

City of Artesia

Artesia, California

Basic Financial Statements and Independent Auditors' Report

For the year ended June 30, 2010

C&L
Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

City of Artesia
Basic Financial Statements
For the year ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Artesia
Artesia, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Artesia, California (City), as of and for the year ended June 30, 2010, 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'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2010, and the respective changes in financial position, 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 July 22, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the Honorable Mayor and Members of the City Council
of the City of Artesia
Artesia, California
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 57 through 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information 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.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
Irvine, California
July 22, 2011

Management's Discussion and Analysis

As management of the City of Artesia, we offer readers of the City of Artesia's financial statements this narrative overview and analysis of the financial activities of the City of Artesia for the fiscal year ended June 30, 2010.

Financial Highlights

- The assets of the City of Artesia exceeded its liabilities at the close of the last fiscal year by \$14,822,791 (*net assets*). Of this amount, there are no unrestricted net assets available that may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$1,493,235. The decrease is the result of decreased property tax, decreased interest revenue and the purchase of property in the redevelopment agency, offset by decreased general government expenditures.
- As of June 30, 2010, the City of Artesia's governmental funds reported combined ending fund balances of \$17,452,680, a decrease of \$2,837,061 in comparison with the prior year. Approximately 2% of this amount is reserved to indicate that it is not available because it has been 1) committed for purchase orders or contracts that were prepaid, 2) committed for the repayment of loans. Another 82% is designated for specific uses, with the remainder available for a variety of purposes.
- As of June 30, 2010, the unreserved, undesignated fund balance for the General Fund was \$2,941,521.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Artesia's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The 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 Artesia's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Artesia's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Artesia 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 the 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 Artesia 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. The governmental activities of the City of Artesia include general government, public safety, parks and recreation, and public works.

The government-wide financial statements include not only the City of Artesia itself, but also the blending of the legally separate Artesia Redevelopment Agency for which the City is financially accountable.

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 Artesia, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into two categories: governmental 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 on *balances of 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 funds* and *governmental activities*.

The City of Artesia maintains twenty-six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the funds below, which are considered to be major funds:

- **General Fund**
- **Hazard & Litigation Fund**
- **Redevelopment Agency Capital Projects Fund**
- **Redevelopment Agency Debt Service Fund**

Major funds are governmental or enterprise funds whose revenues, expenditures/expenses, assets or liabilities are at least 10% of corresponding totals for all governmental or enterprise funds and at least 5% of the corresponding total for all governmental and enterprise funds combined.

Data from the other twenty-two governmental funds are 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 Artesia adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund and Hazard & Litigation Fund to demonstrate compliance with this budget.

Proprietary funds. The City of Artesia does not have any proprietary funds.

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 statement because the resources of those funds are *not* available to support the City of Artesia's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Funds of the George Nelson Memorial and Senior Citizens and various other small projects are held as fiduciary funds.

Notes to the 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.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of June 30, 2010, assets exceeded liabilities by \$14,822,791.

By far the largest portion of the City of Artesia's net assets, \$11,602,115 (78%) represents resources invested in capital assets (net of related debt).

Governmental Activities Net Assets		
	2010	2009
Current and other assets	\$ 19,378,770	\$ 22,725,790
Capital assets	14,003,705	11,602,115
Total assets	<u>33,382,475</u>	<u>34,327,905</u>
Long-term liabilities outstanding	16,995,217	16,128,855
Other liabilities	1,564,467	1,883,024
Total liabilities	<u>18,559,684</u>	<u>18,011,879</u>
Net assets:		
Invested in capital assets, net of related debt	11,602,115	11,602,115
Restricted	14,442,020	17,299,374
Unrestricted	(11,221,344)	(12,585,463)
Total net assets	<u>\$ 14,822,791</u>	<u>\$ 16,316,026</u>

Of this amount, there are no unrestricted net assets available that may be used to meet the government's ongoing obligations to citizens and creditors.

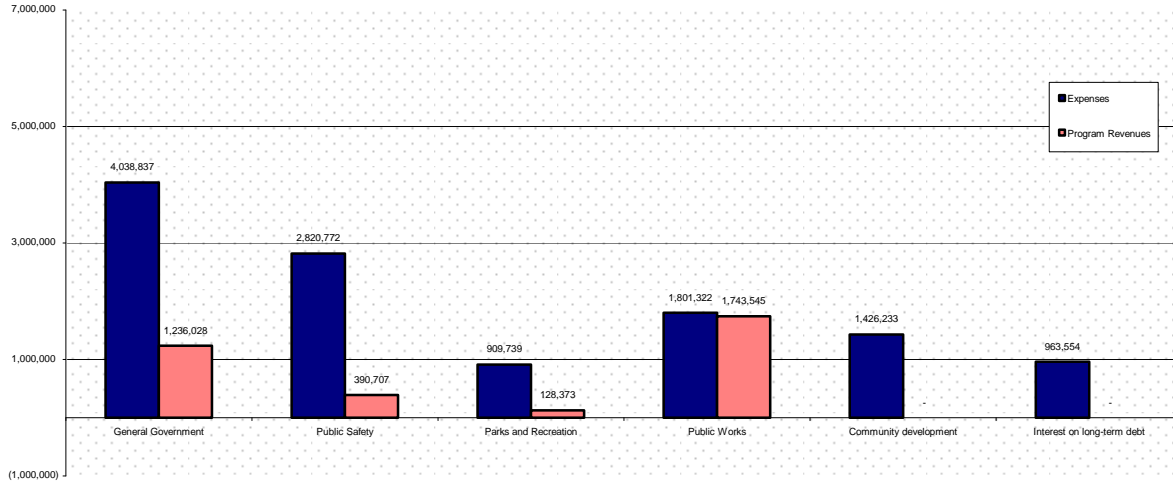
At the end of the current fiscal year, the City of Artesia has a deficit balance in the unrestricted category of net assets. The government's net assets decreased by \$1,493,235 during the current fiscal year. As mentioned earlier, this decrease is attributable to the receipt of decreased property tax, decreased interest revenue and the purchase of property in the redevelopment agency, offset by decreased general government expenses. Both revenue and expense increases are discussed in more detail in the following report sections.

Governmental activities. Governmental activities decreased the City of Artesia's net assets by (\$1,493,235). Key elements of this decrease are as follows:

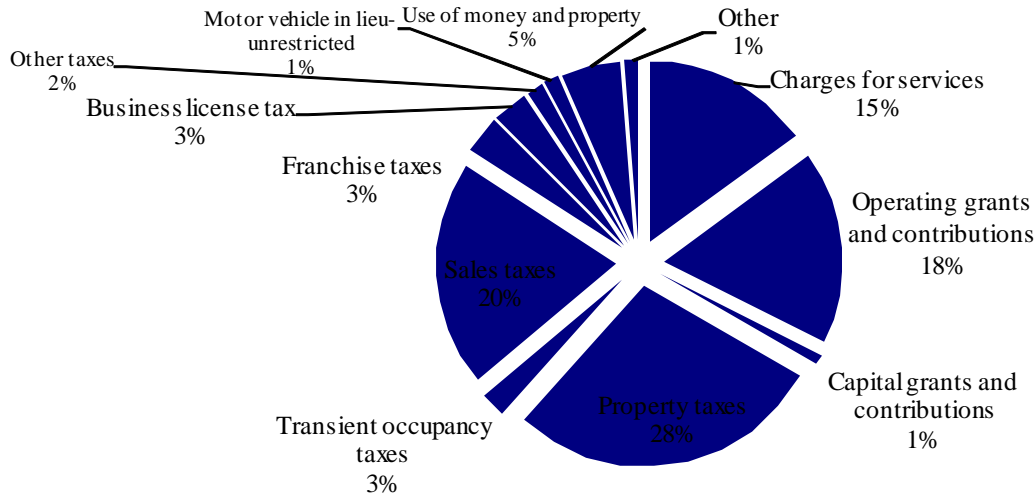
	2010	2009
Revenues		
Program revenues:		
Charges for services	\$ 1,567,215	\$ 1,587,294
Operating grants and contributions	1,831,393	1,803,156
Capital grants and contributions	100,045	82,319
General revenues:		
Property taxes	2,961,284	3,472,131
Transient occupancy taxes	254,427	220,564
Sales taxes	2,113,871	2,160,945
Franchise taxes	349,210	343,716
Business license taxes	334,561	352,770
Other taxes	149,787	163,177
Motor vehicle in lieu-unrestricted	133,338	113,801
Use of money and property	560,596	857,948
Other	120,226	95,452
Total revenues	10,475,953	11,253,273
Expenses		
General government	4,038,837	5,797,704
Public safety	2,879,604	2,850,309
Parks and recreation	909,739	805,921
Public works	1,751,221	1,409,739
Community development	1,426,233	-
Interest on long-term debt	963,554	669,289
Total expenses	<u>11,969,188</u>	<u>11,532,962</u>
Change in net assets	<u>\$ (1,493,235)</u>	<u>\$ (279,689)</u>

- Property Taxes overall decreased by \$510,847 or approximately 15%. This is due to a revenue shift through the supplemental educational revenue augmentation fund (SERAF) payment of \$541,646.
- Use of money and property decreased by \$297,352 or 35% as a result of less cash on hand as well as lower interest rates. The average interest rate this year was 0.65% for LAIF, versus 2.18% in the prior year.

Expenses and Program Revenues-Governmental Activities



Revenue Sources-Governmental Activities



On the expense side, the General government function decreased by \$1,758,867 or 6% due to an overall City-wide policy to reduce expenditures as the revenues also decreased. Additionally, Community development, which used to be combined with general government expenditures, is now reported as a separate line in the financial statements, which accounts for \$1,426,233 of the above decrease, so the net decrease is \$332,634.

Public works expenditures increased approximately \$341,482 or 24% due to higher public works expenses in the Gas Tax and Traffic Mitigation Funds for street sweeping, traffic signal maintenance, and street lighting that were classified as General Government expenditures in the prior year.

Interest on long-term debt increased \$294,265 or 44% due to the issuance of 2009 Tax Allocation Bonds and the corresponding interest payments made during the current year.

