

Comprehensive Annual

Financial Report

Fiscal Year Ended June 30, 2010

City of Fountain Valley

California



Photography by Monica Kerr

City of Fountain Valley

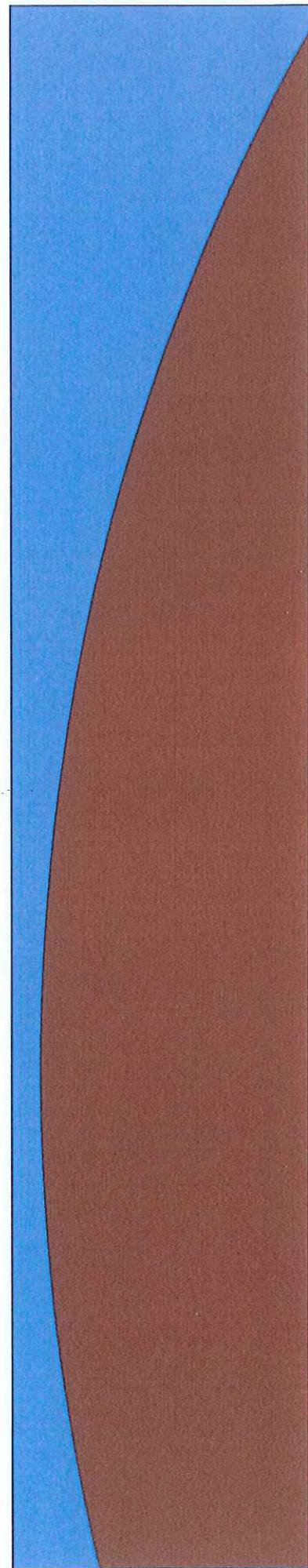
California

**Comprehensive
Annual Financial Report
Fiscal Year Ended
June 30, 2010**

Prepared by the Finance Department

Sherri Holman

Finance Director/City Treasurer



City Council

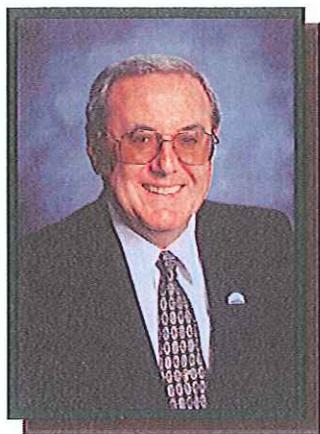
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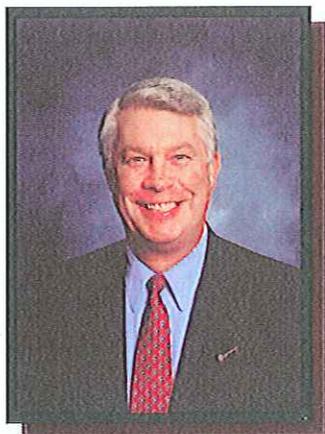
Larry R. Crandall
Mayor



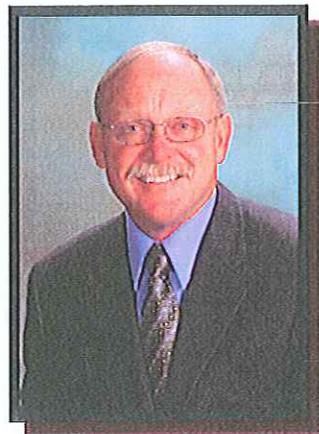
Cheryl Brothers
Mayor Pro Tempore



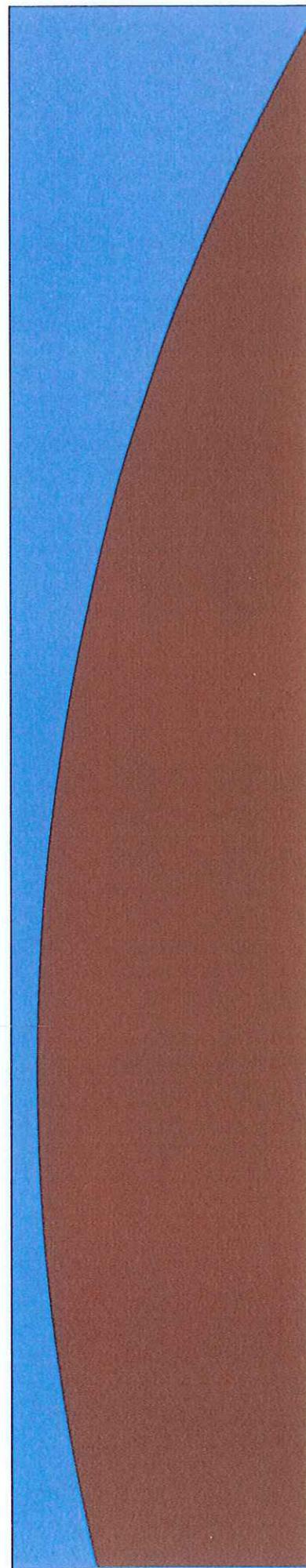
Guy Carrozzo
Council Member



John Collins
Council Member



Steve Nagel
Council Member



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 Year ended June 30, 2010

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CITY OF FOUNTAIN VALLEY

10200 SLATER AVENUE • FOUNTAIN VALLEY, CA 92708-4736 • (714) 593-4400, FAX: (714) 593-4498

December 6, 2010

Honorable Mayor and City Council
City of Fountain Valley
Fountain Valley, California

Transmitted Through the City Manager:

The Comprehensive Annual Financial Report (CAFR) of the City of Fountain Valley for the fiscal year ended June 30, 2010, is hereby submitted. These statements have been prepared in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent public accounting firm of licensed certified public accountants.

The report consists of management's representation concerning the finances of the City of Fountain Valley. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements in conformity with the GAAP. Because the cost of internal controls should not outweigh their benefits, the City's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

As management, we assert that, to the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the City of Fountain Valley. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

Management's Transmittal Letter

The City of Fountain Valley's financial statements have been audited by Mayer Hoffman McCann P.C., an independent firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the City's financial statements for the fiscal year ended June 30, 2010 are free of material misstatement. In addition to meeting the requirements set forth in the Government Code, the audit was also designed to meet the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Fountain Valley's financial statements for the fiscal year ended June 30, 2010, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

In addition to meeting the requirements set forth in the Government Code, the audit was also designed to meet the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and United States Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

The independent audit of the financial statement of the City of Fountain Valley was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The City of Fountain Valley is required to have an annual single audit performed in conformity with the provisions of the OMB's Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Information related to this single audit, including a schedule of federal financial assistance, the independent auditors' reports on internal controls and compliance with applicable laws and regulations, and a schedule of finding and recommendations are included in a separately issued single audit report.

Management's Transmittal Letter

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

Reporting Entity

The reporting entity's (the City of Fountain Valley) financial statements includes all funds of the City as well as its component units. Component units are legally separate entities for which the City is fully accountable. The financial activities of the Fountain Valley Agency for Community Development and the City of Fountain Valley Financing Authority have been reported as debt service and capital projects funds, as appropriated.

Governmental Profile

The City of Fountain Valley, incorporated June 13, 1957, has an estimated population of 58,741 and has a land area of 9.75 square miles. It is located in the northern tip of Orange County, California and is bordered by the cities of Santa Ana, Costa Mesa, Huntington Beach, and Westminster. The City is roughly 30 miles southeast of Los Angeles and 90 miles northwest of San Diego. The City has operated under a council-manager form of government since incorporation.

Policy making and legislative authority are vested in the City Council, which is comprised of five members elected at large, on a non-partisan basis, for staggered four-year terms of office. The Council is responsible, among other things, for passing ordinances, adopting the budget, appointing members to commissions and committees, and hiring the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, overseeing the day-to-day operations of the City and appointing the City's department heads.

As a full-service City, Fountain Valley offers its residents a complete range of municipal services that include; Public Safety in the form of police, fire protection, and building

safety; environmental services such as a water delivery system, sewer and storm drain maintenance; park and median landscaping; and repairs of streets and sidewalks; development services for land use planning, and zoning; housing and community development, redevelopment; a full range of recreation and cultural activities; as well as legislative, legal and general administrative support.

Commissions and Advisory Committees play an integral role in the governmental structure of Fountain Valley and provide opportunities for citizens to participate in community affairs.

The City's budget document is submitted annually to the City Council as a multi-year forecast. This long range perspective assists the Council in the difficult task of evaluating the effect that current year allocations will have over a prolonged period of time. The budget is assembled at a program or service level rather than the traditional department level. This allows the Council to focus on the individual services the community will receive for total dollars spent in a year.

Budgetary Control

The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Annual budgets are legally adopted for all governmental funds on a basis consistent with generally accepted accounting principles, except for certain special revenue and debt service funds. Budgetary control for management purposes is maintained as authorized by the Council at the departmental program level within individual funds. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. This online real-time system allows each department to ascertain the budget status of a program or project prior to requesting a purchase order and purchase amounts are encumbered as each purchase order is issued to ensure that there are sufficient amounts available in an account prior to the purchase. Purchases that would result in an over-expenditure of the program bottom line are not released until additional appropriations or budget amendments are processed. At fiscal year end, all operating budget appropriations lapse and encumbrances are reported as reservations of fund balances at June 30, 2010. As demonstrated by the statements and schedules included in the Financial Section of this report, the City continues to meet its responsibility for sound financial management of the City's operations.

Economic Outlook & Highlights for the Future

The City of Fountain Valley is a premier Orange County City that celebrated its fiftieth birthday in 2007. It has the reputation of being "A Nice Place to Live", as the environment is designed to provide a residential oasis within the hectic sprawl of metropolitan Orange County. This ambiance is by design and we are mindful of the residential predominance when ascertaining the level of service that will be provided to the community each year.

Recognizing the long range effect that Proposition 13 placed on a predominately residential community in the early eighties, the City began directing its efforts toward creating a viable sales tax base. Faced with the limitations of little remaining developable land, it was understood that it was far too late to consider the construction of a regional commercial mall. However, as it was the emerging era of the big box retailer, Fountain Valley set about becoming the home for big box discount retailers. This strategy has served us well as companies such as Costco, Sam's Club, La Curacao and Fry's Electronics generally do well in spite of the gyrations that occur in an unpredictable economy, and sales tax has grown to be the single largest revenue source for general city operations. However, the continued economic down turn has definitely left it's mark on our Sales tax revenues. Over the last two fiscal years our revenues in the category have declined by 24.6 percent when compared to fiscal year 2007/08.

Debt Administration

The City has always subscribed to a pay as you go philosophy even when it came to large capital projects, sometimes planning ten to fifteen years into the future to accumulate funding for building renovations, or capital improvements. However, with the last State fiscal crises looming on the horizon at the time we completed the design stage for two major projects, the expansion of Mile Square Park Recreation Center and the construction of a Senior/Community Center, a decision was made to explore the possibility of issuing debt as a hedge against losses that we could possibly suffer at the hands of the State Legislature. So, in a very favorable market, with interest rates at an all time low, the Council voted to issue debt to finance the projects and to pay for the financing with user fees and development fees that had, and would be collected for the new facilities. In July 2003, the Fountain Valley Improvement Authority issued \$13,270,000 Certificates of Participation rated AAA by Standard & Poor's and AAA by Moody's Investor Service.

Housing & Economic Development

Fountain Valley is a city that is 98% built out, which limits the type of development projects to infill, expansion or redevelopment. Nevertheless, because of the excellent opportunities afforded the residents Fountain Valley is an extremely desirable place to live, so every opportunity to create new residential infill is maximized and new housing projects are generally sold out during their construction phase.

Residential Development: A residential development for fifty-four detached single family homes in the 3000 to 4200 sq. ft. range that included a one acre neighborhood park was approved by Council in 2007, all homes have been sold and the project was completed in early 2010.

On April 9, 2009 the City purchased a 3.9 acre vacant property utilizing Low and Moderate Income Housing Funds. The property was purchased for the purpose of building affordable workforce housing. The current plans call for the construction of 130 affordable units. On June 1, 2010 the City entered into an Exclusive Planning and Negotiating Agreement with Jamboree Housing for the potential development of the project. It is anticipated that a final development agreement will be entered into with Jamboree Housing by early 2011.

Commercial Development: In early 2009 Mitsubishi Materials USA Corporation began constructing a 53,000 square foot commercial building that will serve as their national headquarters, warehouse, and distribution center for their cutting tools and innovative materials. The company is estimated to produce approximately 60 new jobs with potential growth to 80 employees by 2015. Mitsubishi was granted their temporary CUP in November 2009 and the project was completed in mid 2010.

