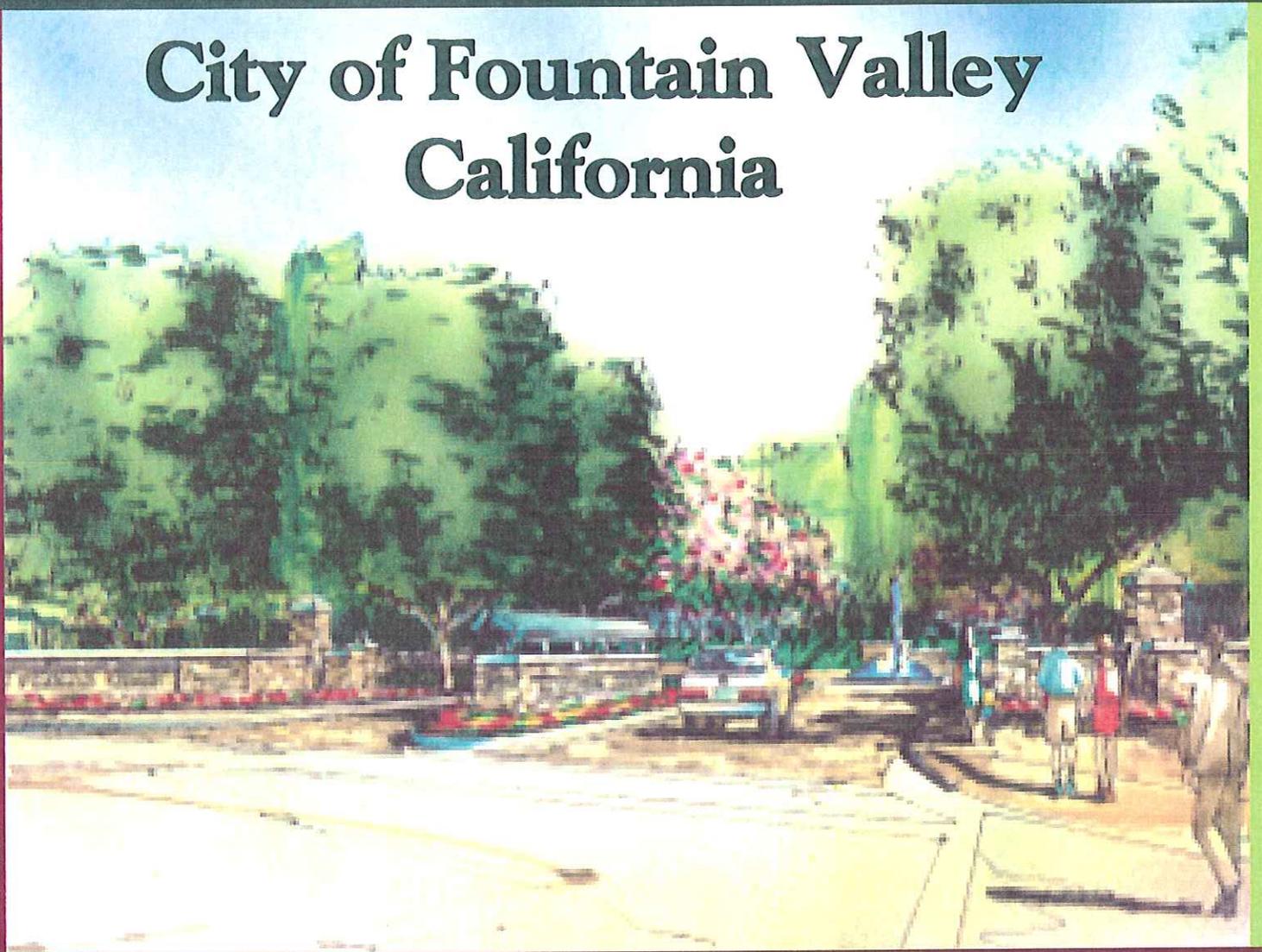


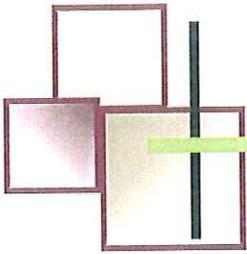
City of Fountain Valley California



Fiscal Year Ended June 30, 2007

2006-07

COMPREHENSIVE ANNUAL FINANCIAL REPORT



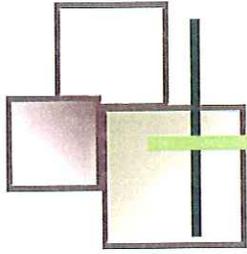
City of Fountain Valley California

Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2007

Prepared by the Finance Department

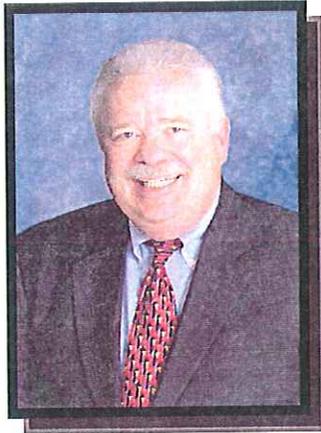
Elizabeth Fox

Finance Director/City Treasurer

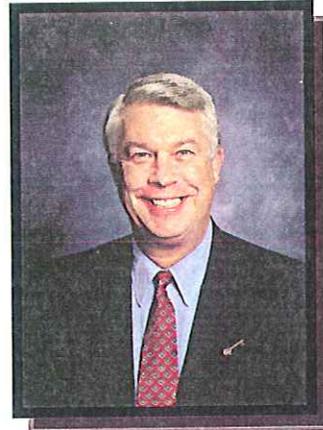


City Council

2006-2007



Gus Ayer
Mayor



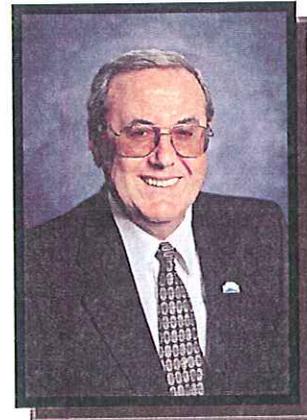
John Collins
Mayor Pro Tempore



Cheryl Brothers
Council Member



Larry R. Crandall
Council Member



Guy Carrozzo
Council Member



CITY OF FOUNTAIN VALLEY

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

December 30, 2007

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, 2007, 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, 2007 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, 2007, 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 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 57,741 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

Management's Transmittal Letter

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 Advisory Committees 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. An 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, 2007. As demonstrated by the statements and schedules included in the Financial Section of this report, the City continues to

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 our residents 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 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.

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 completing 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 pay for the financing with user fees that would be collected for the use of 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

Residential Development: The Planning Commission for the City of Fountain Valley approved three new residential subdivisions. Brighton River Villas LP obtained approval to build eleven (11) townhomes. Additionally, KB Home's obtained approval for the construction of fifty-five (55) one and two story single family homes, ranging in size from 2800 to 4200 sq. ft. that will complete the development of a fifteen acre parcel. The third residential development to be approved is fifty-four (54) detached single family homes ranging in size from 3000 to 4200 sq. ft. each and a one acre park which will be constructed on a previously owned elementary school site.