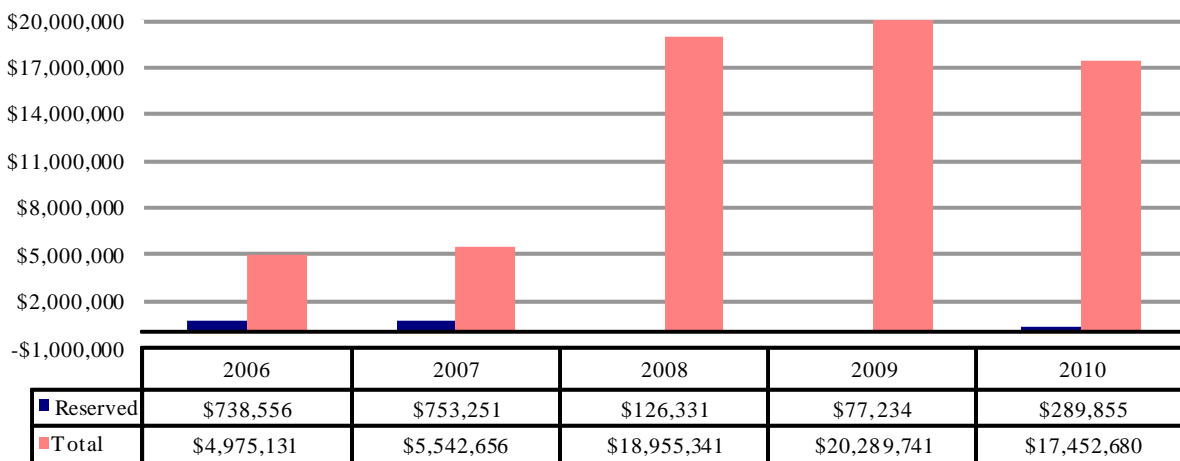
Financial Analysis of the Government’s Funds

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

Governmental funds. The focus of the City of Artesia’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 Artesia’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 Artesia’s governmental funds reported combined ending fund balances of \$17,441,180, a decrease of \$2,848,561 (14%), in comparison with the prior year. Of this amount, there are \$2,895,328 undesignated net assets 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 to 1) committed for purchase orders or contracts that were prepaid, 2) committed for the repayment of loans. Another 82% is designated for specific uses, with the remainder available for a variety of purposes. Four funds qualify as major funds under the GASB Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, reporting criteria: the General Fund, Hazard & Litigation Fund, Redevelopment Agency Capital Projects Fund and the Redevelopment Agency Debt Service Fund.

The following is a summary of fund balances of the governmental funds for fiscal years 2006-2010:



The General Fund is the chief operating fund of the City of Artesia. At the end of the current fiscal year, the total fund balance was \$3,163,243, with \$221,722 reserved for prepaid items. Comparing both total and unreserved fund balances to total fund expenditures is a measure of the general fund’s liquidity. Unreserved fund balance represents 42% of the total general fund revenue and represents 41% of total general fund expenditures.

- The fund balance of the general fund decreased by \$209,591 during the fiscal year. The decrease was anticipated through the budgetary process and benchmarked at \$775,690. However, due to combined revenue and expenditure activities for the fiscal year, the net effect resulted in a smaller general fund reserve contribution.

The Hazard & Litigation Fund, the Redevelopment Agency Capital Projects Fund and the Redevelopment Agency Debt Service Fund all qualify as major funds in 2009-10. The total fund balances of these funds are \$13,141,817 of which none is reserved. The total fund balances decreased by \$2,874,606 during the fiscal year. The decrease is attributed to the purchase of property during the fiscal year.

General Fund Budgetary Highlights

There was a \$2,000 difference between the original budget and the final amended budget for appropriations. Actual revenue was lower than the final budget by 7.6% due to the aforementioned revenue decreases.

Differences between the final appropriations and actual expenditures totaled \$339,415. The largest variances can be summarized as follows:

- General government expenditures were less than budget by \$214,869 primarily due to decreased expenditures in all departments.
- Expenditures in the Public safety category were less than budgeted by \$124,546 primarily due to general law enforcement allocation of resources and partnership with Los Angeles County for temporary billing structure.

Capital Asset and Debt Administration

Capital assets. The City of Artesia’s investment in capital assets for its governmental activities as of June 30, 2010, amounts to \$14,003,705 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, automobile equipment, office furniture and equipment, other equipment, and infrastructure. The total increase in the City of Artesia’s investment in capital assets for the 2009-10 fiscal years was \$2,401,590 or 21%. The following is a summary of capital assets (net of depreciation) as of June 30, 2010 and 2009:

	Capital Assets (net of depreciation)	
	2010	2009
Governmental activities		
Land	\$ 5,669,071	\$ 3,929,806
Buildings and structures	1,156,241	1,064,353
Improvements other than buildings	521,665	572,250
Automobile equipment	13,637	12,341
Office furniture and equipment	16,173	23,569
Other equipment	112,359	59,129
Infrastructure	5,951,977	4,663,667
Construction in progress	562,582	1,277,000
Total governmental activities	14,003,705	11,602,115

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

Governmental Activities

- Construction in progress on a variety of street projects and sewer projects was completed at the end of the fiscal year.
- The Artesia Redevelopment Agency purchased land in the amount of \$1,747,966, net of (\$8,731) of adjustment.

Long-term Debt. At the end of the fiscal year, the City had total long-term debt outstanding of \$17,197,681. This includes tax allocation bonds issued in 2007 and 2009.

The City of Artesia maintains a “BBB+” (insured) rating from Standard and Poor’s for the tax allocation bonds.

Additional information on the City’s long-term debt and other long-term liabilities can be found in note 5 of the *Notes to the Financial Statements*.

Economic Factors and Next Year's Budgets and Rates

- Commercial assessed property values declined 4.85%. Conversely, residential property values also declined about 3.36%.
- Sales tax revenue has increased by 9.37% over 2008/2009. The improvement was offset by a 50% decrease in the Sales Tax Compensation Fund as the State Board of Equalization provided a correction in their overpayment last fiscal year.
- City retirement rates (CalPERS) increased by 0.38 points from 2008-09. Rates are expected to increase by .51 points for 2010-11.

Requests for Information

This financial report is designed to provide a general overview of the City of Artesia’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 Office of the City Manager, 18747 Clarkdale Avenue, Artesia, CA 90701.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of Artesia
Statement of Net Assets
June 30, 2010

	Primary Government Governmental Activities
ASSETS	
Cash and investments	\$ 15,943,253
Receivables:	
Accounts	1,053,708
Loan	68,133
Interest	46,503
Prepaid items	221,722
Due from other governments	52,017
Deferred charges	505,210
Restricted assets:	
Cash and investments with fiscal agent	1,488,224
Capital assets:	
Nondepreciable assets	6,231,653
Depreciable assets, net	7,772,052
Total capital assets	14,003,705
Total assets	33,382,475
LIABILITIES	
Accounts payable	1,186,394
Accrued liabilities	92,743
Accrued interest	79,392
Deposits payable	3,474
Noncurrent liabilities:	
Due within one year	202,464
Due in more than one year	16,995,217
Total liabilities	18,559,684
NET ASSETS	
Investments in capital assets, net of related debt	11,602,115
Restricted for:	
Street projects	740,277
Capital projects	3,387,251
Debt service	9,964,089
Other purposes	350,403
Total restricted	14,442,020
Unrestricted (deficit)	(11,221,344)
Total net assets	\$ 14,822,791

See accompanying Notes to Basic Financial Statements.

City of Artesia
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Total Program Revenues	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary government:						
Governmental activities:						
General government	\$ 4,038,837	\$ 407,894	\$ 828,134	\$ -	\$ 1,236,028	\$ (2,802,809)
Public safety	2,879,604	217,377	173,330	-	390,707	(2,488,897)
Parks and recreation	909,739	56,766	71,607	-	128,373	(781,366)
Public works	1,751,221	885,178	758,322	100,045	1,743,545	(7,676)
Community development	1,426,233	-	-	-	-	(1,426,233)
Interest on long-term debt	963,554	-	-	-	-	(963,554)
Total governmental activities	11,969,188	1,567,215	1,831,393	100,045	3,498,653	(8,470,535)
Total primary government	\$ 11,969,188	\$ 1,567,215	\$ 1,831,393	\$ 100,045	\$ 3,498,653	(8,470,535)

General revenues:

Taxes:

Property taxes, levied for general purpose	2,961,284
Transient occupancy taxes	254,427
Sales taxes	2,113,871
Franchise taxes	349,210
Business licenses taxes	334,561
Other taxes	149,787
Motor vehicle in lieu - unrestricted	133,338
Use of money and property	560,596
Other	120,226

Total general revenues 6,977,300

Change in net assets (1,493,235)

Net assets - beginning of year 16,316,026

Net assets - end of year \$ 14,822,791

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements
Fiduciary Fund Financial Statements

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**GOVERNMENTAL FUND
FINANCIAL STATEMENTS**

City of Artesia
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Special Revenue Fund Hazard & Litigation Fund	Capital Projects Fund Redevelopment Agency Fund	Debt Service Fund Redevelopment Agency Fund
ASSETS				
Cash and investments	\$ 2,559,189	\$ -	\$ 9,779,614	\$ 2,386,067
Receivables:				
Accounts	508,516	328,902	628	-
Loan	-	-	-	-
Interest	22,255	-	3,927	20,321
Prepaid items	221,722	-	-	-
Due from other governments	-	-	-	-
Due from other funds	521,899	-	-	-
Restricted assets:				
Cash and investments with fiscal agents	-	-	304,155	1,184,069
Total assets	\$ 3,833,581	\$ 328,902	\$ 10,088,324	\$ 3,590,457
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 588,485	\$ 34,693	\$ 112,323	\$ 378,036
Accrued liabilities	74,283	-	11,912	-
Deferred revenues	4,096	-	-	-
Deposits payable	3,474	-	-	-
Due to other funds	-	328,902	-	-
Total liabilities	670,338	363,595	124,235	378,036
Fund Balances:				
Reserved for:				
Prepaid items	221,722	-	-	-
Loans	-	-	-	-
Unreserved, designated for:				
Capital improvement projects	-	-	9,964,089	-
Debt service	-	-	-	3,212,421
Unreserved, undersigned for:				
General fund	2,941,521	-	-	-
Special revenue funds	-	(34,693)	-	-
Capital projects funds	-	-	-	-
Total fund balances	3,163,243	(34,693)	9,964,089	3,212,421
Total liabilities and fund balances	\$ 3,833,581	\$ 328,902	\$ 10,088,324	\$ 3,590,457

See accompanying Notes to Basic Financial Statements.