Acknowledgements

The preparation of the Comprehensive Annual Financial Report is made possible by the dedicated efforts of the Finance Department staff. In addition, appreciation is extended to our independent auditors, Mayer, Hoffman McCann, for their expertise and advice in preparing this year's financial report. In closing, without the leadership of the City Manager and the vision of our City Council, the results of this report would not have been possible.

Every employee's commitment to the progressive approach of the financial operations of the City has allowed the citizens of this community to consistently receive a superior level of service while maintaining a sound financial base from which to operate.

Respectfully submitted,



Sherri Holman

Finance Director/City Treasurer

City Directory

Mayor

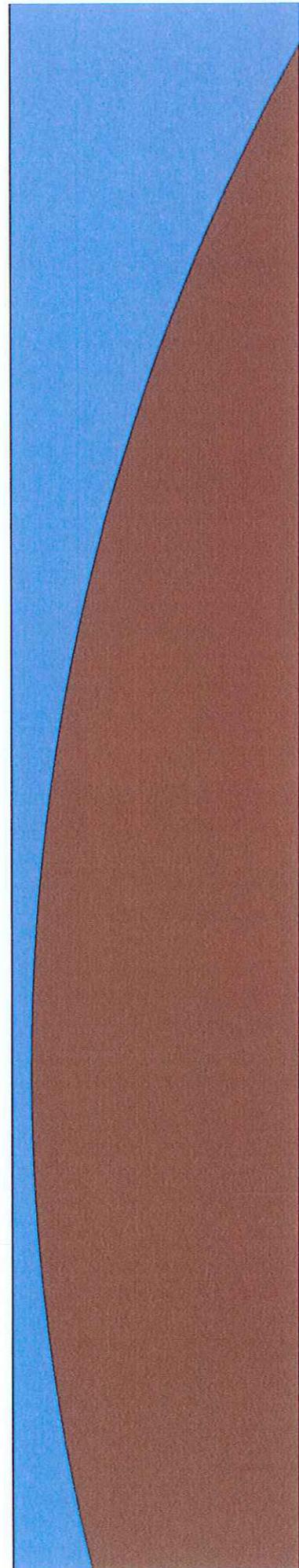
Larry R. Crandall

Council Members

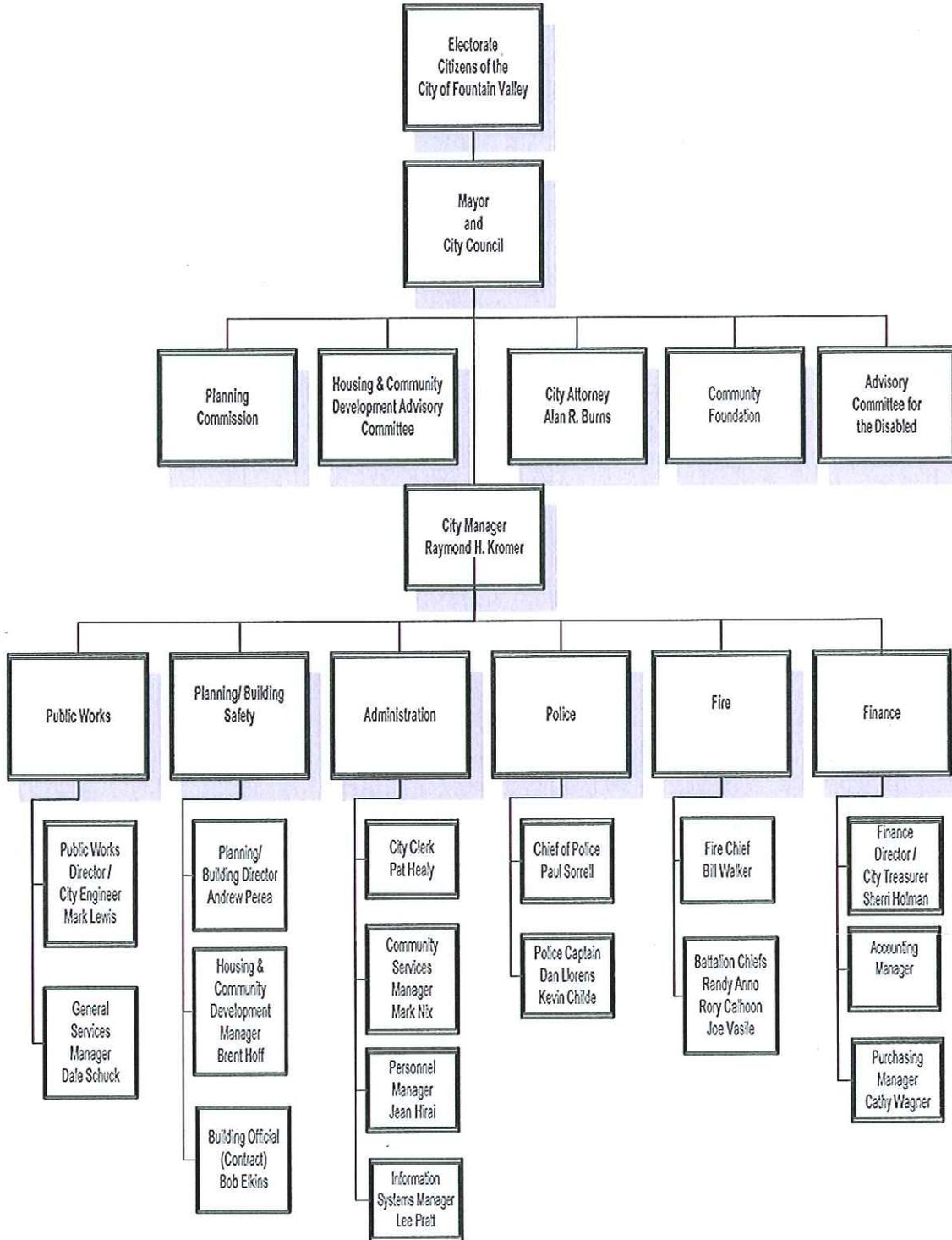
Cheryl Brothers	Mayor Pro Tempore
Steve Nagel	Council Member
Guy Carrozzo	Council Member
John Collins	Council Member

City Officials

Raymond H. Kromer	City Manager
Alan R. Burns	City Attorney
Andrew E. Perea	Planning Director
Mark Lewis	Director of Public Works & City Engineer
Paul Sorrell	Chief of Police
Bill Walker	Fire Chief
Sherri Holman	Finance Director/City Treasurer
Dale Schuck	General Service Manager
Patricia Healy	City Clerk
Mark Nix	Community Services Manager
Jean Hirai	Personnel Manager
Dan Llorens	Police Captain
Kevin Childe	Police Captain
Randy Anno	Battalion Chief
Joe Vasile	Battalion Chief
Rory Calhoon	Battalion Chief
Lee Pratt	Information Systems Manager
Cathy Wagner	Purchasing Manager



Organization of the City



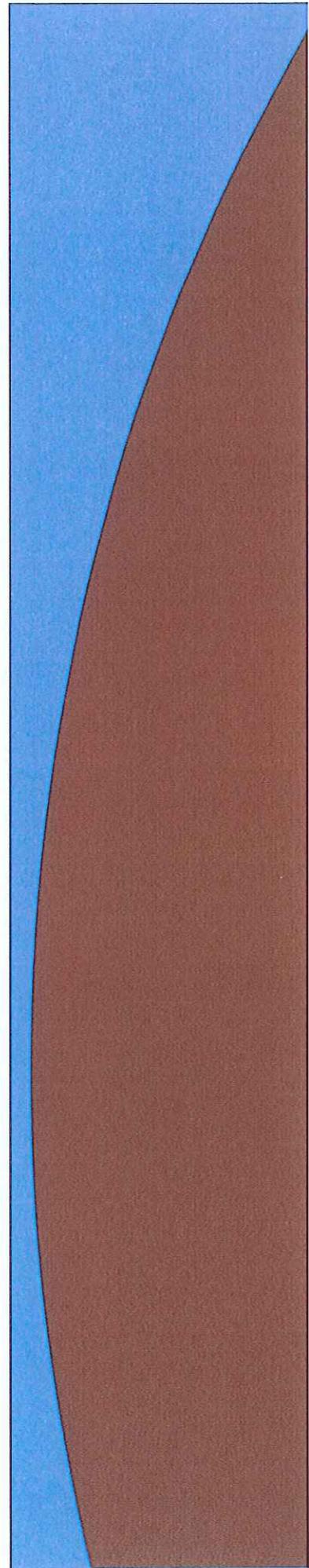


City of Fountain Valley

Financial Section



McDowell Park







Mayer Hoffman McCann P.C.

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City Council
City of Fountain Valley
Fountain Valley, California

INDEPENDENT AUDITORS' REPORT

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 Fountain Valley, California, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Fountain Valley. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the City of Fountain Valley for the year ended June 30, 2009 and in our report dated December 21, 2009 we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fountain Valley, California, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, of the City of Fountain Valley, California for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As reflected in note 4 to the financial statements, the City changed its method of accounting for intangible assets (rights of way) beginning with the fiscal year ending June 30, 2010.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* 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.



City Council
City of Fountain Valley
Fountain Valley, California
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fountain Valley's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial 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 section and statistical tables 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2010 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Mayer Hoffman McCann P.C.

Irvine, California
December 8, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Fountain Valley (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Fountain Valley for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

During the course of the fiscal year the City added Rights of Way totaling \$17,948,464 to capital assets, this combined with changes to outstanding claims, judgments and corrections to the Price Club note payable resulted in a restatement of net assets in governmental activities which increased the beginning net assets by \$19,397,854. The restated net assets for governmental activities is \$186,698,699.

The total assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$201,230,979 (*net assets*). Of this amount, \$61,506,572 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$115,362,266 a decrease of \$901,786 from the prior year. Approximately 33 percent of this amount, \$38,076,123 is unreserved but considered designated for future commitments and \$38,937,091 is available for spending at the government's discretion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Fountain Valley'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 other required supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

The *statement of net assets* presents information on all of the City of Fountain Valley'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 to show how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Fountain Valley that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Fountain Valley include general government, public safety, transportation, community development, community services and interest and other charges. The business-type activity of the City is comprised of a Water Fund.

The *government-wide financial statements* include not only the City itself (known as the *primary government*), but also the legally separate Fountain Valley Agency for Community Development (Agency) and the Fountain Valley Financing Authority that function as integral parts of the primary government and have been included in these financial statements. The government-wide financial statements can be found on pages 15-17 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 funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

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

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

The City of Fountain Valley maintains twenty-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 General Fund, Industrial Redevelopment Area Debt Service Fund, Industrial Redevelopment Area and Housing Set-Aside Capital Projects Funds. Data from the remaining Non-major Governmental Funds are combined into a single, aggregated presentation.

Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds. A budgetary comparison schedule has been provided for each of them to demonstrate compliance with this budget, except for the HOME Grant and the City Center Redevelopment Area Capital Projects Fund, as the City did not adopt annual budgets for these funds.

The basic governmental fund financial statements can be found on pages 18-21 of this report.

Proprietary Funds

An *Enterprise Fund* is used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its Water Utility.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Fund, which is considered to be a major fund of the City. The basic proprietary fund financial statements can be found on pages 22-25 of this report.

Fiduciary Funds

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

The basic fiduciary fund financial statements can be found on pages 26 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-62 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Fountain Valley. Required supplementary information can be found on pages 63-69 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to required supplementary information. Descriptions of the non-major governmental funds along with the combining and individual fund statements and schedules can be found on pages 68-75 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the City of Fountain Valley's case, assets exceeded liabilities by \$201,230,979 at the close of the fiscal year.

52 percent of the City's net assets reflect cash and investments and 48 percent is investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

GOVERNMENT-WIDE FINANCIAL ANALYSIS
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	129,229	130,773	7,257	10,535	136,486	141,308
Capital assets	108,156	91,240	11,204	10,077	119,360	101,317
Total Assets	<u>237,385</u>	<u>222,013</u>	<u>18,461</u>	<u>20,612</u>	<u>255,846</u>	<u>242,625</u>
Long-term liabilities outstanding	27,409	46,060	787	857	28,196	46,917
Other liabilities	25,054	8,652	1,365	1,768	26,419	10,420
Total Liabilities	<u>52,463</u>	<u>54,712</u>	<u>2,152</u>	<u>2,625</u>	<u>54,015</u>	<u>57,337</u>
Net Assets:						
Invested in capital assets, net of related debt	74,207	52,819	10,479	9,308	84,686	62,127
Restricted	55,038	50,821			55,038	50,821
Unrestricted	55,677	63,661	5,830	8,679	61,507	72,340
Total Net Assets	<u>184,922</u>	<u>167,301</u>	<u>16,309</u>	<u>17,987</u>	<u>201,231</u>	<u>185,288</u>

A portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* may be used to meet the government's ongoing obligations to citizens and creditors.