Commercial Development: Sam's Real Estate Business Trust acquired property contiguous with their land for construction of a 132,000 sq. ft. two story Sam's Club Super Warehouse with a mezzanine, pharmacy, an optical department, tire/battery installation center, a six pump self serve fueling station, a 3,913 sq. ft. Carl's Jr. fast-food restaurant with drive-thru service and a 9,000 sq. ft. retail pad. Construction of the new Club was completed in the 2006-07 fiscal year and the grand re-opening of the store occurred in November, just in time for the holiday season. The original Sam's Club which had remained open during the construction to ensure no loss of business, was demolished to accommodate the new Super Warehouse, parking, additional retail development and a members only fueling station.

Mile Square Park Expansion: Mile Square Park, the focal point of Fountain Valley, began construction on a park expansion project that was planned more than ten years ago when the City began negotiations with Orange County and the Department of the Navy to expand the city owned 55 acres of Mile Square Park to 80 acres. The park will provide extensive amenities for recreation activities for all segments of the population. The construction phase, which encompasses the redevelopment of the entire 80 acres, was awarded last fiscal year with demolition scheduled to begin in July 2007.

Orange Coast Memorial Medical Center: The expansion project approved for the existing hospital site to construct a six story, 162,500 sq. ft. patient care pavilion including an ambulatory surgery center, radiation oncology, cancer center laboratory, rehabilitation center, loading dock and administrative and medical offices with pedestrian walkway to connect to the

Management's Transmittal Letter

second floor of the existing hospital. It would also involve building a new 5,000 sq. ft. addition to the existing emergency department and provide emergency vehicle parking facilities.

The final phase of the development provides for the demolition of all surface parking and the expansion of the existing parking structure to serve the employees and provide patient visitation parking.

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 to 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.

