

**CITY OF SAN FERNANDO, CALIFORNIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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

**CITY OF SAN FERNANDO, CALIFORNIA**

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FOR THE FISCAL YEAR ENDED  
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**PREPARED BY:**  
**FINANCE DIRECTOR, LORENA QUIJANO**

**CITY OF SAN FERNANDO  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FISCAL YEAR ENDED JUNE 30, 2006**

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## INDEPENDENT AUDITORS' REPORT

The Honorable Members of the City Council  
of the City of San Fernando, California:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Fernando, California (the City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City'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 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2006, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information for the General Fund and Major Special Revenue Funds and schedule of funding progress on pages 3 through 12, pages 59 through 62 and on pages 63 and 64, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, the statistical section, and combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections of the accompanying comprehensive annual financial report have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

*Vavnick, Trine, Day & Co., LLP*

Rancho Cucamonga, California  
December 8, 2006

**CITY OF SAN FERNANDO**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**JUNE 30, 2006**

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This section of the City’s Comprehensive Annual Financial Report provides a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letter of transmittal, which can be found beginning on page I and the City’s financial statements beginning on page 13.

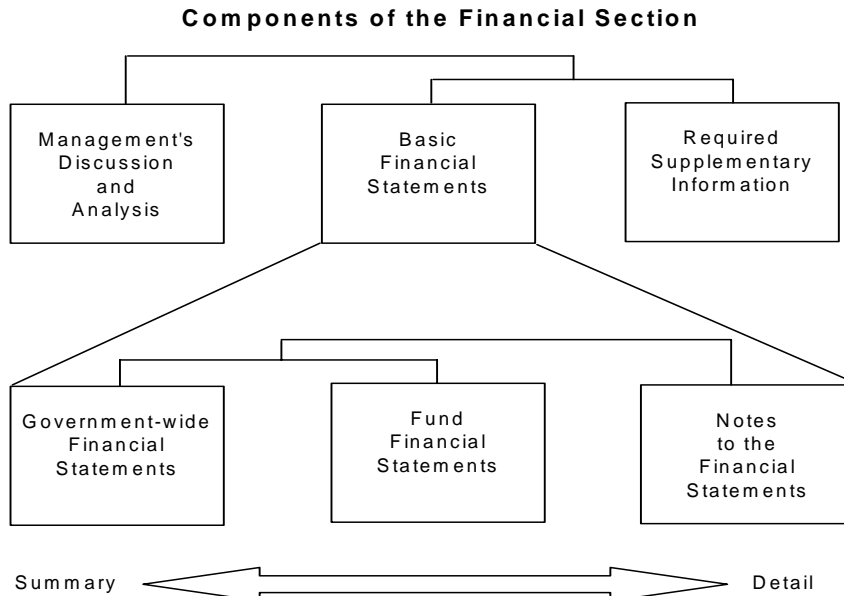
**FINANCIAL HIGHLIGHTS**

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis-for State and Local Governments* (GASB 34) for the year ending June 30, 2003. GASB 34 established new financial reporting standards for state and local governments in an effort to make governmental reporting more understandable and useful to the readers. The following are some key financial highlights for the fiscal year ending June 30, 2006:

- ❖ The City’s assets exceeded its liabilities at the close of the most recent fiscal year by \$36,376,199 (net assets). Unrestricted net assets were \$553,583 at June 30, 2006.
- ❖ As of June 30, 2006, the City’s governmental funds reported combined fund balances of \$13,696,633.
- ❖ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4,984,271 or 21.64% of total general fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four parts – management’s discussion and analysis (this portion), the basic financial statements, required supplementary information, and *optional* combining statements for non-major governmental funds. This discussion and analysis are intended to serve as an introduction to the City’s basic financial statements. The City’s basic financial statements are comprised of three components: 1) government-wide financial statements 2) fund financial statements and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements.



# CITY OF SAN FERNANDO

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

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### Government-wide Financial Statements

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

The *statement of net assets* presents information on all of the City'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 is improving or deteriorating.

The *statement of activities* presents information showing how the City'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 affect cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The *governmental activities* of the City include general government, public safety, public works, community development, recreation, non-departmental, and interest on long-term debt.

The government-wide financial statements include not only the City itself (known as the primary government), but also two legally separate entities, the San Fernando Redevelopment Agency and the San Fernando Public Financing Authority. The City is financially accountable for these entities and financial information for these blended component units is reported within the financial information presented for the primary government itself.

The government-wide financial statements can be found beginning on page 13 of this report.

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds can be divided into two categories: governmental funds and proprietary 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 the City's near-term financial 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 City's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

# CITY OF SAN FERNANDO

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

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The City maintains 29 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 General Fund, Retirement Tax, Community Development Block Grant, Grants, Redevelopment Project Area #3 and the Low-income Housing, each of which are considered to be major funds. Data from the other 24 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* in the *non-major governmental funds supplementary information* section of this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate its compliance with this budget.

The governmental fund financial statements can be found beginning on page 16 of this report.

*Proprietary Funds.* The City maintains several proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the Water Enterprise Fund, Sewer Enterprise Fund, and the Waste Disposal Enterprise Fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among these City's various self-supporting functions. The City uses internal service funds to account for purchases of vehicles throughout the City.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the maintenance and operation of the City's water, sewer and waste disposal services. The Water Fund accounts for all activities necessary to provide water services to all residents of the City and some County areas. Some of these activities include, but are not limited to, operations, maintenance and major construction. The Sewer Fund accounts for the provision of sewer services to all residents of the City. Processing of sewage is done by the City of Los Angeles under contract. The Waste Disposal Fund accounts for the collection of solid waste from all residential utility accounts within the City. Solid waste collection and disposal is operated under a contract with a private disposal company. These are considered to be business-type activities in the government-wide financial statements. The water services fund, sewer services and waste disposal services funds are presented as major funds in the financial statements.

The proprietary fund financial statements can be found beginning on page 22 of this report.

### **Notes to Basic Financial Statements**

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 26 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees and a comparison of budgeted to actual results for the general and major special revenue funds. *Required supplementary information* can be found beginning on page 58 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following *the required supplementary information*. Combining and individual fund statements and schedules can be found beginning on page 74 of this report.

**CITY OF SAN FERNANDO**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**JUNE 30, 2006**

**Government-wide Financial Analysis**

Statement of Net Assets

The following table is a summary of the statement of net assets at June 30, 2006 and 2005.

	<b>Summary of Net Assets</b>					
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets:</b>						
Current and other assets	\$ 18,420,343	\$ 15,358,434	\$ 9,105,652	\$ 8,137,832	\$ 27,525,995	\$ 23,496,266
Capital assets	19,972,495	18,598,023	7,321,367	7,635,859	27,293,862	26,233,882
Total assets	<u>38,392,838</u>	<u>33,956,457</u>	<u>16,427,019</u>	<u>15,773,691</u>	<u>54,819,857</u>	<u>49,730,148</u>
<b>Liabilities:</b>						
Current and other liabilities	2,438,636	2,593,784	581,950	435,982	3,020,586	3,029,766
Long-term liabilities	15,423,072	14,708,039	-	-	15,423,072	14,708,039
Total liabilities	<u>17,861,708</u>	<u>17,301,823</u>	<u>581,950</u>	<u>435,982</u>	<u>18,443,658</u>	<u>17,737,805</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	19,972,495	18,598,023	7,321,367	7,635,859	27,293,862	26,233,882
Restricted	8,528,754	3,931,708	-	-	8,528,754	3,931,708
Unrestricted	(7,970,119)	(5,875,097)	8,523,702	7,701,850	553,583	1,826,753
Total net assets	<u>\$ 20,531,130</u>	<u>\$ 16,654,634</u>	<u>\$ 15,845,069</u>	<u>\$ 15,337,709</u>	<u>\$ 36,376,199</u>	<u>\$ 31,992,343</u>

As noted earlier, net assets may serve over time as a useful indicator of the City’s financial position. In this case, City assets exceeded liabilities by \$36,376,199 at June 30, 2006.

A large portion of the City’s net assets, \$27,293,862, reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment, etc.) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is captioned “net of related debt” to adhere to GASB 34 requirements, there is no remaining outstanding debt that was used to acquire capital assets.

A portion of the City’s net assets, \$8,528,754, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, if any, may be used to meet the government’s ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report a positive balance in all three categories of net assets; the City’s governmental activities unrestricted net assets were a deficit of \$7,970,119.

**CITY OF SAN FERNANDO**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**JUNE 30, 2006**

Statement of Activities

Governmental and Business-type activities increased the City’s net assets by \$4,383,856 thereby accounting for the 13.7% increase in the net assets of the City. Key elements of this increase are as follows:

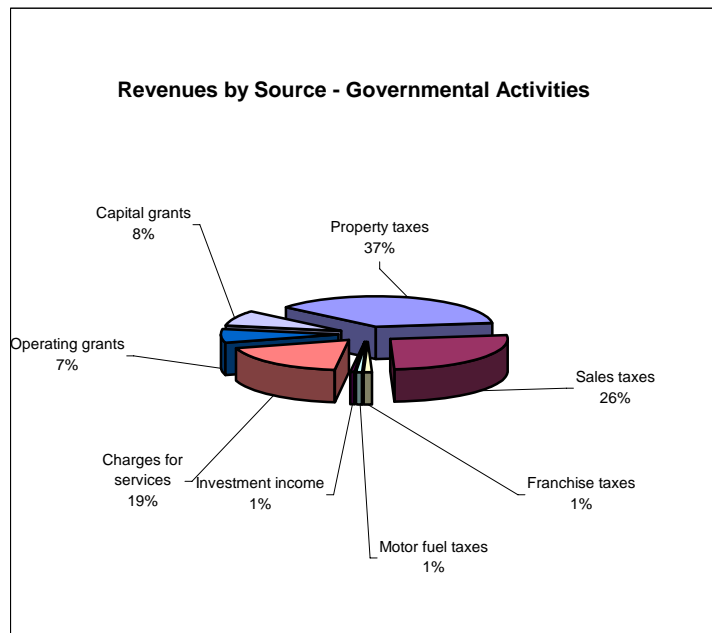
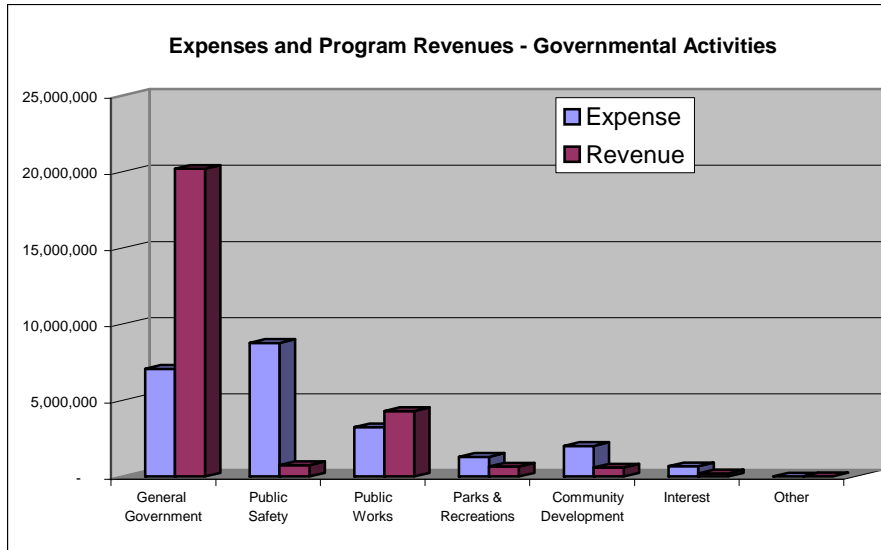
- ❖ Governmental activities increased the City’s net assets by \$3,876,496, thereby accounting for the growth of 23.28% mainly due to an increase in charges for services and an increase in taxes collected throughout the year.
- ❖ Business-type activities increased the City’s net assets by \$507,360 due to increases in services.

	<b>Change in Net Assets</b>					
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 4,953,478	\$ 3,992,819	\$ 6,467,024	\$ 6,161,335	\$11,420,502	\$10,154,154
Operating grants and contributions	1,924,581	3,251,277	-	-	1,924,581	3,251,277
Capital grants and contributions	2,196,347	3,147,589	-	-	2,196,347	3,147,589
General revenues						
Taxes	17,211,546	17,744,660	-	-	17,211,546	17,744,660
Investment earnings and others	393,954	400,074	190,604	169,465	584,558	569,539
Total revenue	<u>26,679,906</u>	<u>28,536,419</u>	<u>6,657,628</u>	<u>6,330,800</u>	<u>33,337,534</u>	<u>34,867,219</u>
<b>Expenses</b>						
General government	7,065,983	7,711,542	-	-	7,065,983	7,711,542
Public safety	8,761,669	8,588,373	-	-	8,761,669	8,588,373
Public works	2,859,514	3,149,303	-	-	2,859,514	3,149,303
Parks and recreation	2,001,888	1,938,912	-	-	2,001,888	1,938,912
Community development	1,667,800	3,179,308	-	-	1,667,800	3,179,308
Interest and fiscal charges	667,366	494,244	-	-	667,366	494,244
Enterprise operations	-	-	5,929,458	5,100,529	5,929,458	5,100,529
Total expenses	<u>23,024,220</u>	<u>25,061,682</u>	<u>5,929,458</u>	<u>5,100,529</u>	<u>28,953,678</u>	<u>30,162,211</u>
Increase (decrease) in net assets before transfers	3,655,686	3,474,737	728,170	1,230,271	4,383,856	4,705,008
Transfers in (out)	258,500	-	(258,500)	-	-	-
Transfers in (out)	(37,690)	222,321	37,690	(222,321)	-	-
Increase in net assets	3,876,496	3,697,058	507,360	1,007,950	4,383,856	4,705,008
Net assets – beginning	<u>16,654,634</u>	<u>12,957,576</u>	<u>15,337,709</u>	<u>14,329,759</u>	<u>31,992,343</u>	<u>27,287,335</u>
Net assets – ending	<u>\$20,531,130</u>	<u>\$16,654,634</u>	<u>\$15,845,069</u>	<u>\$15,337,709</u>	<u>\$36,376,199</u>	<u>\$31,992,343</u>

CITY OF SAN FERNANDO

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006



**Financial Analysis of the City's Funds**

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

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

# CITY OF SAN FERNANDO

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

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As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$13,696,633. The City's governmental funds report a surplus of \$4,137,799 in its *unreserved fund balance*. The remainder of the fund balances are reserved to indicate that funds are not available for new spending because they have already been committed for 1) land held for resale \$2,293,732, 2) debt service \$957,586, 3) capital outlay \$3,000,000, 4) prepaid, deposits, and non-current loans \$3,263,908, and 5) inventories \$43,608.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$4,984,271. As a measure of General Fund liquidity, it may be useful to compare the total fund balance to total fund expenditures. General fund balance represents 29.26% of total general fund expenditures of \$17,033,982. However, the General Fund's balance includes the self-insurance fund, which has had increased expenditures in recent years that are being reimbursed in full by other funds.