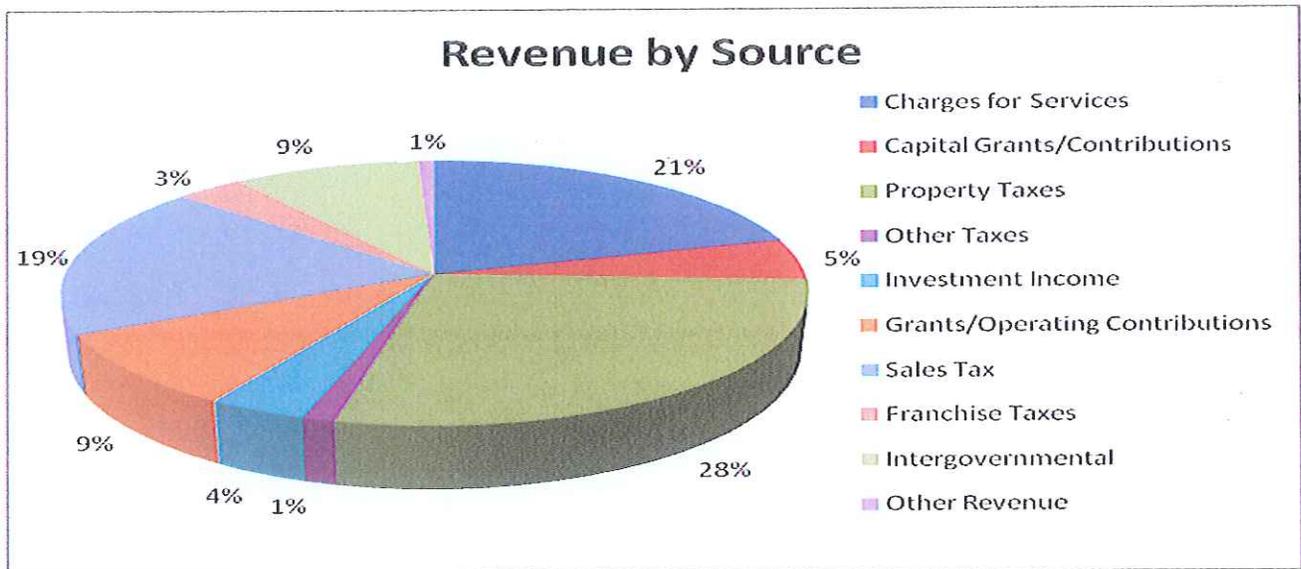
At the end of the 2010 fiscal year, the City of Fountain Valley is able to report positive balances in all three categories of net assets, both for the government as a whole as well as for its separate governmental and business-type activities.

Governmental Activities

Governmental activities decreased the City's net assets by \$1,776,502 thereby accounting for 51 percent of the total decrease in the net assets of the City. Key elements of this increase follow:

CHANGES IN NET ASSETS
(In thousands)

	Governmental		Business-Type		Total	
	Activities	Activities	Activities	Activities	Activities	Activities
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for services	10,301	11,005	8,634	8,830	18,935	19,835
Operating grants and Contributions	4,501	5,357			4,501	5,357
Capital grants and Contributions	2,478	3,848			2,478	3,848
General Revenues:						
Property taxes	13,754	16,691			13,754	16,691
Franchise taxes	1,661	1,789			1,661	1,789
Sales taxes	9,179	9,964			9,179	9,964
Other taxes	616	738			616	738
Revenues from other						
Agencies	4,623	4,787			4,623	4,787
Other						
Investment earnings	1,883	3,752	121	252	2,004	4,004
Assessments						
Miscellaneous Transfers	(318)	345	318	(345)		
Gain/(Loss) on sale of property	(53)	3			(53)	3
Total Revenues	48,625	58,279	9,073	8,737	57,698	67,016
Expenses:						
General government	4,390	4,708			4,390	4,708
Public safety	25,295	26,816			25,295	26,816
Transportation	10,843	12,924			10,843	12,924
Community development	3,638	3,731			3,638	3,731
Community Services	4,790	4,818			4,790	4,818
Interest and fiscal charges	1,446	3,153			1,446	3,153
Amortization expense						
Water			10,752	7,530	10,752	7,530
Total Expenses	50,402	56,150	10,752	7,530	61,154	63,680
Decrease in net assets	(1,777)	2,129	(1,679)	1,207	(3,456)	3,336
Net Assets - July 1	186,699	165,172	17,988	16,781	204,687	181,953
Net Assets - June 30	184,922	167,301	16,309	17,988	201,231	185,289



Financial Analysis of the Government Funds

As noted earlier, the City uses fund accounting to demonstrate and ensure 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 is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$115,362,226 a decrease of \$901,786 from the prior year. Approximately 33 percent of this amount, \$38,349,052 is reserved and not available for spending, \$38,076,123 is unreserved but considered designated for future commitments and \$38,937,091 is available for spending at the government's discretion within the guidelines of the fund types.

At the end of the current fiscal year, the unreserved designated fund balance in the general fund, the chief operating fund of the City, was \$38,076,123 and total fund balance was \$40,594,052. This constitutes a decrease of \$1,203,608 from the 2009 fiscal year.

During the course of the fiscal year the City instituted furloughs for miscellaneous employees, deferred capital purchases and contracted tree and landscape services thereby reducing actual expenditures by just over \$1 million. Unfortunately these actions were not enough to compensate for the loss of revenues. Overall revenues for the year were down \$2.3 million. With the continued economic slump Sales tax and Interest revenues combined were down \$1.2 million compared to last fiscal year. Licenses, permits and developer impact payments make of the majority of the difference largely due to the fact that last year there were several large developments in various stages of completion. They included the OC Memorial Hospital expansion, two housing tracts and a the completion of a manufacturing building for Mitsubishi Materials USA.

There are three other major funds within the governmental fund accounts. They include the Industrial Redevelopment Debt Service, Industrial Area Project and Housing Set-Aside Project Funds.

Fund balance in the Industrial Area Debt Service Fund at June 30, 2010 was \$18,586,576 a decrease of \$10,756,967, this is directly related to a Council action dated December 1, 2009 moving the debt service obligation for a 2003 Certificate of Participation (COP) issuance from the City to the Fountain Valley Agency for Community Development. In prior years the COP funds were used for community park enhancements and the building of a senior/community center.

The Industrial Area Project Fund had a decrease in fund balance of \$1,691,794 with a total ending fund balance of \$9,721,227. The fund had a loss of more \$696,000 in investment income for the year and expended more than \$559,000 in capital during the year. Capital projects included contributions to street projects within the project area and the placement of underground utilities. An additional \$397,000 was expended for economic incentives.

The Housing Set-Aside Fund had an increase in fund balance of \$1,286,704 largely due to advances it made to other funds. In May 2010 the Housing Set-Aside Fund made an advance to the Industrial Area Debt Service Fund for the payment of the Agency's 2009/2010 SERAF payment in the amount of \$1,841,655. In addition the Agency issued more than \$425,000 in first-time home-buyer loans. The total fund balance at the end of the fiscal year was \$16,964,412.

Proprietary Funds

The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Total net assets for the Water Utility Fund decreased by \$1,678,714 and totaled \$16,308,782 at June 30, 2010, of this amount unrestricted net assets amounted to \$5,829,768. This decrease in assets is attributed to lower interest and water sale revenue plus increased capital outlay for infrastructure additions and improvements.

Interest earnings for the year were down \$130,839 due to historically low rates, while water sales decreased by \$230,887 due to the conservation efforts of residents and businesses. Capital expenditures this year totaled \$2,373,074 and included wide spread meter replacement and the preliminary construction of a new well site.

General Fund Budgetary Highlights

Changes to Original Budget

A detailed budgetary comparison schedule for the year ended June 30, 2010, is presented as required supplementary information following the notes to the financial statements. The final budget amounts are different from those originally adopted by Council. This is due to changes that occurred between the adoption of the 2009-10 annual budget and year end budget approvals. The following summarizes the original budget compared with the final budget.

<u>General Fund</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Variance</u>
Revenues	\$32,405,590	\$32,822,319	\$416,729
Expenditures	\$36,525,814	\$36,695,028	\$169,214
Other sources (uses)	\$ 434,029	\$ 509,600	\$ 75,571

Revenue variances are made up of the following items. In July in 2009 the Council approved the rental of a City water tank for advertising at a total of \$300,000 annually, \$66,300 represents additional state and federal grants that were awarded throughout the year and \$50,430 is from citizen donations given to help fund the City's annual Summerfest program.

The variance in expenditures consist of appropriations for the above mentioned grants and Summerfest program and an additional \$16,000 as start up fund for the new paramedic membership program, the balance of \$36,484 was for additional capital outlay on fuel storage tank remediation and information processing equipment.

Other sources (uses) variances are due to contributions made from other funds to assist with the funding of vehicles and communication upgrades.

Variance with Final Budget

While the largest category of revenues, taxes, came in just over \$1 million under budget due to the poor economic climate our overall adjusted revenue collections were higher than the final budget by \$415,846. Contributing factors for the increase include \$278,361 in better than expected Motor Vehicle License Fee revenues, a large workers compensation recovery and other recoveries in fire suppression.

Expenditures for the year were lower than the final budget by \$2.2 million. During the year the City deferred capital purchases, instituted furloughs for miscellaneous employees, contracted out tree and landscape services. All departments committed to reducing operating in overtime and supplies, all of these efforts resulted in all departments coming in under budget for the fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of June 30, 2010, amounts to \$119,360,290 (net of accumulated depreciation). This investment in capital assets includes land, buildings, construction in progress, improvements other than buildings, vehicles and equipment, park facilities, roads, highway, and sidewalks/curbs/gutters. The total increase in the City's investment in capital assets for the current fiscal year was 17.8 percent, or \$18,042,499; the addition of Rights of Way at \$17,948,464 makes up the majority of the increase.

CAPITAL ASSETS (net of accumulated depreciation) (In thousands)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	3,885	3,885	123	123	4,008	4,008
Vehicles and Equipment	2085	2,384	26	31	2,111	2,415
Furniture and Fixtures	2	3			2	3
Buildings	10,117	10,466	2,617	2,882	12,734	13,348
Construction in Progress	54	712	4,043	2,731	4,097	3,443
Improvements other than Structures	489	527	4,395	4,310	4,884	4,837
Rights of Way	17,948				17,948	
Infrastructure	73,576	73,263			73,576	73,263
Total	108,156	91,240	11,204	10,077	119,360	101,317

Additional information on the City's capital assets can be found in the notes on pages 44-45 of this report.

Long-Term Debt

At year-end, the City had total long term debt outstanding of \$47,692,700. Additional information on the City of Fountain Valley's debt can be found in notes to the financial statements on pages 46-50. The bonded debt of the City's is secured solely by tax increment.

LEASES, TAX ALLOCATION BONDS, AND NOTES (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Leases Payable	1,124	1,220			1,124	1,220
Tax Allocation Bonds	10,065	11,510			10,065	11,510
Notes Payable	16,536	19,262			16,536	19,262
Certificate of Participation	10,730	11,190			10,730	11,190
Other Post Employee Benefits	2,876	1,423			2,876	1,423
Compensated Absences	2,348	2,456	120	134	2,468	2,590
Claims Payable	3,169	1,342			3,169	1,342
Loans Payable			725	768	725	768
Total	46,848	48,403	845	902	47,693	49,305

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The economy is still struggling and growth has been meager at best as we are still dealing with record high unemployment rates. The unemployment rate in Orange County at June 30, 2010 was 9.5 percent which is a slight increase from the rate of 9.3 percent last year. As of June 30, 2010 California's unemployment rate was 12.2 percent, up .60 percent from last years rate of 11.6 percent. The unemployment rate for the Nation remains unchanged 9.5 percent.

During the fiscal year Sales tax revenues, the City's single largest revenue source continued to decline, over the last two fiscal years Sales tax revenues have dropped nearly 25 percent from our 2007/2008 high. Collections for 08/09 were down 16.7 percent while the decline this fiscal year was 7.9 percent. When preparing the 2009/2010 budget staff projected that Sales tax would only decrease from the prior year by 6.5 percent but the economy refused to cooperate and continued with its decline until early 2010 therefore Sales tax revenues missed the mark by \$878,598 for the fiscal year. The good news is that the last two quarters of the fiscal year actually realized slight increases from the same quarters in the prior year and the double digit declines seem to be behind us.