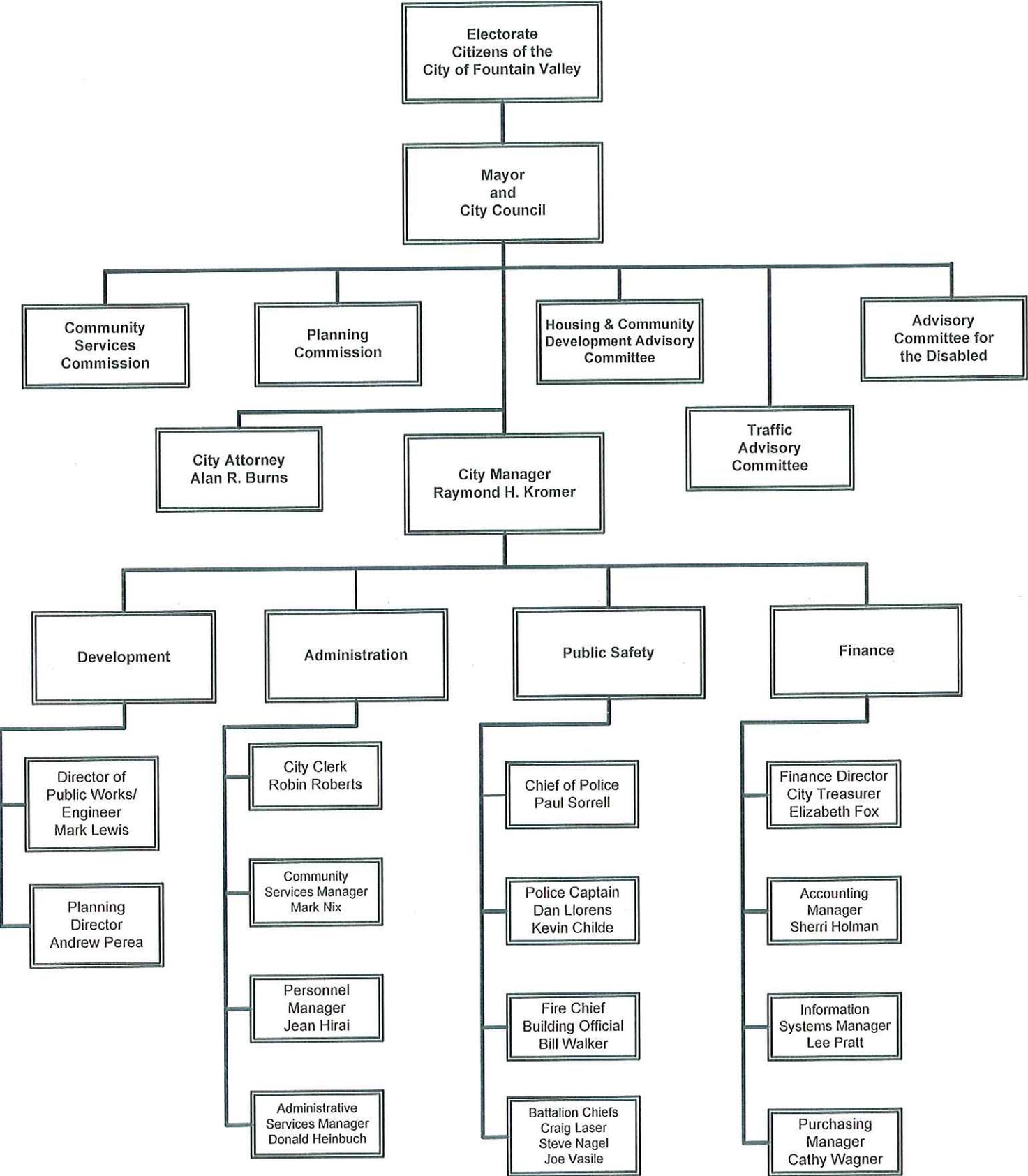
Respectfully submitted,

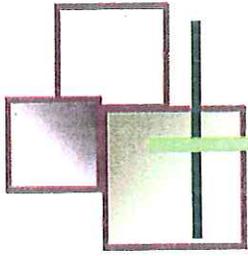


Elizabeth Fox
Finance Director/City Treasurer

City of Fountain Valley

Organizational Chart





City Directory

2006-2007

Mayor

Gus Ayer

Council Members

John J. Collins	Mayor Pro Tempore
Guy Carozzo	Council Member
Cheryl Brothers	Council Member
Larry R. Crandall	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
Elizabeth Fox	Finance Director/City Treasurer
Robert Kellison	Field Services Manager
Mark Lewis	City Engineer
Robin Roberts	City Clerk
Mark Nix	Community Services Manager
Jean Hirai	Personnel Manager
Dan Llorens	Police Captain
Kevin Childe	Police Captain
Craig Laser	Division Chief
Randy Anno	Battalion Chief
Joe Vasile	Battalion Chief
Rory Calhoon	Battalion Chief
Sherri Holman	Accounting Manager
Lee Pratt	Information Systems Manager
Cathy Wagner	Purchasing Manager

City of Fountain Valley

Financial Section



2006-07



Mayer Hoffman McCann P.C.
An Independent CPA Firm
Conrad Government Services Division
2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

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, 2007, 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.

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, 2007, 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.