The fund balance of the City's General Fund increased by \$2,091,883 during the current fiscal year. Key factors of this increase are as follows:

- ❖ Actual revenue exceeded budgeted revenues by \$1,219,434 due mainly to large variances in taxes and assessments.
- ❖ Actual expenditures had a favorable variance as compared to the budgeted expenditures by \$423,853. Most notable, however, is that as compared to previous year, total current year expenditures only increased by \$397,239; less than 3%.
- ❖ Actual revenues exceeded expenditures in the Self Insurance Fund, which is included with the General Fund, by about \$157,503.

**Special Revenue Funds.** The City's special revenue funds are governmental funds used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specific purposes. The total fund balance of all special revenue funds is \$5,123,037.

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

**Enterprise Funds.** Total net assets of the enterprise funds amounted to \$15,845,069 and total increase in net assets for these funds was \$507,360 for the year ended June 30, 2006.

**Internal Service Funds.** The City's internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for purchases of vehicles throughout the City. As of June 30, 2006, unrestricted net assets of the internal service funds were \$275,263 and total decrease in net assets for these funds were \$(27,944). The services provided by the internal service funds have been allocated to governmental functions, based on user percentages, in the government-wide financial statements.

### General Fund Budgetary Highlights

In the General Fund, the original total budgeted expenditures, compared to the final budget, increased by \$861,415 primarily because of the following:

- ❖ \$631,886 increase in General Government, \$48,050 increase in Public Safety, \$54,204 increase in Public Works, and \$119,275 increase in Community Development resulting from purchase orders carried from prior years and additional projects budgeted during the mid-year budget review.

During the year, revenues were more than budgetary estimates, thus causing an increase in the existing fund balances. While the actual fund balances increased \$2,091,883, the budget variance was \$2,217,920.

**CITY OF SAN FERNANDO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2006**

**Capital Asset and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental activities amounts to \$19,972,495 (net of accumulated depreciation of \$8,335,842) as of June 30, 2006. This investment in capital assets includes land, buildings, improvements other than building, infrastructure (roads, sidewalks, streetlights, etc.), and machinery and equipment. The total increase in the City's investment in capital assets for the current fiscal year was \$2,102,862 before depreciation.

**Capital Assets  
(Net of Accumulated Depreciation)**

	Governmental Activities	Business-type Activities	Total
Capital assets not being depreciated	\$ 6,183,502	\$ 26,345	\$ 6,209,847
Capital assets being depreciated	22,124,835	13,291,931	35,416,766
Less accumulated depreciation	(8,335,842)	(6,621,568)	(14,957,410)
Net	<u>\$ 19,972,495</u>	<u>\$ 6,696,708</u>	<u>\$ 26,669,203</u>

Additional information on the City's capital assets can be found in note 8 to the financial statements on pages 47-48 of this report.

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

*Governmental activities:*

- ❖ Capital asset additions in governmental activities include: infrastructure additions of \$1,294,304, continuing construction in progress on the Aquatic Center and Heritage Park, and acquisitions of equipment and vehicles.

*Business-type activities:*

- ❖ Upgrades relating to the water and sewer systems.

**Debt Administration.** At the end of the current fiscal year, total long-term debts amounted to \$15,423,072, of which \$5,340,000 are tax allocation bonds issued for redevelopment projects. Total long-term debts in governmental activities consist of the following:

Bonded indebtedness:	
Tax Allocation Bonds	\$ 5,340,000
Other long-term debt:	
Section 108 loan	2,823,000
CHFA loan	1,061,862
Compensated absences	2,049,712
Claims payable	1,843,000
County deferral	2,305,498
Total	<u>\$ 15,423,072</u>

# CITY OF SAN FERNANDO

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

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State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its total assessed valuation. The current debt limitation for the City is \$186,897,626 which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 11 to the basic financial statements on pages 50-52 of this report.

### **Economic Factors and Next Year's Budget**

The City has been able to mitigate previous State actions that resulted in both revenue decreases and modifications to the normal cash flow for the City by placing procedures that only allowed for minimal increases in the City's current and previous fiscal year budgets. Although some of the State measures have permanently impacted cash flow during certain months of the year, the City has sufficient funds to maintain solvency and cover upcoming budgeted City projects. The City will continue to monitor its projects closely to ensure that funds are available when needed and that grant opportunities are exhausted. The City is also reviewing all departmental revenues and fees to ensure that costs are being recovered. This review has resulted in an increase in revenues generated from fees that match the increase in costs for providing these services.

The Senior Housing Projects estimated at a cost of approximately \$14.5 million is in its final phase and will be completed by the end of the 2006-2007 fiscal year. The project is comprised of three noncontiguous sites along Kalisher Street and Park Avenue. The project is funded through the Los Angeles Community Development Commission, State tax credit proceeds, the Redevelopment Agency, and a local developer. Its one of the largest developments specifically for senior housing that has been undertaken within the City of San Fernando.

The City will begin the final phase of the construction of the new San Fernando Regional Pool facility at Cesar Chavez Park. Funds to be utilized for this project include a grant of \$2.7 million received for construction through the State of California's Murray-Hayden grant program. This award was the single largest grant amount for a single project among all cities in the State of California. Los Angeles County Supervisor, Zev Yaroslavsky, on behalf of the County, committed an additional \$500,000 for the project. The City secured a Section 108 Loan through the Los Angeles Community Development Commission to support the remaining cost of the project. In order to complete the funding required completing this project the Agency will be utilizing a portion of the \$9.8 million issued in bonds during fiscal year 2006-2007. Completion of this project is estimated for January 2008.

The City recently adopted the San Fernando Corridors Specific Plan (Specific Plan) after two extensive years of community and staff input. The City received the 2006 Planning Award for Planning Implementation for Small Jurisdictions through the American Planning Association, Los Angeles Section. The specific plan document contains the goals, objectives, and policies to guide the community's vision for the revitalization of the North Maclay Avenue, San Fernando Road, and Truman Street corridors. It also includes a detailed statement of the community's vision for the future of the corridors as well as the revitalization strategy and urban design principals to be used in achieving that vision. The plan was funded through a \$150,000 award from the State of California's Downtown Rebound Grant program in which the City was one of only six cities in the state to receive this highly competitive grant. The recently adopted Specific Plan has become a catalyst for bringing various new development opportunities to the City. The most significant will be the future redevelopment of various city parking lots into mixed used developments. These new developments will include parking lots, housing, and retail which will generate additional sales taxes, property taxes, and Quimby Fees.

**CITY OF SAN FERNANDO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2006**

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The City is able to implement the current projects as a result of the aggressive approach it has taken towards seeking new funding sources. City staff is constantly looking for new ways of finding new revenues and uses the talents from within to approach new projects rather than paying additional fees to receive services. The City has been able to operate and provide a consistent level of services despite the recent decreases in State funding. In the long run, the City will benefit from revenues through the new allocation of property taxes in lieu of vehicle licenses fees. These revenues will be increasing at the same rate as our assessed valuation, which has been at least 5% in recent years. To ensure the continuance of excellent services, the City will continue to closely review all revenues, department budgets and projects for the upcoming fiscal year.

**Request for Information**

This financial report is designed to provide a general overview of the City's finances for readers of the financial statements. Questions concerning any of the information in this report or requests for additional financial information should be addressed to the Finance Director, San Fernando, CA.

**CITY OF SAN FERNANDO**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2006**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 9,760,711	\$ 4,271,878	\$ 14,032,589
Restricted cash and investments	957,586		957,586
Receivables, net	4,088,945	1,118,580	5,207,525
Inventory	43,608	36,389	79,997
Prepays and deposits	25,969		25,969
Internal balances	(2,984,463)	2,984,463	
Internal balances, long-term	(694,342)	694,342	
Long-term loans receivable	1,928,597		1,928,597
Land held for resale	2,293,732		2,293,732
Capital assets:			
Non-depreciable:			
Land	4,497,105	26,345	4,523,450
Construction in progress	1,686,397		1,686,397
Depreciable, net of accumulated depreciation:			
Buildings	7,890,815	3,550,124	11,440,939
Improvements other than building	1,464,642	2,920	1,467,562
Infrastructure	2,617,954	990,564	3,608,518
Machinery and equipment	1,587,334	2,027,930	3,615,264
Vehicles	228,248	98,825	327,073
Water rights		624,659	624,659
Cash held in escrow	3,000,000		3,000,000
Total Assets	<u>38,392,838</u>	<u>16,427,019</u>	<u>54,819,857</u>
<b>LIABILITIES</b>			
Accounts payable	1,341,084	364,795	1,705,879
Accrued liabilities	276,789	35,012	311,801
Accrued interest	96,819		96,819
Deposits and unearned revenues	723,944	182,143	906,087
Noncurrent liabilities:			
Due within one year	1,270,000		1,270,000
Due in more than one year	14,153,072		14,153,072
Total Liabilities	<u>17,861,708</u>	<u>581,950</u>	<u>18,443,658</u>
<b>NET ASSETS</b>			
Invested in capital assets	19,972,495	7,321,367	27,293,862
Restricted for:			
Capital projects	2,886,225		2,886,225
Debt service	2,758,631		2,758,631
Community development	393,145		393,145
Recreational services	290,523		290,523
Public safety	708,789		708,789
Housing	1,491,441		1,491,441
Unrestricted	(7,970,119)	8,523,702	553,583
Total Net Assets	<u>\$ 20,531,130</u>	<u>\$ 15,845,069</u>	<u>\$ 36,376,199</u>

See accompanying notes to financial statements.

**CITY OF SAN FERNANDO**

**STATEMENT OF ACTIVITIES**

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

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental Activities:				
General government	\$ 7,065,983	\$ 2,977,575		
Public safety	8,761,669	358,088	\$ 388,149	
Public works	2,859,514	604,626	1,536,432	\$ 1,968,485
Community development	1,667,800	357,345		227,862
Parks and recreation	2,001,888	655,844		
Interest and fiscal charges	667,366			
Total Governmental Activities	23,024,220	4,953,478	1,924,581	2,196,347
Business-type Activities:				
Water	3,023,474	2,809,324		
Sewer	1,723,353	2,498,588		
Waste disposal	1,182,631	1,159,112		
Total Business-type Activities	5,929,458	6,467,024	-	-
	<u>\$ 28,953,678</u>	<u>\$ 11,420,502</u>	<u>\$ 1,924,581</u>	<u>\$ 2,196,347</u>

General Revenues:

- Property taxes
- Sales taxes
- Franchise taxes
- Intergovernmental, unrestricted
- Unrestricted investment earnings
- Other
- Gain (loss) on sale of property
- Transfers
- Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Year

Net Assets at End of Year

See accompanying notes to financial statements.

Governmental Activities	Business-type Activities	Total
\$ (4,088,408)		\$ (4,088,408)
(8,015,432)		(8,015,432)
1,250,029		1,250,029
(1,082,593)		(1,082,593)
(1,346,044)		(1,346,044)
(667,366)		(667,366)
(13,949,814)	-	(13,949,814)
	\$ (214,150)	(214,150)
	775,235	775,235
	(23,519)	(23,519)
-	537,566	537,566
(13,949,814)	537,566	(13,412,248)
9,868,621		9,868,621
6,992,207		6,992,207
350,718		350,718
180,687		180,687
198,089	260,460	458,549
5,928		5,928
9,250	(69,856)	(60,606)
258,500	(258,500)	
(37,690)	37,690	
17,826,310	(30,206)	17,796,104
3,876,496	507,360	4,383,856
16,654,634	15,337,709	31,992,343
\$ 20,531,130	\$ 15,845,069	\$ 36,376,199

**CITY OF SAN FERNANDO**

**GOVERNMENT FUNDS  
BALANCE SHEET**

**JUNE 30, 2006**

	General	Special Revenue		
		Retirement Tax	Community Development Block Grant	Grants
<b>ASSETS</b>				
Cash and investments	\$ 2,496,082			
Receivables:				
Taxes	890,214	\$ 229,865		
Grants			\$ 1,183,819	\$ 442,442
Accounts	142,589		8,000	
Accrued revenues	100,010			
Inventories	43,608			
Prepays and deposits				
Due from other funds	2,952,407			
Noncurrent loans due from other funds	140,000	694,342		
Cash and investments with fiscal agent				
Long-term loans receivable			466,933	
Land held for resale				
Cash held in escrow			3,000,000	
<b>Total Assets</b>	<b>\$ 6,764,910</b>	<b>\$ 924,207</b>	<b>\$ 4,658,752</b>	<b>\$ 442,442</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	728,359		64,614	172,157
Accrued liabilities	223,287		492	1,254
Deposits and unearned revenues	207,385		466,933	1,800
Due to other funds		527,593	1,126,711	1,037,663
Current claims payable	438,000			
Noncurrent loans due to other funds				1,388,684
<b>Total Liabilities</b>	<b>1,597,031</b>	<b>527,593</b>	<b>1,658,750</b>	<b>2,601,558</b>
<b>FUND BALANCES</b>				
Reserved for:				
Inventories	43,608			
Land held for resale				
Debt service				
Prepaid, deposits, noncurrent loans	140,000	694,342	466,933	
Capital project			3,000,000	
Unreserved, undesignated reported in:				
General fund	4,984,271			
Special revenue funds		(297,728)	(466,931)	(2,159,116)
Capital project				
Debt service				
<b>Total Fund Balances</b>	<b>5,167,879</b>	<b>396,614</b>	<b>3,000,002</b>	<b>(2,159,116)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,764,910</b>	<b>\$ 924,207</b>	<b>\$ 4,658,752</b>	<b>\$ 442,442</b>

See accompanying notes to financial statements.