Interest rates affect all industries and local government is no exception. The amount of interest income the City can anticipate deriving from the investment of inactive funds in the next year depends on actions taken by the Federal Reserve Board and they react according to trends in the economy. Consequently since the economy is stable but extremely fragile the Feds have kept rates at historical lows and there seems to be no indication that the market will be returning to "normal" anytime in the near future. As of the end of the fiscal year investments being offered for governmental entities were yielding about 1.75 percent on a five year note, hardly exciting.

Property Tax revenues continue to perform well in Fountain Valley, we, once again were one of the few cities to see an increase in our assesses values. While most other cities and counties throughout the nation are experiencing devastating declines in Property Tax revenues Fountain Valley actually realized an increase of \$183,036 from the prior year.

All of these factors were considered in preparing the City's budget for the 2010-2011 fiscal year, as once again sales tax estimates were reduced by more than \$500,000 from the prior year budget and property tax revenues were budgeted to have no increase. City wide expenditures were reduce by \$2.8 million, this was accomplished by eliminating funding for vacant positions, increasing the miscellaneous employees contribution rate towards their retirement benefits and changing retirement formulas for new employees.

Requests for Information

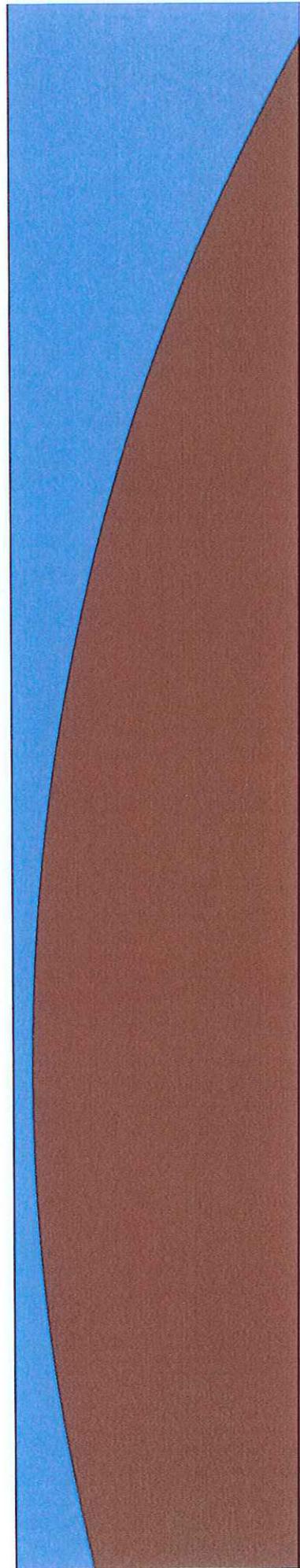
This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Fountain Valley, Finance Department, 10200 Slater Avenue, Fountain Valley, California 92708.

City of Fountain Valley

*Basic Financial
Statements*



Rose garden Santa Rosalia Street





CITY OF FOUNTAIN VALLEY
Statement of Net Assets
June 30, 2010

	Governmental Activities	Business-Type Activities	Totals	
			2010	2009
Assets:				
Cash and investments (note 2)	\$ 106,526,075	8,891,297	115,417,372	120,187,530
Cash and investment with fiscal agent (note 2)	4,506,580	-	4,506,580	4,760,143
Receivables:				
Accounts	3,520,075	668,666	4,188,741	4,150,447
Accrued interest	230,261	-	230,261	439,887
Loans (note 16)	8,074,976	-	8,074,976	7,778,974
Internal balances	2,303,186	(2,303,186)	-	-
Inventories	80,492	-	80,492	80,081
Land held for resale	3,987,015	-	3,987,015	3,851,917
Prepaid expenses	-	-	-	59,520
Capital assets (note 4)				
Capital assets not depreciated	84,414,623	4,166,515	88,581,138	69,100,005
Other capital assets, net	23,741,741	7,037,411	30,779,152	32,216,786
Total assets	237,385,024	18,460,703	255,845,727	242,625,290
Liabilities:				
Accounts payable	4,206,887	1,260,465	5,467,352	6,180,023
Accrued wages payable	1,000,071	-	1,000,071	1,036,915
Accrued interest payable	407,780	-	407,780	562,657
Deposits payable	-	46,845	46,845	251,925
Noncurrent liabilities (notes 5 to 11)				
Due within one year	19,439,051	57,703	19,496,754	2,387,928
Due in more than one year	27,409,038	786,908	28,195,946	46,917,501
Total liabilities	52,462,827	2,151,921	54,614,748	57,336,949
Net assets:				
Invested in capital assets, net of related debt	74,207,233	10,479,014	84,686,247	62,126,682
Restricted for:				
Low mod housing	24,439,784	-	24,439,784	22,980,277
Public safety	361,433	-	361,433	375,313
Public works	22,586,935	-	22,586,935	10,760,888
Redevelopment agency	7,093,218	-	7,093,218	15,176,270
Community development	556,790	-	556,790	1,528,704
Unrestricted	55,676,804	5,829,768	61,506,572	72,340,207
Total net assets	\$ 184,922,197	16,308,782	201,230,979	185,288,341

See accompanying notes to the basic financial statements.

CITY OF FOUNTAIN VALLEY
Statement of Activities
Year ended June 30, 2010

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
General government	\$ 4,389,509	1,986,574	55,049	-
Public safety	25,294,735	2,261,734	317,960	-
Transportation	10,842,575	-	2,418,523	663,570
Community development	3,638,224	2,696,944	1,618,627	-
Community services	4,789,810	3,355,631	90,532	1,814,853
Interest and other charges	1,446,472	-	-	-
Total governmental activities	<u>50,401,324</u>	<u>10,300,883</u>	<u>4,500,691</u>	<u>2,478,423</u>
Business-type activities:				
Water	10,752,153	8,634,443	-	-
Total business-type activities	<u>10,752,153</u>	<u>8,634,443</u>	<u>-</u>	<u>-</u>
	<u>\$ 61,153,477</u>	<u>18,935,326</u>	<u>4,500,691</u>	<u>2,478,423</u>

General revenues:

Taxes:

Property taxes

Sales taxes

Franchise tax

Other taxes

Intergovernmental revenues, unrestricted

Investment income

Gain on sale of capital assets

Transfers

Total general revenues and transfers

Change in net assets

Net assets at beginning of year, as restated (note 18)

Net assets at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-type Activities	Totals	
		2010	2009
(2,347,886)	-	(2,347,886)	(2,274,125)
(22,715,041)	-	(22,715,041)	(23,885,045)
(7,760,482)	-	(7,760,482)	(5,492,050)
677,347	-	677,347	(549,247)
471,206	-	471,206	(587,005)
(1,446,472)	-	(1,446,472)	(3,152,506)
(33,121,327)	-	(33,121,327)	(35,939,978)
-	(2,117,710)	(2,117,710)	1,299,667
-	(2,117,710)	(2,117,710)	1,299,667
(33,121,327)	(2,117,710)	(35,239,037)	(34,640,311)
13,753,615	-	13,753,615	16,690,555
9,179,402	-	9,179,402	9,964,534
1,660,650	-	1,660,650	1,789,533
616,375	-	616,375	737,630
4,623,154	-	4,623,154	4,787,550
1,883,143	120,820	2,003,963	4,003,300
(53,338)	-	(53,338)	2,733
(318,176)	318,176	-	-
31,344,825	438,996	31,783,821	37,975,835
(1,776,502)	(1,678,714)	(3,455,216)	3,335,524
186,698,699	17,987,496	204,686,195	181,952,817
<u>\$ 184,922,197</u>	<u>16,308,782</u>	<u>201,230,979</u>	<u>185,288,341</u>

CITY OF FOUNTAIN VALLEY
Balance Sheet - Governmental Funds
June 30, 2010

	Debt				Non-Major Governmental Funds	Total Governmental Funds	
	Service Fund	Capital Projects Funds				2010	2009
	General Fund	Industrial Redevelopment Area	Industrial Redevelopment Area	Housing Set-Aside			
Assets:							
Cash and investments	\$ 37,609,446	30,885,692	9,976,968	11,114,027	16,939,942	106,526,075	110,345,552
Cash and investments with fiscal agent	-	1,973,043	-	-	2,533,537	4,506,580	4,760,143
Receivables:							
Accounts	1,868,591	113,036	-	28,259	1,510,189	3,520,075	3,541,068
Accrued interest	111,749	2,962	114,809	741	-	230,261	439,887
Loans	-	-	-	7,762,463	312,513	8,074,976	7,778,974
Due from other funds (note 3)	178,472	-	-	-	52,536	231,008	2,148,126
Advances to other funds (note 15)	2,306,000	-	-	1,841,655	10,730,000	14,877,655	-
Inventory	80,492	-	-	-	-	80,492	80,081
Land held for resale	-	-	-	3,987,015	-	3,987,015	3,851,917
Prepaid expenses	-	-	-	-	-	-	59,520
Total assets	\$ 42,154,750	32,974,733	10,091,777	24,734,160	32,078,717	142,034,137	133,005,268
<u>Liabilities and Fund Balance</u>							
Liabilities:							
Accounts payable	\$ 558,809	1,665,472	290,200	7,285	1,685,121	4,206,887	4,709,623
Accrued wages payable	1,000,071	-	-	-	-	1,000,071	1,036,915
Due to other funds (note 3)	-	151,030	80,350	-	2,442	233,822	2,232,196
Deferred revenue	1,818	-	-	7,762,463	895,155	8,659,436	8,762,482
Advances from other funds (note 15)	-	12,571,655	-	-	-	12,571,655	-
Total liabilities	1,560,698	14,388,157	370,550	7,769,748	2,582,718	26,671,871	16,741,216
Fund balance:							
Reserved for:							
Encumbrances	131,437	-	-	-	685,877	817,314	901,294
Advances to other funds	2,306,000	-	-	1,841,655	10,730,000	14,877,655	-
Inventory	80,492	-	-	-	-	80,492	80,081
Prepaid expenses	-	-	-	-	-	-	59,520
Land held for resale	-	-	-	3,987,015	-	3,987,015	3,851,917
Debt service requirements	-	18,586,576	-	-	-	18,586,576	29,343,543
Unreserved:							
Designated, reported in General Fund:							
Future capital	8,852,512	-	-	-	-	8,852,512	6,854,195
Employee benefits	4,314,936	-	-	-	-	4,314,936	4,904,689
Self insurance	3,778,049	-	-	-	-	3,778,049	3,770,368
Contingencies	21,130,626	-	-	-	-	21,130,626	25,922,268
Undesignated, reported in:							
Special revenue funds	-	-	-	-	5,080,855	5,080,855	5,482,130
Debt service funds	-	-	-	-	2,829,153	2,829,153	2,814,116
Capital projects funds	-	-	9,721,227	11,135,742	10,170,114	31,027,083	32,279,931
Total fund balance	40,594,052	18,586,576	9,721,227	16,964,412	29,495,999	115,362,266	116,264,052
Total liabilities and fund balance	\$ 42,154,750	32,974,733	10,091,777	24,734,160	32,078,717	142,034,137	133,005,268

See accompanying notes to the basic financial statements.

CITY OF FOUNTAIN VALLEY
Governmental Funds

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets

June 30, 2010

	2010	2009
Fund balances of governmental funds	\$ 115,362,266	116,264,052
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of depreciation, have not been included as financial resources in governmental fund activity.		
Capital assets	132,917,540	115,545,760
Accumulated depreciation	(24,761,176)	(24,305,666)
Long term debt and compensated absences that have not been included in the governmental fund activity:		
Long-term debt	(44,500,048)	(45,947,604)
Compensated absences	(2,348,041)	(2,455,522)
Accrued interest payable for the current portion of interest due on bonds payable has not been reported in the governmental funds.	(407,780)	(562,657)
Revenues that are measurable but not available. Amounts are recorded as deferred revenue under the modified accrual basis of accounting.	8,659,436	8,762,482
Net assets of governmental activities	\$ 184,922,197	167,300,845

See accompanying notes to the basic financial statements.