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 November 30, 2007 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
November 30, 2007

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, 2007. 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

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$171,574,276 (*net assets*). Of this amount, \$36,490,466 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's total net assets increase by \$13,623,951. The majority of the increase is from governmental activities, while business type activities increased by 4 percent.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$122,971,414 an increase of \$10,883,578 in comparison with the prior year. Approximately 33 percent of this amount, \$40,383,859 is unreserved but considered designated for future commitments and \$55,875,803 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 12-13 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the 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 other eighteen 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, City Center Redevelopment Area Capital Projects Fund, the Median Beautification Capital Projects Fund, and the Bicycle Trails 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 15-18 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. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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 19-21 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 23 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 24-55 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 56-59 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. Combining and individual fund statements and schedules can be found on pages 63-89 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 \$171,574,276 at the close of the fiscal year.

Sixty-six percent of the City's net assets reflect cash and investments and 33 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

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	136,402	125,706	11,247	10,238	147,649	135,944
Capital assets	71,836	72,070	7,602	8,016	79,438	80,086
Total Assets	<u>208,238</u>	<u>197,776</u>	<u>18,849</u>	<u>18,254</u>	<u>227,087</u>	<u>216,030</u>
Long-term liabilities outstanding	45,966	48,026	898	954	46,864	48,980
Other liabilities	7,243	6,369	1,405	1,407	8,648	7,776
Total Liabilities	<u>53,209</u>	<u>54,395</u>	<u>2,303</u>	<u>2,361</u>	<u>55,512</u>	<u>56,756</u>
Net Assets:						
Invested in capital assets, net of related debt	39,422	43,252	6,751	7,125	46,173	50,377
Restricted	88,911	19,962			88,911	19,962
Unrestricted	26,696	80,166	9,794	8,767	36,490	88,933
Total Net Assets	<u>155,029</u>	<u>143,380</u>	<u>16,545</u>	<u>15,892</u>	<u>171,574</u>	<u>159,272</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.

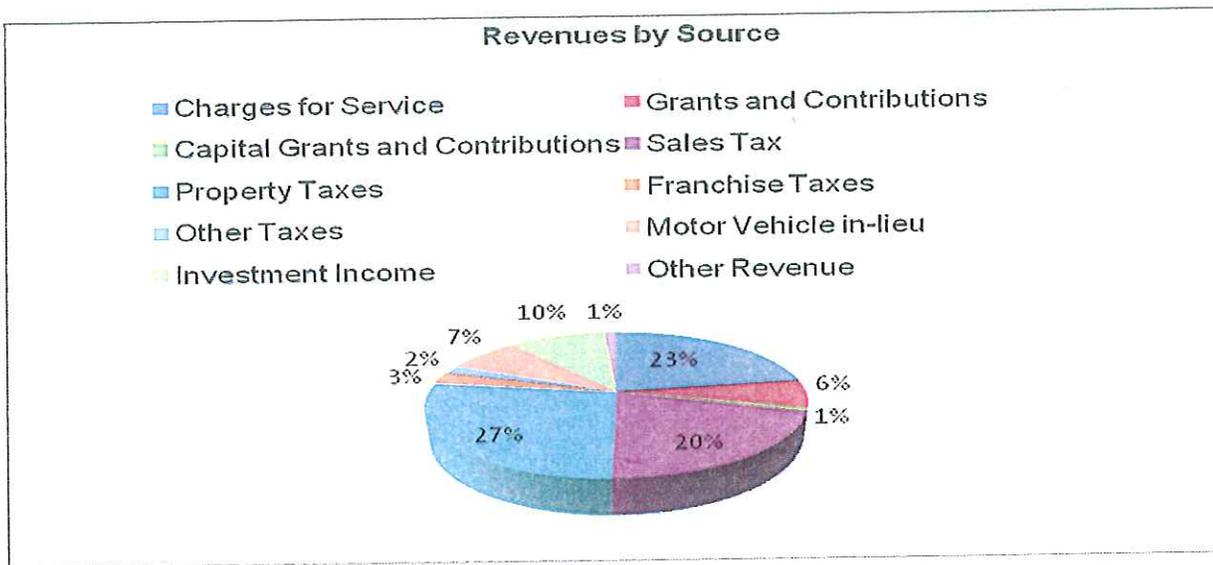
At the end of the 2007 fiscal year, the City of Fountain Valley is able to report positive balances in all three categories of net assets, both for the government as a whole as well as for its separate governmental and business-type activities.