<u>Debt Service</u>		<u>Capital Projects</u>	
Redevelopment Project #3	Low-income Housing	Other Governmental Funds	Totals
	\$ 1,558,264	\$ 5,431,102	\$ 9,485,448
\$ 393,597		354,958	1,868,634
			1,626,261
		125,141	275,730
		11,344	111,354
			43,608
		25,969	25,969
			2,952,407
475,000		475,000	1,784,342
603,107		354,479	957,586
	1,461,664		1,928,597
825,000		1,468,732	2,293,732
			3,000,000
<u>\$ 2,296,704</u>	<u>\$ 3,019,928</u>	<u>\$ 8,246,725</u>	<u>\$ 26,353,668</u>
29,752	54,116	292,086	1,341,084
553	12,707	38,496	276,789
	1,461,664	47,826	2,185,608
447,653		2,797,250	5,936,870
			438,000
		1,090,000	2,478,684
<u>477,958</u>	<u>1,528,487</u>	<u>4,265,658</u>	<u>12,657,035</u>
			43,608
825,000		1,468,732	2,293,732
603,107		354,479	957,586
475,000	1,461,664	25,969	3,263,908
			3,000,000
			4,984,271
		3,859,568	935,793
	29,777	(2,313,087)	(2,283,310)
(84,361)		585,406	501,045
<u>1,818,746</u>	<u>1,491,441</u>	<u>3,981,067</u>	<u>13,696,633</u>
<u>\$ 2,296,704</u>	<u>\$ 3,019,928</u>	<u>\$ 8,246,725</u>	<u>\$ 26,353,668</u>

**CITY OF SAN FERNANDO**

**RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS –  
TO THE STATEMENTS OF NET ASSETS**

**JUNE 30, 2006**

<hr/> <hr/>	
Fund Balances of Governmental Funds	\$ 13,696,633
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:	
Capital assets of governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	
Governmental capital assets	\$ 28,308,337
Less accumulated depreciation	<u>(8,335,842)</u> 19,972,495
Sales taxes receivable not considered available (Receivable amount is due to the triple-flip transactions entered into by the State of California)	206,966
Interest on long-term debt not due and payable in the current period is not reported in the funds.	
Tax bonds	(96,819)
Loans receivable not expected to be collected in the current period are offset by unearned revenue in the funds. They have been recognized as revenue and are in the net assets in the government-wide financial statements.	
	1,461,664
Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported in the funds.	
Tax bonds	
Current	(645,000)
Non-current	<u>(4,695,000)</u> (5,340,000)
Section 108 loan	
Current	(187,000)
Non-current	<u>(2,636,000)</u> (2,823,000)
Compensated absences	(2,049,712)
County deferral	(2,305,498)
CHFA loan	(1,061,862)
Claims payable	<u>(1,405,000)</u> (6,822,072)
Internal service fund is used by management to charge the costs of equipment purchases to individual funds. The assets and liabilities of internal service fund are included in governmental activities in the statement of net assets.	
	<u>275,263</u>
Net Assets of Governmental Activities	<u><u>\$ 20,531,130</u></u>

See accompanying notes to financial statements.

**CITY OF SAN FERNANDO**

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

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

	General	Special Revenue		
		Retirement Tax	Community Development Block Grant	Grants
<b>REVENUES</b>				
Taxes and assessments	\$ 10,208,529	\$ 2,565,262		
Licenses and permits	648,863			
Fines and forfeitures	784,397			
Investment income	279,059	27,594		\$ 4,023
From government agencies	1,350,792		\$ 1,809,202	525,256
Charges for services	499,624			
Administrative overhead	1,672,248			
Other	266,444			
<b>Total Revenues</b>	<b>15,709,956</b>	<b>2,592,856</b>	<b>1,809,202</b>	<b>529,279</b>
<b>EXPENDITURES</b>				
Current:				
General government	5,472,909	781,347		
Public safety	7,884,212			379,445
Public works	2,316,812			291,961
Community development	396,693		1,482,481	
Parks and recreation	923,362			171,357
Capital outlay				
Debt service:				
Principal retirement			177,000	
Interest and fiscal charges	39,994		149,719	
<b>Total Expenditures</b>	<b>17,033,982</b>	<b>781,347</b>	<b>1,809,200</b>	<b>842,763</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,324,026)	1,811,509	2	(313,484)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	3,483,669			100,000
Issuance of debt	32,240			
Transfers out	(100,000)	(1,976,178)		
<b>Total Other Financing Sources (Uses)</b>	<b>3,415,909</b>	<b>(1,976,178)</b>		<b>100,000</b>
<b>Net Change in Fund Balances</b>	<b>2,091,883</b>	<b>(164,669)</b>	<b>2</b>	<b>(213,484)</b>
Fund Balances, Beginning of Year	3,075,996	561,283	3,000,000	(1,945,632)
Fund Balances, End of Year	\$ 5,167,879	\$ 396,614	\$ 3,000,002	\$ (2,159,116)

See accompanying notes to financial statements.

<u>Debt Service</u>		<u>Capital Projects</u>		<u>Other</u>	<u>Total</u>
<u>Redevelopment</u>	<u>Low-income</u>	<u>Other</u>	<u>Governmental</u>		
<u>Project #3</u>	<u>Housing</u>	<u>Funds</u>			
\$ 2,700,063		\$ 2,686,627		\$ 18,160,481	
		673,135		1,321,998	
		186,290		970,687	
21,948	\$ 366,697	108,526		807,847	
		612,555		4,297,805	
				499,624	
				1,672,248	
	376,010	506,001		1,148,455	
<u>2,722,011</u>	<u>742,707</u>	<u>4,773,134</u>		<u>28,879,145</u>	
910,483	18,885	650,891		7,834,515	
		202,817		8,466,474	
		1,189,563		3,798,336	
	1,083,109	106,913		3,069,196	
		845,093		1,939,812	
345,000		265,000		787,000	
207,769		100,932		498,414	
<u>1,463,252</u>	<u>1,101,994</u>	<u>3,361,209</u>		<u>26,393,747</u>	
1,258,759	(359,287)	1,411,925		2,485,398	
	1,033,914	200,000		4,817,583	
				32,240	
(941,008)		(1,579,587)		(4,596,773)	
<u>(941,008)</u>	<u>1,033,914</u>	<u>(1,379,587)</u>		<u>253,050</u>	
317,751	674,627	32,338		2,738,448	
1,500,995	816,814	3,948,729		10,958,185	
<u>\$ 1,818,746</u>	<u>\$ 1,491,441</u>	<u>\$ 3,981,067</u>		<u>\$ 13,696,633</u>	

**CITY OF SAN FERNANDO**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS -  
TO THE STATEMENTS OF ACTIVITIES**

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

Net Change in Fund Balances - Total Governmental Funds	\$	2,738,448	
<p>Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:</p>			
Cost of capital outlay	\$	2,102,862	
Depreciation expense		<u>(728,390)</u>	1,374,472
Change in sales taxes receivable not considered available			7,908
<p>Increases in long-term notes receivable use current financial resources and are included in the expenditures of governmental funds. Repayment of long-term notes receivable provide current financial resources and are included in the revenues of governmental funds. These changes in notes receivable are not reflected in the revenues or expenses of the Statement of Activities. This amount represents the net change in the long-term notes receivable.</p>			
			121,148
<p>Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p>			
Principal repayments on long-term debt		610,000	
County deferral		(130,945)	
Section 108 loan payable		177,000	
Compensated absences		<u>(570,273)</u>	85,782
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds.</p>			
Change in accrued interest on County deferral		(150,827)	
Change in claims liability		(222,126)	
Change in accrued interest on CHFA Loan		(61,862)	
Change in accrued interest on long-term debt		<u>11,497</u>	(423,318)
<p>The net income of internal service fund is reported with governmental activities.</p>			
			<u>(27,944)</u>
Change in Net Assets of Governmental Activities	\$		<u><u>3,876,496</u></u>

See accompanying notes to financial statements.

**CITY OF SAN FERNANDO**

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS**

**JUNE 30, 2006**

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Waste Disposal	Total	
<b>ASSETS</b>					
Current Assets:					
Cash and investments	\$ 2,798,595	\$ 1,457,548	\$ 15,735	\$ 4,271,878	\$ 275,263
Receivables, net					
customers/accounts	479,323	428,765	210,492	1,118,580	
Inventory, at cost	36,389			36,389	
Due from other funds		2,984,463		2,984,463	
Total Current Assets	3,314,307	4,870,776	226,227	8,411,310	275,263
Noncurrent loans					
due from other funds		2,194,342		2,194,342	
Utility Plant in Service					
Land	26,345			26,345	
Buildings and plant	5,438,117	283,183		5,721,300	
Infrastructure	1,225,193			1,225,193	
Land improvement	29,200			29,200	
Equipment	5,684,002	632,237		6,316,239	
Total Utility Plant in Service	12,402,857	915,420		13,318,277	
Less accumulated depreciation	(6,163,453)	(458,116)		(6,621,569)	
Net Utility Plant in Service	6,239,404	457,304	-	6,696,708	-
Water rights	624,659			624,659	
Total Assets	10,178,370	7,522,422	226,227	17,927,019	275,263
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable	243,134	47,669	73,992	364,795	
Accrued liabilities	23,759	8,251	3,002	35,012	
Customer deposits	182,143			182,143	
Total Current Liabilities	449,036	55,920	76,994	581,950	-
Noncurrent loans					
due to other funds	1,500,000			1,500,000	
Total Liabilities	1,949,036	55,920	76,994	2,081,950	-
<b>NET ASSETS</b>					
Invested in capital assets	6,239,404	457,304		6,696,708	
Unrestricted	1,989,930	7,009,198	149,233	9,148,361	275,263
Total Net Assets	\$ 8,229,334	\$ 7,466,502	\$ 149,233	\$ 15,845,069	\$ 275,263

See accompanying notes to financial statements.

**CITY OF SAN FERNANDO**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006**

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Waste Disposal	Total	
<b>OPERATING REVENUES</b>					
Charges for services:					
Water sales	\$ 2,796,974			\$ 2,796,974	
Charges for services		\$ 2,498,588	\$ 1,159,112	3,657,700	\$ 6,424
Other	12,350			12,350	168,995
Total Operating Revenues	<u>2,809,324</u>	<u>2,498,588</u>	<u>1,159,112</u>	<u>6,467,024</u>	<u>175,419</u>
<b>OPERATING EXPENSES</b>					
Contractual services	60,156	453,715	876,046	1,389,917	
Maintenance and operations	2,686,577	1,232,192	306,585	4,225,354	203,363
Depreciation	276,741	37,446		314,187	
Total Operating Expenses	<u>3,023,474</u>	<u>1,723,353</u>	<u>1,182,631</u>	<u>5,929,458</u>	<u>203,363</u>
Operating Income (Loss)	<u>(214,150)</u>	<u>775,235</u>	<u>(23,519)</u>	<u>537,566</u>	<u>(27,944)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	67,545	192,662	253	260,460	
Loss on asset disposal	(69,856)			(69,856)	
Total Nonoperating Revenue (Expenses)	<u>(2,311)</u>	<u>192,662</u>	<u>253</u>	<u>190,604</u>	
Net Income (Loss) Before Transfers	<u>(216,461)</u>	<u>967,897</u>	<u>(23,266)</u>	<u>728,170</u>	<u>(27,944)</u>
TRANSFERS IN		37,690		37,690	
TRANSFERS OUT	(150,500)	(105,000)	(3,000)	(258,500)	
Changes in Net Assets	(366,961)	900,587	(26,266)	507,360	(27,944)
Total Net Assets, Beginning of Year	<u>8,596,295</u>	<u>6,565,915</u>	<u>175,499</u>	<u>15,337,709</u>	<u>303,207</u>
Total Net Assets, End of Year	<u>\$ 8,229,334</u>	<u>\$ 7,466,502</u>	<u>\$ 149,233</u>	<u>\$ 15,845,069</u>	<u>\$ 275,263</u>

See accompanying notes to financial statements.