CITY OF FOUNTAIN VALLEY
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
Year ended June 30, 2010

	General Fund	Debt	Capital Projects Funds		Non-Major Governmental Funds	Total Governmental Funds	
		Service Fund Industrial Redevelopment Area	Industrial Redevelopment Area	Housing Set-Aside		2010	2009
Revenues:							
Taxes	\$ 20,399,713	7,477,138	-	1,869,284	-	29,746,135	30,214,810
Licenses and permits	1,510,769	-	-	-	-	1,510,769	1,798,630
Fines and penalties	460,443	-	-	-	350,425	810,868	871,673
Investment income	731,294	23,081	650,781	294,105	180,049	1,879,310	3,750,171
Rental income	1,377,236	-	-	-	-	1,377,236	978,415
Intergovernmental	4,438,120	-	-	-	4,729,186	9,167,306	12,389,425
Charges for services	3,410,176	-	-	-	4,515,412	7,925,588	8,312,658
Miscellaneous	910,414	-	225	19,586	289,003	1,219,228	1,880,004
Total revenues	<u>33,238,165</u>	<u>7,500,219</u>	<u>651,006</u>	<u>2,182,975</u>	<u>10,064,075</u>	<u>53,636,440</u>	<u>60,195,786</u>
Expenditures:							
Current:							
General government	2,471,709	-	1,386,742	32,635	2,442	3,893,528	4,189,795
Public safety	23,141,614	-	-	-	336,428	23,478,042	25,400,083
Transportation	4,999,346	-	-	-	4,082,594	9,081,940	13,290,929
Community development	1,809,018	-	501,326	863,636	933,201	4,107,181	2,983,448
Community services	1,736,105	-	-	-	2,851,737	4,587,842	4,607,806
Capital outlay	106,731	-	-	-	665,884	772,615	4,737,265
Debt service:							
Principal	209,536	1,445,000	-	-	459,999	2,114,535	2,018,023
Interest	-	1,337,296	-	-	423,861	1,761,157	2,180,617
Pass-through payments	-	4,536,093	-	-	-	4,536,093	1,032,558
Total expenditures	<u>34,474,058</u>	<u>7,318,389</u>	<u>1,888,068</u>	<u>896,271</u>	<u>9,756,146</u>	<u>54,332,932</u>	<u>60,440,524</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,235,893)</u>	<u>181,830</u>	<u>(1,237,062)</u>	<u>1,286,704</u>	<u>307,929</u>	<u>(696,492)</u>	<u>(244,738)</u>
Other financing sources (uses):							
Transfers in (note 14)	816,241	-	-	-	3,002,577	3,818,818	8,380,744
Transfers out (note 14)	(896,838)	(208,797)	(454,732)	-	(2,576,627)	(4,136,994)	(9,619,948)
Issuance of long term debt	112,882	-	-	-	-	112,882	381,332
Total other financing sources (uses)	<u>32,285</u>	<u>(208,797)</u>	<u>(454,732)</u>	<u>-</u>	<u>425,950</u>	<u>(205,294)</u>	<u>(857,872)</u>
Net change in fund balances	<u>(1,203,608)</u>	<u>(26,967)</u>	<u>(1,691,794)</u>	<u>1,286,704</u>	<u>733,879</u>	<u>(901,786)</u>	<u>(1,102,610)</u>
Fund balances at beginning of year, as restated (note 18)	<u>41,797,660</u>	<u>18,613,543</u>	<u>11,413,021</u>	<u>15,677,708</u>	<u>28,762,120</u>	<u>116,264,052</u>	<u>117,366,662</u>
Fund balances at end of year	<u>\$ 40,594,052</u>	<u>18,586,576</u>	<u>9,721,227</u>	<u>16,964,412</u>	<u>29,495,999</u>	<u>115,362,266</u>	<u>116,264,052</u>

See accompanying notes to the basic financial statements.

CITY OF FOUNTAIN VALLEY

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities

Year ended June 30, 2010

	<u>2010</u>	<u>2009</u>
Net changes in fund balances - total governmental funds	\$ (901,786)	(1,102,610)
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.</p>		
Capital outlay	1,560,623	5,259,295
Depreciation expense	(2,538,514)	(1,463,537)
Disposal of capital assets	(54,303)	-
Proceeds from the issuance of notes is reported as other financing sources in governmental funds. The issuance of notes payable increases liabilities in the statement of net assets, but does not result in an increase in net assets in the statement of activities.	(112,882)	(381,332)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	2,114,535	2,018,023
The statement of net assets includes accrued interest on long term debt.	314,685	73,509
To record as an expense (reduction of expense) the net change in claims and judgments payable in the statement of activities.	(710,912)	(1,045,398)
To record as an expense (reduction of expense) the net change in compensated absences in the statement of activities.	107,481	(160,068)
To record as an expense the net change in other post employment benefits in the statement of activities.	(1,452,383)	(1,423,271)
Revenues that are measurable but not available. Amounts are not recorded as revenue under the modified accrual basis of accounting.	<u>(103,046)</u>	<u>354,383</u>
Change in net assets of governmental activities	<u>\$ (1,776,502)</u>	<u>2,128,994</u>

See accompanying notes to the basic financial statements.

CITY OF FOUNTAIN VALLEY
Statement of Net Assets - Proprietary Fund
June 30, 2010

	Water Utility	
	2010	2009
<u>Assets</u>		
Cash and cash equivalents	\$ 8,891,297	9,841,978
Accounts receivable	668,666	609,379
Due from other funds (note 3)	2,814	84,070
Capital assets:		
Capital assets not depreciated	4,166,515	2,854,177
Other capital assets, net	7,037,411	7,222,520
Total assets	20,766,703	20,612,124
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	1,260,465	1,470,400
Deposits payable	46,845	251,925
Advances from other funds (note 15)	2,306,000	-
Non-current liabilities:		
Due within one year	57,703	45,039
Due beyond one year	786,908	857,264
Total liabilities	4,457,921	2,624,628
Net assets:		
Invested in capital assets, net of related debt	10,479,014	9,308,318
Unrestricted	5,829,768	8,679,178
Total net assets	\$ 16,308,782	17,987,496

See accompanying notes to the basic financial statements.

CITY OF FOUNTAIN VALLEY
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund
Year ended June 30, 2010

	Water Utility	
	2010	2009
Operating revenues:		
Charges for services	\$ 8,615,647	8,816,896
Miscellaneous	18,796	13,249
Total operating revenues	8,634,443	8,830,145
Operating expenses:		
Utility administration	898,145	252,615
Pumping and maintenance	931,627	653,161
Water treatment	8,262,279	7,688,083
Depreciation	495,209	492,256
Total operating expenses	10,587,260	9,086,115
Operating income (loss)	(1,952,817)	(255,970)
Nonoperating revenues (expenses):		
Investment income	120,820	251,659
Interest	(164,893)	(28,363)
Total nonoperating revenues (expenses)	(44,073)	223,296
Income (loss) before transfers and capital contributions	(1,996,890)	(32,674)
Transfers in (note 14)	402,896	1,495,582
Transfers out (note 14)	(84,720)	(256,378)
Change in net assets	(1,678,714)	1,206,530
Net assets at beginning of year	17,987,496	16,780,966
Net assets at end of year	\$ 16,308,782	17,987,496

See accompanying notes to the basic financial statements.

CITY OF FOUNTAIN VALLEY
Statement of Cash Flows - Proprietary Fund
Year ended June 30, 2010

	Water Utility	
	2010	2009
Cash flows from operating activities:		
Cash received from customers	\$ 8,370,077	8,883,728
Cash payments to suppliers for goods and services	(8,126,398)	(6,806,948)
Cash payments to employees for services	(2,189,814)	(1,874,829)
	(1,946,135)	201,951
Cash flows from noncapital financing activities:		
Cash paid to other funds	(84,720)	(292,742)
Cash received from other funds	484,152	1,495,582
	399,432	1,202,840
Cash flows from capital and related financing activities:		
Cash paid for acquisition and construction of capital assets	(1,622,438)	(3,407,144)
Cash received from other funds for construction of capital assets	2,306,000	-
Interest paid on debt	(164,893)	(28,363)
Principal paid on debt	(43,467)	(41,998)
	475,202	(3,477,505)
Cash flows from investing activities:		
Interest received on investments	120,820	251,659
	120,820	251,659
Net increase (decrease) in cash and cash equivalents	(950,681)	(1,821,055)
Cash and cash equivalents at beginning of year	9,841,978	11,663,033
Cash and cash equivalents at end of year	\$ 8,891,297	9,841,978

CITY OF FOUNTAIN VALLEY
Statement of Cash Flows - Proprietary Fund
(Continued)

	Water Enterprise	
	2010	2009
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (1,952,817)	(255,970)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	495,209	492,256
(Increase) decrease in accounts receivable	(59,287)	(158,324)
Increase (decrease) in accounts payable	(209,935)	(105,762)
Increase (decrease) in deposits payable	(205,080)	211,907
Increase (decrease) in compensated absences	(14,225)	17,844
Total adjustments	6,682	457,921
Net cash provided by (used for) operating activities	\$ (1,946,135)	201,951

There were no noncash investing and financing activities during the years ended June 30, 2010 and 2009.

See accompanying notes to the basic financial statements.

CITY OF FOUNTAIN VALLEY
Statement of Fiduciary Net Assets
June 30, 2010

	Agency Funds	
	2010	2009
<u>Assets</u>		
Cash and investments (note 2)	\$ <u>1,324,811</u>	<u>1,137,714</u>
Total assets	<u>\$ 1,324,811</u>	<u>1,137,714</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Deposits payable	\$ <u>1,324,811</u>	<u>1,137,714</u>
Total liabilities	<u>\$ 1,324,811</u>	<u>1,137,714</u>

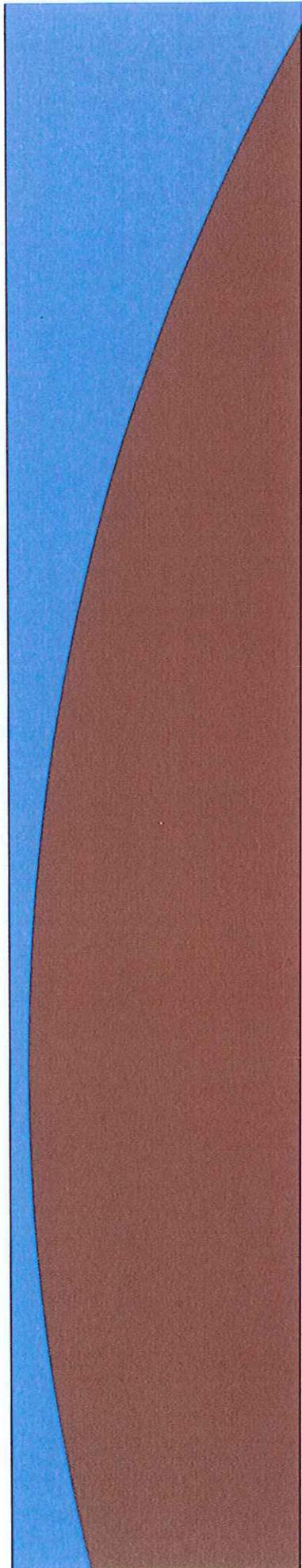
See accompanying notes to the basic financial statements.

City of Fountain Valley

*Notes to the Basic
Financial Statements*



Palm Island at Mile Square Park





CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

Year ended June 30, 2010

(1) Summary of Significant Accounting Policies

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

(a) Reporting Entity

The City of Fountain Valley is a general law city governed by an elected five-member city council. As required by generally accepted accounting principles, these financial statements present the City of Fountain Valley (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. These entities are legally separate from the City. However, the City of Fountain Valley's elected officials have a continuing full or partial accountability for fiscal matters of the other entities.

An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government. In a blended presentation, a component unit's balances and transactions are reported in a manner similar to the balances and transactions of the City. Component units are presented on a blended basis when the component unit's governing body is substantially the same as the City's or the component unit provides services almost entirely to the City. Therefore, the component units of the City discussed below are presented blended within the financial statements of the City.

The Fountain Valley Agency for Community Development (Agency) was established in August, 1975 pursuant to California Community Redevelopment laws. The Agency has established two project areas for the purposes of creating a high-quality industrial area and a high-quality civic center within the City. Complete financial statements for the Agency can be obtained at City of Fountain Valley, Finance Department, 10200 Slater Avenue P.O. Box 8030, Fountain Valley, CA 92728-8030.

The Fountain Valley Financing Authority (Authority) was established in April, 2003, for the purpose of issuing tax exempt obligations and retaining the services of a land counsel and financial advisor. Separate financial statements are not prepared for this blended component unit.

