

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN FERNANDO
FINANCIAL STATEMENTS AND COMPLIANCE REPORT
JUNE 30, 2005**

**REDEVELOPMENT AGENCY OF
THE CITY OF SAN FERNANDO**

FINANCIAL STATEMENTS AND COMPLIANCE REPORT

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REPORT OF INDEPENDENT AUDITORS

Agency Members
Redevelopment Agency of the
City of San Fernando, California

We have audited the basic financial statements of the Redevelopment Agency of the City of San Fernando (Agency), a component unit of the City of San Fernando, California as of and for the year ended June 30, 2005, as listed in the accompanying table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Redevelopment Agency of the City of San Fernando, California, as of June 30, 2005, and the changes in its financial position 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 a report dated October 25, 2005 on our consideration of the Redevelopment Agency of the City of San Fernando's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 3 through 10, and 34 through 36 respectively, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The combining fund financial statements of debt service funds and capital projects funds in the supplementary information are presented for the purposes of additional analysis and are not a required part of the basic financial statements. These combining fund statements 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.

Vasquez & Company LLP

Los Angeles, California
October 25, 2005

**REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

This section of the Redevelopment Agency of the City of San Fernando (Agency) provides a narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2005.

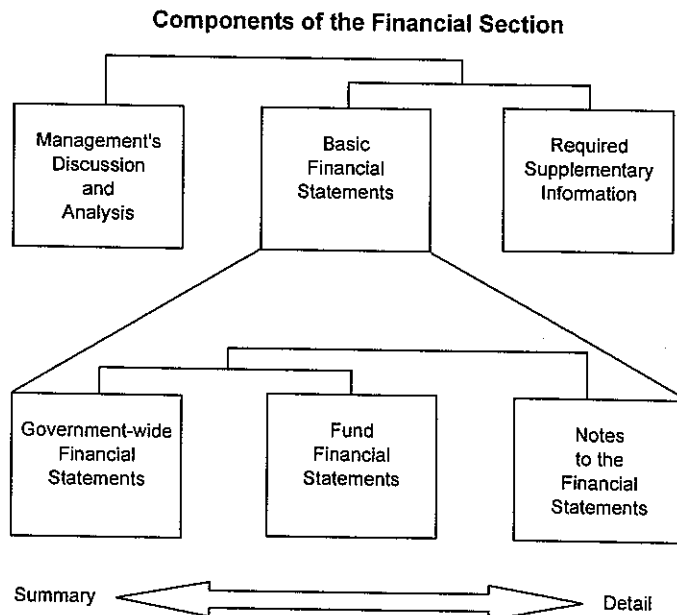
FINANCIAL HIGHLIGHTS

The Agency 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) during the year ended 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, 2005:

- ❖ The Agency's liabilities exceeded its assets at the year-end by \$2,960,687 (negative net assets). Unrestricted net assets were (\$6,466,052) at June 30, 2005.
- ❖ As of June 30, 2005, the Agency reported a combined fund balances of \$2,234,377.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Agency's basic financial statements. The Agency'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.



**REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Government-wide Financial Statements

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

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

The *statement of activities* presents information showing how the Agency'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 Agency that are principally supported by taxes (*governmental activities*). The *governmental activity* of the Agency is the elimination of blight through general government activities, community development, and tax increment financing requiring payment on long-term debt.

The government-wide financial statements include the Capital Project Fund and the Debt Service Fund.

The government-wide financial statements can be found beginning on page 11 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 Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Agency's funds are governmental 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 Agency'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 Agency'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*.

**REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

Governmental Funds (continued)

The Agency maintains two 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 Debt Service Fund (which includes Project Areas 1 to 4) and Capital Projects (which is a combination of the Low & Moderate Income Housing Fund and the Project Areas 1 to 3). Individual fund data for the each of these funds is provided in the form of *combining statements* in the *supplementary information* section of this report.

The Agency adopts an annual appropriated budget for its funds. Budgetary comparison statements have been provided for the funds to demonstrate their compliance with the budgets in the *required supplementary information* section of this report.

The governmental fund financial statements can be found beginning on page 13 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* in the form of Combining Balance Sheet -All Capital Projects and Combining Statement of Revenues, Expenditures, And Changes in Fund Balances - All Capital Projects. *Supplementary information* can be found beginning on page 34 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Governmental Activities		
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Total assets	\$ 8,147,201	\$ 7,502,335
Total liabilities	11,107,888	9,841,740
Net assets:		
Invested in capital assets, net of related debt	2,573,657	2,571,975
Restricted for debt service	931,708	924,257
Unrestricted	(6,466,052)	(5,835,637)
Total net assets	\$ (2,960,687)	\$ (2,339,405)

**REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

As noted earlier, net assets may serve over time as a useful indicator of the Agency's financial position. In the case of the Agency, liabilities exceeded assets by \$2,960,687 at June 30, 2005.

