020	\$ 2,828,706	\$ 1,494,478	\$ 2,532,248
Loans receivable	1,441,209	-	182,298	1,258,911
TOTAL ASSETS	\$ 2,639,229	\$ 2,828,706	\$ 1,676,776	\$ 3,791,159
LIABILITIES:				
Deposits	\$ 989,788	\$ 3,807,862	\$ 2,368,730	\$ 2,428,920
Due to HUD	1,649,441	206,843	494,045	1,362,239
TOTAL LIABILITIES	\$ 2,639,229	\$ 4,014,705	\$ 2,862,775	\$ 3,791,159

See independent auditors' report.

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GOVERNMENT-WIDE EXPENSES BY PROGRAM

LAST THREE FISCAL YEARS

Fiscal Year	General Government	Public Safety	Transportation	Community Development	Health and Sanitation	Culture and Leisure	Unallocated Infrastructure Depreciation	Interest on Long-term Debt	Water	Total
2003	\$ 6,483,636	\$9,642,211	\$ 5,984,110	\$ 6,886,063	\$4,130,482	\$ 8,318,769	\$ 1,519,198	\$2,563,185	\$5,435,676	\$ 50,963,330
2004	6,469,288	9,837,380	5,874,797	9,395,361	3,500,490	7,354,906	1,577,783	2,603,529	5,193,182	51,806,716
2005	6,188,887	10,938,617	4,149,697	9,517,641	4,245,217	7,748,336	1,632,049	2,475,189	5,347,379	52,243,012

Fiscal year 2002-2003 was the first year of implementation of the government-wide expenses by program. Current year totals will continue to be added to this schedule until a total of ten years are listed.

GOVERNMENT-WIDE REVENUES BY SOURCE

LAST THREE FISCAL YEARS

Fiscal Year	Program Revenues			General Revenues				Total
	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Unrestricted Grants and Contributions	Investment Income	Other	
2003	\$ 14,240,726	\$ 7,044,959	\$ 2,228,881	\$ 27,094,133	\$ 655,455	\$ 3,119,442	\$ -	\$ 54,383,596
2004	15,017,630	7,685,891	932,599	23,759,406	2,075,274	2,560,732	5,172,034	57,203,566
2005	15,685,224	6,706,916	641,047	30,379,238	137,952	3,295,053	2,161,412	59,006,842

Fiscal year 2002-2003 was the first year of implementation of the government-wide revenues by source. Current year totals will continue to be added to this schedule until a total of ten years are listed.

SCHEDULE OF EXPENDITURES BY FUNCTION
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

Fiscal Year	General Government	Public Safety	Transportation	Community Development	Health and Sanitation	Culture and Leisure	Debt Service	Totals
1996	\$ 3,745,576	\$ 6,932,904	\$ 3,999,971	\$ 5,945,466	\$ 3,296,820	\$ 6,682,610	\$ 1,676,010	\$ 32,279,357
1997	3,774,221	7,721,587	3,789,473	3,440,603	2,576,747	5,846,130	2,272,962	29,421,723
1998	4,229,139	7,129,465	4,822,732	3,409,227	2,674,087	6,847,142	2,737,152	31,848,944
1999	4,325,022	7,725,532	5,848,531	4,354,156	2,749,368	6,462,939	1,821,432	33,286,980
2000	4,552,614	8,099,747	6,449,338	6,669,160	3,022,062	6,976,482	1,622,977	37,392,380
2001	4,470,503	8,116,686	10,208,999	6,283,594	3,684,626	8,268,587	3,277,683	44,310,678
2002	5,339,402	8,949,285	6,004,543	6,586,268	3,820,330	6,866,207	1,995,497	39,561,532
2003	6,172,088	9,683,678	7,056,720	6,807,075	4,147,217	8,039,025	3,605,520	45,511,323
2004	6,368,463	10,021,193	7,421,862	9,474,307	3,515,646	6,783,239	5,474,585	49,059,295
2005	5,904,845	10,715,066	6,235,707	9,239,290	4,254,469	7,286,558	4,305,311	47,941,246

The above amounts include capital outlay, which is set forth separately on the Statement of Revenues, Expenditures and Changes in Fund Balances, Governmental Funds.

SCHEDULE OF REVENUES BY SOURCE
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

Fiscal Year	Taxes	Licenses and Permits	Fines and Forfeits	Investment Income, Rents and Concessions	From Other Agencies	Current Service Charges	Other	Totals
1996	\$ 15,546,495	\$ 426,101	\$ 335,803	\$ 2,347,158	\$ 7,084,146	\$ 4,943,109	\$ 2,425,262	\$ 33,108,074
1997	19,179,682	319,125	267,687	2,910,207	6,970,687	5,086,796	1,328,389	36,062,573
1998	17,589,765	280,229	283,269	3,976,539	7,280,173	5,026,317	925,606	35,361,898
1999	18,204,807	371,854	441,935	3,093,155	7,578,543	5,244,734	850,409	35,785,437
2000	19,673,989	534,804	489,584	2,858,296	9,156,337	5,510,190	585,043	38,808,243
2001	21,799,842	449,204	502,205	4,143,179	12,453,303	5,403,063	1,201,060	45,951,856
2002	22,287,162	427,608	538,870	3,073,309	9,327,314	5,698,497	1,040,113	42,392,873
2003	23,805,100	659,201	612,967	2,876,540	11,543,865	6,069,882	1,013,740	46,581,295
2004	25,793,195	852,446	563,936	1,905,643	10,016,274	6,462,339	2,912,843	48,506,676
2005	28,368,107	790,743	569,626	4,108,890	10,647,318	6,811,857	1,025,694	52,322,235