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units). Governmental activities include governmental funds and proprietary internal service funds. Business-type activities include proprietary enterprise funds. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Government-wide Financial Statements, (Continued)

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program. Taxes and other items not included among program revenues are reported instead as *general revenues*.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. The issuance of long-term debt is recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

Fund Financial Statements

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

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about the major fund individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses an availability period of 90 days.

Revenue recognition is subject to the *measurable* and *available* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed nonexchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary nonexchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets.

Revenues, expenses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 which requires that local governments defer grant revenue that is not received within 90 days after the fiscal year end to meet the "available" criteria of revenue recognition. In the past, the industry practice for grants was to recognize revenue in the fiscal year in which the related expense was incurred.

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Governmental Funds, (Continued)

Therefore recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts.

Sales taxes, property taxes, franchise taxes, intergovernmental, rental income, transient occupancy taxes and special assessments are all considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available when cash is received by the government.

Due to the nature of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The issuance of long-term debt is recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

Proprietary and Fiduciary Funds

The City's enterprise fund is a proprietary fund. In the fund financial statements, the proprietary fund is presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, the proprietary fund is presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or noncurrent) associated with its activity is included on the balance sheet. The proprietary fund type operating statement presents increases (revenues) and decreases (expenses) in total net assets.

CITY OF FOUNTAIN VALLEY
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Proprietary and Fiduciary Funds, (Continued)

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, taxes, and investment earnings result from nonexchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the enterprise fund financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the enterprise fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the enterprise fund are reported as a reduction of the related liability, rather than as expenditures. Agency funds are custodial in nature (assets equal liabilities) and do not involve the recording of City revenues and expenses.

(c) Fund Classifications

The City reports the following major governmental funds:

General Fund This is the primary operating fund of the City. It accounts for all activities of the general government, except those required to be accounted for in another fund.

Industrial Redevelopment Debt Service Fund This debt service fund is used to account for tax increment revenue and interest income related to the Industrial Project Area. These funds are used for repayment of principal and interest on the indebtedness of the Agency.

Industrial Redevelopment Capital Projects Fund This capital projects fund is used to account for the construction of all capital projects located in the Industrial Project Area and financed by the Redevelopment Agency.

Housing Set-Aside Capital Projects Fund This capital projects fund is used to account for the receipt and disbursement of monies used for the construction of major capital facilities for housing which generally require more than one budgetary cycle to complete. This project is funded by fees, assessments, and federal and state grants.

The City of Fountain Valley reports the following major enterprise fund:

Water Utility Fund This enterprise fund is used to account for the provision of water to the residents of the City. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operation, maintenance, construction, financing and related debt service.

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(d) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the fund balance, is employed in the governmental funds. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

(e) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments. The City pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*.

(f) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of 3 months or less. Cash equivalents represent the proprietary funds' share in the cash and investment pool of the City of Fountain Valley. Certain restricted assets and deposits of proprietary funds consist of investments which are not considered to be cash equivalents as defined above and therefore excluded from the statements of cash flows.

CITY OF FOUNTAIN VALLEY
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(g) Inventories

Inventories are stated at average cost. Physical counts of inventory are taken on a cyclical basis during each fiscal year with perpetual records adjusted to actual at that time. The City uses the consumption method of accounting for inventories.

(h) Property Taxes

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities based on complex formulas. Accordingly, the City of Fountain Valley accrues only those taxes which are received within 90 days after year end.

The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment - November 1 Second Installment - February 1
Delinquent Date:	First Installment - December 11 Second Installment - April 11

(i) Claims and Judgments

The City records a liability for litigation, judgments, and claims when it is probable that an asset has been impaired or a liability (including incurred but not reported) has been incurred prior to year end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated. This liability is recorded in the General fund.

(j) Employee Leave Benefits

In accordance with GASB Statement No. 16, a liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(j) Employee Leave Benefits, (Continued)

In accordance with GASB Statement No. 16, a liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

Under GASB Statement No. 16, a liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. This is estimated by including in the liability the unused balances of employees currently entitled to receive termination payment, as well as those who are expected to become eligible to receive termination benefits as a result of continuing their employment with the City. Other amounts of unused sick leave are excluded from the liability since their payment is contingent solely upon the occurrence of a future event (illness) which is outside the control of the City and the employee.

If material, a proprietary fund liability is accrued for all leave benefits relating to the operations of the proprietary funds. A current liability is accrued in the governmental funds for material leave benefits due on demand to governmental fund employees that have terminated prior to year end. All other amounts are recorded in the government-wide financial statements. These non-current amounts will be recorded as fund expenditures in the year in which they are paid or become due on demand to terminated employees.

(k) Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are valued at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at their estimated fair value on the date of donation. Capital assets subject to lease obligations are valued at the present value of future lease payments at the inception of the lease.

Depreciation of all exhaustible capital assets used by the governmental and business-type activities is charged as an expense against their operations. Accumulated depreciation is reported on the statement of net assets. Depreciation has been calculated using the straight-line method over the following estimated useful lives:

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(k) Capital Assets, (Continued)

Depreciation of all exhaustible capital assets used by the governmental and business-type activities is charged as an expense against their operations. Accumulated depreciation is reported on the statement of net assets. Depreciation has been calculated using the straight-line method over the following estimated useful lives:

Buildings	25-40 years
Improvements other than buildings	10-50 years
Vehicles	3-25 years
Machinery and equipment	10 years
Furniture and fixtures	10 years
Infrastructure	20-50 years
Reservoirs	60 Years
Wells, pumps and mains	25-75 Years
Water meters and hydrants	30 Years
Other water equipment	6-25 Years

The following schedule shows the minimum threshold at which the various types of asset purchases are capitalized:

Land/land improvements	Capitalize All
Buildings	\$50,000
Building improvements	25,000
Structures and improvements other than buildings	25,000
Equipment and vehicles	5,000
Infrastructure	100,000

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the government-wide statement of net assets. The City has elected to use the depreciation approach using the straight-line depreciation method for some of the infrastructure assets and the modified approach for others, in which the City agrees to maintain those assets at a specified level of maintenance. Those assets reported using the depreciation method are traffic signals, sewers, and storm drains. Those assets reported using the modified approach are arterial pavement, local pavement, curbs and gutters and sidewalks.

(l) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions

CITY OF FOUNTAIN VALLEY
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(l) Use of Estimates, (Continued)

that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses, during the reporting period. Actual results could differ from those estimates.

(m) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's prior year financial statements, from which the selected financial data was derived.

(n) Land Held for Resale

Land held for resale is recorded at the lower of cost or, upon entering into a contract for sale, the estimated realizable value. Fund balances are reserved in amounts equal to the carrying value of land and building held for resale, because such assets are not available to finance the Agency's current operations.

(2) Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$115,417,372
Cash and investments with fiscal agent	4,506,580
Fiduciary funds:	
Cash and investments	<u>1,324,811</u>
Total cash and investments	<u>\$121,248,763</u>

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	\$ 28,675
Deposits with financial institutions	4,067,791
Investments	<u>117,152,297</u>
Total cash and investments	<u>\$121,248,763</u>

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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

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

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment in One Issuer</u>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	40%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	None	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

*Based on state law requirements or investment policy requirements, whichever is more restrictive.

CITY OF FOUNTAIN VALLEY
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by fiscal agent are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Banker's Acceptances	30 days
Commercial Paper	180 days
Money Market Mutual Funds	None
Investment Contracts	None
Local Agency Bonds	None
Corporate Notes	None
Medium Term Notes	None
Repurchase Agreements	None
Financial Futures / Option Contracts	None
California Arbitrage Management Pool	None
Negotiable Certificate of Deposits	None
Local Agency Investment Fund (LAIF)	None

Disclosures Relating to Interest Rate Risk

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

CITY OF FOUNTAIN VALLEY
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk, (Continued)

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity. For purposes of the schedule shown below, any callable securities are assumed to be held to maturity.

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
Local Agency Investment Fund	\$ 56,290,813	56,290,813	-	-	-
Corporate notes	6,228,680	2,000,000	-	4,228,680	-
Federal agency securities	40,713,060	4,032,520	7,006,680	29,673,860	-
Money market funds	9,413,165	9,413,165	-	-	-
Held by Fiscal agent:					
Local Agency Investment Fund	1,973,043	1,973,043	-	-	-
Money market funds	<u>2,533,536</u>	<u>2,533,536</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total	 <u>\$117,152,297</u>	 <u>76,243,077</u>	 <u>7,006,680</u>	 <u>33,902,540</u>	 <u>-</u>

CITY OF FOUNTAIN VALLEY
Notes to the Basic Financial Statements

(Continued)

(2) 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 by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
Local Agency Investment Fund	\$ 56,290,813	N/A	-	-	56,290,813
Corporate notes	6,228,680	A	-	6,228,680	-
Federal agency securities	40,713,060	N/A	40,713,060	-	-
Money market funds	9,413,165	A	9,413,165	-	-
Held by Fiscal agent:					
Local Agency Investment Fund	1,973,043	N/A	-	-	1,973,043
Money market funds	<u>2,533,536</u>	AAA	<u>2,533,536</u>	<u>-</u>	<u>-</u>
Total	<u>\$117,152,297</u>		<u>52,659,761</u>	<u>6,228,680</u>	<u>58,263,856</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	Federal agency securities	\$21,721,461
Federal National Mortgage Association	Federal agency securities	7,976,799
Federal Home Loan Mortgage Corporation	Federal agency securities	6,006,680

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Custodial Credit Risk

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

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (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 not rated.

CITY OF FOUNTAIN VALLEY
Notes to the Basic Financial Statements
(Continued)

(3) Due From and To Other Funds

Interfund receivable and payable balances at June 30, 2010 are as follows:

<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Amount</u>
General Fund	Industrial Redevelopment Area Capital Project Fund	\$ 25,000 (a)
Non-Major Governmental Funds	Industrial Redevelopment Area Capital Project Fund	52,536 (a)
Water Enterprise Fund	Industrial Redevelopment Area Capital Project Fund	2,814 (a)
General Fund	Non-Major Governmental Funds	2,442 (b)
General Fund	Industrial Redevelopment Area Debt Service Fund	<u>151,030 (c)</u>
Total		<u>\$ 233,822</u>

- (a) Interfund balances are the result of expenses incurred by the Fountain Valley Agency for Community Development for its contribution to capital projects in other funds, but that had not been paid by June 30, 2010.
- (b) Interfund balances are the result of short-term borrowings to cover negative cash balances and operating shortages at June 30, 2010.
- (c) Result of a pass through payment paid by the General Fund for the Industrial Redevelopment Area Debt Service Fund.

CITY OF FOUNTAIN VALLEY
Notes to the Basic Financial Statements
(Continued)

(4) Capital Assets

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

	<u>Balance at June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2010</u>
Governmental activities:				
Buildings	\$ 17,274,254	-	-	17,274,254
Improvements	752,560	-	-	752,560
Vehicles and equipment	6,553,831	298,790	(1,095,805)	5,756,816
Furniture and fixtures	6,572	-	-	6,572
Infrastructure	<u>24,712,715</u>	<u>-</u>	<u>-</u>	<u>24,712,715</u>
Subtotal	<u>49,299,932</u>	<u>298,790</u>	<u>(1,095,805)</u>	<u>48,502,917</u>
Less accumulated depreciation:				
Buildings	(6,807,963)	(349,019)	-	(7,156,982)
Improvements	(255,768)	(37,628)	-	(263,396)
Vehicles and equipment	(4,169,734)	(543,926)	1,041,502	(3,672,158)
Furniture and fixtures	(3,835)	(548)	-	(4,383)
Infrastructure	<u>(13,098,366)</u>	<u>(565,891)</u>	<u>-</u>	<u>(13,664,257)</u>
Total accumulated depreciation	<u>(24,305,666)</u>	<u>(1,497,012)</u>	<u>1,041,502</u>	<u>(24,761,176)</u>
Net depreciable assets	<u>24,994,266</u>	<u>(1,198,222)</u>	<u>(54,303)</u>	<u>23,741,741</u>
Capital assets not depreciated:				
Infrastructure	61,648,403	878,923	-	62,527,326
Land	3,885,105	-	-	3,885,105
Rights of way*	17,948,464	-	-	17,948,464
Construction in progress	<u>712,320</u>	<u>220,331</u>	<u>(878,923)</u>	<u>53,728</u>
	<u>84,194,292</u>	<u>1,099,254</u>	<u>(878,923)</u>	<u>84,414,623</u>
Capital assets, net	<u>\$109,188,558</u>	<u>(98,698)</u>	<u>(933,266)</u>	<u>108,156,364</u>

*The beginning balance of Rights of way has been restated due to implementation of GASB Statement No. 51.