Governmental Activities

Governmental activities increased the City's net assets by \$12,971,633 thereby accounting for 95 percent of the total growth in the net assets of the City. Key elements of this increase follow:

CHANGES IN NET ASSETS

	Governmental		Business-Type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for services	13,380	8,589	9,079	8,333	22,459	16,922
Operating grants and Contributions	3,571	1,328			3,571	1,328
Capital grants and Contributions	489	1,555			489	1,555
General Revenues:					0	
Property taxes	15,828	15,090			15,828	15,090
Franchise taxes	1,449	1,349			1,449	1,349
Sales taxes	11,926	11,517			11,926	11,517
Other taxes	1,098	1,274			1,098	1,274
Revenues from other					0	
Agencies	4,233	4,316			4,233	4,316
Other		1,891			0	1,891
Investment earnings	5,649	4,770	431	300	6,080	5,070
Assessments		143			0	143
Miscellaneous		0			0	
Transfers	(133)	(132)	133	132	0	
Gain/(Loss) on sale of property	702	(485)			702	(485)
Total Revenues	58,192	51,205	9,643	8,765	67,835	59,970
Expenses:						
General government	4,716	7,317			4,716	7,317
Public safety	22,756	20,924			22,756	20,924
Transportation	6,837	6,405			6,837	6,405
Community development	3,845	3,508			3,845	3,508
Culture and leisure	4,747	5,554			4,747	5,554
Interest and fiscal charges	2,321	2,355			2,321	2,355
Amortization expense		28			0	28
Water			8,990	8,859	8,990	8,859
Total Expenses	45,222	46,091	8,990	8,859	54,212	54,950
Increase in net assets	12,970	5,114	653	(94)	13,623	5,020
Net Assets - July 1	142,058	138,265	15,893	15,987	157,951	154,252
Net Assets - June 30	155,028	143,379	16,546	15,893	171,574	159,272



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 end of the 2007 fiscal year, the City of Fountain Valley's governmental funds reported combined ending fund balances of \$122,971,414, an increase of \$9,560,342 in comparison with the prior year. Approximately 45 percent of the total fund balance constitutes *unreserved and undesignated fund balance*, which 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 \$40,383,859 and total fund balance was \$41,891,862. This constitutes an increase of \$1,623,972 for the 2007 fiscal year. The key factor for this increase is position vacancies throughout the fiscal year.

Proprietary Funds

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

Unrestricted net assets of the Water Fund at the end of the year amounted to \$9,794,116. Other factors concerning the finances of the Water Fund have already been addressed in the discussion of the City's business-type activities.

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, 2007, amounts to \$79,437,580 (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 .81 percent.

CAPITAL ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	3,885	3,885	123	123	4,008	4,008
Vehicles and Equipment	1,745	1,903	29	10	1,774	1,913
Furniture and Fixtures	4	93			4	93
Buildings	8,867	9,187	3,421	3,942	12,288	13,129
Construction in Progress	411	1,545			411	1,545
Improvements other than Structures	602	640	4,029	4,382	4,631	5,022
Infrastructure	56,322	54,900			56,322	54,900
Total	71,836	72,153	7,602	8,457	79,438	80,610

Additional information on the City's capital assets can be found in the notes on pages 42-43 of this report.

Long-Term Debt

At year-end, the City had total long term debt outstanding of \$49,007,197. Additional information on the City of Fountain Valley's debt can be found in notes to the financial statements on pages 45 through 48.

LEASES, TAX ALLOCATION BONDS, AND NOTES

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Leases Payable	64	792			64	792
Tax Allocation Bonds	14,235	15,520			14,235	15,520
Notes Payable	18,453	17,904			18,453	17,904
Certificate of Participation	12,075	12,505			12,075	12,505
Compensated Absences	2,412	2,385	98	103	2,510	2,488
Claims Payable	820	862			820	862
Loans Payable			851	890	851	890
Total	48,059	49,968	949	993	49,008	50,961

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the area is currently 4.8 percent which is an increase from the rate of 3.7 percent last year. This rate also compares favorably to the state's average unemployment rate of 4.9 percent and the national average rate of 4.6 percent as of June 30.

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, as it will determine the market rate of return.

Property values in Fountain Valley are projected to increase 6.07 percent and have averaged 6.84 percent increase over the past five years.

All of these factors were considered in preparing the City's budget for the 2007-2008 fiscal years.