Source: Department of Finance, City of Lakewood

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Levy
1996	\$ 1,918,865	\$ 1,966,017	102.46%	\$ 3,712	\$ 1,969,729	102.65%
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%

Source: Department of Finance, City of Lakewood

ASSESSSED AND ESTIMATED VALUE OF ALL TAXABLE PROPERTY

LAST TEN FISCAL YEARS
(In 000's)

Fiscal Year	Land	Improvements	Personal Property	Total	Less Exemptions	Net Assessed Value	Estimated Actual Value
1996	\$ 1,693,444	\$ 1,720,734	\$ 72,780	\$ 3,486,958	\$ 29,743	\$ 3,457,215	\$ 3,486,958
1997	1,756,179	1,806,798	77,232	3,640,209	20,779	3,619,430	3,640,209
1998	1,775,364	1,789,388	70,429	3,635,181	33,767	3,601,414	3,635,181
1999	1,813,549	1,827,061	76,691	3,717,301	38,838	3,678,463	3,717,301
2000	1,888,855	1,882,440	75,534	3,846,829	38,450	3,808,379	3,846,829
2001	2,028,644	1,947,875	79,905	4,056,424	36,070	4,020,354	4,056,424
2002	2,184,459	2,029,550	93,247	4,307,256	30,778	4,276,478	4,307,256
2003	2,349,057	2,107,286	84,217	4,540,560	39,015	4,501,545	4,540,560
2004	2,580,909	2,192,844	75,576	4,849,329	31,772	4,817,557	4,849,329
2005	2,852,217	2,362,209	81,251	5,295,677	44,020	5,251,657	5,295,677

Source: Department of Finance, City of Lakewood

PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS

(RATE PER \$100 OF ASSESSED VALUATION)

LAST TEN FISCAL YEARS

Fiscal Year	General City	Los Angeles County	School Districts	Sanitation and Water	Water Districts	Other	Total
1996	-	0.0018	0.0032	0.0027	0.0089	1.0000	1.0166
1997	-	0.0016	0.0046	0.0021	0.0089	1.0000	1.0172
1998	-	0.0016	0.0307	0.0228	0.0089	1.0000	1.0640
1999	-	0.0015	0.0914	0.0015	0.0089	1.0000	1.1033
2000	-	0.0014	0.0971	0.0016	0.0089	1.0000	1.1090
2001	-	0.0013	0.0985	0.0013	0.0088	1.0000	1.1099
2002	-	0.0011	0.1094	0.0010	0.0077	1.0000	1.1192
2003	-	0.0010	0.1186	-	0.0067	1.0000	1.1263
2004	-	0.0009	0.1236	-	0.0061	1.0000	1.1306
2005	-	0.0009	0.1272	0.0002	0.0058	1.0000	1.1341

SCHEDULE OF LEGAL DEBT MARGIN

JUNE 30, 2005

Net assessed value of all taxable property

\$ 5,251,657,011

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.

SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT

JUNE 30, 2005

	Gross Bonded Debt Balance	Percent Applicable to City of Lakewood	City of Lakewood Share of Debt
DIRECT AND OVERLAPPING BONDED DEBT:			
LA County Detention Facilities 1987 Debt Service	\$ 16,205,000	0.689%	\$ 111,662
LA County Flood Control Storm Drain Bonds No. 4 Debt Service	1,990,000	0.698%	13,882
LA County Flood Control Ref Bonds 1993 Debt Service	275,000	0.698%	1,918
*Central Basin Municipal Water District	419,390,000	0.747%	3,133,515
Cerritos Community College District 2004 Series A	12,775,000	8.519%	1,088,297
Compton Community College District 2002 Series A	39,800,000	2.852%	1,134,931
Long Beach Community College District 2002 Series A, 2003 Debt Service	35,800,000	9.043%	3,237,361
ABC Unified School District 2003 Ref Series A Debt Service	18,120,000	15.442%	2,798,107
ABC Unified School District 1997 Series B Debt Service	38,049,966	15.442%	5,875,711
Long Beach Unified School District 1999 Series E Debt Service	60,000,000	8.607%	5,164,368
Long Beach Unified School District 1999 Series F Debt Service	100,000,000	8.800%	8,799,897
Long Beach Unified School District 1999 Series A Debt Service	23,100,000	9.039%	2,088,105
Long Beach Unified School District 1999 Series B Debt Service	28,220,000	9.039%	2,550,923
Long Beach Unified School District 1999 Series C Debt Service	57,010,000	9.039%	5,153,371
Long Beach Unified School District 1999 Series D Debt Service	39,055,000	9.039%	3,530,344
Long Beach Unified School District 1999 Series E Debt Service	59,300,000	9.039%	5,360,373
Paramount Unified School District 1998 Series A Debt Service	7,714,976	11.094%	855,925
TOTAL GROSS DIRECT AND OVERLAPPING BONDED DEBT	\$ 956,804,942		\$ 50,898,690