The Agency's net assets of \$2,573,657 reflect its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment, etc.). The Agency uses these capital assets to provide services to the Redevelopment Agency Project Areas; consequently, these assets are not available for future spending.

A portion of the Agency's net assets, \$931,708 represents resources that are subject to external restrictions on how they may be used and in this case must be used for debt service. The remaining balance of unrestricted net assets \$ (6,466,052) reflects liabilities and other debt of the Agency.

Governmental Activities

Governmental activities decreased the Agency's net assets by \$621,282, attributed to expenditures related to the development of affordable senior citizen rental projects in the City.

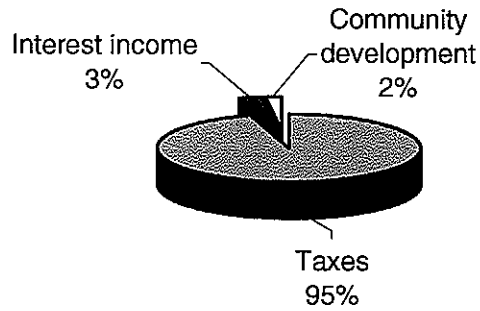
Change in Net Assets		
	<u>Governmental Activities</u>	
	2005	2004
Revenues		
General revenues		
Taxes	\$ 3,771,309	\$ 2,852,656
Interest	111,102	193,252
Other	-	-
Program revenues		
Community development	77,361	167,661
Total revenue	<u>3,959,772</u>	<u>3,213,569</u>
Expenses		
General government	2,109,372	655,271
Community development	2,330,215	968
Interest and fiscal charges	494,244	482,346
	<u>4,933,831</u>	<u>1,138,585</u>
Increase (decrease) in net assets before transfers	(974,059)	2,074,984
Transfers	352,777	(637,680)
Increase (decrease) in net assets	(621,282)	1,437,304
Net assets, July 1, 2004	(2,339,405)	(3,776,709)
Net assets, June 30, 2005	<u>\$ (2,960,687)</u>	<u>\$ (2,339,405)</u>

**REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

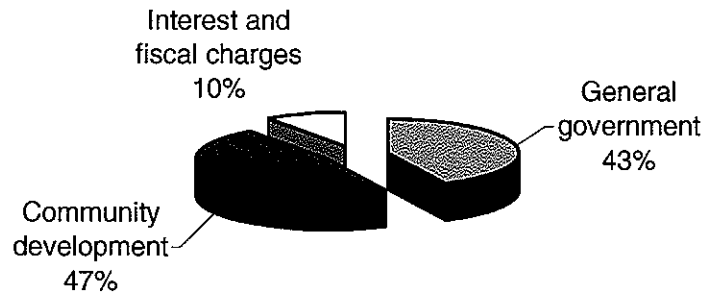
GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Governmental Activities (continued) –

Revenues by Source - Governmental Activities



Expenses - Governmental Activities



**REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

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

Governmental Funds

The focus of the Agency'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 Agency's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of the Agency's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$2,234,377. The Agency's governmental funds report a negative balance of \$991,063 in its *unreserved fund balance*. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for 1) for Capital Project Funds (its Low-Income Housing Fund) \$1,468,732; and 2) Debt Service Fund \$1,756,708.

The Capital Projects Funds are the chief operating funds of the Agency. At the end of the current fiscal year, the unreserved fund balance of the Capital Projects Funds was a deficit of \$1,497,942. The total fund balance was \$(29,210).

The fund balance of the Agency's Capital Projects Funds decreased by \$1,186,052 during the current fiscal year. This decrease is primarily attributed to expenditures in relation to the development of affordable senior citizen housing projects in the City.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt, both principal and interest. The Debt Service Fund has a fund balance of \$2,263,587. Revenues exceeded expenditures and transfers by \$762,666.

CAPITAL PROJECTS FUNDS BUDGETARY HIGHLIGHTS

In the Capital Projects Funds differences between the original budget and the final amended budget resulted in an increase in appropriation of \$192,065. The increase was due to encumbrances made in the previous fiscal year.

**REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Agency's investment in capital assets for its governmental activities amounts to \$2,573,657 (net of accumulated depreciation of \$8,128) as of June 30, 2005. This investment in capital assets includes land of \$2,510,416; land improvements of \$51,901, and furniture and equipment of \$11,340.

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

		Governmental Activities
Land	\$	2,510,416
Land improvements		51,901
Equipment		11,340
Total	\$	2,573,657

Additional information on the Agency's capital assets can be found in note 8 to the financial statements.