Non-major Governmental Funds	Total Governmental Funds
\$ 1,218,383	\$ 15,943,253
215,662	1,053,708
68,133	68,133
-	46,503
-	221,722
52,017	52,017
-	521,899
-	1,488,224
<u>\$ 1,554,195</u>	<u>\$ 19,395,459</u>

\$ 72,857	\$ 1,186,394
6,548	92,743
134,173	138,269
-	3,474
192,997	521,899
<u>406,575</u>	<u>1,942,779</u>

-	221,722
68,133	68,133
-	9,964,089
-	3,212,421
-	2,941,521
972,790	938,097
106,697	106,697
<u>1,147,620</u>	<u>17,452,680</u>
<u>\$ 1,554,195</u>	<u>\$ 19,395,459</u>

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City of Artesia
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2010

Total Fund Balances - Total Governmental Funds	\$ 17,452,680
Amounts reported for governmental activities in the Statement of Net Assets were different because:	
Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the governmental funds.	14,003,705
Deferred Charges, such as bond issuance costs from issuing debt, were expenditures in the governmental funds. However, they were deferred and subject to capitalization and amortization in the Government-Wide Financial Statements.	505,210
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental funds.	
Compensated absences	(310,528)
Claims payable	(586,186)
Other postemployment benefits payable	(450,175)
Bonds Payable	<u>(15,850,792)</u>
Total long-term liabilities	<u>(17,197,681)</u>
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the governmental funds.	<u>(79,392)</u>
Certain revenues were recorded as deferred revenue in the governmental funds because they did not meet the revenue recognition criteria. However, they were treated as revenues in the Government-Wide Financial Statements.	<u>138,269</u>
Net Assets of Governmental Activities	<u>\$ 14,822,791</u>

City of Artesia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2010

	General Fund	Special Revenue Fund Hazard & Litigation Fund	Capital Projects Fund Redevelopment Agency Fund	Debt Service Fund Redevelopment Agency Fund
REVENUES:				
Taxes	\$ 4,026,640	\$ -	\$ 360,787	\$ 901,504
Licenses and permits	367,579	-	-	-
Intergovernmental	518,077	453,910	-	-
Charges for services	1,346,241	-	1,000	-
Use of money and property	405,603	-	47,956	94,677
Fines and forfeitures	217,377	-	-	-
Developer fees	22,894	-	-	-
Other revenues	20,898	-	3,924	-
Total revenues	6,925,309	453,910	413,667	996,181
EXPENDITURES:				
Current:				
General government	2,943,677	-	-	-
Public safety	2,589,564	-	-	-
Parks and recreation	698,729	-	-	-
Public works	774,228	-	-	-
Community Development	178,780	-	672,493	389,498
Capital outlay	-	432,613	2,057,758	-
Debt service:				
Principal retirement	-	-	40,000	120,000
Interest and fiscal charges	-	-	245,666	693,540
Cost of issuance	-	-	57,742	-
Total expenditures	7,184,978	432,613	3,073,659	1,203,038
REVENUES OVER (UNDER) EXPENDITURES	(259,669)	21,297	(2,659,992)	(206,857)
OTHER FINANCING SOURCES (USES):				
Transfers in	60,000	-	376,166	-
Transfers out	(9,922)	-	(29,054)	(376,166)
Total other financing sources (uses)	50,078	-	347,112	(376,166)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(209,591)	21,297	(2,312,880)	(583,023)
FUND BALANCES:				
Beginning of year	3,372,834	(55,990)	12,276,969	3,795,444
End of year	\$ 3,163,243	\$ (34,693)	\$ 9,964,089	\$ 3,212,421

See accompanying Notes to Basic Financial Statements.



Other Governmental Funds	Total Governmental Funds
\$ 648,335	\$ 5,937,266
-	367,579
1,090,845	2,062,832
100,045	1,447,286
11,363	559,599
-	217,377
-	22,894
26,948	51,770
<u>1,877,536</u>	<u>10,666,603</u>
209,193	3,152,870
190,175	2,779,739
24,074	722,803
410,792	1,185,020
183,644	1,424,415
591,498	3,081,869
-	160,000
-	939,206
-	57,742
<u>1,609,376</u>	<u>13,503,664</u>
<u>268,160</u>	<u>(2,837,061)</u>
57,472	493,638
<u>(78,496)</u>	<u>(493,638)</u>
<u>(21,024)</u>	<u>-</u>
247,136	(2,837,061)
<u>900,484</u>	<u>20,289,741</u>
<u>\$ 1,147,620</u>	<u>\$ 17,452,680</u>

City of Artesia

Reconciliation of the Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (2,837,061)

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over the estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period:

Capital outlay	3,081,869
Less: Repairs and Maintenance	(286,458)

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as an expenditure in the governmental funds.	(393,821)
--	-----------

Amortization expense was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, amortization expense was not reported as an expenditure in the governmental funds.

Amortization of deferred charges	(15,072)
Amortization of discount	(8,151)

Proceeds from long-term debt provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal was an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.

Cost of issuance	57,742
Principal payment	160,000

Interest expense is recognized on the accrual basis on the Government-Wide Statement of Activities and Changes in Net Assets, but only when paid in the governmental funds, because accrued interest payable does not require the use of current financial resources. The reconciling amount between the two bases of accounting is the change in accrued interest from the prior year.	(1,125)
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Compensated absences, other postemployment benefit, and claims were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, they were not reported as an expenditure in the governmental funds.

Change in compensated absences	(24,147)
Change in other postemployment benefits	(450,175)
Change in claims payable	(586,186)

Certain revenues were recorded as deferred revenue in the governmental funds because they did not meet the revenue recognition criteria of availability. However, they were included as revenue in the Governmental-Wide Statement of Activities and Changes in Net Assets under the full accrual basis.	(190,650)
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Change in Net Assets of Governmental Activities \$ (1,493,235)

See accompanying Notes to the Basic Financial Statements.

**FIDUCIARY FUND
FINANCIAL STATEMENTS**

City of Artesia
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 175,363
Total assets	<u>\$ 175,363</u>
LIABILITIES	
Accounts payable	\$ 961
Deposits payable	174,402
Total liabilities	<u>\$ 175,363</u>

NOTES TO BASIC FINANCIAL STATEMENTS

City of Artesia
Notes to Basic Financial Statements
For the year ended June 30, 2010

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Artesia, California (City), have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Description of Reporting Entity

The City was incorporated on May 29, 1959, under the laws of the State of California and enjoys all the rights and privileges applicable to a General Law City. The City is governed by an elected five-member board. The accompanying financial statements present the City and its component units defined as legally separate entities that meet any one of the following tests:

- The City appoints the voting majority of the board of the component unit and:
 - is able to impose its will on the component unit and/or
 - is in a relationship of financial benefit or burden with the component unit.
- The component unit is fiscally dependent upon the City.
- The financial statements of the City would be misleading if data from the component unit were omitted.

Management determined that the following component unit should be blended based on the criteria above:

Artesia Redevelopment Agency - The Artesia Redevelopment Agency (Agency) was established on September 11, 1995, by the City Council with the adoption of Ordinance No. 516, pursuant to the State of California Health and Safety Code, Section 33000. The five members of the City Council serve as the governing body of the Agency and exercise all rights, powers, duties and privileges of the Agency. The Mayor serves as the Chairperson of the Agency. The purpose of the Agency is to prepare and execute plans for the improvement, rehabilitation and redevelopment of blighted areas within the City.

Artesia Housing Authority - The five members of the City Council serve as the governing body of the Housing Authority and exercise all rights, powers, duties and privileges of the Housing Authority. The Mayor serves as the Chairperson of the Housing Authority. The purpose of the Housing Authority is to prepare and execute plans for housing projects within the City.

Artesia Parking Authority - The five members of the City Council serve as the governing body of the Parking Authority and exercise all rights, powers, duties and privileges of the Parking Authority. The Mayor serves as the Chairperson of the Parking Authority. The purpose of the Parking Authority is to prepare and execute plans for parking projects within the City.

This component unit is included in the primary government because of the significance of its financial or operation relationship and it has the same governing body as the City.

The Agency issues separate component unit financial statements and these can be obtained from the City.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus

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

The City's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the City. Fiduciary activities of the City are not included in these statements.

Government-Wide Financial Statements

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. 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. Certain indirect costs are included in the program expenses reported for specific functions.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets have been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Transfers in/out

Fund Financial Statements

Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The City has presented all major funds that met the applicable criteria.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Fund Financial Statements, Continued

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances presents 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 in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual received soon enough after year-end such that they are available to finance expenditures of the current period (generally 60 days after year-end with the exception of gas tax which is 90 days) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues, and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the Balance Sheet and revenue is recognized.

The reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences between the "economic resources" and "current financial resources" basis of accounting.

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Net Assets. The City's fiduciary funds represent agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are accounted for using the accrual basis of accounting.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.
- The Hazard and Litigation Fund's primary function is to receive grant funds used to reduce the risk of hazardous infrastructure and mitigate, through infrastructure, improvements not accounted in other funds.
- The Redevelopment Agency Capital Projects Fund accounts for receipts and disbursements relating to construction of capital projects of the City's redevelopment project areas.
- The Redevelopment Agency Debt Service Fund accounts for the accumulation of resources for payment of interest and principal on the long-term debt of the Redevelopment Agency.

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

D. Assets, Liabilities and Net Assets or Equity

Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the City, as well as for its component unit, are reported at fair value. The Local Agency Investment Fund (LAIF) operates in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Liabilities and Net Assets or Equity, Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All account and property tax receivables are shown net of an allowance for uncollectibles. Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means then due, or past due and receivable within the current period and collected within the current period, or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period. The County of Los Angeles collects property taxes for the City. Tax liens attach annually on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent on August 31.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The fund balances in the governmental fund types have been reserved for amounts equal to the prepaid items in the fund level statements, since these amounts are not available for appropriation.

Capital Assets

Capital assets, which include property, buildings, vehicles, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Infrastructure assets have a capitalization threshold of \$5,000. Purchased or constructed capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Liabilities and Net Assets or Equity, Continued

Capital Assets, Continued

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Improvements other than buildings	15
Vehicles and equipment	3 - 10
Infrastructure	25

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay is payable to employees at the time a vacation is taken or upon termination of employment. Normally, an employee cannot accrue more than 20 days of vacation time. Sick leave is payable when an employee is unable to work because of illness. Upon termination, an employee will be paid for any unused sick leave based upon 100% of the current wage rate in effect.

All vacation and sick leave pay is accrued when incurred in the Government-Wide Financial Statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are paid, if matured, out of the General Fund.

Long-Term Obligations

In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Liabilities and Net Assets or Equity, Continued

Net Assets

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

Fund Balances - Reservations and Designations

In the Fund Financial Statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

E. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

F. New Pronouncements

In 2011, the City adopted new accounting standards in order to conform to the following GASB Statements:

- GASB Statement No. 45, *Financial Reporting for Postemployment Benefit Plans (OPEB) other than Pension Plans* – this Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS

As of June 30, 2010, cash and investments were reported in the accompanying financial statements as follows:

	Government-Wide Statement of Net Assets <u>Governmental Activities</u>	Statement of Fiduciary Net Assets	Total
Unrestricted assets:			
Cash and investments	\$ 15,943,253	\$ 175,363	\$ 16,118,616
Total unrestricted assets	<u>15,943,253</u>	<u>175,363</u>	<u>16,118,616</u>
Restricted assets:			
Cash and investments with fiscal agent	<u>1,488,224</u>	-	<u>1,488,224</u>
Total restricted assets	<u>1,488,224</u>	-	<u>1,488,224</u>
Grand Total	<u>\$ 17,431,477</u>	<u>\$ 175,363</u>	<u>\$ 17,606,840</u>

Cash and investments were comprised of the following:

Cash and cash equivalents:	
Demand deposits	\$ 219,960
Petty cash	<u>500</u>
Total cash and cash equivalents	<u>220,460</u>
Investments:	
Local Agency Investment Fund	<u>15,898,156</u>
Total investments	<u>15,898,156</u>
Restricted:	
Cash and investments with fiscal agents	
Money market mutual funds	<u>1,488,224</u>
Total Cash and Investments	<u><u>\$ 17,606,840</u></u>

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

The City maintains a cash and investment pool that is available for use for all funds. Each fund's position in the pool is reported on the fund's balance sheet as cash and investments.