**CITY OF SAN FERNANDO**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS**

**JUNE 30, 2006**

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Waste Disposal	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers and users	\$2,803,768	\$2,498,624	\$ 1,154,683	\$ 6,457,075	\$ 175,419
Payments to suppliers	62,494	(426,008)	(877,836)	(1,241,350)	
Payments to employees and contractors	(2,686,577)	(1,232,192)	(306,585)	(4,225,354)	(203,363)
Net Cash Provided (Used) by Operating Activities	179,685	840,424	(29,738)	990,371	(27,944)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Collection of loan receivable		22,406		22,406	
Loans to other funds		(2,984,463)		(2,984,463)	
Transfers from other funds		37,690		37,690	
Transfers to other funds	(150,500)	(105,000)	(3,000)	(258,500)	
Net Cash (Used) by Noncapital Financing Activities	(150,500)	(3,029,367)	(3,000)	(3,182,867)	-
<b>CASH FLOWS FROM CAPITAL AND AND RELATED FINANCING ACTIVITIES</b>					
Acquisition of capital assets	(69,551)			(69,551)	
Net Cash (Used) by Capital and Related Financing Activities	(69,551)	-	-	(69,551)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received	67,545	192,662	253	260,460	
Net Increase (Decrease) in Cash and Investments	27,179	(1,996,281)	(32,485)	(2,001,587)	(27,944)
Cash and Investments, Beginning of Year	2,771,416	3,453,829	48,220	6,273,465	303,207
Cash and Investments, End of Year	\$2,798,595	\$1,457,548	\$ 15,735	\$ 4,271,878	\$ 275,263

See accompanying notes to financial statements.

**CITY OF SAN FERNANDO**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS, Continued**

**JUNE 30, 2006**

	Business-type Activities - Enterprise Funds			Total	Governmental Activities - Internal Service Funds
	Water	Sewer	Waste Disposal		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ (214,150)	\$ 775,235	\$ (23,519)	\$ 537,566	\$ (27,944)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	276,741	37,446		314,187	
Changes in assets and liabilities:					
(Increase) Decrease in accounts receivable	(5,556)	36	(4,429)	(9,949)	
(Increase) Decrease in inventory of supplies	2,599			2,599	
Increase (Decrease) in accounts payable	135,738	29,311	1,425	166,474	
Increase (Decrease) in accrued liabilities	(21,454)	(1,604)	(3,215)	(26,273)	
Increase (Decrease) in customer deposits	5,767			5,767	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 179,685</u>	<u>\$ 840,424</u>	<u>\$ (29,738)</u>	<u>\$ 990,371</u>	<u>\$ (27,944)</u>

See accompanying notes to financial statements.

# CITY OF SAN FERNANDO

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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### NOTE #1 - REPORTING ENTITY

The City of San Fernando, California was incorporated on August 31, 1911 under the general laws of the State of California and enjoys all the rights and privileges pertaining to "General Law" cities. The financial reporting entity includes the accounts of the City of San Fernando ("the City"), the primary government and its component units, the San Fernando Redevelopment Agency ("the Agency" or "RDA") and the City of San Fernando Public Financing Authority ("the Authority").

The financial statements of the City of San Fernando include the financial activities of the City and its component units for which the City is considered to be financially accountable. Financial accountability is determined on the basis of budget adoptions, taxing authority, funding and composition or appointments of the governing board. Blended component units, although legally separate entities, are part of the City's operations and data from these units are therefore combined with data of the City.

#### *Blended Component Units*

Since the San Fernando City Council acts as the Board of Directors and is able to impose its will on the San Fernando Redevelopment Agency and the San Fernando Public Financing Authority, the City is considered to be the primary government and the other two entities are component units. Additionally, since the governing boards of the City and the component units are the same, the component units are blended.

The San Fernando Redevelopment Agency was established in 1965 pursuant to provisions of the California Health and Safety Code. The primary purpose of the Agency is to eliminate blighted areas by encouraging development of residential, commercial, industrial, recreational and public facilities. The Agency is accounted for in the City's financial statements in accordance with principles defining the governmental reporting entity adopted by the Governmental Accounting Standards Board. The City Council members, in separate session, serve as the governing board of the Agency. The Agency is reported in the Debt Service and Capital Projects Funds. The Agency's financial statements may be obtained from the City's Finance Department located at San Fernando City Hall.

The City of San Fernando Public Financing Authority is a Joint Exercise of Powers Authority organized and existing under and by virtue of the Joint Exercise of Power Act of the Government Code of the State. The City and the Agency formed the Authority by the execution of a Joint Exercise of Powers Agreement. The primary purpose of the Authority is to issue bonds and make loans to the Agency. The Authority is accounted for in the City's financial statements in accordance with principles defining the governmental reporting entity adopted by the Governmental Accounting Standards Board (GASB). The City Council members, in separate session, serve as the governing board of the Authority. The Authority is reported in the Debt Service and Capital Projects Funds. There are no separate financial statements prepared for the Authority.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #1 - REPORTING ENTITY (Continued)**

Other governmental agencies providing various levels of services within the City limits are:

- State of California
- County of Los Angeles
- Los Angeles County Flood Control District
- City of Los Angeles Fire Department
- Metropolitan Water District
- Los Angeles Unified School District
- Los Angeles Community College District
- Los Angeles County Building Authority

**NOTE #2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Implementation of Governmental Accounting Standards Board Statements**

The City's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America 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.

**GASB Statement No. 42** - In November 2003, the GASB issued Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. This Statement requires governments to measure, recognize, and disclose the effects of capital asset impairments in their financial statements when it occurs. This Statement also clarifies and establishes accounting requirements for insurance recoveries, including those associated with capital asset impairment. This Statement is effective June 30, 2006. The City has determined that there is no effect on the financial statements.

**GASB Statement No. 44** - In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section-an amendment of NCGA Statement No. 1*. This Statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement became effective for fiscal year 2005-06 and has resulted in changes to the content and presentation of the statistical section.

**GASB Statement No. 46** - In December 2004, the GASB issued Statement No. 46, *Net Assets Restricted By Enabling Legislation*, an amendment of GASB No. 34. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government can compel a government to honor. Accordingly, it clarifies the determination of restricted net assets within the statement of net assets. This statement is effective June 30, 2006.

CITY OF SAN FERNANDO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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**NOTE #2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**GASB Statement No. 47** - In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits. This statement is effective June 30, 2006. The City has determined that there is no effect on the financial statements.

**B. Basis of Presentation**

The City's basic financial statements consist of the government-wide statements on all of the non-fiduciary activities of the primary government and the fund financial statements. The statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units.

*Government-wide Financial Statements*

The statement of net assets and statement of activities display information about the primary government (the City) and its blended component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's government activities and for each segment of the business-type activities of the City. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

*Fund Financial Statements*

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

The City reports the following major governmental funds:

*Major Governmental Funds*

General Fund – The General Fund is the City's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than those for Capital Projects Funds) that are legally restricted to expenditures for special purposes. Major special revenue funds are:

*Retirement Tax Fund* – Accounts for receipts from a voter approved special tax levy that is used to pay for a portion of the cost of the City’s membership in the Public Employees Retirement System.

*CDBG* – Accounts for expenses of the Community Development Block Grant received through the County of Los Angeles.

*Grants* – Accounts for miscellaneous grants provided by federal, state and county agencies and expended for various street, park, recreation, human services and police purposes.

Debt Service’s Redevelopment Project Area #3 Fund – The Debt Service Fund is used to account for the accumulation of resources for and the payment of, interest and principal on general obligations of the Agency’s Project Area #3.

Capital Projects’ Low-income Housing Fund – The Capital Projects’ Low-income Housing Fund is used to account for monies set aside in accordance with Redevelopment Law for the provision of affordable housing for low and moderate-income persons and families.

*Non-major Governmental Fund*

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than those for Capital Projects Funds) that are legally restricted to expenditures for special purposes.

Debt Service Funds – The debt service funds account for the resources accumulated and payments made for interest and principal on general obligation debt, including tax allocation bonds and long-term notes payable of governmental funds.

Capital Projects Funds – The capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

The City reports the following proprietary funds:

*Major Proprietary Funds*

Water Enterprise Fund - The Water Enterprise Fund accounts for the provision of water services to all residents of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, operations, maintenance and major construction.

Sewer Enterprise Fund - The Sewer Enterprise Fund accounts for the provision of sewer services to all residents of the City. Processing of sewage is done by the City of Los Angeles under contract.

CITY OF SAN FERNANDO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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**NOTE #2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Waste Disposal Enterprise Fund - The Waste Disposal Enterprise Fund accounts for the collection of solid waste from all residential utility accounts within the City. Solid waste collection and disposal is operated under a contract with a private disposal company.

*Proprietary Funds*

Internal Service Funds – The Internal Service Funds account for the financing of goods and services provided by one City department to other departments on a cost-reimbursement basis.

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

**C. Measurement Focus and Basis of Accounting**

*Government-wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recognized when the liabilities are incurred regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

*Fund Financial Statements*

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers taxes and assessments associated with the current fiscal period to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash and within 12 months for Federal and State grants.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Financial Statement Elements**

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the proprietary funds consider all highly liquid investments with maturity of three months or less when purchased to be cash equivalents. All cash and investments, except those which are held by fiscal agents, are held in a City pool and are considered to be cash equivalents.

Cash and Investments

Investments are stated at fair value (the value at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale).

Inventories

Inventories consist of materials and supplies stated at cost, determined by the first-in, first-out method. Inventories in governmental funds are recorded as expenditures when purchased.

Land Held for Resale

Cost of any project land held for resale is capitalized in the capital projects funds as inventory at the lower of acquisition cost or fair value.

Receivables and Payable

Property, sales, and use taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year-end. Federal and State grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide statement of net assets. The amount recognized as revenue for Federal and State grants under the modified accrual basis of accounting is deemed measurable, collectable, and available if received within 12 months. Earned but unbilled revenue is recognized as revenue and accounts receivable in the enterprise funds.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital Assets

Capital assets, which include land, structures and improvement, machinery and equipment and infrastructure assets, are recorded in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Capital outlay is recorded as expenditures in the governmental funds in fund financial statements and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met.

The provision for depreciation is computed by use of the straight-line method over the estimated useful lives of the assets, which are as follows:

Building and structures	50 years
Infrastructure	Up to 50 years
Improvements other than buildings	20 years
Furniture and equipment	Up to 30 years
Vehicles and related equipment	Up to 8 years

Water rights are recorded in the Water Enterprise Fund in the amount of \$624,659, which is the net acquisition cost. The asset represents amounts paid to the Metropolitan Water District of Southern California for the right to purchase water. Because the rights have an indefinite life and normally appreciate in value over time, the City has elected not to amortize the cost of water rights. This treatment is in accordance with generally accepted accounting principles for water utilities.

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets effective with the year of implementation (2002-2003). Infrastructure assets include roads, bridges, sidewalks, park improvements, traffic signals, etc. As of June 30, 2006, the City has not performed the retroactive reporting. The retroactive reporting of infrastructure (assets acquired prior to July 1, 2002) is optional for Phase III Governments, which is subject to an extended implementation period and is first effective for fiscal years ending in 2007.

Unearned Revenues

Unearned revenues in fund financial statements arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when the City receives resources before it has a legal claim to them (e.g., when grant monies are received prior to the incurrence of qualifying expenditures).

Restricted Assets

Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Net Assets Restricted by Enabling Legislation

The government-wide statement of net assets reports \$8,528,754 of restricted net assets, of which \$396,614 is restricted by enabling legislation, which was derived from voter approved Special Tax Levy to pay for retirement costs.

Compensated Absences

Employees accrue vacation, sick and holiday benefits as annual leave. Vacation time can be converted to annual leave at one-to-one basis; sick leave can be converted to annual leave at the rate of one hour of sick leave equals half hour of annual leave. An employee may accumulate up to 800 hours of annual leave time.

All annual leave pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the fund financial statements only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are generally liquidated in the funds by allocation of employee labor charges.

Long-term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt using the straight-line method.

In the fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized 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.

Claims and Judgments

When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the City records the estimated loss, net of any insurance coverage under its self-insurance program. For governmental funds, if claims will not be liquidated from currently available resources, they are recorded only in the government-wide financial statements. A liability of \$438,000 is recorded in the City's General Fund.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Interfund Transactions

Interfund transactions are reflected as loans, services provided reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “noncurrent loans due to/from other funds” (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation of the government-wide presentation.

Property Taxes

Property taxes include assessments on both secured and unsecured property. Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments which are delinquent if not paid by December 10 and April 10. The County of Los Angeles bills and collects the property taxes and remits them to the City in installments during the year. The City records property taxes as revenue when received from the County, except for property taxes received within 60 days after fiscal year-end, which are accrued at June 30th.

The County is permitted by State Law (Article XIII A of the California Constitution) to levy taxes at one percent (1%) of full market value (at time of purchase) and can increase the property's value at no more than two percent (2%) per year. The City receives a share of this basic levy.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE #3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The total fund balances, \$13,696,633, differ from net assets, \$20,531,130, reported in the statement of net assets. The difference primarily results from the current financial resources focus in the fund balance sheet versus the long-term economic focus in the statement of net assets.