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



2006-07

CITY OF FOUNTAIN VALLEY
Statement of Net Assets
June 30, 2007

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments (note 2)	\$ 111,005,063	10,587,791	121,592,854
Cash and investment with fiscal agent (note 2)	12,408,171	-	12,408,171
Receivables:			
Accounts	871,903	579,277	1,451,180
Accrued interest	915,761	71,791	987,552
Notes	7,931,585	-	7,931,585
Due from other governments	2,324,115	8,087	2,332,202
Inventories	80,481	-	80,481
Prepaid expenses	865,369	-	865,369
Capital assets (note 5):			
Capital assets not depreciated	48,665,443	123,076	48,788,519
Other capital assets, net	23,170,122	7,478,939	30,649,061
Total assets	208,238,013	18,848,961	227,086,974
Liabilities:			
Accounts payable	3,633,628	1,317,390	4,951,018
Accrued wages payable	810,838	-	810,838
Accrued interest payable	706,315	-	706,315
Deposits payable	-	37,330	37,330
Noncurrent liabilities (notes 6 to 13):			
Due within one year	2,091,665	50,578	2,142,243
Due in more than one year	45,966,467	898,487	46,864,954
Total liabilities	53,208,913	2,303,785	55,512,698
Net assets:			
Invested in capital assets, net of related debt	39,422,342	6,751,060	46,173,402
Restricted for:			
Low mod housing	18,968,885	-	18,968,885
Public safety	436,758	-	436,758
Public works	17,234,777	-	17,234,777
Debt service	25,947,277	-	25,947,277
Redevelopment agency projects	25,742,360	-	25,742,360
Community development	580,351	-	580,351
Unrestricted	26,696,350	9,794,116	36,490,466
Total net assets	\$ 155,029,100	16,545,176	171,574,276

See accompanying notes to the basic financial statements.

CITY OF FOUNTAIN VALLEY
Statement of Activities
Year ended June 30, 2007

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Governmental activities:				
General government	\$ 4,342,847	1,433,042	888,133	-
Public safety	22,755,905	2,525,676	285,429	-
Transportation	6,836,619	1,291,911	1,330,759	489,366
Community development	3,844,623	2,764,799	869,131	-
Community services	4,746,987	4,991,386	197,924	-
Interest and other charges	2,320,615	-	-	-
Total governmental activities	<u>44,847,596</u>	<u>13,006,814</u>	<u>3,571,376</u>	<u>489,366</u>
Business-type activities:				
Water	<u>8,990,486</u>	<u>9,078,937</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>8,990,486</u>	<u>9,078,937</u>	<u>-</u>	<u>-</u>
	<u>\$ 53,838,082</u>	<u>22,085,751</u>	<u>3,571,376</u>	<u>489,366</u>

General revenues:
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
Net assets at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
(2,021,672)	-	(2,021,672)
(19,944,800)	-	(19,944,800)
(3,724,583)	-	(3,724,583)
(210,693)	-	(210,693)
442,323	-	442,323
<u>(2,320,615)</u>	<u>-</u>	<u>(2,320,615)</u>
<u>(27,780,040)</u>	<u>-</u>	<u>(27,780,040)</u>
<u>-</u>	<u>88,451</u>	<u>88,451</u>
<u>-</u>	<u>88,451</u>	<u>88,451</u>
<u>(27,780,040)</u>	<u>88,451</u>	<u>(27,691,589)</u>
15,827,766	-	15,827,766
11,925,716	-	11,925,716
1,449,384	-	1,449,384
1,098,130	-	1,098,130
4,232,595	-	4,232,595
5,648,819	431,197	6,080,016
701,933	-	701,933
<u>(132,670)</u>	<u>132,670</u>	<u>-</u>
<u>40,751,673</u>	<u>563,867</u>	<u>41,315,540</u>
12,971,633	652,318	13,623,951
<u>142,057,467</u>	<u>15,892,858</u>	<u>157,950,325</u>
<u>\$ 155,029,100</u>	<u>16,545,176</u>	<u>171,574,276</u>

CITY OF FOUNTAIN VALLEY
Balance Sheet - Governmental Funds
June 30, 2007

	Debt				Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Service Fund Industrial Redevelopment Area	Capital Projects Funds Industrial Redevelopment Area Housing Set-Aside			
Assets:						
Cash and investments	\$ 39,990,212	21,713,992	24,552,874	10,347,207	14,400,778	111,005,063
Cash and investments with fiscal agent	-	2,380,880	-	-	10,027,291	12,408,171
Receivables:						
Accounts	471,404	-	-	-	400,499	871,903
Accrued interest	314,608	229,591	275,282	96,280	-	915,761
Loans (note 15)	-	-	-	7,582,572	349,013	7,931,585
Due from other funds (note 3)	-	-	-	-	8,874	8,874
Due from other governments	1,851,705	122,212	-	30,553	319,645	2,324,115
Advances to other funds (note 4)	-	-	-	949,947	-	949,947
Inventory	80,481	-	-	-	-	80,481
Prepaid expenses	865,369	-	-	-	-	865,369
Total assets	\$ 43,573,779	24,446,675	24,828,156	19,006,559	25,506,100	137,361,269
Liabilities and Fund Balance						
Liabilities:						
Accounts payable	\$ 780,337	423,884	1,814,935	37,674	576,798	3,633,628
Accrued wages payable	810,838	-	-	-	-	810,838
Due to other funds (note 3)	-	-	7,649	-	1,225	8,874
Deferred revenue	90,742	-	-	8,214,836	680,990	8,986,568
Advances from other funds (note 4)	-	-	354,715	-	595,232	949,947
Total liabilities	1,681,917	423,884	2,177,299	8,252,510	1,854,245	14,389,855
Fund balance:						
Reserved for:						
Encumbrances	562,153	-	1,494	-	1,179,464	1,743,111
Inventory	80,481	-	-	-	-	80,481
Prepaid expenses	865,369	-	-	-	-	865,369
Debt service requirements	-	24,022,791	-	-	-	24,022,791
Unreserved:						
Designated, reported in						
General Fund:						
Future capital	12,248,894	-	-	-	-	12,248,894
Employee benefits	5,850,852	-	-	-	-	5,850,852
Self insurance	3,270,467	-	-	-	-	3,270,467
Contingencies	19,013,646	-	-	-	-	19,013,646
Undesignated, reported in:						
General fund	-	-	-	-	-	-
Special revenue funds	-	-	-	-	5,275,957	5,275,957
Debt service funds	-	-	-	-	2,814,283	2,814,283
Capital projects funds	-	-	22,649,363	10,754,049	14,382,151	47,785,563
Total fund balance	41,891,862	24,022,791	22,650,857	10,754,049	23,651,855	122,971,414
Total liabilities and fund balance	\$ 43,573,779	24,446,675	24,828,156	19,006,559	25,506,100	137,361,269