Deposits

At June 30, 2010, the carrying amount of the City's deposits was \$219,960 and the bank balance was \$269,639. The difference represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure a city's deposits by pledging government securities with a value of 110% of a city's deposits. California law also allows financial institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC. The City has not agreed to such a waiver. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an Agent of Depository has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

Investments

Under provision of the City's investment policy and in accordance with the California Government Code, the following investments are authorized:

- Certificates of Deposit (purchased from banks or savings and loan Institutions)
- Bankers Acceptance
- Treasury Bills and Notes
- Government Agency Securities
- Commercial Paper
- Repurchase Agreements
- State and Local Agency Investment Funds (LAIF)
- Passbook Savings Account

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

Investments in State Investment Pool

The City is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2010, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

Structured Notes: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities: generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2010, the City had \$15,898,156 invested in LAIF, which had invested 5.42% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 14.71% in the previous year. The LAIF fair value factor of 1.001643776 was used to calculate the fair value of the investments in LAIF.

Market Value

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Credit Risk

As of June 30, 2010, the City's investment in LAIF has not been rated by a nationally recognized statistical rating organization; therefore, no credit rating is disclosed.

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of the failure of a deposit 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. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the provision for deposits stated above. \$0 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in uncollateralized accounts. Of the City's total cash and investment balance at June 30, 2010, \$1,488,224 was held by fiscal agents, not in the name of the City, and invested as follows: \$1,488,224 in money market mutual funds.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

Concentration of Credit Risk

The City's investment policy imposes restrictions for certain types of investments with any one issuer; however, external investment pools are excluded from this requirement. At June 30, 2010, the City's investments were with LAIF.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, as of June 30, 2010, the City had the following investments and original maturities:

	Investment Maturities (in years)	Fair Value
	<u>6 months or less</u>	<u>Fair Value</u>
LAIF	\$ 15,898,156	\$ 15,898,156
Money market mutual funds-held by fiscal agent	<u>1,488,224</u>	<u>1,488,224</u>
Total	<u>\$ 17,386,380</u>	<u>\$ 17,386,380</u>

3. LOAN RECEIVABLE

In November 1989, the City entered into an agreement with the Southern California Water Company for the installation of a domestic water system in an Artesia service area. As part of this agreement, the City loaned the Southern California Water Company \$137,531 with no interest to be repaid over 40 years. At June 30, 2010, the outstanding loan receivable is \$68,133.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balance July 1, 2009	Additions	Deletions	Ending Balance June 30, 2010
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,929,806	\$ 1,747,996	\$ (8,731)	\$ 5,669,071
Construction-in-progress	1,277,000	995,266	(1,709,684)	562,582
Total capital assets not being depreciated	<u>5,206,806</u>	<u>2,743,262</u>	<u>(1,718,415)</u>	<u>6,231,653</u>
Capital assets, being depreciated:				
Buildings	1,632,696	129,054	-	1,761,750
Improvements Other than Buildings	799,782	-	-	799,782
Automobile Equipment	425,984	6,000	-	431,984
Office Furniture & Equipment	271,784	-	-	271,784
Other Equipment	441,090	67,877	-	508,967
Infrastructure	5,645,044	1,567,633	-	7,212,677
Total capital assets being depreciated	<u>9,216,380</u>	<u>1,770,564</u>	<u>-</u>	<u>10,986,944</u>
Less Accumulated depreciation				
Buildings	568,343	37,166	-	605,509
Improvements Other than Buildings	227,532	50,585	-	278,117
Automobile & Equipment	413,643	4,704	-	418,347
Office Furniture & Equipment	248,215	7,396	-	255,611
Other Equipment	381,961	14,647	-	396,608
Infrastructure	981,377	279,323	-	1,260,700
Total accumulated depreciation	<u>2,821,071</u>	<u>393,821</u>	<u>-</u>	<u>3,214,892</u>
Total capital assets being depreciated, net	<u>6,395,309</u>	<u>1,376,743</u>	<u>-</u>	<u>7,772,052</u>
Governmental Activities Capital Asset, Net	<u>\$ 11,602,115</u>	<u>\$ 4,120,005</u>	<u>\$ (1,718,415)</u>	<u>\$ 14,003,705</u>

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

4. CAPITAL ASSETS, Continued

Depreciation expense was charged to functions/ programs of the primary government as follows:

Governmental Activities:	
General government	\$ 20,809
Public works	9,007
Parks and recreation	74,309
Public Safety	287,878
Community development	1,818
Total Depreciation Expense - Governmental Activities	<u>\$ 393,821</u>

5. LONG-TERM DEBT

The following is a schedule of changes in long-term debt of the City for the fiscal year ended June 30, 2010:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Due Within One Year
Compensated absences	\$ 286,381	\$ 24,147	\$ -	\$ 310,528	\$ 30,615
Claims payable	-	586,186	-	586,186	-
Other postemployment benefits payable	-	450,175	-	450,175	-
2007 Tax Allocation Bonds	12,805,000	-	(120,000)	12,685,000	160,000
2007 Tax Allocation Bonds-Discount	(272,359)	-	8,151	(264,208)	(8,151)
2009 Housing Tax Allocation Bonds	3,470,000	-	(40,000)	3,430,000	20,000
Total Long-Term Debt	<u>\$ 16,289,022</u>	<u>\$ 1,060,508</u>	<u>\$ (151,849)</u>	<u>\$ 17,197,681</u>	<u>\$ 202,464</u>

Compensated Absences

The compensated absences payable has been accrued for governmental activities on the Government-Wide Financial Statements. Typically, the General Fund has been used to liquidate the liability for compensated absences. There is no fixed payment schedule to pay these liabilities. The total amount of compensated absences payable at June 30, 2010, was \$310,528.

2007 Tax Allocation Bonds

On December 5, 2007, the Agency issued \$12,920,000 in Tax Allocation Bonds for the purpose of financing certain redevelopment activities benefiting the Artesia Redevelopment Project Area in the City. The bonds mature annually on June 1, from 2008 to 2042, in amounts ranging from \$115,000 to \$600,000. \$3,175,000 of the bonds has been set aside in a Redevelopment Escrow Fund held by the Trustee. Moneys in the Redevelopment Escrow Fund are expected to be transferred to the Redevelopment Fund (to finance redevelopment projects) from time to time upon satisfaction of certain conditions set forth in the Bond Indenture. Amounts remaining in the Redevelopment Escrow Fund on December 2, 2010, if any, will be used to redeem, on June 1, 2011, a portion of the Bonds maturing on June 1, 2042, and bearing interest at 5.70%, at a redemption price equal to the principal amount to be redeemed plus accrued interest thereon to the redemption date without premium. The balance outstanding at June 30, 2010 was \$12,685,000.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

5. LONG-TERM DEBT, Continued

2007 Tax Allocation Bonds, Continued

Original bond issuance discount on the bonds was \$285,264, and the unamortized balance of the discount as of June 30, 2010 was \$264,208.

The 2007 Tax Allocation Bonds are payable solely from and secured by the revenues received by the Agency. The total principal and interest to be paid on the bonds is \$28,044,638. Principal and interest paid for the current year and total tax revenues were \$813,540 and \$901,504, respectively. Principal and interest payments on the bonds require 52% of these revenues.

The annual requirements to amortize the 2007 Tax Allocation Bonds outstanding at June 30, 2010, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 160,000	\$ 688,590	\$ 848,590
2012	170,000	681,345	851,345
2013	175,000	673,475	848,475
2014	185,000	665,255	850,255
2015	195,000	656,390	851,390
2016-2020	1,135,000	3,126,425	4,261,425
2021-2025	1,450,000	2,798,961	4,248,961
2026-2030	1,900,000	2,356,681	4,256,681
2031-2035	2,485,000	1,769,080	4,254,080
2036-2040	3,260,000	998,060	4,258,060
2041-2042	1,570,000	131,835	1,701,835
	<u>\$ 12,685,000</u>	<u>\$ 14,546,097</u>	<u>\$ 27,231,097</u>

The following is a summary of the unamortized discount outstanding at June 30, 2010:

Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
\$ 272,359	\$ -	\$ (8,151)	\$ 264,208

2009 Tax Allocation Bonds

On June 30, 2009, the Agency issued \$3,470,000 in Housing Tax Allocation Bonds for the purpose of financing low and moderate income housing projects of the Agency. The bonds mature annually on June 1, from 2010 to 2046, in amounts ranging from \$40,000 to \$265,000. Interest is payable semiannually on June 1 and December 1, with a yield of 7.70%. The balance outstanding at June 30, 2010 was \$3,430,000.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

5. LONG-TERM DEBT, Continued

2009 Tax Allocation Bonds, Continued

The 2009 Tax Allocation Bonds are payable solely from and secured by the Housing Set-Aside revenues received by the Agency for the Housing Fund. The total principal and interest to be paid on the bonds is \$10,492,051. Principal and interest paid for the current year and total tax revenues were \$285,666 and \$360,787, respectively. Principal and interest payments on the bonds require 72% of these revenues.

The annual requirements to amortize the 2009 Housing Tax Allocation Bonds outstanding at June 30, 2010, are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 20,000	\$ 264,110	\$ 284,110
2012	20,000	262,570	282,570
2013	25,000	261,030	286,030
2014	25,000	259,105	284,105
2015	25,000	257,180	282,180
2016-2020	170,000	1,124,392	1,294,392
2021-2025	240,000	1,176,560	1,416,560
2026-2030	350,000	1,068,375	1,418,375
2031-2035	505,000	911,680	1,416,680
2036-2040	730,000	685,300	1,415,300
2041-2045	1,055,000	358,050	1,413,050
2046	265,000	20,404	285,404
	<u>\$ 3,430,000</u>	<u>\$ 6,648,756</u>	<u>\$ 10,078,756</u>

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2010, was as follows:

Due To / Due From Other Funds

At June 30, 2010, the City had the following due to/from other funds:

Due to Other Funds	Due from Other funds
	Governmental Funds
	General
Governmental Funds:	
Hazard & Litigation Fund	\$ 328,902
Non-major governmental funds	192,997
Total	\$ 521,899

The above interfund balances resulted from temporary reclassifications made at June 30, 2010 to cover cash shortfalls.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS, Continued

Interfund Transfers

Transfers In	Transfers Out				Total
	General Fund	Redevelopment Agency Capital Projects Fund	Redevelopment Agency Debt Service Fund	Non-major Funds	
General Fund	\$ -	\$ -	\$ -	\$ 60,000	\$ 60,000
Redevelopment Agency:					
Capital Projects Fund	-	-	376,166	-	376,166
Nonmajor Funds	9,922	29,054	-	18,496	57,472
Total	\$ 9,922	\$ 29,054	\$ 376,166	\$ 78,496	\$ 493,638

The General Fund received transfers from the Billboard fund for the purpose of expenditure offset, while it also provided matching funds to the non-major Other Grant Fund. Each of these transfers was budgeted.