	Total Governmental Funds	Long-term Assets, Liabilities	Internal Service Fund	Reclassifications and Eliminations	Statement of Net Assets Total
<b>Assets</b>					
Cash and investments	\$ 9,485,448		\$ 275,263		\$ 9,760,711
Restricted cash and investment	957,586				957,586
Receivables	3,881,979	\$ 206,966			4,088,945
Inventories	43,608				43,608
Prepaid and deposits	25,969				25,969
Internal balances	2,952,407			\$ (5,936,870)	(2,984,463)
Internal balances, long-term	1,784,342			(2,478,684)	(694,342)
Long-term receivables	1,928,597				1,928,597
Land held for resale	2,293,732				2,293,732
Capital assets, net		19,972,495			19,972,495
Cash held by a trustee	3,000,000				3,000,000
Total Assets	<u>26,353,668</u>	<u>20,179,461</u>	<u>275,263</u>	<u>(8,415,554)</u>	<u>38,392,838</u>
<b>Liabilities</b>					
Accounts payable	1,341,084				1,341,084
Accrued liabilities	276,789				276,789
Accrued interest		96,819			96,819
Deposit and unearned revenues	2,185,608	(1,461,664)			723,944
Due to other funds	5,936,870			(5,936,870)	
Claims payable	438,000			(438,000)	
Noncurrent loans due to other funds	2,478,684			(2,478,684)	
Long-term liabilities:					
Due within one year		832,000		438,000	1,270,000
Due in more than one year		14,153,072			14,153,072
Total Liabilities	<u>12,657,035</u>	<u>13,620,227</u>	<u>-</u>	<u>(8,415,554)</u>	<u>17,861,708</u>
<b>Fund Balances/ Net Assets</b>					
Total Fund Balance and Net Assets	<u>\$ 13,696,633</u>	<u>\$ 6,559,234</u>	<u>\$ 275,263</u>	<u>\$ -</u>	<u>\$ 20,531,130</u>

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
(Continued)**

Cost of capital assets (land, infrastructure, buildings and equipment) that are to be used in governmental activities are reported as expenditures in governmental funds; the statement of net assets includes those capital assets, net of accumulated depreciation, among City assets.

Cost of capital assets	\$ 28,308,337
Less accumulated depreciation	(8,335,842)
	<u>\$ 19,972,495</u>

Accrued, but not yet due, interest on long-term debt is not reported in governmental funds.

Accrued interest	<u>\$ (96,819)</u>
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Sales taxes receivable not considered available

	<u>\$ 206,966</u>
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Receivables not expected to be collected in the current period are offset by unearned revenue in the funds. They have been recognized as revenue and are in the net assets in the government-wide financial statements.

Long-term loans receivable	<u>\$ 1,461,664</u>
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The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

	<u>\$ 275,263</u>
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Liabilities applicable to governmental activities that are not due and payable in the current period are not reported as fund liabilities; all liabilities, both current and long-term, are reported in the statement of net assets.

Bonds payable	\$ (5,340,000)
Section 108 loan	(2,823,000)
CHFA loan	(1,061,862)
County deferral	(2,305,498)
Compensated absences	(2,049,712)
Claims payable	(1,405,000)
	<u>\$ (14,985,072)</u>

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE #3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
(Continued)**

The net change in fund balances, \$2,738,448, differs from the change in net assets, \$3,876,496, reported in the statement of activities. The differences arise primarily from the current financial resources focus in the fund financial statements versus the long-term economic focus in the statement of activities.

Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities

	Total Governmental Funds	Revenues/ Expenditures	Capital Related Items	Internal Service Fund	Long-term Debt Transactions	Interfund Transactions Eliminations	Total Statement of Activities
<b>Revenues</b>							
Taxes and assessments	\$ 18,160,481	\$ 7,908			\$ (130,945)		\$ 18,037,444
Licenses and permits	1,321,998						1,321,998
Fines and forfeitures	970,687						970,687
Investment income	807,847						807,847
From government agencies	4,297,805						4,297,805
Charges for services	499,624			\$ (27,944)			471,680
Administrative overhead	1,672,248						1,672,248
Other	1,148,455	(376,010)					772,445
Total Revenues	28,879,145	(368,102)	-	(27,944)	(130,945)	-	28,352,154
<b>Expenditures</b>							
Current							
General government	7,834,515		\$ 111,317		792,399		8,738,231
Public safety	8,466,474		295,195				8,761,669
Public works	3,798,336		(938,822)				2,859,514
Community development	3,069,196	(497,158)	(904,238)				1,667,800
Parks and recreation	1,939,812		62,076				2,001,888
Capital outlay	-		-				-
Debt service							
Principal retirement	787,000				(787,000)		
Interest and fiscal charges	498,414				168,952		667,366
Total Expenditures	26,393,747	(497,158)	(1,374,472)	-	174,351	-	24,696,468
Excess (deficiency) of revenue over expenditures	2,485,398	129,056	1,374,472	(27,944)	(305,296)		3,655,686
<b>Other Financing Sources (Uses)</b>							
Issuance of debt	32,240				(32,240)		
Transfers in	4,817,583					\$(4,596,773)	220,810
Transfers out	(4,596,773)					4,596,773	
Total Other Financing Sources (Uses)	253,050	-	-	-	(32,240)		220,810
Net Change for the Year	\$ 2,738,448	\$ 129,056	\$ 1,374,472	\$ (27,944)	\$ (337,536)	\$ -	\$ 3,876,496

CITY OF SAN FERNANDO

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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**NOTE #3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**  
**(Continued)**

Resources expended for capital assets that are to be used in governmental activities are reported as expenditures in governmental funds; in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas, net assets decrease by the amount of depreciation expense charged for the year.

Cost of capital assets	\$ 2,102,862
Less Accumulated depreciation	(728,390)
	<u>\$ 1,374,472</u>

Sales taxes receivable not considered available.

\$ 7,908

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds.

Change in accrued interest on long-term debt	\$ (150,827)
Change in long-term portion of claims payable	(222,126)
Change in accrued interest on CHFA loan	(61,862)
Change in accrued interest on county deferral	11,497
Total	<u>\$ (423,318)</u>

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increase long-term liabilities in the statement of net assets. Principal payments reduce liabilities in the statement of net assets and do not result in expenses in the statement of activities.

County deferral	\$ (130,945)
Compensated absences	(570,273)
Section 108 loan	177,000
Principal payments	610,000
Total	<u>\$ 85,782</u>

The internal service fund's income and expense for the year is allocated to participating governmental activities.

\$ (27,944)

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #4 - NET ASSETS/FUND BALANCES**

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets, restricted, and unrestricted.

- *Invested in capital assets* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance of this category.
- *Restricted net assets* – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* – This category represents the City’s net assets, which are not restricted for any project or other purpose.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City Council and management and can be increased, reduced, or eliminated by similar actions.

As of June 30, 2006, reservations of fund balance are described below:

- *Noncurrent loans to other funds* – To reflect the amount due from other funds that are long-term in nature. Such amounts do not represent available spendable resources.
- *Debt service* – To reflect the funds held by trustees or fiscal agents for future payment of bond principal and interest. These funds are not available for general operations.
- *Prepaid, deposits, notes receivable, land held for resale* – To reflect assets that are long-term in nature and do not represent available spendable resources.
- *Capital projects* – To reflect management’s intent to expend certain funds for capital projects.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #5 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

*Reserves and designations of fund balances and restrictions of net assets*

Reserved fund balances at June 30, 2006 consisted of the following:

Major Funds:

General Fund

Inventories	\$ 43,608
Noncurrent loan due from other funds	140,000
Total General Fund	<u>183,608</u>

Community Development Block Grant

Long-term loans receivable	466,933
Capital projects	<u>3,000,000</u>
Total Community Development Block Grant	<u>3,466,933</u>

Retirement Fund

Noncurrent loan due from other funds	<u>694,342</u>
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Debt Service Fund

Land held for resale	825,000
Noncurrent loan due from other funds	475,000
Debt service	<u>603,107</u>
Total Debt Service Fund	<u>1,903,107</u>

Low-income Housing

Long-term loans receivable	<u>1,461,664</u>
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Other Governmental Funds

Prepays and deposits	25,969
Land held for resale	1,468,732

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #5 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

Deficit Fund Balance

Funds with deficit fund balances at June 30, 2006 are noted below. Future revenues of these funds are expected to result in the elimination of these deficits.

Major Funds:

Grants	\$ 2,159,116
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Non-major Funds:

Special Revenue Funds

Parking, Maintenance and Operations	67,812
AQMD	44,210
State of Emergency Fund	136,663

Debt Service Fund

Redevelopment Project Area #2	289,887
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Capital Projects Fund

Redevelopment Project Area #1	687,777
Redevelopment Project Area #2	324,591

Expenditures in Excess of Appropriations

Expenditures for the year ended June 30, 2006 exceeded the appropriations by the following amounts in the following funds:

Major Special Revenue Funds:

Retirement Tax	\$ 117
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Non-major Special Revenue Funds:

Federal Asset Forfeiture	5,973
Street Lighting	13,445
Traffic Safety	20,093

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #6 - CASH AND INVESTMENTS**

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

Statement of net assets:

Cash and cash equivalents	\$ 14,032,589
Restricted cash and investments	957,586
Cash held in escrow	3,000,000
Total Cash and Investments	<u>\$ 17,990,175</u>

Cash and investments as of June 30, 2006 consist of the following:

Cash deposits with financial institutions	\$ 800,077
Petty cash	900
Investments	3,954,105
Restricted investments	957,589
Certificates of deposit	4,158,000
Cash held in escrow	3,000,000
Pooled investments - Local Agency Investment Fund (LAIF)	5,119,504
Total Cash and Investments	<u>\$ 17,990,175</u>

The City pools its cash and investments for all fund entities except for cash and investments held by outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the weighted average cash balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE #6 - CASH AND INVESTMENTS (Continued)**

*Investment Policies*

The City's investment policy outlines the guidelines required to be used in effectively managing the City's available cash in accordance with the California Government Code. Summarized below are the investment vehicles that are authorized and certain provisions of the policy that address interest rate risk and concentration of credit risk.

	<u>Maturity</u>	<u>Maximum Allowable Investment Percentage</u>	<u>Maximum Percentage per Issuer</u>
U.S. Treasury Obligations	5 years	Unlimited	N/A
U.S. Agency Securities and Instrumentalities of Government Sponsored Obligations	5 years	Unlimited	45%
Certificates of Deposits or Time Deposits (collateralized)	5 years	1%	\$1,000,000 Lesser of \$1,000,000 or
Banker's Acceptances	270 days	40%	30%
Commercial Paper	15 days	15%	500,000
LAIF	N/A	Unlimited	\$15,000,000

*Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Most of the City's investments are held in trust by a fiscal agent as required by the bond indenture. A table summarizing distribution of the City's investment by maturity as of June 30, 2006 is as follows:

	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>More than 5 Years</u>	<u>Total</u>
Demand accounts per books	\$ 800,977			\$ 800,977
Certificates of deposit	1,880,000	\$ 2,278,000		4,158,000
Total pooled cash	2,680,977	2,278,000	-	4,958,977
Pooled investment	9,073,609			9,073,609
Cash and investments before fiscal agents - unrestricted	11,754,586	2,278,000		14,032,586
Cash and investments fiscal agents - restricted	957,589			957,589
Cash held in escrow	3,000,000			3,000,000
Total cash and investments	<u>\$15,712,175</u>	<u>\$ 2,278,000</u>	<u>\$ -</u>	<u>\$17,990,175</u>

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE #6 - CASH AND INVESTMENTS (Continued)**

Disclosures Relating to Credit Risk

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

Investment Type	Total Investment	Minimum Legal Rating	Not Required To Be Rated	Rating as of Year End	
				AAA	Unrated
U.S. Treasury Notes	\$ 957,589	N/A	\$ 957,589		
U.S. Agency Securities	3,954,105	N/A		\$ 3,954,105	
LAIF	5,119,504	N/A			\$ 5,119,504
Totals	<u>\$ 10,031,198</u>		<u>\$ 957,589</u>	<u>\$ 3,954,105</u>	<u>\$ 5,119,504</u>

Concentration of Credit Risk

The investment policy of the City contains a limitation on the amount that can be invested in any one issuer for U.S. Agency Securities to a maximum of 45% of total investments. The City was in compliance with this limitation at June 30, 2006, and throughout the fiscal year. Investments in any one issuer that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	U.S. Agency Securities	\$ 986,970
Federal National Mortgage Assoc. Medium Term	U.S. Agency Securities	495,371
Federal Home Loan Mortgage Corp.	U.S. Agency Securities	1,485,149
Federal Home Loan Banks Bonds	U.S. Agency Securities	986,615

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City’s investment policy do not contain legal policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure the City deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #6 - CASH AND INVESTMENTS (Continued)**

At June 30, 2006, the balances held per bank were \$5,168,875 of which \$1,410,875 was in excess of federal depository insurance limits and held in accounts collateralized by the pledging financial institution, but not in the City's name, as discussed above.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

*Investment in State Investment Pool*

The City is a voluntary participant in the LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

LAIF is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provide oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. The City is a voluntary participant in the investment pool.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE #7 - INTERFUND TRANSACTIONS**

Interfund receivables, payables, and noncurrent loans to and from other funds at June 30, 2006 were as follows:

	Due from Other Funds	Due to Other Funds	Noncurrent Loan Due from Other Funds	Noncurrent Loan Due to Other Funds
Major Governmental Funds				
General Fund	\$ 2,952,407		\$ 140,000	
Retirement Tax		\$ 527,593	694,342	
Community Development Block Grant Grants		1,126,711 1,037,663		\$ 1,388,684
Debt Service - Redevelopment Project Area #3		447,653	475,000	
Total Major Governmental Funds	<u>2,952,407</u>	<u>3,139,620</u>	<u>1,309,342</u>	<u>1,388,684</u>
Non-major Governmental Funds		2,797,250	475,000	1,090,000
Total Governmental Funds	<u>2,952,407</u>	<u>5,936,870</u>	<u>1,784,342</u>	<u>2,478,684</u>
Major Proprietary Funds				
Water				1,500,000
Sewer	2,984,463		2,194,342	
Total Major Proprietary Funds	<u>2,984,463</u>	<u>-</u>	<u>2,194,342</u>	<u>1,500,000</u>
Total Funds	<u>\$ 5,936,870</u>	<u>\$ 5,936,870</u>	<u>\$ 3,978,684</u>	<u>\$ 3,978,684</u>