2004 - 2005 Assessed Valuation: \$ 4,641,678,365 (after deducting \$ 609,978,646 redevelopment incremental valuation)

DEBT TO ASSESSED VALUATION RATIOS:

Direct Debt.....	0.00%
Overlapping Debt.....	1.10%
Total Debt.....	1.10%

* - This fund is a portion of a larger agency, and is responsible for debt in areas outside the city.

Source: Prepared for the City of Lakewood by HdL Coren & Cone, Los Angeles County Assessor
Combined 2004/05 Lien Date Tax Rolls

DEMOGRAPHIC STATISTICS

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Population</u>	<u>School Enrollment</u>
1996	77,149	13,317
1997	78,323	14,024
1998	79,005	14,381
1999	80,100	14,747
2000	80,952	15,115
2001	81,100 *	15,523
2002	81,400	15,786
2003	82,300	16,147
2004	83,111	16,256
2005	83,674	16,270

* - Census 2000 reduced this figure to 79345

PRINCIPAL TAXPAYERS

JUNE 30, 2005

BUSINESS NAME	BUSINESS CATEGORY
Best Buy	Radio/Appliance Stores
Chevron	Service Stations
Circuit City	Radio/Appliance Stores
Harbor Chevrolet	New Motor Vehicle Dealers
Home Depot	Lumber/Building Materials
J.C. Penney	Department Stores
Kohl's	Department Stores
Lady Footlocker	Shoe Stores
Lakewood AmPm	Service Stations
Lakewood Arco	Service Stations
Lakewood Oil	Service Stations
Long Beach Lincoln Mercury	New Motor Vehicle Dealers
Macys	Department Stores
Marshalls	Family Apparel
McDonalds	Fast Foot
Mervyns	Department Stores
Pacific Ford	New Motor Vehicle Dealers
Rapid Gas	Service Stations
Robinsons May	Department Stores
Ross	Family Apparel
Sav-On	Drug Stores
Target	Discount Department Stores
Vons	Grocery Stores Liquor
Vons	Service Stations
Wal Mart	Discount Department Stores

Percent of City fiscal year total paid by Top 25 Accounts = 56.82%

Amounts paid by taxpayers are confidential. Taxpayers are listed in alphabetical order.

CONSTRUCTION, PROPERTY VALUE AND BANK DEPOSITS

LAST TEN FISCAL YEARS

Fiscal Year	Total Number of Residential Permits	Total Number of Commercial Permits	Total Number of Permits	Total Valuation (in 000's)	Bank Deposits (in 000's)	Total Assessed Valuations (in 000's)
1996	1,267	211	1,478	\$ 23,250	\$ 1,203,904	\$ 3,486,958
1997	1,180	227	1,407	15,749	1,156,933	3,640,209
1998	1,254	167	1,421	15,216	1,138,443	3,635,181
1999	1,248	163	1,411	25,933	1,084,401	3,717,301
2000	1,195	213	1,408	73,750	1,012,534	3,846,829
2001	1,265	294	1,559	30,429	1,013,803	4,056,424
2002	1,400	219	1,619	23,668	1,050,189	4,307,256
2003	1,664	248	1,912	52,763	1,058,039	4,540,560
2004	1,735	215	1,950	43,432	1,103,747	4,849,329
2005	1,904	200	2,104	48,386	1,136,159	5,295,677

Source: Department of Community Development and Department of Finance, City of Lakewood

MISCELLANEOUS STATISTICS

JUNE 30, 2005

Date of incorporation	April 16, 1954	
Form of government	Council-City Administrator (General Law)	
Area	9.5 square miles	
Miles of streets	196 miles	
Number of street lights	6,654	
Fire protection:	The City of Lakewood is part of the Los Angeles County Consolidated Fire Protection District.	
	Number of stations	3
	Number of firemen and officers	51
Police protection:	The City of Lakewood contracts with the County of Los Angeles for police protection. The Lakewood Sheriff Station serves six cities.	
	Number of stations	1
	Number of sworn personnel	256
Municipal water department:	Number of consumers	20,313
	Average daily consumption	8,474,660 gallons
	Miles of water mains	195 miles
Sewers		167 miles
Building permits issued		2,104
Culture and leisure:	Number of recreation facilities	13
	Acres of facilities	151.6
	Number of pools	2
	Number of libraries	2
	Number of volumes	314,285
	The City of Lakewood is part of the Los Angeles County Library District	
Employees:	Full time	174
	Part time	197

Source: Department of Finance, City of Lakewood

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