The Redevelopment Agency Capital Projects fund provided funds for projects in the non-major Park & Recreation Grants fund, and City Capital Project fund.

The Redevelopment Agency Debt Service Fund transferred bonds proceeds to Redevelopment Agency Capital Projects Fund for current capital projects.

Nonmajor funds - Proposition C Fund provided matching Funds to the Safe Route to School Fund.

7. FUND BALANCES

At June 30, 2010, the following funds had deficit fund balances:

Fund	Amount
Special Revenue Funds:	
Hazard and Litigation	\$ (34,693)
Parks and Recreation Grants	(100,628)
Proposition 12 Conservancy Fund	(45,943)
Safe Route to School	(17,262)

Each of the Special Revenue Funds with deficit fund balances receive funding through current programs and will be reimbursed once grant drawdown requests are approved by the granting agencies.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

7. FUND BALANCES, Continued

Excess of expenditures over appropriations occurred at individual departmental levels and major categories during the fiscal year 2010 as follows:

Fund and Department	Expenditures	Appropriations	Excess
General Fund:			
Community Development	\$ 178,780	\$ 159,807	\$ 18,973
Special Revenue Funds:			
Traffic Mitigation Fees			
Public works	67,572	67,557	15
Other Grant			
Public safety	7,343	-	7,343
Capital outlay	51,855	-	51,855
HOME Program			
Community development	11,607	-	11,607
Measure R			
Public works	12,240	10,000	2,240
Capital Projects Fund:			
Redevelopment Agency - Capital Projects			
Cost of issuance	57,742	-	57,742

8. RETIREMENT PLAN

Plan Description

The City's defined benefit pension plan, the Miscellaneous Plan for the City (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 entities within the State of California. A menu of benefit provisions as well as other requirements are 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

Participants are required to contribute 7% of their annual covered salary, however, the City makes the contributions required of City employees on their behalf and for their account. The City is also required to contribute at an actuarially determined rate; the current rate is 6.593% for non-safety employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

8. RETIREMENT PLAN, Continued

Annual Pension Cost

For 2010, the City's annual pension cost of \$240,221 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of CalPERS assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a 15 year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010, was 7 years for the Miscellaneous Plan.

Fiscal Year	Three-Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	\$ 240,221	100%	\$ -
6/30/2009	254,747	100%	-
6/30/2008	236,087	100%	-

Funded Status of Plan

The City's retirement plan for City employees is a part of the CalPERS risk pool for cities and other government entities that have fewer than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, standalone information of the schedule of funding progress for the City's Miscellaneous Plan employees is not available.

9. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City provides retiree medical benefits under the CalPERS health plan, which provides medical insurance benefits to eligible retirees and their spouses in accordance with various labor agreements. Copies of the CalPERS' annual financial report may be obtained at CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Eligibility

Employees are eligible for retiree health benefits if they retire from the City on or after age 50 (unless disabled) and are eligible for a CalPERS pension. The benefits are available only to employees who retire from the City. Membership of the plan consisted of 40 eligible active employees and 22 enrolled eligible retirees at June 30, 2010. These amounts do not reflect current retirees not enrolled in the CalPERS health plan who are eligible to enroll in the plan at a later date.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

9. POST-EMPLOYMENT BENEFITS, Continued

Funding Policy

The contribution requirements of plan members and the City are established and may be amended by the City and the City Council. The City must agree to make a defined monthly payment towards the cost of each retiree's coverage. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended June 30, 2010, the City contributed \$168,992 to the plan.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined to provide a level of funding that, if paid on an ongoing basis, is projected to cover the normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The City's OPEB obligation as of July 1, 2009, the most recent actuarial valuation, was \$4,870,630. The Annual Required Contribution (ARC) as of June 30, 2010, was \$619,167. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	<u>June 30, 2010</u>
Annual required contribution	\$ 619,167
Contributions made	<u>(168,992)</u>
Increase in net OPEB obligation	450,175
Net OPEB Obligation, beginning of year	<u>-</u>
Net OPEB Obligation, end of year	<u><u>\$ 450,175</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 is presented below. Activity for the previous two years is not available.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/10	\$ 619,167	\$ 168,992	27%	\$ 450,175

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

9. POST-EMPLOYMENT BENEFITS, Continued

Funding Status and Progress

As of July 1, 2009, the most recent valuation date, the actuarial accrued liability for benefits was \$4,870,630 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,870,630 million and a funded ratio (actuarial value of assets as a percentage of the actuarial accrued liability) of 0 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the projected unit credit method. The actuarial assumptions included a 5.0 percent investment rate of return, which is based on assumed long-term investment returns on plan assets and on the City's assets, as appropriate, and a 5.0 percent discount rate. The UAAL is being amortized as a level percentage of projected payroll over 30 years.

10. LIABILITY, PROPERTY AND WORKERS' COMPENSATION PROTECTION

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

The City is a member of the California Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is composed of California public entities and is organized under a joint powers agreement pursuant to California government Code §6500 et seq. The purpose of the Insurance 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 Insurance Authority's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

10. LIABILITY, PROPERTY AND WORKERS' COMPENSATION PROTECTION, Continued

B. Self-Insurance Programs of the Authority

General Liability - Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claim year. Claims are pooled separately between police and non-police. Costs are spread to members by the following methods within each of the four layers of coverage: (1) the first \$30,000 of each occurrence is charged directly to the member's primary deposit; (2) costs from \$30,001 to \$750,000 and the loss development reserves associated with losses up to \$750,000 are pooled based on the member's share of losses under \$30,000; (3) losses from \$750,001 to \$2,000,000 and the associated loss development reserves are pooled based on payroll; (4a) costs of covered claims from \$2,000,001 to \$50,000,000 are paid under reinsurance and excess insurance policies (4b) subject to a \$3,000,000 annual aggregate deductible (4c) and a quota-sharing agreement whereby the Insurance Authority is financially responsible for 40% of losses occurring within the \$2,000,000 to \$10,000,000 layer. The costs associated with 4a-c are estimated using actuarial models and pre-funded as part of the primary and retrospective deposits.

The overall policy limit for each member including all layers of coverage is \$50,000,000 per occurrence. Costs of covered claims for subsidence losses are paid by excess insurance with the sub-limits per member: \$25,000,000 per occurrence with a \$15,000,000 annual aggregate.

Workers' Compensation - The City also participates in the workers' compensation pool administered by the Insurance Authority. Each member pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claim year. Claims are pooled separately between public safety and non-public safety. Costs are allocated to members by the following methods within each of the four layers of coverage: (1) the first \$50,000 of each loss is charged directly to the member's primary deposit; (2) losses from \$50,001 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; (3) losses from \$100,001 to \$2,000,000 and the loss development reserves associated with those losses are pooled based on payroll; (4) losses from \$2,000,001 up to statutory limits are paid under an excess insurance policy. Protection is provided per statutory liability under California Workers' Compensation law.

Employer's liability losses are pooled among members to \$2,000,000, coverage from \$2,000,000 to \$4,000,000 is purchased as part of an excess insurance policy, and losses from \$4,000,000 to \$10,000,000 are pooled among members.

C. Purchased Insurance

Environmental Insurance - The City participates in the pollution legal liability and remediation legal liability insurance which is available through the Insurance Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City. Coverage is on a claims-made basis. There is a \$50,000 deductible. The Insurance Authority has a limit of \$50,000,000 for the 3-year period from July 1, 2008 through July 1, 2011. Each member of the Insurance Authority has a \$10,000,000 sub-limit claims during the 3-year term of the policy.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

10. LIABILITY, PROPERTY AND WORKERS' COMPENSATION PROTECTION, Continued

C. Purchased Insurance, Continued

Property Insurance - The City participates in the all-risk property protection program of the Insurance Authority. This insurance protection is underwritten by several insurance companies. City property is currently insured according to a schedule of covered property submitted by the City to the Insurance Authority. City property currently has all-risk property insurance protection in the amount of \$13,733,840. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 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 Insurance Authority. City property currently has earthquake protection in the amount of \$11,115,207, with a deductible of 5%. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Crime Insurance - The City purchases crime insurance coverage in the amount of \$1,000,000 with a \$2,500 deductible. The coverage is provided through the Insurance Authority. Premiums are paid annually and are not subject to retroactive adjustments.

D. Adequacy of Protection

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

E. Retrospective Deposit

The City opted not to participate in the incentive program to pay in full the retrospective deposit balance at a discounted rate this year and elected instead to carry the balance forward to the following year for claims liabilities.

Following is a summary of retroactive deposit balance activity for the fiscal year ended June 30, 2010:

	Balance			Balance	Due within
	July 1, 2009	Additions	Deletions	June 30, 2010	One Year
Claims Payable - General Liability	\$ -	\$ 586,186	\$ -	\$ 586,186	\$ -

11. REBATABLE ARBITRAGE

The City is obligated to calculate arbitrage rebates on all tax allocation bonds. At June 30, 2010, there was no rebatable arbitrage liability.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

12. COMMITMENTS AND CONTINGENCIES

A. Lawsuits

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City. Additionally, City management believes that the City's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

B. Federal and State Grant Programs

The City has received Federal and State grants for specific purposes that are subject to review and audit by the respective governments. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be material.

C. Commitments

As of June 30, 2010, the City did not have any commitments and, in the opinion of City management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the City.

13. PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California State legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City was \$464,089.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly, property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

City of Artesia
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

14. SUBSEQUENT EVENTS

In 2009, the State enacted legislation authorizing a two-year takeaway of Redevelopment Agency funds. The fiscal year 2009-10 payment was \$541,126 and it is anticipated another \$111,000 will need to be submitted to the State for the fiscal year 2010-11. This action was litigated by the California Redevelopment Association and other parties. This lawsuit challenges the constitutionality of ABX 4-26 and seeks to prevent the State from taking redevelopment funds for non-development purposes. The court ruled in favor of the State and as of the date of this report, the court's decision is currently being appealed and the results have not yet been determined.