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, 2007

Fund balances of governmental funds	\$ 122,971,414
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	94,942,873
Accumulated depreciation	(23,107,308)
Long term debt and compensated absences that have not been included in the governmental fund activity:	
Long-term debt	(45,646,501)
Compensated absences	(2,411,631)
Accrued interest payable for the current portion of interest due on bonds payable has not been reported in the governmental funds.	(706,315)
Revenues that are measurable but not available. Amounts are recorded as deferred revenue under the modified accrual basis of accounting.	<u>8,986,568</u>
Net assets of governmental activities	<u>\$ 155,029,100</u>

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, 2007

	General Fund	Debt		Housing Set-Aside	Non-Major Governmental Funds	Total Governmental Funds
		Service Fund Industrial Redevelopment Area	Capital Projects Funds Industrial Redevelopment Area			
Revenues:						
Taxes	\$ 22,045,275	6,241,917	-	2,097,295	869,101	31,253,588
Licenses and permits	1,710,162	-	-	-	-	1,710,162
Fines and penalties	544,997	-	-	-	389,541	934,538
Investment income	1,818,568	429,351	2,356,423	343,182	701,295	5,648,819
Rental income	916,066	-	-	-	-	916,066
Intergovernmental	4,262,080	-	-	-	3,776,116	8,038,196
Charges for services	2,505,513	-	-	-	4,496,813	7,002,326
Miscellaneous	1,151,470	-	-	189,421	683,350	2,024,241
Total revenues	<u>34,954,131</u>	<u>6,671,268</u>	<u>2,356,423</u>	<u>2,629,898</u>	<u>10,916,216</u>	<u>57,527,936</u>
Expenditures:						
Current:						
General government	2,687,013	-	436,612	255,593	3,131	3,382,349
Public safety	22,133,261	-	-	-	312,519	22,445,780
Transportation	5,156,519	-	-	-	1,680,100	6,836,619
Community development	1,590,839	-	-	-	953,992	2,544,831
Community services	1,651,191	-	-	-	2,830,408	4,481,599
Capital outlay	1,016,509	-	1,451,536	-	106,687	2,574,732
Debt service:						
Principal	-	1,285,000	-	-	430,000	1,715,000
Interest	63,034	2,047,005	-	-	452,724	2,562,763
Pass-through payments	-	579,303	-	-	-	579,303
Total expenditures	<u>34,298,366</u>	<u>3,911,308</u>	<u>1,888,148</u>	<u>255,593</u>	<u>6,769,561</u>	<u>47,122,976</u>
Excess (deficiency) of revenues over (under) expenditures	<u>655,765</u>	<u>2,759,960</u>	<u>468,275</u>	<u>2,374,305</u>	<u>4,146,655</u>	<u>10,404,960</u>
Other financing sources (uses):						
Transfers in (note 14)	1,164,548	-	-	-	1,611,019	2,775,567
Transfers out (note 14)	(864,492)	-	-	-	(2,043,745)	(2,908,237)
Issuance of long term debt	63,034	548,254	-	-	-	611,288
Total other financing sources (uses)	<u>363,090</u>	<u>548,254</u>	<u>-</u>	<u>-</u>	<u>(432,726)</u>	<u>478,618</u>
Net change in fund balances	1,018,855	3,308,214	468,275	2,374,305	3,713,929	10,883,578
Fund balances at beginning of year, as restated	<u>40,873,007</u>	<u>20,714,577</u>	<u>22,182,582</u>	<u>8,379,744</u>	<u>19,937,926</u>	<u>112,087,836</u>
Fund balances at end of year	<u>\$ 41,891,862</u>	<u>24,022,791</u>	<u>22,650,857</u>	<u>10,754,049</u>	<u>23,651,855</u>	<u>122,971,414</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, 2007