Debt Administration

At the end of the current fiscal year, the Agency had total bonded debt outstanding of \$5,950,000, which was comprised of three tax allocation bonds, and CHFA loan of \$1,000,000. Please refer to Note 12 to the financial statements for additional information on long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Community Development activities of the Redevelopment Agency have been very successful. The Agency and California Housing Finance Agency (CHFA) entered into a Housing Enabled by Local Partnership (HELP) loan agreement whereby the Agency can borrow up to \$1,000,000 from CHFA for the purpose of financing the development of affordable senior citizen rental housing in the City. The RDA and the Developer anticipate the project would cost approximately \$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, deferred development fees, and Agency assistance. Most of the Agency budget for the next fiscal year is comprised of funding which will ensure the successful completion of the senior housing development. The Agency will continue working to create more affordable housing and other developments within the City.

**REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Agency'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 Finance Director, San Fernando, CA.

REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>
Assets	
Unrestricted cash and investments	\$ 931,169
Restricted cash and investments	931,708
Total cash and investments	<u>1,862,877</u>
Receivables	
Taxes	76,199
Interest	220
Long-term loan receivable	1,340,516
Land held for resale	2,293,732
Capital assets not being depreciated:	
Land	2,510,416
Capital assets, net of accumulated depreciation:	
Land improvements	51,901
Equipment	11,340
Total assets	<u>8,147,201</u>
Liabilities	
Accounts payable	203,316
Accrued liabilities	13,711
Accrued interest	108,316
Deposits	25,040
Due to other funds	1,756,584
Noncurrent liabilities:	
Due within one year	610,000
Due in more than one year	8,390,921
Total liabilities	<u>11,107,888</u>
Net assets	
Invested in capital assets, net of related debt	2,573,657
Restricted for debt service	931,708
Unrestricted	(6,466,052)
Total net assets	<u>\$ (2,960,687)</u>

See accompanying notes to financial statements

**REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

		Program Revenues		Net (Expense) Revenue and Change in Net Assets
	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
<u>Functions/programs</u>				
Governmental activities				
General government	\$ 2,109,372	\$ -	\$ -	\$ (2,109,372)
Community development	2,330,215	77,361	-	(2,252,854)
Interest and fiscal charges	494,244	-	-	(494,244)
Total governmental activities	\$ 4,933,831	\$ 77,361	\$ -	(4,856,470)
General revenues				
Taxes				3,771,309
Interest				111,102
Transfers				352,777
Total general revenues and transfers				4,235,188
Change in net assets				(621,282)
Net assets - beginning of year				(2,339,405)
Net assets - end of year				\$ (2,960,687)

See accompanying notes to financial statements

**REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
BALANCE SHEETS
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	Debt Service	Capital Projects	Total
Assets			
Cash and investments	\$ 53,408	\$ 877,761	\$ 931,169
Receivables			
Taxes	76,199	-	76,199
Interest/miscellaneous	220	-	220
Due from other funds - current	1,192,922	-	1,192,922
Due from other funds - noncurrent	475,000	-	475,000
Long-term loan receivable, net	-	1,340,516	1,340,516
Land held for resale	825,000	1,468,732	2,293,732
Cash and investments with fiscal agents	931,708	-	931,708
Total assets	\$ 3,554,457	\$ 3,687,009	\$ 7,241,466
 Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 137,958	\$ 65,358	\$ 203,316
Accrued liabilities	4,064	9,647	13,711
Due to other funds - current	648,848	2,300,658	2,949,506
Due to other funds - noncurrent	475,000	-	475,000
Deposits and unearned revenue	25,000	1,340,556	1,365,556
Total liabilities	1,290,870	3,716,219	5,007,089
 Fund balances			
Reserved			
Land held for resale	825,000	1,468,732	2,293,732
Debt service	931,708	-	931,708
Unreserved			
	506,879	(1,497,942)	(991,063)
Total fund balances	2,263,587	(29,210)	2,234,377
Total liabilities and fund balances	\$ 3,554,457	\$ 3,687,009	\$ 7,241,466

See accompanying notes to financial statements

**REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
RECONCILIATION OF THE BALANCE SHEETS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

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

Total fund balance		\$ 2,234,377
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Governmental capital assets	\$ 2,581,785	
Less accumulated depreciation	8,128	2,573,657
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.		1,340,516
Interest on long-term debt not due and payable in the current period is not reported in the funds:		
Tax bonds		(108,316)
Long-term liabilities not due and payable in the current period and are not reported in the funds:		
Compensated absences	(27,195)	
Tax bonds	(6,950,000)	
County deferral	(2,023,726)	(9,000,921)
Net assets of governmental activities		\$ (2,960,687)