Management has evaluated for other subsequent events to determine if events or transactions occurring through June 30, 2011, the date the consolidated financial statements were available to be issued, require adjustment to, or disclosure in the basic financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Artesia
Required Supplementary Information
For the year ended June 30, 2010

1. OTHER POST EMPLOYMENT BENEFIT

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 is presented below. Activity for the previous two years is not available.

Fiscal Year Ended	Annual OPEB Cost	Annual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/10	\$ 619,167	\$ 168,992	27%	\$ 450,175

2. BUDGETARY INFORMATION

The City Council has the responsibility for adoption of the City's budget. Budgets are adopted for governmental funds. From the effective date of the budget, the City Manager is authorized to transfer funds from one major expenditure category to another within the same department and fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended. Lease contracts entered into by the City are subject to annual review by the City Council; hence, they legally are one year contracts with an option to renew for another fiscal year.

Budget accounts reported for the governmental funds of the City are adopted on a basis consistent with GAAP.

General Budget Policies

The City Council approves each year's budget submitted by the City Manager prior to the beginning of the new fiscal year. The Council conducts public meetings prior to its adoption. The budget is prepared by fund, function and activity and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. Supplemental appropriations, when required during the period, are also approved by the Council. Intradepartmental budget changes are approved by the City Manager. In most cases, expenditures may not exceed appropriations at the departmental level. At fiscal year-end, all operating budget appropriations lapse. During the year, several supplementary appropriations were necessary.

The City did not adopt a budget for the following funds:

- Special Revenue Funds:
 - Federal STP-L
 - Other Grant
 - Hi-Tech Grant
 - Sheriff
 - HOME Program

City of Artesia
Budgetary Comparison Statement
General Fund
For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 3,372,834	\$ 3,372,834	\$ 3,372,834	\$ -
Resources (inflows):				
Taxes	3,993,494	3,993,494	4,026,640	33,146
Licences and permits	401,900	401,900	367,579	(34,321)
Intergovernmental	695,000	695,000	518,077	(176,923)
Charges for services	924,252	924,252	1,346,241	421,989
Use of money and property	431,698	431,698	405,603	(26,095)
Fines and forfeitures	174,400	174,400	217,377	42,977
Developer fees	18,000	18,000	22,894	4,894
Other	880,953	880,953	20,898	(860,055)
Transfers in	60,654	60,654	60,000	(654)
Amount available for appropriation	7,580,351	7,580,351	6,985,309	(595,042)
Charges to appropriations (outflows):				
General government	3,138,391	3,138,391	2,943,677	194,714
Public safety	2,714,718	2,714,718	2,589,564	125,154
Parks and recreation	723,267	723,267	698,729	24,538
Public works	843,041	843,041	774,228	68,813
Community development	157,807	159,807	178,780	(18,973)
Transfers out	-	-	9,922	(9,922)
Total charges to appropriations	7,577,224	7,579,224	7,194,900	384,324
Excess of resources over (under) charges to appropriations	3,127	1,127	(209,591)	(210,718)
Fund balance, June 30	\$ 3,375,961	\$ 3,373,961	\$ 3,163,243	\$ (210,718)

City of Artesia
Budgetary Comparison Statement
Hazard & Litigation
For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ (55,990)	\$ (55,990)	\$ (55,990)	\$ -
Resources (inflows):				
Intergovernmental	1,560,760	1,560,760	453,910	(1,106,850)
Amount available for appropriation	1,560,760	1,560,760	453,910	(1,106,850)
Charges to appropriations (outflows):				
Capital outlay	1,323,241	1,323,241	432,613	890,628
Total charges to appropriations	1,323,241	1,323,241	432,613	890,628
Excess of resources over (under) charges to appropriations	237,519	237,519	21,297	(216,222)
Fund balance, June 30	\$ 181,529	\$ 181,529	\$ (34,693)	\$ (216,222)

SUPPLEMENTARY INFORMATION

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**NON-MAJOR
GOVERNMENTAL FUNDS**

City of Artesia
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2010

	Special Revenue				
	State Gas Tax	Federal STP-L	Proposition A	Parks and Recreation Grants	Proposition C
ASSETS					
Cash and investments	\$ 81,331	\$ 58,458	\$ 173,169	\$ -	\$ 35,359
Receivables:					
Accounts	31,457	-	-	-	-
Loan	-	-	-	-	-
Due from other governments	-	-	-	-	-
Total assets	\$ 112,788	\$ 58,458	\$ 173,169	\$ -	\$ 35,359
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 11,060	\$ -	\$ 3,788	\$ -	\$ 19,422
Accrued liabilities	2,828	-	1,947	-	-
Deferred revenues	14,852	-	-	-	-
Due to other funds	-	-	-	100,628	-
Total liabilities	28,740	-	5,735	100,628	19,422
Fund Balances:					
Reserved:					
Reserved for loans	-	-	-	-	-
Unreserved:					
Undesignated	84,048	58,458	167,434	(100,628)	15,937
Total fund balances	84,048	58,458	167,434	(100,628)	15,937
Total liabilities and fund balances	\$ 112,788	\$ 58,458	\$ 173,169	\$ -	\$ 35,359

Special Revenue

Air Quality	Prop 1B	Traffic Congestion Relief	Proposition 12 Conservancy Fund	California Beverage Recycling	Artesia Lighting District	Traffic Mitigation Fees	Parking Impact
\$ 64,250	\$ 95,588	\$ 216,238	\$ -	\$ 17,320	\$ -	\$ 44,656	\$ 258,930
5,337	-	44,096	-	-	13,084	-	-
-	-	-	-	-	-	-	-
-	-	-	45,492	-	-	-	-
<u>\$ 69,587</u>	<u>\$ 95,588</u>	<u>\$ 260,334</u>	<u>\$ 45,492</u>	<u>\$ 17,320</u>	<u>\$ 13,084</u>	<u>\$ 44,656</u>	<u>\$ 258,930</u>
-	-	-	-	-	-	-	325
-	-	-	-	-	-	-	1,773
-	-	-	45,492	-	9,166	-	-
-	-	-	45,943	-	3,918	-	-
-	-	-	91,435	-	13,084	-	2,098
-	-	-	-	-	-	-	-
69,587	95,588	260,334	(45,943)	17,320	-	44,656	256,832
69,587	95,588	260,334	(45,943)	17,320	-	44,656	256,832
<u>\$ 69,587</u>	<u>\$ 95,588</u>	<u>\$ 260,334</u>	<u>\$ 45,492</u>	<u>\$ 17,320</u>	<u>\$ 13,084</u>	<u>\$ 44,656</u>	<u>\$ 258,930</u>

(Continued)

City of Artesia
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2010

	Special Revenue				
	Billboard	Other Grants	Hi-Tech Grant	Sheriff	C.O.P.S Grant
ASSETS					
Pooled cash and investments	\$ 910	\$ -	\$ 290	\$ 6,203	\$ -
Receivables:					
Accounts	-	-	-	-	7,548
Loan	-	-	-	-	-
Due from other governments	-	6,525	-	-	-
Total assets	\$ 910	\$ 6,525	\$ 290	\$ 6,203	\$ 7,548
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-	-
Deferred revenues	-	-	-	-	-
Due to other funds	-	6,525	-	-	7,000
Total liabilities	-	6,525	-	-	7,000
Fund Balances:					
Reserved:					
Reserved for loans	-	-	-	-	-
Unreserved:					
Undesignated	910	-	290	6,203	548
Total fund balances	910	-	290	6,203	548
Total liabilities and fund balances	\$ 910	\$ 6,525	\$ 290	\$ 6,203	\$ 7,548

Special Revenue			Capital Projects Fund	Total Other Governmental Funds
Safe Route to School	HOME Program	Measure R	Capital Projects	
\$ -	\$ -	\$ 79,478	\$ 86,203	\$ 1,218,383
28,983	-	-	85,157	215,662
-	-	-	68,133	68,133
-	-	-	-	52,017
<u>\$ 28,983</u>	<u>\$ -</u>	<u>\$ 79,478</u>	<u>\$ 239,493</u>	<u>\$ 1,554,195</u>
\$ 17,262	\$ -	\$ 21,000	\$ -	\$ 72,857
-	-	-	-	6,548
-	-	-	64,663	134,173
28,983	-	-	-	192,997
<u>46,245</u>	<u>-</u>	<u>21,000</u>	<u>64,663</u>	<u>406,575</u>
-	-	-	68,133	68,133
(17,262)	-	58,478	106,697	1,079,487
(17,262)	-	58,478	174,830	1,147,620
<u>\$ 28,983</u>	<u>\$ -</u>	<u>\$ 79,478</u>	<u>\$ 239,493</u>	<u>\$ 1,554,195</u>

(Concluded)

City of Artesia
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2010

	Special Revenue				
	State Gas Tax	Federal STP-L	Proposition A	Parks and Recreation Grants	Proposition C
REVENUES:					
Taxes	\$ -	\$ -	\$ 223,309	\$ -	\$ 185,244
Intergovernmental	298,914	-	8,309	-	-
Charges for services	-	-	-	-	-
Use of money and property	75	-	952	-	449
Other	8,616	-	-	-	-
Total revenues	307,605	-	232,570	-	185,693
EXPENDITURES:					
Current:					
General government	-	-	208,100	-	-
Public safety	-	-	-	-	-
Parks and recreation	-	-	-	-	-
Public works	269,980	-	-	-	21,000
Community Development	-	-	-	-	-
Capital outlay	302	-	-	5,517	204,017
Total expenditures	270,282	-	208,100	5,517	225,017
REVENUES OVER (UNDER) EXPENDITURES	37,323	-	24,470	(5,517)	(39,324)
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	9,200	-
Transfers out	-	-	-	-	(18,496)
Total other financing sources (uses)	-	-	-	9,200	(18,496)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	37,323	-	24,470	3,683	(57,820)
FUND BALANCES:					
Beginning of year	46,725	58,458	142,964	(104,311)	73,757
End of year	\$ 84,048	\$ 58,458	\$ 167,434	\$ (100,628)	\$ 15,937

Special Revenue

Air Quality	Prop 1B	Traffic Congestion Relief	Proposition 12 Conservancy Fund	California Beveage Recycling	Artesia Lighting District	Traffic Mitigation Fees	Parking Impact
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 128,325	\$ -	\$ -
19,872	-	158,858	49,935	5,000	67,572	-	-
-	-	-	-	-	-	-	-
375	611	866	-	83	-	1,013	1,811
-	-	-	-	-	18,332	-	-
20,247	611	159,724	49,935	5,083	214,229	1,013	1,811
-	-	-	-	1,093	-	-	-
-	-	-	-	-	-	-	58,832
-	-	-	-	-	-	-	-
-	-	40,000	-	-	-	67,572	-
-	-	-	-	-	172,037	-	-
30,408	77,232	-	-	-	-	-	-
30,408	77,232	40,000	-	1,093	172,037	67,572	58,832
(10,161)	(76,621)	119,724	49,935	3,990	42,192	(66,559)	(57,021)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(10,161)	(76,621)	119,724	49,935	3,990	42,192	(66,559)	(57,021)
79,748	172,209	140,610	(95,878)	13,330	(42,192)	111,215	313,853
\$ 69,587	\$ 95,588	\$ 260,334	\$ (45,943)	\$ 17,320	\$ -	\$ 44,656	\$ 256,832