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(4) Capital Assets, (Continued)

Depreciation expense was charged in the following functions in the Statement of Activities:

General government	\$ 95,363
Transportation	2,156
Public safety	297,756
Community development	875,205
Community services	<u>226,532</u>
	<u>\$1,497,012</u>

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
Business-type activities:				
Buildings	\$ 8,241,482	-	-	8,241,482
Improvements other than buildings	11,171,741	310,100	-	11,481,841
Machinery and equipment	<u>47,777</u>	<u>-</u>	<u>-</u>	<u>47,777</u>
Total cost of depreciable assets	<u>19,461,000</u>	<u>310,100</u>	<u>-</u>	<u>19,771,100</u>
Less accumulated depreciation:				
Buildings	(5,358,947)	(265,520)	-	(5,624,467)
Improvements other than buildings	(6,862,432)	(224,911)	-	(7,087,343)
Machinery and equipment	<u>(17,101)</u>	<u>(4,778)</u>	<u>-</u>	<u>(21,879)</u>
Total accumulated depreciation	<u>(12,238,480)</u>	<u>(495,209)</u>	<u>-</u>	<u>(12,733,689)</u>
Net depreciable assets	<u>7,222,520</u>	<u>(185,109)</u>	<u>-</u>	<u>7,037,411</u>
Capital assets not depreciated:				
Land	123,076	-	-	123,076
Construction in progress	<u>2,731,101</u>	<u>1,312,338</u>	<u>-</u>	<u>4,043,439</u>
	<u>2,854,177</u>	<u>1,312,338</u>	<u>-</u>	<u>4,166,515</u>
Capital assets, net	<u>\$10,076,697</u>	<u>1,127,229</u>	<u>-</u>	<u>11,203,926</u>

Depreciation expense in the amount of \$495,209 was charged to the water utility fund.

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 (including unamortized discounts and refunding costs) are as follows:

Governmental activities:	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010	Due within one year	Due in more than one year
Compensated absences payable	\$ 2,455,522	29,470	(136,951)	2,348,041	130,957	2,217,084
Claims and judgments*	2,457,771	1,309,808	(598,896)	3,168,683	570,588	2,598,095
Other post employment benefits	1,423,271	2,526,000	(1,073,617)	2,875,654	-	2,875,654
Capital lease obligations	1,219,811	112,882	(208,380)	1,124,313	221,108	903,205
Notes payable*	16,697,361	-	(160,963)	16,536,398	16,536,398	-
1998 Tax Allocation Bonds	11,510,000	-	(1,445,000)	10,065,000	1,510,000	8,555,000
2003 Certificates of Participation	<u>11,190,000</u>	<u>-</u>	<u>(460,000)</u>	<u>10,730,000</u>	<u>470,000</u>	<u>10,260,000</u>
Total governmental long-term liabilities	<u>\$46,953,736</u>	<u>3,898,160</u>	<u>(4,083,807)</u>	<u>46,848,089</u>	<u>19,439,051</u>	<u>27,409,038</u>

Governmental compensated absences are generally liquidated by the general fund.

* The beginning balance of claims and judgments and notes payable has been restated. See note 18.

Changes in long-term liabilities for business-type activities for the year ended June 30, 2010 are as follows:

Business-type activities:	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010	Due within one year	Due in more than one year
Compensated absences payable	\$ 133,924	3,841	(18,066)	119,699	12,714	106,985
Notes payable	<u>768,379</u>	<u>-</u>	<u>(43,467)</u>	<u>724,912</u>	<u>44,989</u>	<u>679,923</u>
Business-type long-term liabilities	<u>\$ 902,303</u>	<u>3,841</u>	<u>(61,533)</u>	<u>844,611</u>	<u>57,703</u>	<u>786,908</u>

Business-type compensated absences are generally liquidated by the water fund.

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(6) Notes Payable

Governmental activities:

The Industrial Project Area has an outstanding note payable to Price Company in the amount of \$16,536,398 bearing interest at the prime rate charged by Bank of America NT. The note is part of a development agreement that is vital to the best interest of the City of Fountain Valley and the welfare of its residents, and in accordance with the public purposes and provisions of applicable federal, state and local laws and requirements. The interest rate is adjusted annually on the anniversary date of the note year to the prime rate of interest per annum charged by Bank of America. The note will be repaid from property tax increment revenues. Interest payments are due quarterly beginning the third month after the first anniversary date of the opening of the store in November 1989. The term of this note is twenty-one years at the end of which the debt will be forgiven.

Business-type activities:

The Water Utility Fund of the City entered into an agreement with the Orange County Water District (OCWD) in a joint effort to improve water supply facilities. This agreement is for the construction of a groundwater production well, including a pump, motor and ancillary surface facilities, in the City of Fountain Valley. At June 30, 2010 the amount outstanding on the loan is \$724,911. During the construction phase of the project the City will make annual interest payments at an interest rate of 3.5% on the advanced funds. The interest rate is 3.5% with annual principal and interest payments beginning July 1, 2003. The annual requirements to amortize the loan, as of June 30, 2010 are as follows:

Year Ending June 30,	Loans Payable OCWD	
	Principal	Interest
2011	\$ 44,989	25,372
2012	46,564	23,797
2013	48,194	22,168
2014	49,880	20,481
2015	51,626	18,735
2016	53,433	16,928
2017	55,303	15,058
2018	57,239	13,122
2019	59,242	11,119
2020	61,315	9,046
2021	63,462	6,899
2022	65,683	4,678
2023	67,982	2,379
Total	<u>\$724,912</u>	<u>189,782</u>

CITY OF FOUNTAIN VALLEY
Notes to the Basic Financial Statements

(Continued)

(7) Obligations Under Capital Leases

The City of Fountain Valley has entered into various agreements to lease fire trucks and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations.

The lease arrangements are as follows:

<u>Description</u>	<u>Date of Agreement</u>	<u>Monthly Installment</u>	<u>Interest Rate</u>	<u>Commencing</u>	<u>Terminating</u>	<u>Acquisition Cost</u>
Fire trucks	October 28, 2005	\$231,750*	5.18%	10/1/2007	10/1/2015	\$1,417,407
Copying equipment	January 16, 2007	\$1,051	8%	9/13/2007	8/13/2012	\$48,657
Folder inserting equipment	June 3, 2008	\$617	8%	7/1/2008	6/1/2012	\$24,131
Copiers	September 15, 2009	\$1,730	8%	10/1/2009	9/1/2014	\$103,800

* On October 1, 2014 and 2015, respectively, the installment payment amount is \$114,935.

The lease agreements have been recorded at the present value of the future minimum lease payments as of the date of inception. The outstanding balance of the capital lease obligations at June 30, 2010 was \$1,124,313.

The calculation of the present value of the future lease payments is as follows:

<u>Amount of future lease payments For the year ending June 30,</u>	<u>Governmental Activities Amount</u>
2011	\$ 272,521
2012	268,318
2013	252,510
2014	252,510
2015	127,854
2016	<u>114,945</u>
Subtotal	1,288,658
Less: amount representing interest	<u>(164,345)</u>
Present value of future lease payments	<u>\$ 1,124,313</u>

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(8) Bonds Payable

Governmental activities:

1998 Tax Allocation Bonds:

On November 1, 1998 the Fountain Valley Agency for Community Development issued \$24,225,000 1998 Tax Allocation Refunding Bonds (Industrial Redevelopment Project Area) for the purpose of refunding all of the Agency's Industrial Area Redevelopment Project Tax Allocation Bonds, Issue of 1985 in the amount of \$24,270,000. Interest rates vary from 3.80% to 4.70%. 1998 Bonds maturing on or before January 1, 2008, are not subject to optional redemption prior to their respective maturing dates. The 1998 Bonds maturing on or after January 1, 2009 are subject to redemption as a whole or in part on any date on or after January 1, 2008 at prices ranging from 100% to 101% of the principal amount of the bond together with accrued interest thereon to the date of redemption.

The required reserve for the Tax Allocation Bonds is \$1,967,310 and as of June 30, 2010 the reserve was fully funded. The amount of bonds outstanding at June 30, 2010 is \$10,065,000.

Annual requirements to amortize outstanding bonds as of June 30, 2010 are as follows:

Fiscal Year Ending June 30	<u>Principal</u>	<u>Interest</u>
2011	\$ 1,510,000	457,310
2012	1,570,000	392,380
2013	1,640,000	323,300
2014	1,715,000	249,500
2015	1,775,000	170,610
2016	<u>1,855,000</u>	<u>87,185</u>
Total	<u>\$10,065,000</u>	<u>1,680,285</u>

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(9) Certificates of Participation

2003 Multiple Capital Facilities

On July 9, 2003, the City issued 2003 Certificates of Participation in the amount of \$13,270,000. The Certificates were being issued for the purpose of financing the acquisition, construction and equipping of certain improvements to City park facilities at the western portion of "Mile Square Park," a senior community center, and miscellaneous capital improvements to the City's Civic Center complex and other existing City facilities. The Term Certificates of \$2,435,000 are due September 1, 2026 with an interest rate of 4.5%. The Certificates bear interest ranging from 2.00% to 4.125%, payable semiannually on March 1 and September 1, commencing March 1, 2004.

Future requirements to amortize outstanding certificates of participation as of June 30, 2010 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 470,000	411,061
2012	485,000	396,736
2013	500,000	381,711
2014	515,000	363,661
2015	535,000	344,400
2016	550,000	325,814
2017	570,000	305,929
2018	590,000	284,606
2019	615,000	260,859
2020	640,000	235,375
2021	665,000	209,275
2022	690,000	182,175
2023	720,000	153,975
2024	750,000	124,575
2025	775,000	92,137
2026	810,000	56,475
2027	850,000	19,125
Totals	<u>\$10,730,000</u>	<u>4,147,889</u>

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(10) Claims and Judgments

Self-Insurance:

At June 30, 2010, the City was self-insured for workers' compensation, employee long-term disability insurance and general liability. Additionally, the City has purchased coverage for individual workers' compensation claims in excess of \$500,000 for general employees and \$1,000,000 for public safety. The City's general and auto liability self-insurance retention is \$25,000, and the balance extending to \$50,000,000 is covered by the use of pooling maintained through the California Joint Powers Insurance Authority (CJPIA). The City also purchases commercial insurance for other risks of loss, including property loss, fidelity and vehicle physical damage.

Description of Self-Insurance Pool Pursuant to Joint Powers Agreement:

The City of Fountain Valley is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 122 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The California JPIA began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

Self-Insurance Programs of the Authority:

General Liability Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between police and non-police. Costs are allocated to members by the following methods within each of the four layers of coverage: (1) the first \$30,000 of each occurrence is charged directly to the member's primary deposit; (2) costs from \$30,000 to \$750,000 and the loss development reserves associated with losses up to \$750,000 are pooled based on the member's share of losses under \$30,000; (3) losses from \$750,000 to \$5,000,000 and the associated loss development reserves are pooled based on payroll; (4a) costs of covered claims from \$5,000,000 to \$10,000,000 are paid under reinsurance policies and are subject to a \$2,500,000 annual aggregate deductible; (4b) costs of covered claims from \$10,000,000 to \$50,000,000 are covered through excess insurance policies; (4c) Costs of covered claims for subsidence losses are paid by excess insurance with a sub-limit of \$25,000,000 per occurrence per member. This \$25,000,000 subsidence sub-limit is composed of \$10,000,000 in reinsurance and \$15,000,000 in excess insurance. The excess insurance layer has a \$15,000,000 annual aggregate. The costs associated with 4a, 4b, and 4c are estimated using actuarial models and pre-funded as part of the primary and retrospective deposits.

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(10) Claims and Judgments, (Continued)

The overall policy limit for each member including all layers of coverage is \$50,000,000 per occurrence.

Workers Compensation The City has purchased Workers' Compensation Insurance with Safety National Casualty Corporation. Under this policy the maximum limit of indemnity per occurrence is set at the Statutory limits. The City retains \$1,000,000 per occurrence for public safety worker claims and \$500,000 for all others.

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

Changes in the claims and judgments payable amounts in fiscal years ended June 30, 2009 and 2010 are as follows:

	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year End</u>
2008-09	297,062	1,278,578	(233,180)	1,342,460
2009-10	2,457,771*	1,309,808	(598,896)	3,168,683

* The beginning balance of Claims Payable has been restated. See note 18.