The outstanding balances between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

The City's interfund transfers during the year were as follows:

	Transfer in	Transfer out
Major Governmental Funds		
General Fund	\$ 3,483,669	\$ 100,000
Retirement Tax		1,976,178
Grants	100,000	
Debt Service – Redevelopment Project Area #3		941,008
Capital Projects - Low-income Housing	1,033,914	
Total Major Governmental Funds	<u>4,617,583</u>	<u>3,017,186</u>
Non-major Governmental Funds	200,000	1,579,587
Total Governmental Funds	<u>200,000</u>	<u>1,579,587</u>
Major Proprietary Funds		
Water		150,500
Sewer	37,690	105,000
Non-major Proprietary Fund – Waste Disposal		3,000
Total Proprietary Funds	<u>37,690</u>	<u>258,500</u>
Total	<u>\$ 4,855,273</u>	<u>\$ 4,855,273</u>

The transfer of \$1,976,178 out from Retirement Tax Fund into the General Fund represents reimbursement to the General Fund for retirement costs. The transfer of \$1,033,914 into Capital Projects Fund - Low-Income Housing represents the required 20% tax increment revenue.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE #8 - CAPITAL ASSETS**

Capital assets activities for the year ended June 30, 2006 were as follows:

*Governmental Activities*

	Balance July 1, 2005	Additions	Transfers/ Deletions	Balance June 30, 2006
Capital assets not being depreciated				
Land	\$ 4,497,105			\$ 4,497,105
Construction in-progress	1,233,323	\$ 453,074		1,686,397
	<u>5,730,428</u>	<u>453,074</u>	<u>-</u>	<u>6,183,502</u>
Capital assets being depreciated				
Buildings	11,123,198	20,950	\$ 203,200	11,347,348
Improvements other than building	2,781,033		6,241	2,787,274
Infrastructure	1,550,318	1,294,304	(157,189)	2,687,433
Machinery and equipment	3,056,811	187,905		3,244,716
Vehicles	1,963,687	169,599	(75,222)	2,058,064
Total	<u>20,475,047</u>	<u>1,672,758</u>	<u>(22,970)</u>	<u>22,124,835</u>
Less accumulated depreciation for				
Buildings	3,188,541	186,085	81,907	3,456,533
Improvements other than building	1,231,181	129,790	(38,339)	1,322,632
Infrastructure	41,217	30,116	(1,854)	69,479
Machinery and equipment	1,498,563	234,041	(75,222)	1,657,382
Vehicles	1,647,950	181,866		1,829,816
Total accumulated appreciation	<u>7,607,452</u>	<u>761,898</u>	<u>(33,508)</u>	<u>8,335,842</u>
Total capital assets being depreciated, net	<u>12,867,595</u>	<u>910,860</u>	<u>10,538</u>	<u>13,788,993</u>
Total capital assets, net	<u>\$ 18,598,023</u>	<u>\$ 1,363,934</u>	<u>\$ 10,538</u>	<u>\$ 19,972,495</u>

Depreciation expense was charged to functions of the governmental activities as follows:

General government	\$ 111,317
Public safety	295,195
Public works	286,839
Parks and recreation	62,076
Community development	6,471
	<u>\$ 761,898</u>

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE #8 - CAPITAL ASSETS (Continued)**

Capital assets activities for the year ended June 30, 2006 were as follows:

*Business-type Activities*

	Balance July 1, 2005	Additions	Transfers/ Deletions	Balance June 30, 2006
Capital assets not being depreciated				
Land	\$ 26,345			\$ 26,345
Capital assets being depreciated				
Buildings	5,467,675			5,467,675
Improvements other than building	29,200			29,200
Infrastructure	989,658		\$ 235,535	1,225,193
Machinery and equipment	6,316,862	\$ 16,951	(305,391)	6,028,422
Vehicles	488,837	52,605		541,442
Total	<u>13,292,232</u>	<u>69,556</u>	<u>(69,856)</u>	<u>13,291,932</u>
Less accumulated depreciation for				
Buildings	1,820,633	96,918		1,917,551
Improvements other than building	26,280			26,280
Infrastructure	210,344	24,285		234,629
Machinery and equipment	3,843,315	157,177		4,000,492
Vehicles	406,809	24,342	11,466	442,617
Total accumulated appreciation	<u>6,307,381</u>	<u>302,722</u>	<u>11,466</u>	<u>6,621,569</u>
Total capital assets being depreciated, net	<u>6,984,851</u>	<u>(233,166)</u>	<u>(81,322)</u>	<u>6,670,363</u>
Total capital assets, net	<u>\$ 7,011,196</u>	<u>\$ (233,166)</u>	<u>\$ (81,322)</u>	<u>\$ 6,696,708</u>

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE #9 - LOAN RECEIVABLE AND UNEARNED REVENUES**

The City uses Housing and Community Development Block Grant (CDBG) funds to provide housing rehabilitation loans to eligible applicants. Such loans are made to low and moderate-income persons to improve, rehabilitate, or replace residences. The City accounts for loans issued with housing funds in the Capital Projects – Low-income Housing Fund. The CDBG funds’ primary asset consists of notes receivable from participants that originated from HUD funds. The CDBG Notes, when collected, are due back to the granting agency and therefore, are deferred at the Government-wide Statement of Net Assets.

Account balance related to these programs at June 30, 2006, consisted of the following:

Rehabilitation loan program recorded in Capital Projects – Low-income Housing Fund:

Loans receivable	\$ 1,461,664
Unearned revenue	\$ 1,461,664

First-time homebuyer program in Community Development Block Grant Fund:

Notes receivable	\$ 466,933
Unearned revenue	\$ 466,933

**NOTE #10 - ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES**

Composition of accounts payable and other current liabilities is as follows:

Governmental Activities	Vendors	Accrued Liabilities	Deposits/ Unearned Revenue
Major Funds:			
General Fund	\$ 728,359	\$ 223,287	\$ 207,385
Community Development Block Grant	64,614	492	466,933
Grants	172,157	1,254	1,800
Debt Service Fund	29,752	553	
Low-income Housing	54,116	12,707	1,461,664
Nonmajor Governmental Funds	292,086	38,496	47,826
Conversion adjustment			(1,461,664)
Business-type activities	364,795	35,012	182,143
Total Government-wide	<u>\$ 1,705,879</u>	<u>\$ 311,801</u>	<u>\$ 906,087</u>

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE #11 - LONG-TERM DEBT**

Changes in long-term debt for the fiscal year ended June 30, 2006, are as follows:

	Balance July 1, 2005	Adjustments/ Additions	Reductions	Balance June 30, 2006	Due within One Year
Bonded indebtedness	\$ 5,950,000		\$ 610,000	\$ 5,340,000	\$ 645,000
CHFA loan	1,000,000	\$ 61,862		1,061,862	
Section 108 loan	3,000,000		177,000	2,823,000	187,000
Compensated absences	1,479,439	570,273		2,049,712	
Claims payable	1,254,874	588,126		1,843,000	438,000
County deferral	2,023,726	281,772		2,305,498	
<b>Total</b>	<b>\$ 14,708,039</b>	<b>\$ 1,502,033</b>	<b>\$ 787,000</b>	<b>\$ 15,423,072</b>	<b>\$ 1,270,000</b>

Detailed below are debt service requirements until maturity, including interest on all bonded indebtedness.

Year Ended June 30,	Bonded Indebtedness		CHFA Loan		County Deferral		Section 108 Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 645,000	\$ 271,115		\$ 30,000			\$ 187,000	\$ 143,876	\$ 832,000	\$ 444,991
2008	690,000	231,019		30,000			199,000	136,420	889,000	397,439
2009	490,000	197,400		30,000			211,000	127,573	701,000	354,973
2010	515,000	171,019		30,000			224,000	117,427	739,000	318,446
2011	540,000	143,326		30,000			238,000	105,995	778,000	279,321
2012 - 2016	2,460,000	266,176	\$ 1,061,862	30,000			1,425,000	313,923	4,946,862	610,099
2017							339,000	10,136	339,000	10,136
Indeterminate					\$ 2,305,498				2,305,498	
<b>Total</b>	<b>\$ 5,340,000</b>	<b>\$ 1,280,055</b>	<b>\$ 1,061,862</b>	<b>\$ 180,000</b>	<b>\$ 2,305,498</b>	<b>\$ -</b>	<b>\$ 2,823,000</b>	<b>\$ 955,350</b>	<b>\$ 11,530,360</b>	<b>\$ 2,415,405</b>

**Bonded Indebtedness**

At June 30, 2006, bonded indebtedness consisted of the following:

Tax Allocation Bonds	Date Issued	Final Maturity	Interest Rate %	Amount Issued	Outstanding
1991 Project Area #2	May 1991	August 2007	6.50 - 7.60	\$ 2,065,000	\$ 430,000
1998 Project Area #1	June 1998	September 2014	4.00 - 5.25	1,320,000	855,000
1998 Project Area #3	June 2000	September 2014	4.00 - 5.25	6,360,000	4,055,000
<b>Total Bonded Indebtedness</b>				<b>\$ 9,745,000</b>	<b>\$ 5,340,000</b>

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #11 - LONG-TERM DEBT (Continued)**

*Description of Long-term Debt – Tax Allocation Bonds*

1. 1998 Tax Allocation Bonds Project Areas #1 and #3:

In June 1998, the City defeased its 1987 and 1991 (Project Areas #1 and #3) Tax Allocation Bonds by placing a portion of the proceeds of the new 1998 Tax Allocation Bonds in an irrevocable trust to provide for all future debt service payments related to the RDA's 1987 and the City's 1991 issuances. Accordingly, the trust assets and liability for the defeased debt are not included in the RDA's or City's financial statements. At June 30, 2003, all defeased bonds were paid, and none remains outstanding.

The San Fernando Redevelopment Agency sold two series of bonds in the amounts of \$1,320,000 and \$6,360,000, for Project Areas #1 and #3, respectively, to provide funds to advance refund the 1987 Project Area #1 Bonds, the 1987 Project Area #3 Bonds and a portion of the 1991 Project Area #2 Bonds. A portion of the bond proceeds were used to finance additional redevelopment projects.

Annual interest rates on the tax allocation bonds for Project Area #1 range from 4.0% to 5.25% with interest payable semi-annually. The bonds mature in amounts ranging from \$20,000 to \$115,000 through the year 2014. Bonds maturing on or after September 15, 2006 are subject to call or redemption prior to their stated maturity at a premium ranging from 2.0% in 2006 to .5% in 2008 and 2009, and at par thereafter. As of June 30, 2006, \$855,000 of the bonds was outstanding.

Annual interest rates on the tax allocation bonds for Project Area #3 range from 4.0% to 5.25% with interest payable semi-annually. The bonds mature in amounts ranging from \$205,000 to \$545,000 through the year 2014. Bonds maturing after March 15, 2006 are subject to call or redemption prior to their stated maturity at a premium ranging from 2.0% in 2006 to .5% in 2008 and 2009, and at par thereafter. As of June 30, 2006, \$4,055,000 of the bonds was outstanding.

The bonds are subject to mandatory redemption from sinking funds ranging from \$355,000 in 2004 to \$660,000 in 2014. The sinking fund will be funded from future tax revenues. The purpose of each fund for the two series of bonds is as follows:

Redevelopment Funds (Capital Projects Fund) bond proceeds (exclusive of amounts in the Special Fund), interest income, and loans and advances from the City are recorded as revenue or other financing sources, in these funds, where they remain until expended on project costs and operations of the redevelopment project areas. Any monies remaining after project completion are transferred to the Special Funds.

Debt Service Fund pays for interest and principal on the bonds out of tax increment revenues and interest income.

2. 1991 Tax Allocation Bonds

On May 15, 1991, the Public Financing Authority sold revenue (Tax Allocation) bonds, 1991 Series A. The Bonds are secured by a trust indenture dated May 15, 1991 between the Authority and U.S. Bank Trust National Association, Seattle, Washington, as Trustee. The bonds were sold to provide moneys to enable the Authority to make three loans to the Agency to three different project areas. Proceeds from the 1998 Tax Allocation Bonds were used to prepay the loans secured by tax increment revenues of Project Area #1 and Project #3.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #11 - LONG-TERM DEBT (Continued)**

Annual interest rates on the tax allocation bonds for Project Area #2 range from 6.50% to 7.60% with interest payable semi-annually. The bonds mature in amounts ranging from \$60,000 to \$225,000 through the year 2007. Bonds maturing on or after September 15, 2003 are subject to call or redemption prior to their stated maturity at a premium ranging from 2.0% in 2003 to .5% in 2005, and at par thereafter. As of June 30, 2006, \$430,000 of the bonds was outstanding.

*Bond Covenants and Other Requirements*

The City is in compliance with all the provisions of the bond covenants and the requirements on arbitrage rebate calculations.

**Sources of Debt Service**

Tax allocation bonds interest and principal redemptions are to be funded by incremental tax revenues derived from the redevelopment project areas.

**County Deferral**

The Agency and County of Los Angeles (the County) entered into an agreement whereby the County will defer tax increment (County Deferral) generated within the project area to meet the Agency's debt service obligations. The County Deferral, accrued at an interest of 7%, is to be repaid whenever there is an excess of property tax revenues received by the Agency in excess of its bonded debt payment requirements. The County Deferrals are recorded as revenue when received by the Agency and reclassified as debt in the statement of net assets as noncurrent liabilities. At June 30, 2006, the balance of the County Deferrals, including interest, was \$2,305,498.