(Continued)

City of Artesia
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds, Continued
For the year ended June 30, 2010

	Special Revenue				
	Billboard	Other Grant	Hi-Tech Grant	Sheriff	C.O.P.S. Grant
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	60,000	49,276	-	-	124,054
Charges for services	-	-	-	-	-
Use of money and property	256	-	-	40	494
Other	-	-	-	-	-
Total revenues	60,256	49,276	-	40	124,548
EXPENDITURES:					
Current:					
General government	-	-	-	-	-
Public safety	-	7,343	-	-	124,000
Parks and recreation	-	-	-	-	-
Public works	-	-	-	-	-
Community Development	-	-	-	-	-
Capital outlay	-	51,855	-	-	-
Total expenditures	-	59,198	-	-	124,000
REVENUES OVER (UNDER) EXPENDITURES	60,256	(9,922)	-	40	548
OTHER FINANCING SOURCES (USES):					
Transfers in	-	9,922	-	-	-
Transfers out	(60,000)	-	-	-	-
Total other financing sources (uses)	(60,000)	9,922	-	-	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	256	-	-	40	548
FUND BALANCES:					
Beginning of year	654	-	290	6,163	-
End of year	\$ 910	\$ -	\$ 290	\$ 6,203	\$ 548

Special Revenue			Capital Projects Fund	Total Other Governmental Funds
Safe Route to School	HOME Program	Measure R	Capital Projects	
\$ -	\$ -	\$ 111,457	\$ -	\$ 648,335
229,604	11,607	-	7,844	1,090,845
-	-	-	100,045	100,045
-	-	162	4,176	11,363
-	-	-	-	26,948
<u>229,604</u>	<u>11,607</u>	<u>111,619</u>	<u>112,065</u>	<u>1,877,536</u>
-	-	-	-	209,193
-	-	-	-	190,175
-	-	-	24,074	24,074
-	-	12,240	-	410,792
-	11,607	-	-	183,644
181,266	-	40,901	-	591,498
<u>181,266</u>	<u>11,607</u>	<u>53,141</u>	<u>24,074</u>	<u>1,609,376</u>
48,338	-	58,478	87,991	268,160
18,496	-	-	19,854	57,472
-	-	-	-	(78,496)
<u>18,496</u>	<u>-</u>	<u>-</u>	<u>19,854</u>	<u>(21,024)</u>
66,834	-	58,478	107,845	247,136
(84,096)	-	-	66,985	900,484
<u>\$ (17,262)</u>	<u>\$ -</u>	<u>\$ 58,478</u>	<u>\$ 174,830</u>	<u>\$ 1,147,620</u>

(Concluded)

City of Artesia

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

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 46,725	\$ 46,725	\$ 46,725	\$ -
Resources (inflows):				
Intergovernmental	282,149	282,149	298,914	16,765
Use of money and property	-	-	75	75
Other	6,000	6,000	8,616	2,616
Amount available for appropriation	288,149	288,149	307,605	19,456
Charges to appropriations (outflows):				
Public works	311,208	311,208	269,980	41,228
Capital outlay	15,000	15,000	302	14,698
Total charges to appropriations	326,208	326,208	270,282	55,926
Excess of resources over (under) charges to appropriations	(38,059)	(38,059)	37,323	75,382
Fund balance, June 30	\$ 8,666	\$ 8,666	\$ 84,048	\$ 75,382

City of Artesia

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Federal STP-L For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 58,458	\$ 58,458	\$ 58,458	\$ -
Resources (inflows):				
Intergovernmental	-	-	-	-
Use of money and property	-	-	-	-
Amount available for appropriation	-	-	-	-
Charges to appropriations (outflows):				
Public works	-	-	-	-
Total charges to appropriations	-	-	-	-
Excess of resources over (under) charges to appropriations	-	-	-	-
Fund balance, June 30	\$ 58,458	\$ 58,458	\$ 58,458	\$ -

City of Artesia

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

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 142,964	\$ 142,964	\$ 142,964	\$ -
Resources (inflows):				
Taxes	285,530	285,530	223,309	(62,221)
Intergovernmental	8,309	8,309	8,309	-
Use of money and property	2,000	2,000	952	(1,048)
Amount available for appropriation	295,839	295,839	232,570	(63,269)
Charges to appropriations (outflows):				
General government	227,675	227,675	208,100	19,575
Capital outlay	65,000	65,000	-	65,000
Total charges to appropriations	292,675	292,675	208,100	84,575
Excess of resources over (under) charges to appropriations	3,164	3,164	24,470	21,306
Fund balance, June 30	\$ 146,128	\$ 146,128	\$ 167,434	\$ 21,306

City of Artesia

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

Parks and Recreation Grants

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ (104,311)	\$ (104,311)	\$ (104,311)	\$ -
Resources (inflows):				
Intergovernmental	56,405	56,405	-	(56,405)
Transfers in	9,200	9,200	9,200	-
Amount available for appropriation	65,605	65,605	9,200	(56,405)
Charges to appropriations (outflows):				
Capital outlay	5,518	5,518	5,517	1
Total charges to appropriations	5,518	5,518	5,517	1
Excess of resources over (under) charges to appropriations	-	-	3,683	-
Fund balance, June 30	\$ 65,605	\$ 65,605	\$ (100,628)	\$ -

City of Artesia

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

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 73,757	\$ 73,757	\$ 73,757	\$ -
Resources (inflows):				
Taxes	320,534	320,534	185,244	(135,290)
Use of money and property	3,900	3,900	449	(3,451)
Amount available for appropriation	324,434	324,434	185,693	(138,741)
Charges to appropriations (outflows):				
Public works	46,620	46,620	21,000	25,620
Capital outlay	240,590	240,590	204,017	36,573
Transfer out	18,496	18,496	18,496	-
Total charges to appropriations	305,706	305,706	243,513	62,193
Excess of resources over (under) charges to appropriations	18,728	18,728	(57,820)	(76,548)
Fund balance, June 30	\$ 92,485	\$ 92,485	\$ 15,937	\$ (76,548)

City of Artesia

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

Air Quality

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 79,748	\$ 79,748	\$ 79,748	\$ -
Resources (inflows):				
Intergovernmental	19,000	19,000	19,872	872
Use of money and property	-	-	375	375
Amount available for appropriation	19,000	19,000	20,247	1,247
Charges to appropriations (outflows):				
Capital outlay	62,000	62,000	30,408	31,592
Total charges to appropriations	62,000	62,000	30,408	31,592
Excess of resources over (under) charges to appropriations	(43,000)	(43,000)	(10,161)	32,839
Fund balance, June 30, 2009	\$ 36,748	\$ 36,748	\$ 69,587	\$ 32,839

City of Artesia

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

Prop 1B

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 172,209	\$ 172,209	\$ 172,209	\$ -
Resources (inflows):				
Use of money and property	2,300	2,300	611	(1,689)
Amount available for appropriation	2,300	2,300	611	(1,689)
Charges to appropriations (outflows):				
Capital outlay	174,509	174,509	77,232	97,277
Total charges to appropriations	174,509	174,509	77,232	97,277
Excess of resources over (under) charges to appropriations	(172,209)	(172,209)	(76,621)	95,588
Fund balance, June 30	\$ -	\$ -	\$ 95,588	\$ 95,588

City of Artesia

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

Traffic Congestion Relief

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 140,610	\$ 140,610	\$ 140,610	\$ -
Resources (inflows):				
Intergovernmental	158,372	158,372	158,858	486
Use of money and property	-	-	866	866
Amount available for appropriation	158,372	158,372	159,724	1,352
Charges to appropriations (outflows):				
Public works	40,000	40,000	40,000	-
Total charges to appropriations	40,000	40,000	40,000	-
Excess of resources over (under) charges to appropriations	118,372	118,372	119,724	1,352
Fund balance, June 30	258,982	258,982	\$ 260,334	\$ 1,352

City of Artesia

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

Proposition 12 Conservancy Fund

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ (95,878)	\$ (95,878)	\$ (95,878)	\$ -
Resources (inflows):				
Intergovernmental	315,427	315,427	49,935	(265,492)
Transfers in	451	451	-	(451)
Amount available for appropriation	315,878	315,878	49,935	(265,943)
Charges to appropriations (outflows):				
Capital outlay	220,000	220,000	-	220,000
Total charges to appropriations	220,000	220,000	-	220,000
Excess of resources over (under) charges to appropriations	95,878	95,878	49,935	(45,943)
Fund balance, June 30	\$ -	\$ -	\$ (45,943)	\$ (45,943)

City of Artesia

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

California Beverage Recycling

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 13,330	\$ 13,330	\$ 13,330	\$ -
Resources (inflows):				
Intergovernmental	-	-	5,000	5,000
Use of money and property	-	-	83	83
Amount available for appropriation	-	-	5,083	5,083
Charges to appropriations (outflows):				
General government	3,000	3,000	1,093	1,907
Total charges to appropriations	3,000	3,000	1,093	1,907
Excess of resources over (under) charges to appropriations	(3,000)	(3,000)	3,990	6,990
Fund balance, June 30	\$ 10,330	\$ 10,330	\$ 17,320	\$ 6,990

City of Artesia

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

Artesia Lighting District

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1, 2008	\$ (42,192)	\$ (42,192)	\$ (42,192)	\$ -
Resources (inflows):				
Taxes	130,903	130,903	128,325	(2,578)
Intergovernmental	18,332	18,332	67,572	49,240
Transfers in	67,557	67,557	18,332	(49,225)
Amount available for appropriation	216,792	216,792	214,229	(2,563)
Charges to appropriations (outflows):				
Public works	174,600	174,600	172,037	2,563
Total charges to appropriations	174,600	174,600	172,037	2,563
Excess of resources over (under) charges to appropriations	42,192	42,192	42,192	-
Fund balance, June 30	\$ -	\$ -	\$ -	\$ -

City of Artesia

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

Traffic Mitigation Fees

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 111,215	\$ 111,215	\$ 111,215	\$ -
Resources (inflows):				
Use of money and property	-	-	1,013	1,013
Amount available for appropriation	-	-	1,013	1,013
Charges to appropriations (outflows):				
Public works	67,557	67,557	67,572	(15)
Total charges to appropriations	67,557	67,557	67,572	(15)
Excess of resources over (under) charges to appropriations	(67,557)	(67,557)	(66,559)	998
Fund balance, June 30	\$ 43,658	\$ 43,658	\$ 44,656	\$ 998