(11) Other Post-Employment Benefits

Plan Description: The City administers a single-employer defined benefit plan which provides health care benefits to eligible retirees any qualified family members. For all covered employees with effective dates of retirement after October 1, 1980 and a minimum of 10-20 years of continuous service, the City contributes the actual cost of insurance up to the amount contributed for active employees. For general, professional and technical employees hired prior to February 16, 1986, insurance with the City will be supplemental to Medicare upon reaching the age of 65. For employees hired after February 16, 1986, benefits with the City will terminate upon reaching age 65. For fire employees hired prior to August 10, 1985, insurance with the City will be supplemental to Medicare upon reaching the age of 65. For fire employees hired after August 10, 1985, benefits with the City will terminate upon reaching age 65. For police employees, insurance with the City will be supplemental to Medicare upon reaching the age of 65. Department Directors receive paid supplemental coverage after the age of 65.

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(11) Other Post Employment Benefits (Continued)

Eligibility: Employees are eligible for retiree health benefits if they retire from the City on or after age 50 with at least 5 years of service, and are eligible for a PERS pension. Membership of the plan consisted of the following at January 1, 2010, the date of the latest actuarial valuation:

	<u>Miscellaneous</u>	<u>Safety</u>	<u>Total</u>
Retirees and beneficiaries receiving benefits	151	118	269
Active plan members	<u>121</u>	<u>97</u>	<u>218</u>
Total	<u>272</u>	<u>215</u>	<u>487</u>

City's Funding Policy: The contribution requirements of plan members and the City are established and may be amended by City Council. The contribution required to be made under City Council and labor agreement requirements is based on a pay-as-you-go basis (i.e., as medical insurance premiums become due). For fiscal year 2009-10, the City contributed \$1,073,617 to the plan for current premiums.

The City has not established a trust that is administered by the City for the purpose of holding assets accumulated for plan benefits.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for these benefits:

CITY OF FOUNTAIN VALLEY
Notes to the Basic Financial Statements
(Continued)

(11) Other Post Employment Benefits (Continued)

	<u>Miscellaneous</u>	<u>Safety</u>	<u>Total</u>
Annual required contribution	\$ 917,000	1,609,000	2,526,000
Interest on net OPEB obligation	-	-	-
Adjustments to annual required contributions	<u>-</u>	<u>-</u>	<u>-</u>
Annual OPEB cost (expense)	917,000	1,609,000	2,526,000
Contributions made (including premiums paid)	<u>(562,897)</u>	<u>(510,720)</u>	<u>(1,073,617)</u>
Increase in net OPEB obligation	354,103	1,098,280	1,452,383
Net OPEB obligation-beginning of year	<u>350,783</u>	<u>1,072,488</u>	<u>1,423,271</u>
Net OPEB obligation-end of year	<u>\$ 704,886</u>	<u>2,170,768</u>	<u>2,875,654</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and the two preceding years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/08	N/A	N/A	N/A
6/30/09	\$2,446,000	41.8%	1,423,271
6/30/10	2,526,000	42.5%	1,455,617

Funded Status and Funding Progress. The funded status of the plan as of January 1, 2010, is presented below.

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(11) Other Post Employment Benefits (Continued)

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

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

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Actuarial Cost Method. The actuarial assumptions included a 4.5 percent investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate established as follows for Non-Medicare/Medicare and HMO/PPO: Between 9.7 and 10.9 percent initially, reduced to between 9.05 and 10.10 percent from the second year to the seventh, and a rate of 4.5 percent thereafter. The UAAL is being amortized as a level percentage of projected payroll over 30 years. It is assumed the City's payroll will increase 3.25% per year.

SCHEDULE OF FUNDING PROGRESS (in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
6/30/08	N/A	N/A	N/A	N/A	N/A	N/A
6/30/09	\$0	33,544	33,544	0%	17,431	192.44%
6/30/10	0	34,244	34,244	0%	17,998	190.27%

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(12) Defined Benefit Pension Plan (PERS)

The City of Fountain Valley contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan for miscellaneous employees and a cost-sharing multiple employer public employee defined benefit pension plan for safety employees. PERS provides retirement, disability benefits, 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. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Copies of PERS' annual financial reports may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Safety:

Contributions and Funding Policy: Safety participants are required to contribute 12% of their annual covered salary. The City is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2010 is 9 percent of annual covered payroll and the employee makes the remaining 3% contribution. The contribution requirements of plan members and the City are established and may be amended by City Council in conjunction with applicable labor contracts. The City's contributions to the plan for the years ending June 30, 2008, 2009, and 2010 were \$2,123,215, \$2,189,092, and \$2,163,307, respectively, and were equal to the required contributions for each year.

The safety employees of the City are included in the CalPERS risk pool which was created for groups of fewer than 100 active members.

Miscellaneous:

Participants in the miscellaneous plan are required to contribute 8% of their annual covered salary, the City makes 4.36% of the contribution while the employee contributes 3.64%. Benefit provisions and all other requirements are established by state statute and City contract with employee bargaining groups.

For each of the fiscal years shown below, the City has contributed at the actuarially determined rate provided by PERS' actuaries. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2009 to June 30, 2010 has been determined by an actuarial valuation of the plan as of June 30, 2008. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2010, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2009 to June 30, 2010.

CITY OF FOUNTAIN VALLEY
Notes to the Basic Financial Statements
(Continued)

(12) Defined Benefit Pension Plan (PERS), (Continued)

Miscellaneous (Continued):

A summary of principle assumptions and methods used to determine the ARC is shown below.

	<u>Miscellaneous Plan - Individual</u>
Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	21 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.0% and an annual production growth of 0.25%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

The City of Fountain Valley has an individual plan for miscellaneous employees. The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll for the miscellaneous plan.

CITY OF FOUNTAIN VALLEY
Notes to the Basic Financial Statements
(Continued)

(12) Defined Benefit Pension Plan (PERS), (Continued)

Miscellaneous (Continued):

Required Supplementary Information – Miscellaneous Plan

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability (UAAL)/ (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL As a % of Payroll</u>
6/30/07	\$55,231,746	48,865,530	6,366,216	102.3%	7,590,140	83.9%
6/30/08	59,476,844	52,173,133	7,303,711	89.3%	8,450,726	86.4%

* There was no schedule of funding progress data available for miscellaneous employees on CalPERS annual valuation report as of June 30, 2010 because in September 2010, the City joined the CalPERS risk pool for these employees as well.

Annual Pension Cost (Miscellaneous)

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
6/30/08	12.970%	\$1,063,732	100%	-
6/30/09	13.906%	1,255,614	100%	-
6/30/10	14.408%	1,260,836	100%	-

(13) Defined Contribution Pension Plan (PARS)

As of January 1, 1992, the City of Fountain Valley implemented a defined contribution pension Plan (PARS) for all of its non-regular employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All non-regular employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5% to a retirement plan, and City Council has resolved to match the employees' contributions of 3.75%. The City's contributions for each employee (and interest earned by the accounts) are fully vested immediately.

For the year ended June 30, 2010, the City's payroll covered by the plan was \$481,009 and the City made employer contributions of \$18,037 (3.75% of current covered payroll).

CITY OF FOUNTAIN VALLEY
Notes to the Basic Financial Statements
(Continued)

(14) Transfers In/Transfers Out

The following schedule summarizes the City's transfer activity:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Non-Major Governmental Funds	\$ 816,214 (b)
Water Utility Fund	Non-Major Governmental Funds	133,538
Non-Major Governmental Funds	General Fund	896,838 (c)
Non-Major Governmental Funds	Water Utility Fund	84,720
Non-Major Governmental Funds	Non-Major Governmental Funds	1,626,848 (a)
	Industrial Redevelopment Area	
Non-Major Governmental Funds	Capital Projects Fund	185,374
	Industrial Redevelopment Area	
Water Utility Fund	Capital Projects Fund	269,358
	Industrial Redevelopment Area	
Non-Major Governmental Funds	Debt Service Fund	<u>208,797</u>
	Total	<u>\$ 4,221,714</u>

- (a) Includes \$940,552 transfer from the Park Improvement Fund for Mile Square Park improvements.
- (b) \$350,425 of the \$816,214 are transfers from the Traffic Safety Special Revenue Fund for Traffic Fines. \$518,200 of the \$816,284 are transfers for a pass through payment made by the General Fund for the Gas tax Special Revenue Fund.
- (c) \$674,786 of the \$896,838 are transfers from the Fountain Valley Financing Authority Debt Service Fund for COP debt service payments.

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(15) Advances To and From Other Funds

Advances to other and from other funds at June 30, 2010 are as follows:

<u>Advances to other funds</u>	<u>Advances from other funds</u>	<u>Amount</u>
Housing Set-Aside	Industrial Redevelopment Area Debt Service Fund	\$ 1,841,655 (d)
Non Major Governmental Funds	Industrial Redevelopment Area Debt Service Fund	10,730,000 (e)
General Fund	Water Enterprise Fund	<u>2,306,000 (f)</u>
	Total	<u>\$14,877,655</u>

- (d) Advance from the Housing Set Aside Fund to help pay for the 2009-2010 Supplemental Education Revenue Augmentation Fund (SERAF) payment.
- (e) Advance to the Industrial Redevelopment Area Debt Service Fund to repay the Agency's portion of the 2003 Certificate of Participation (COP's) for funding of the Miles Square Park expansion.
- (f) Advanced due to a promissory note issued from the General Fund to the Water Enterprise Fund for the amount of \$2,306,000 to pay for construction of Well No. 9.

(16) Loans Receivable

The City has outstanding rehabilitation and first time home buyer loans totaling \$2,341,110 to qualified applicants. Loans receivable of \$2,028,597 is recorded in the Housing Set-Aside Capital Projects Fund; \$215,875 in the Community Development Block Grant (CDBG) Special Revenue Fund; and \$96,638 in the HOME Grant Special Revenue Fund. All housing rehabilitation loans are repaid when title to the property changes or according to payment schedules. Since the Department of Housing and Urban Development has claim to any funds remaining when the CDBG and HOME grant programs are terminated, an offsetting amount has been recorded as deferred revenue.

On February 6, 1996, the City loaned the Olson Company \$975,000 for the development of fifteen moderate-income single family detached homes. The loan consists of two parts: \$525,000 (\$35,000 per home) to be repaid to the City upon the sale of the homes and \$450,000 to be passed on to the individual homeowners as 30-year loans of \$30,000 each. The 30-year loans accrue no interest for the first 10 years and thereafter will accrue at 5% simple interest. Each \$30,000 loan will become due and payable to the City if the homeowner resells the property to a family that does not qualify under the income limits or if they sell the home above a qualified purchase price. In the event the loan becomes due, the City will be paid \$30,000 plus the greater of a 10% annual interest rate or its share in the equity of the property. Due to the long-term nature of this note, the City deferred recognition of revenues until payments are received in the fund financial statements. At June 30, 2010, the outstanding balance is \$127,795.

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(16) Loans Receivable, (Continued)

On October 1, 2002, the Agency entered into an Affordable Housing Agreement with Fountain Valley Partners, L.P. for the development of an apartment complex for seniors. Under the agreement, the Agency has agreed to loan Fountain Valley Housing Partners, L.P. \$5,606,071. As of June 30, 2010, \$5,606,071 was loaned at an interest rate of 2%. Principal and interest are due at various maturity dates but no later than 55 years from the date of the note. Due to the long-term nature of the loan, the Agency has deferred recognition of revenues until payment has been received. The amount outstanding at June 30, 2010 is \$5,606,071.

(17) Budgetary Compliance

Funds where expenditures exceeded appropriations:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Industrial Redevelopment Area Debt Service Fund	\$7,053,173	7,318,389	(265,216)
Fountain Valley Financing Authority Capital Projects Fund	1,400	2,442	(1,042)

CITY OF FOUNTAIN VALLEY

Notes to the Basic Financial Statements

(Continued)

(18) Restatement of Net Assets

Beginning net assets have been restated as follows:

	Fund Financials		Governmental
	Industrial Redevelopment Area Debt Service	Fountain Valley Financing Authority Debt Service	Statement of Activities
Net assets at June 30, 2009	\$ 29,343,543	889,630	167,300,845
To adjust beginning balance of claims and judgments payable	-	-	(1,115,311)
Recording rights of way	-	-	17,948,464
To adjust beginning balance of long term notes payable based on new information provided by the Price Company	-	-	2,564,701
To record advance payable to the Financing Authority Debt Service for bond proceeds spent on RDA projects in previous years	(10,730,000)	10,730,000	-
Net assets at June 30, 2009, as restated	<u>\$ 18,613,543</u>	<u>11,619,630</u>	<u>186,698,699</u>