**CHFA Loan**

On August 5, 2002, the City and California Housing Finance Agency (CHFA) entered into a Housing Enabled by Local Partnerships (HELP) loan agreement whereby the City can borrow up to \$1,000,000 from CHFA for the purpose of financing the development of affordable senior citizen rental projects in the City. The loan is payable at ten years from date of agreement. The loan bears simple interest of 3% per annum. The outstanding balance as of June 30, 2006, was \$1,061,862.

**Section 108 Loan**

The City and the County of Los Angeles entered into a loan agreement for a Section 108 loan in the amount of \$3,000,000 for the City's regional swimming pool facility. The loan bears interest at the rate per annum equal to 3 month-LIBOR plus 20 basis points (or such higher rate as may be imposed by HUD).

As of June 30, 2006, the entire \$3,000,000 is still being held by the County on the City's behalf, since the City has not met all compliance requirements per Closing Conditions included in the Loan Agreement. The outstanding balance on the loan as of June 30, 2006, was \$2,823,000.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #12 - CITY EMPLOYEES RETIREMENT SYSTEM (DEFINED BENEFIT PENSION PLAN)**

Plan Description

The City of San Fernando contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of PERS' annual financial report may be obtained from its Executive Office – 400 P Street – Sacramento CA 95814.

Funding Policy

Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at actuarially determined rates, the rates for fiscal year ending June 30, 2006, were 17.758 %, 0%, 27.391%, and 18.672% of annual covered payroll, for the Misc. Plan, Misc. Plan Tier I, Safety Plan Tier I and Tier II, respectively. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2005-2006, the City's annual pension cost of \$1,483,339 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003, 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) annual salary increases range from 3.25% to 14.45% depending on age, service and type of employment, (c) inflation rate of 3.00%, and (d) payroll growth of 3.25% a year. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility on the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis that depends on the plan's date of entry into PERS. The plan amendments are amortized as a level percentage of pay over a closed 20-year period.

**THREE-YEAR TREND INFORMATION FOR PERS**

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2004	\$ 1,306,540	100%	\$ -
6/30/2005	1,908,192	100%	-
6/30/2006	1,483,339	100%	-

Total payroll covered by PERS amounted to \$7,857,019 for the year ended June 30, 2006.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #13 - SELF-INSURANCE PROGRAM**

A. Workers' Compensation

The City maintains a program of self-insurance for any liability to City employees pursuant to the Workers' Compensation Laws of the State of California. A service agent administers this program. The City is self-insured for the first \$500,000 on each claim. A private insurance company up to the statutory limit provides insurance coverage in excess of the self-insured amount. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At June 30, 2006, the amount of these liabilities was \$295,000. This liability is the City's best estimate based on available information.

B. General Liability

Additionally, the City is a member of the Independent Cities Risk Management Authority ("Authority"), which provides member cities with general liability insurance. Specific coverage includes comprehensive and general automotive liability, personal injury, contractual liability, errors and omissions and certain other coverage. Annual premium payments are paid by member cities and are adjusted retrospectively to cover costs. Each member city, including San Fernando, self-insures from the first dollar to a limit of \$1,000,000. Participating cities then share above the retention level of \$250,000 to \$20,000,000 per loss occurrence.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At June 30, 2006 the amount of these liabilities was \$1,548,000. This liability is the City's best estimate based on available information. During the current fiscal year, there were no significant reductions in insurance coverage. Annual settlements during each of the last three fiscal years have not exceeded insurance coverage in any year.

The Authority is comprised of Southern California member cities and is organized under a Joint Powers Agreement pursuant to the California Government Code. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Each member city has a representative on the Board of Directors. The Board members elect officers of the Authority annually.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**NOTE #13 - SELF-INSURANCE PROGRAM (Continued)**

The most recent condensed, unaudited financial information of the Authority is presented below as of and for the year ended June 30, 2006.

City of San Fernando's percentage interest	2.25%
Total Assets	\$ 48,096,860
Total Liabilities	29,211,352
Total Fund Balance:	
City of San Fernando	424,924
Other participants	18,460,584
Total	<u>\$ 18,885,508</u>
Total Revenues	19,920,010
Total Expenditures	13,895,190
Net Increase in Fund Balance	<u>\$ 6,024,820</u>

**C. Changes in Self-Insurance Liability**

Changes in the reported liabilities resulted from the following:

	<u>2005-2006</u>	<u>2004-2005</u>
Beginning of fiscal year	\$ 1,254,874	\$ 2,036,693
Claims and changes in claim estimates	588,126	1,369,370
Claim payments		(2,151,189)
	<u>\$ 1,843,000</u>	<u>\$ 1,254,874</u>

**NOTE #14 - DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. As of June 30, 2006, there were 63 participants.

Internal Revenue Code Section 457 – Deferred Compensation Plans requires that all assets and income of Section 457 deferred compensation plans be placed in trust for the exclusive benefit of participants and their beneficiaries. Accordingly, the plan’s assets and liabilities are not included in the City’s financial statements.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #15 - POST-RETIREMENT HEALTH CARE BENEFITS**

Under a plan adopted by the City through a contract with PERS, employees who retire from the City after five years of service with the City and who are at least 50 years or older are eligible to receive health care benefits covering themselves and any qualified family members. The City pays 100% of all premiums charged under health benefit plan administered by PERS in which the individual is able to select, on an annual basis, an insurance carrier from a number of insurance carriers. Expenditures for post-retirement health care benefits for fiscal year 2005-2006 were \$699,116. As of June 30, 2006, 95 participants were receiving benefits.

**NOTE #16 - COMMITMENTS AND CONTINGENCIES**

Various claims and lawsuits have been filed against the City in the normal course of business. Based upon information obtained from the City attorney and the self-insurance administrators, the estimated liability under such claims and litigation will not exceed the accrued self-insurance liability recorded in the government-wide statement of net assets.

In connection with the CHFA loan disclosed in Note 11, the City entered into a Disposition and Development Agreement in March 2004 whereby the City's RDA would acquire a piece of land, under certain conditions, for \$1.4 million from a developer for the purpose of providing low income senior housing in the City. Upon the arrival of the development milestones specified in the agreement, the RDA would acquire the fee title to the land parcel, and grant the Developer a leasehold interest in the land parcel for a term of 75 years at an annual lease payment of \$10, and an option to extend for an additional 24 years at market rate rent. The RDA and the Developer anticipate the project would cost over \$14.5 million, and would be financed through a combination of sources including, but not limited to: HOME Funds from the Los Angeles Community Development Commission, LIHTC proceeds, Tax Exempt Bond proceeds, and deferred development fees.

In June 2003, the City entered into a Memorandum of Understanding (MOU), on behalf of the Agency, with a group of parties interested in the redevelopment of a swap meet site located in the City's Redevelopment Project Area #3A, for the uses of school and retail commercial purposes. As a result of this agreement and subsequent amendments entered, a commercial developer has the option to enter into a Disposition and Development Agreement before June 30, 2009, and purchase or lease, a parcel of city-owned land (city yard) adjacent to the site based on a to-be-agreed-upon price. To better facilitate the management of this redevelopment, the City authorized the conveyance of the city yard to the Agency for an initial down payment of \$825,000 and a 15-year note with a five percent interest rate and annual payments in the amount of \$209,544. The \$825,000 down payment was made in June 2004 and was recorded as land held for sale. Inter-fund profit was eliminated for the purpose of financial statement presentation. Future annual payment would be recorded as interfund transfer. Annual payments are recorded as interfund transfers.

**CITY OF SAN FERNANDO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

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**NOTE #17 – NEW ACCOUNTING PRONOUNCEMENTS**

**GASB Statement No. 43** - In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes accounting and financial reporting standards for plans that provide postemployment benefits other than pension benefits (known as other postemployment benefits or OPEB). This Statement is not effective until June 30, 2007. This Statement is not expected to have a significant impact on the financial statements of the City.

**GASB Statement No. 45** - In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. 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. This Statement is not effective until June 30, 2008. The City has not determined its effect on the financial statements.

**NOTE #18 – SUBSEQUENT EVENT**

In December 2006, the Agency, Civic Center Redevelopment Project Area #3, issued \$11,490,000 of Series 2006 Tax Allocation Bonds for the completion of the aquatic center and the acquisition, construction and relocation to a new City yard and various street improvements. The bonds were issued on parity with the 1998 tax allocation bonds. The bonds mature in annual installments ranging from \$420,000 to \$1,425,000 with coupon rates ranging from 3.25% to 4.125%. Interest payments are due each March 15 and September 15 commencing March 15, 2007. Final maturity of the bonds is September 15, 2020.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF SAN FERNANDO**

**MAJOR GOVERNMENTAL FUNDS**

**JUNE 30, 2006**

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The City maintains 6 major governmental funds. Only 4 of those 6 funds have Budgetary Comparison Schedules presented as required supplementary information for the General Fund and all Major Special Revenue Funds as provided by GASB Statement No. 34 as follows:

- I. General Fund
- II. Special Revenue Funds:
  - a. Community Development Block Grant
  - b. Retirement Tax
  - c. Grants

**CITY OF SAN FERNANDO**

**MAJOR GOVERNMENTAL FUNDS**

**GENERAL FUND**

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

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes and assessments	\$ 8,756,200	\$ 9,166,250	\$ 10,208,529	\$ 1,042,279
Licenses and permits	838,110	534,110	648,863	114,753
Fines and forfeitures	652,500	652,500	784,397	131,897
Investment income	171,660	171,660	279,059	107,399
From government agencies	1,320,520	1,369,402	1,350,792	(18,610)
Charges for services	554,610	484,610	499,624	15,014
Administrative overhead	1,671,650	1,671,650	1,672,248	598
Other	440,340	440,340	266,444	(173,896)
<b>Total Revenues</b>	<b>14,405,590</b>	<b>14,490,522</b>	<b>15,709,956</b>	<b>1,219,434</b>
<b>EXPENDITURES</b>				
Current:				
General government	5,008,121	5,640,007	5,472,909	167,098
Public safety	7,953,948	8,001,998	7,884,212	117,786
Public works	2,262,920	2,317,124	2,316,812	312
Community development	424,150	543,425	396,693	146,732
Parks and recreation	947,281	955,281	923,362	31,919
Debt service:				
Interest and fiscal charges			39,994	(39,994)
<b>Total Expenditures</b>	<b>16,596,420</b>	<b>17,457,835</b>	<b>17,033,982</b>	<b>423,853</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(2,190,830)</b>	<b>(2,967,313)</b>	<b>(1,324,026)</b>	<b>1,643,287</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	2,374,650	2,941,276	3,483,669	542,393
Issuance of debt			32,240	32,240
Transfers out	(100,000)	(100,000)	(100,000)	
<b>Total Other Financing Sources (Uses)</b>	<b>2,274,650</b>	<b>2,841,276</b>	<b>3,415,909</b>	<b>574,633</b>
<b>Net Change in Fund Balance</b>	<b>83,820</b>	<b>(126,037)</b>	<b>2,091,883</b>	<b>2,217,920</b>
Fund Balance, Beginning of Year	3,075,996	3,075,996	3,075,996	
<b>Fund Balance, End of Year</b>	<b>\$ 3,159,816</b>	<b>\$ 2,949,959</b>	<b>\$ 5,167,879</b>	<b>\$ 2,217,920</b>

See accompanying note to required supplementary information.

**CITY OF SAN FERNANDO**

**MAJOR GOVERNMENTAL FUNDS  
RETIREMENT TAX SPECIAL REVENUE  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes and assessments	\$ 2,163,250	\$ 2,163,250	\$ 2,565,262	\$ 402,012
Investment income			27,594	27,594
Total Revenues	2,163,250	2,163,250	2,592,856	429,606
<b>EXPENDITURES</b>				
Current:				
General government	781,230	781,230	781,347	(117)
Excess (Deficiency) of Revenues over (under) expenditures	1,382,020	1,382,020	1,811,509	429,489
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(1,868,000)	(1,868,000)	(1,976,178)	(108,178)
Net Change in Fund Balance	(485,980)	(485,980)	(164,669)	321,311
Fund Balance, Beginning of Year	561,283	561,283	561,283	
Fund Balance, End of Year	\$ 75,303	\$ 75,303	\$ 396,614	\$ 321,311

See accompanying note to required supplementary information.

**CITY OF SAN FERNANDO**

**MAJOR GOVERNMENTAL FUNDS  
COMMUNITY DEVELOPMENT BLOCK GRANT SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
From government agencies	\$ 692,699	\$ 1,865,369	\$ 1,809,202	\$ (56,167)
<b>EXPENDITURES</b>				
Current:				
Community development	365,980	1,536,400	1,482,481	53,919
Debt service:				
Principal	326,719	326,719	177,000	149,719
Interest			149,719	(149,719)
Total Expenditures	692,699	1,863,119	1,809,200	53,919
Net Change in Fund Balance		2,250	2	(2,248)
Fund Balance, Beginning of Year	3,000,000	3,000,000	3,000,000	
Fund Balance, End of Year	\$ 3,000,000	\$ 3,002,250	\$ 3,000,002	\$ (2,248)

See accompanying note to required supplementary information.