City of Artesia

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

Parking Impact

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 313,853	\$ 313,853	\$ 313,853	\$ -
Resources (inflows):				
Use of money and property	2,000	2,000	1,811	(189)
Amount available for appropriation	2,000	2,000	1,811	(189)
Charges to appropriations (outflows):				
Public safety	69,153	69,153	58,832	10,321
Total charges to appropriations	69,153	69,153	58,832	10,321
Excess of resources over (under) charges to appropriations	(67,153)	(67,153)	(57,021)	10,132
Fund balance, June 30	\$ 246,700	\$ 246,700	\$ 256,832	\$ 10,132

City of Artesia

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

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 654	\$ 654	\$ 654	\$ -
Resources (inflows):				
Intergovernmental	60,000	60,000	60,000	-
Use of money and property	-	-	256	256
Amount available for appropriation	60,000	60,000	60,256	256
Charges to appropriations (outflows):				
Transfers out	60,654	60,654	60,000	654
Total charges to appropriations	60,654	60,654	60,000	654
Excess of resources over (under) charges to appropriations	(654)	(654)	256	910
Fund balance, June 30	\$ -	\$ -	\$ 910	\$ 910

City of Artesia

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

Other Grant

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ -	\$ -	\$ -	\$ -
Resources (inflows):				
Intergovernmental	-	-	49,276	49,276
Transfers in	-	-	9,922	9,922
Amount available for appropriation	-	-	59,198	59,198
Charges to appropriations (outflows):				
Public safety	-	-	7,343	(7,343)
Capital outlay	-	-	51,855	(51,855)
Total charges to appropriations	-	-	59,198	(59,198)
Excess of resources over (under) charges to appropriations	-	-	-	-
Fund balance, June 30	\$ -	\$ -	\$ -	\$ -

City of Artesia

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

Hi-Tech Grant

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 290	\$ 290	\$ 290	\$ -
Resources (inflows):				
Intergovernmental	-	-	-	-
Use of money and property	-	-	-	-
Amount available for appropriation	-	-	-	-
Charges to appropriations (outflows):				
General government	-	-	-	-
Total charges to appropriations	-	-	-	-
Excess of resources over (under) charges to appropriations	-	-	-	-
Fund balance, June 30	\$ 290	\$ 290	\$ 290	\$ -

City of Artesia

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

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 6,163	\$ 6,163	\$ 6,163	\$ -
Resources (inflows):				
Use of money and property	-	-	40	40
Other	-	-	-	-
Amount available for appropriation	-	-	40	40
Charges to appropriations (outflows):				
Public safety	-	-	-	-
Total charges to appropriations	-	-	-	-
Excess of resources over (under) charges to appropriations	-	-	40	40
Fund balance, June 30	\$ 6,163	\$ 6,163	\$ 6,203	\$ 40

City of Artesia

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

C.O.P.S. Grant

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ -	\$ -	\$ -	\$ -
Resources (inflows):				
Intergovernmental	124,000	124,000	124,054	54
Use of money and property	-	-	494	494
Amount available for appropriation	124,000	124,000	124,548	548
Charges to appropriations (outflows):				
Public safety	124,000	124,000	124,000	-
Total charges to appropriations	124,000	124,000	124,000	-
Excess of resources over (under) charges to appropriations	-	-	548	548
Fund balance, June 30	\$ -	\$ -	\$ 548	\$ 548

City of Artesia

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

Safe Route to School

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ (84,096)	\$ (84,096)	\$ (84,096)	\$ -
Resources (inflows):				
Intergovernmental	250,561	250,561	229,604	(20,957)
Transfers in	18,496	18,496	18,496	-
Amount available for appropriation	269,057	269,057	248,100	(20,957)
Charges to appropriations (outflows):				
Capital outlay	184,962	184,962	181,266	3,696
Total charges to appropriations	184,962	184,962	181,266	3,696
Excess of resources over (under) charges to appropriations	84,095	84,095	66,834	(17,261)
Fund balance, June 30	\$ (1)	\$ (1)	\$ (17,262)	\$ (17,261)

City of Artesia

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

HOME Program

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ -	\$ -	\$ -	\$ -
Resources (inflows):				
Intergovernmental	-	-	11,607	11,607
Amount available for appropriation	-	-	11,607	11,607
Charges to appropriations (outflows):				
Community development	-	-	11,607	(11,607)
Total charges to appropriations	-	-	11,607	(11,607)
Excess of resources over (under) charges to appropriations	-	-	-	-
Fund balance, June 30	\$ -	\$ -	\$ -	\$ -

City of Artesia

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

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ -	\$ -	\$ -	\$ -
Resources (inflows):				
Taxes	90,394	90,394	111,457	21,063
Use of money and property	-	-	162	162
Amount available for appropriation	90,394	90,394	111,619	21,225
Charges to appropriations (outflows):				
Public works	10,000	10,000	12,240	(2,240)
Capital outlay	75,000	75,000	40,901	34,099
Total charges to appropriations	85,000	85,000	53,141	31,859
Excess of resources over (under) charges to appropriations	5,394	5,394	58,478	53,084
Fund balance, June 30	\$ 5,394	\$ 5,394	\$ 58,478	\$ 53,084

City of Artesia

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

For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 66,985	\$ 66,985	\$ 66,985	\$ -
Resources (inflows):				
Intergovernmental	106,045	106,045	7,844	(98,201)
Charges for services	20,000	20,000	100,045	80,045
Use of money and property	3,469	3,469	4,176	707
Transfers in	19,853	19,853	19,854	1
Amount available for appropriation	149,367	149,367	131,919	(17,448)
Charges to appropriations (outflows):				
Parks and recreation	26,929	26,929	24,074	2,855
Total charges to appropriations	26,929	26,929	24,074	2,855
Excess of resources over (under) charges to appropriations	122,438	122,438	107,845	(14,593)
Fund balance, June 30	\$ 189,423	\$ 189,423	\$ 174,830	\$ (14,593)

City of Artesia

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Redevelopment Agency - Capital Projects For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 12,276,969	\$ 12,276,969	\$ 12,276,969	\$ -
Resources (inflows):				
Taxes	394,390	394,390	360,787	(33,603)
Charges for services	-	-	1,000	1,000
Use of money and property	45,000	45,000	47,956	2,956
Other	-	-	3,924	3,924
Transfers in	2,197,174	2,197,174	376,166	(1,821,008)
Amount available for appropriation	2,636,564	2,636,564	789,833	(1,846,731)
Charges to appropriations (outflows):				
Community development	2,126,828	2,126,828	672,493	1,454,335
Capital outlay	8,019,480	8,019,480	2,057,758	5,961,722
Debt service:				
Principal retirement	40,000	40,000	40,000	-
Interest and fiscal charges	245,666	245,666	245,666	-
Cost of issuance	-	-	57,742	(57,742)
Transfer out	-	-	29,054	(29,054)
Total charges to appropriations	10,431,974	10,431,974	3,102,713	7,329,261
Excess of resources over (under) charges to appropriations	(7,795,410)	(7,795,410)	(2,312,880)	5,482,530
Fund balance, June 30	\$ 4,481,559	\$ 4,481,559	\$ 9,964,089	\$ 5,482,530

City of Artesia

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Redevelopment Agency - Debt Service For the year ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 3,795,444	\$ 3,795,444	\$ 3,795,444	\$ -
Resources (inflows):				
Taxes	1,577,560	1,577,560	901,504	(676,056)
Use of money and property	10,000	10,000	94,677	84,677
Amount available for appropriation	1,587,560	1,587,560	996,181	(591,379)
Charges to appropriations (outflows):				
Community development	439,903	439,903	389,498	50,405
Debt service:				
Principal retirement	120,000	120,000	120,000	-
Interest and fiscal charges	693,540	693,540	693,540	-
Transfer out	2,197,174	2,197,174	376,166	1,821,008
Total charges to appropriations	3,450,617	3,450,617	1,579,204	1,871,413
Excess of resources over (under) charges to appropriations	(1,863,057)	(1,863,057)	(583,023)	1,280,034
Fund balance, June 30	\$ 1,932,387	\$ 1,932,387	\$ 3,212,421	\$ 1,280,034

City of Artesia
Combining Balance Sheet
All Agency Funds
June 30, 2010

	Trust and Agency	George Nelson Memorial	Senior Citizens	Total
ASSETS				
Cash and investments	\$ 167,221	\$ 2,395	\$ 5,747	\$ 175,363
Total assets	\$ 167,221	\$ 2,395	\$ 5,747	\$ 175,363
LIABILITIES				
Accounts payable	\$ 961	\$ -	\$ -	\$ 961
Deposits payable	166,260	2,395	5,747	174,402
Total liabilities	\$ 167,221	\$ 2,395	\$ 5,747	\$ 175,363

City of Artesia
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
June 30, 2010

	Balance July 1, 2009	Addition	Deductions	Balance June 30, 2010
Trust and Agency				
Assets:				
Cash and investments	\$ 120,210	\$ 47,011	\$ -	\$ 167,221
Total assets	\$ 120,210	\$ 47,011	\$ -	\$ 167,221
Liabilities:				
Account payable	\$ -	\$ -	\$ 961	961
Deposits payable	120,210	-	46,050	166,260
Total liabilities	\$ 120,210	\$ -	\$ 47,011	\$ 167,221
George Nelson Memorial				
Assets:				
Cash and investments	\$ 2,130	\$ 265	\$ -	\$ 2,395
Total assets	\$ 2,130	\$ 265	\$ -	\$ 2,395
Liabilities:				
Deposits payable	\$ 2,130	\$ -	\$ 265	2,395
Total liabilities	\$ 2,130	\$ -	\$ 265	\$ 2,395
Senior Citizens				
Assets:				
Cash and investments	\$ 698	\$ 5,049	\$ -	\$ 5,747
Total assets	\$ 698	\$ 5,049	\$ -	\$ 5,747
Liabilities:				
Deposits payable	\$ 698	\$ -	\$ 5,049	5,747
Total liabilities	\$ 698	\$ -	\$ 5,049	\$ 5,747
Totals - All Agency Funds				
Assets:				
Cash and investments	\$ 123,038	\$ 52,325	\$ -	\$ 175,363
Total assets	\$ 123,038	\$ 52,325	\$ -	\$ 175,363
Liabilities:				
Account payable	\$ -	\$ -	\$ 961	\$ 961
Deposits payable	123,038	-	51,364	174,402
Total liabilities	\$ 123,038	\$ -	\$ 52,325	\$ 175,363

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

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Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of the City Council
of the City of Artesia
Artesia, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Artesia, California (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 22, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Honorable Mayor and Members of the City Council
of the City of Artesia
Artesia, California
Page 2

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
Irvine, California
July 22, 2011