See accompanying notes to financial statements

**REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Debt Service	Capital Projects	Total
Revenues			
Taxes	\$ 3,918,157	\$ -	\$ 3,918,157
Investment income	19,400	91,702	111,102
Community development	-	538,670	538,670
Total revenues	3,937,557	630,372	4,567,929
Expenditures			
General government and administrative	1,126,793	973,164	2,099,957
Community development	523,377	84,102	607,479
Capital outlay	-	1,717,999	1,717,999
Debt service:			
Principal retirement	575,000	-	575,000
Interest	343,657	-	343,657
Total expenditures	2,568,827	2,775,265	5,344,092
Excess (deficiency) of revenues over expenditures	1,368,730	(2,144,893)	(776,163)
Other financing sources (uses)			
Transfers in	-	958,841	958,841
Transfers out	(606,064)	-	(606,064)
Total other financing sources (uses)	(606,064)	958,841	352,777
Excess of revenues and other sources over expenditures and other uses	762,666	(1,186,052)	(423,386)
Beginning fund balances	675,921	1,156,842	1,832,763
Prior period adjustment	825,000	-	825,000
Beginning fund balances, as restated	1,500,921	1,156,842	2,657,763
Ending fund balances	\$ 2,263,587	\$ (29,210)	\$ 2,234,377

See accompanying notes to financial statements

**REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

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

Net change in fund balances	\$	(423,386)
Loans receivable additions not expected to be collected in the current period are offset by unearned revenue in the funds. The decreases have been recognized as reduction in revenue in the statement of activities.		(38,597)
Governmental funds report capital outlay as expenditures. However, the cost of those assets is allocated over their estimated useful lives in the statement of activities as depreciation expense:		
Capital outlay	\$ 6,419	
Depreciation expense	<u>(4,737)</u>	1,682
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:		
Loan proceeds	(422,712)	
Compensated absences	(15,834)	
County deferral	(146,848)	
Principal repayments on long-term debt	<u>575,000</u>	(10,394)
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		(18,194)
Change in accrued interest on county deferral		(132,393)
Change in net assets of governmental activities	<u>\$</u>	<u>(621,282)</u>

See accompanying notes to financial statements

REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

1. REPORTING ENTITY

The San Fernando Redevelopment Agency (the Agency), a component unit of the City of San Fernando, California (the City), was created in 1965 pursuant to the State of California Health and Safety Code, section entitled "Community Redevelopment Law." The primary purpose of the Agency is to eliminate blighted areas by encouraging development of residential, commercial, industrial, recreational and public facilities. In order to implement the orderly growth and development within the City, three separate project areas have been designated by the Agency for development.

The City is financially accountable for the Agency and it is included in the reporting entity of the City of San Fernando. Financial accountability is established based on: (1) the governing body of the Agency is substantially the same as the City Council and (2) the Agency provides a financial benefit or burden on the City. The City Council members, in separate session, serve as the governing board of the Agency.

The City performs certain general administrative functions for the Agency. The costs of such functions are allocated annually to the Agency. For fiscal year ended June 30, 2005, total allocated administrative costs were approximately \$740,915.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Agency'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. The Agency's more significant accounting policies are described below.

Government-wide and fund financial statements

The statement of net assets and statement of activities (i.e., the government-wide financial statements) display information on all of the non-fiduciary activities of the Agency. Eliminations have been made to minimize the effect of interfund activity. The Agency's activities are normally supported by taxes and intergovernmental revenues.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Agency's activities. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Program revenues include 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 as general revenues.

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

**REDEVELOPMENT AGENCY OF THE CITY OF SAN FERNANDO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Description of funds

The accounts of the Agency 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 applicable regulations, restrictions or limitations.

Debt Service Funds – These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt, including special assessment debt with governmental commitment. The principal sources of revenue for this fund are incremental property taxes and investment income.

Capital Projects Funds – These funds reflect all revenues and costs of implementing the Agency Projects in accordance with the California Community Redevelopment Law, including acquisition of properties, cost of site improvements and other costs that benefit the Projects as well as administrative expenditures incurred in sustaining Agency activities.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when the liabilities are incurred regardless of the timing of related cash flows.

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

Tax increment revenues

Incremental property tax revenues are established pursuant to California Community Redevelopment Law and result from the excess of taxes levied and collected each year in designated project areas over and above the amount which would have been produced, at current rates, by the assessed value as shown on the last equalized property tax assessment roll prior to the effective date of the ordinance establishing the designated project areas.

The County of Los Angeles is responsible for property tax and assessment levies and collections. The County's property tax calendar is July 1 to June 30. Property taxes are an enforceable lien on the property as of the preceding January 1. Property tax bills, which include assessments, are levied June 30 and are due in equal installments on November 1 and February 1 of each property tax year. The City records incremental property tax revenues upon receipt or anticipated receipt from the County; however, no accrual is recorded for delinquent taxes. Property taxes receivable reported in the fund financial statements are not offset by deferred revenues because they are collectible within 60 days of fiscal year end.