**CITY OF SAN FERNANDO**

**MAJOR GOVERNMENTAL FUNDS  
GRANTS SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Investment income			\$ 4,023	\$ 4,023
From government agencies	\$ 1,573,758	\$ 1,914,868	525,256	(1,389,612)
Other	1,451,208	1,451,208		(1,451,208)
Total Revenues	3,024,966	3,366,076	529,279	(2,836,797)
<b>EXPENDITURES</b>				
Current:				
Public safety	604,268	776,523	379,445	397,078
Public works	2,481,198	3,727,337	291,961	3,435,376
Community development		152,170		152,170
Parks and recreation	39,500	81,250	171,357	(90,107)
Total Expenditures	3,124,966	4,737,280	842,763	3,894,517
Excess (Deficiency) of Revenues Over (Under) Expenditures	(100,000)	(1,371,204)	(313,484)	1,057,720
<b>OTHER FINANCING SOURCES</b>				
Transfers in			100,000	100,000
Net Change in Fund Balance	(100,000)	(1,371,204)	(213,484)	1,157,720
Fund Balance, Beginning of Year	(1,945,632)	(1,945,632)	(1,945,632)	
Fund Balance, End of Year	\$ (2,045,632)	\$ (3,316,836)	\$ (2,159,116)	\$ 1,157,720

See accompanying note to required supplementary information.

**CITY OF SAN FERNANDO**

**PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)  
SCHEDULE OF FUNDING PROGRESS**

**JUNE 30, 2006**

**Safety**

Actuarial Valuation Date	Actuarial Assets Value (A)	Entry Age Actuarial Accrued Liability (B)	Actuarial Liability (Excess Assets) (B)-(A)	Funded Ratio (A)(B)	Covered Payroll ( C )	Actuarial Liability as Percentage of Covered Payroll [(B)-(A)]( C )
6/30/1999	\$39,433,477	\$30,830,662	\$(8,602,815)	127.90%	\$ 5,561,355	-154.69%
6/30/2000	43,583,821	35,059,341	(8,524,480)	124.31%	5,856,234	-145.56%
6/30/2001	44,491,772	41,917,772	(2,574,000)	106.14%	6,205,582	-41.48%
6/30/2002	41,032,096	43,934,699	2,902,603	93.39%	6,306,709	46.02%
6/30/2003	41,234,093	48,314,472	7,080,379	85.35%	6,619,479	106.96%

**New Risk Pool and Future Contributions**

As a result of having less than 100 active members as of June 30, 2003, the City was required to participate in a risk pools. Mandated pooling is effective with the June 30, 2003 valuation which determines the contribution rate for 2005-2006. The 2005-2006 is the first year under pooling, and therefore, the City's pooled employer contribution rates are the same as the stand-alone employer contribution rates. This is because the difference between the pool's normal cost and the stand-alone normal cost will be phased out over five years, beginning with 2006-2007. For 2005-2006, 100% of the difference between the pool's normal costs and the stand-alone normal cost is reflected in the development of the City's pooled employer contribution rate. For 2006-2007, only 80% of the difference will be reflected; for 2007-2008, 60% will be reflected, and so on, until it is fully subject to the pool's normal costs for 2010-2011 and beyond.

The Schedules of Funding Progress below shows the recent history of the risk pool's actuarial value of assets, accrued liability and their relationship of the unfunded liability (UL) to payroll for the City's Miscellaneous Plan, Safety Tier I and Safety Tier II.

**Miscellaneous Plan**

Valuation Date	Entity Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll
6/30/2003	\$ 335,029,580	\$ 270,886,705	\$ 64,142,875	80.9%	\$ 75,357,937	85.1%
6/30/2004	426,958,282	334,956,019	92,002,263	78.5%	90,667,029	101.5%
6/30/2005	499,323,280	405,480,805	93,842,475	81.2%	108,618,321	86.4%

See accompanying note to required supplementary information.

**CITY OF SAN FERNANDO**

**REQUIRED SUPPLEMENTARY INFORMATION**

**PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)  
SCHEDULE OF FUNDING PROGRESS (CONTINUED)**

**JUNE 30, 2006**

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**Safety Tier I and Tier II**

Valuation Date	Entity Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll
6/30/2003	\$ 4,270,573,982	\$ 3,577,745,166	\$ 692,831,816	83.8%	\$ 476,089,674	145.5%
6/30/2004	5,383,921,942	4,424,586,846	959,335,096	82.2%	575,296,434	166.8%
6/30/2005	6,367,049,264	5,295,150,375	1,071,898,889	83.2%	664,147,796	161.4%

See accompanying note to required supplementary information.

## CITY OF SAN FERNANDO

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2006

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#### NOTE #1 – BUDGETARY CONTROL AND ACCOUNTING

The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, projects, series, and activities to be provided during the fiscal year, (2) the estimated resources (inflows) and amounts available for appropriation and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are made, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

The City's procedures for preparing the budgetary data reflected in the financial statements are:

- The annual budget provides for the general operation of the City and is adopted by the City Council after the holding of a public hearing. The budget figures presented in the accompanying required supplementary information financial schedules represent the original and final revised budget and include proposed expenditures and related financing.
- The City Council approves total budget appropriations and may amend the budget by motion during the fiscal year. However, the City Administrator is authorized to transfer up to ten percent within individual fund budgets without the approval of City Council; however, total appropriations may not be exceeded at the department level. The legal level of budgetary control is at the fund level. The appropriated budget covers City expenditures in the General Fund, and Special Revenue Funds. Project length plans are adopted for the capital projects funds with unexpended funds at June 30 re-appropriated in the following year. The debt service on bond issues constitutes a legally authorized "non-appropriated budget". During the fiscal year 2005-06 supplemental budget appropriations were approved by the City Council. The effects of the supplemental appropriations were minor.
- The City Council approves annual debt service and capital project budgets only on a project-by-project basis and not on an individual debt service or capital project fund basis; therefore, there are no legally adopted debt service or capital project budgets for these funds.
- Formal budgetary integration is employed as a management control device during the year. Commitments for materials and services, such as purchase orders and contracts, are recorded as encumbrances to assist in controlling expenditures. Encumbrances at year-end lapse, and then are added to the following year's budgeted appropriations.
- Annual budgets for the General, Special Revenue and Capital Projects Funds are adopted on a basis substantially consistent with generally accepted accounting principles. Actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items. No budgetary comparisons are presented for the Proprietary Funds, as the City is not legally required to adopt budgets for this type of fund.
- Capital projects are budgeted through the Capital Projects Funds on a project by project basis. Appropriations for capital projects authorized but not constructed or completed during the year lapse at year-end, and are then included as a part of appropriations in the following year's annual budget.

**CITY OF SAN FERNANDO**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)**

**JUNE 30, 2006**

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Budget information is presented as supplementary information for the non-major special revenue funds. Budgeted revenue amounts represent the original budget modified by Council-authorized adjustments during the year which were contingent upon new, or additional revenue sources. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. The budgets conform, in all material respects, to generally accepted accounting principles. Appropriations lapse at year-end.

## **SUPPLEMENTARY INFORMATION**

**CITY OF SAN FERNANDO**

**JUNE 30, 2006**

**MAJOR FUND BUDGETARY COMPARISON SCHEDULES**

Budgetary comparison schedules are presented as required supplementary information for the General Fund and all Major Special Revenue Funds as requested by GASB Statement No. 34. The budgetary comparison schedule for the RDA Debt Service Fund is presented as additional analysis, and is not a required part of the basic financial statements.

I. Capital Projects Fund – Low-Income Housing

**CITY OF SAN FERNANDO**

**MAJOR GOVERNMENTAL FUNDS  
 LOW-INCOME HOUSING CAPITAL PROJECTS FUND  
 SCHEDULE OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Investment income			\$ 366,697	\$ 366,697
Other			376,010	376,010
Total Revenues	-	-	742,707	742,707
<b>EXPENDITURES</b>				
Current:				
General government	\$ 20,160	\$ 20,160	18,885	1,275
Community development	1,216,890	1,443,180	1,083,109	360,071
Capital outlay			-	-
Total Expenditures	1,237,050	1,463,340	1,101,994	361,346
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,237,050)	(1,463,340)	(359,287)	1,104,053
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	968,684	968,684	1,033,914	65,230
Net Change in Fund Balances	(268,366)	(494,656)	674,627	
Fund Balances, Beginning of Year	816,814	816,814	816,814	
Fund Balances, End of Year	\$ 548,448	\$ 322,158	\$ 1,491,441	\$ -

**CITY OF SAN FERNANDO**

**MAJOR GOVERNMENTAL FUNDS  
REDEVELOPMENT PROJECT AREA #3 DEBT SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes and assessments	\$ 3,530,633	\$ 3,530,633	\$ 2,700,063	\$ (830,570)
Investment income	7,218	7,218	21,948	14,730
<b>Total Revenues</b>	<b>3,537,851</b>	<b>3,537,851</b>	<b>2,722,011</b>	<b>(815,840)</b>
<b>EXPENDITURES</b>				
Current:				
General government	1,007,638	1,009,638	910,483	99,155
Debt service:				
Principal	345,000	345,000	345,000	
Interest	221,944	221,944	207,769	14,175
<b>Total Expenditures</b>	<b>1,574,582</b>	<b>1,576,582</b>	<b>1,463,252</b>	<b>113,330</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,963,269	1,961,269	1,258,759	(702,510)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(732,387)	(732,387)	(941,008)	(208,621)
<b>Net Change in Fund Balance</b>	<b>1,230,882</b>	<b>1,228,882</b>	<b>317,751</b>	<b>(911,131)</b>
Fund Balance, Beginning of Year	1,500,995	1,500,995	1,500,995	
Fund Balance, End of Year	<u>\$ 2,731,877</u>	<u>\$ 2,729,877</u>	<u>\$ 1,818,746</u>	<u>\$ (911,131)</u>

**COMBINING AND INDIVIDUAL FUND STATEMENTS  
AND  
SCHEDULES**

**CITY OF SAN FERNANDO**

**NON-MAJOR GOVERNMENTAL FUNDS**

**JUNE 30, 2006**

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The City maintains 23 non-major governmental funds and they are as follows:

- I. Special Revenue Funds (16)
- II. Debt Service Funds (4)
- III. Capital Projects Funds (3)

**CITY OF SAN FERNANDO**

**NON-MAJOR GOVERNMENTAL FUNDS**

**JUNE 30, 2006**

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**I - Special Revenue Funds**

Special revenue funds account for specific revenues that are legally restricted to expenditures for particular purposes. The non-major special revenue funds include:

<b><i>Proposition A Local Transit</i></b>	To account for receipt and approved Local Transit Fund projects from a voter approved sales tax override for public transportation.
<b><i>Proposition C</i></b>	To account for the receipt of the "half-cent" sales tax allocated by LACMTA. These funds are to be used to reduce traffic congestion, improve air quality, improve conditions of streets/freeways, and reduce foreign fuel dependence.
<b><i>Proposition C Discretionary</i></b>	To account for the maintenance of the mile-long bike path along the Metrolink Corridor in San Fernando.
<b><i>State Gas Tax</i></b>	To account for the City's share of motor fuel tax revenue restricted to maintenance and capital projects associated with motor vehicle travel.
<b><i>Traffic Safety</i></b>	To account for receipts from traffic fines as levied by local courts. Some of these funds are transferred to the General Fund for traffic safety purposes. The fund is required by Section 1463 (b) of the California Penal Code.
<b><i>Parking Maintenance Operations</i></b>	To account for parking receipts and maintenance of Business District parking facilities.
<b><i>Local Transportation</i></b>	To account for state funds allocated by the State for local pedestrian facility development or improvement.
<b><i>Recreation</i></b>	To account for receipts and the related expenditures from various recreation programs to be used for a specific program, such as sport leagues, craft and music classes, special events and concerts.
<b><i>Quimby Act Fees</i></b>	To account for revenues from real estate developers, who are required under state law to provide and support park facilities.
<b><i>Street Lighting</i></b>	To account for revenues and costs associated with the City's street lighting program.
<b><i>State Asset Forfeiture</i></b>	To account for the receipts and disbursements of state seized and forfeited assets from sale of controlled substances.
<b><i>Federal Asset Forfeiture</i></b>	To account for the receipts and disbursements of federal seized and forfeited assets from sale of controlled substances.
<b><i>AQMD</i></b>	To account for South Coast Air Quality Management District revenues. These funds may be used for various programs to reduce air pollution.
<b><i>State of Emergency</i></b>	To account for the receipt and disbursement of disaster fund assistance as a result of the January 1994 earthquake.

**CITY OF SAN FERNANDO**

**NON-MAJOR GOVERNMENTAL FUNDS**

**JUNE 30, 2006**

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**I - Special Revenue Funds (continued)**

***Cash-in-Lieu of Parking***

To account for revenues and related expenditures from developers or builders who elect to pay a specified amount to the City instead of providing required parking.

***Pavement Management***

To account for all of the Pavement Impact fees that are generated and the expenditures that are made related to the streets and highway infrastructure.

**CITY OF SAN FERNANDO**

**NON-MAJOR GOVERNMENTAL FUNDS**

**JUNE 30, 2006**

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**II - Debt Service Funds**

Debt service funds account for the resources accumulated and payments made for interest and principal on general obligation, including tax allocation bonds and long-term notes payable, of governmental funds.

The non-major debt service funds include:

- ◆ **Public Financing Authority**
- ◆ **Redevelopment Project Area #1**
- ◆ **Redevelopment Project Area #2**
- ◆ **Redevelopment Project Area #4**

NOTE: No budget was adopted for the Public Financing Authority.

**III - Capital Projects Funds**

Capital projects funds are used to account for resources used for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

The non-major capital project funds include:

- ◆ **Redevelopment Project Area #1**
- ◆ **Redevelopment Project Area #2**
- ◆ **Redevelopment Project Area #3**

NOTE: No budgets were adopted for these Project Areas.

# **STATISTICAL SECTION**

**CITY OF SAN FERNANDO  
PERTINENT ADDRESS INFORMATION**

Address information for the City of San Fernando, City of San Fernando Redevelopment Agency, and Public Finance Authority is as follows:

City Administrator  
117 MacNeil Street  
San Fernando, California 91340-2993  
Website: [www.sfcity.org](http://www.sfcity.org)