Net changes in fund balances - total governmental funds	\$ 10,883,578
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	1,478,903
Depreciation expense	(1,713,571)
<p>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.</p>	(611,288)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	1,715,000
<p>The statement of net assets includes accrued interest on long term debt.</p>	242,148
<p>To record as an expense (reduction of expense) the net change in compensated absences in the statement of activities.</p>	(26,403)
<p>Revenues that are measurable but not available. Amounts are not recorded as revenue under the modified accrual basis of accounting.</p>	<u>1,003,266</u>
Change in net assets of governmental activities	<u><u>\$ 12,971,633</u></u>

See accompanying notes to the basic financial statements.

CITY OF FOUNTAIN VALLEY
Statement of Net Assets - Proprietary Fund
June 30, 2007

	<u>Water Enterprise</u>
<u>Assets</u>	
Cash and investments	\$ 10,587,791
Accounts receivable	579,277
Interest receivable	71,791
Due from other governments	8,087
Capital assets:	
Land	123,076
Other capital assets, net	<u>7,478,939</u>
Total assets	<u>18,848,961</u>
<u>Liabilities and Net Assets</u>	
Liabilities:	
Accounts payable	1,317,390
Deposits payable	37,330
Non-current liabilities:	
Due within one year	50,578
Due beyond one year	<u>898,487</u>
Total liabilities	<u>2,303,785</u>
Net assets:	
Invested in capital assets, net of related debt	6,751,060
Unrestricted	<u>9,794,116</u>
Total net assets	<u>\$ 16,545,176</u>

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, 2007

	<u>Water Enterprise</u>
Operating revenues:	
Charges for services	\$ 8,980,438
Miscellaneous	<u>98,499</u>
Total operating revenues	<u>9,078,937</u>
Operating expenses:	
Utility administration	903,619
Pumping and maintenance	697,939
Water treatment	6,920,287
Depreciation	<u>468,641</u>
Total operating expenses	<u>8,990,486</u>
Operating income (loss)	<u>88,451</u>
Nonoperating revenues (expenses):	
Investment income	<u>431,197</u>
Total nonoperating revenues (expenses)	<u>431,197</u>
Income (loss) before transfers and capital contributions	519,648
Transfers in (note 14)	<u>132,670</u>
Change in net assets	652,318
Net assets at beginning of year	<u>15,892,858</u>
Net assets at end of year	<u><u>\$ 16,545,176</u></u>

See accompanying notes to the basic financial statements.

CITY OF FOUNTAIN VALLEY
Statement of Cash Flows - Proprietary Fund
Year ended June 30, 2007

	<u>Water Enterprise</u>
Cash flows from operating activities:	
Cash received from customers	\$ 9,016,058
Cash payments to suppliers for goods and services	(6,712,854)
Cash payments to employees for services	<u>(1,795,071)</u>
Net cash provided by (used for) operating activities	<u>508,133</u>
Cash flows from noncapital financing activities:	
Cash received from other funds	<u>132,670</u>
Net cash provided by (used for) noncapital financing activities	<u>132,670</u>
Cash flows from capital and related financing activities:	
Cash paid for acquisition and construction of capital assets	(54,588)
Interest paid on debt	(31,156)
Principal paid on debt	<u>(39,206)</u>
Net cash provided by (used for) capital and related financing activities	<u>(124,950)</u>
Cash flows from investing activities:	
Interest received on investments	<u>390,561</u>
Net cash provided by (used for) investing activities	<u>390,561</u>
Net increase (decrease) in cash and cash equivalents	906,414
Cash and cash equivalents at beginning of year	<u>9,681,377</u>
Cash and cash equivalents at end of year	<u><u>\$ 10,587,791</u></u>

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

	<u>Water Enterprise</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ <u>88,451</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	468,641
(Increase) decrease in accounts receivable	(30,314)
Increase (decrease) in accounts payable	19,150
Increase (decrease) in deposits payable	(32,565)
Increase (decrease) in compensated absences	<u>(5,230)</u>
Total adjustments	<u>419,682</u>
Net cash provided by (used for) operating activities	<u>\$ 508,133</u>

There were no noncash investing and financing activities during the year ended June 30, 2007.

See accompanying notes to the basic financial statements.

CITY OF FOUNTAIN VALLEY
Statement of Fiduciary Net Assets
June 30, 2007

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and investments (note 2)	\$ 988,219
Total assets	<u>988,219</u>
<u>Liabilities and Net Assets</u>	
Liabilities:	
Deposits payable	<u>988,219</u>
Total liabilities	<u>\$ 988,219</u>

See accompanying notes to the basic financial statements.

