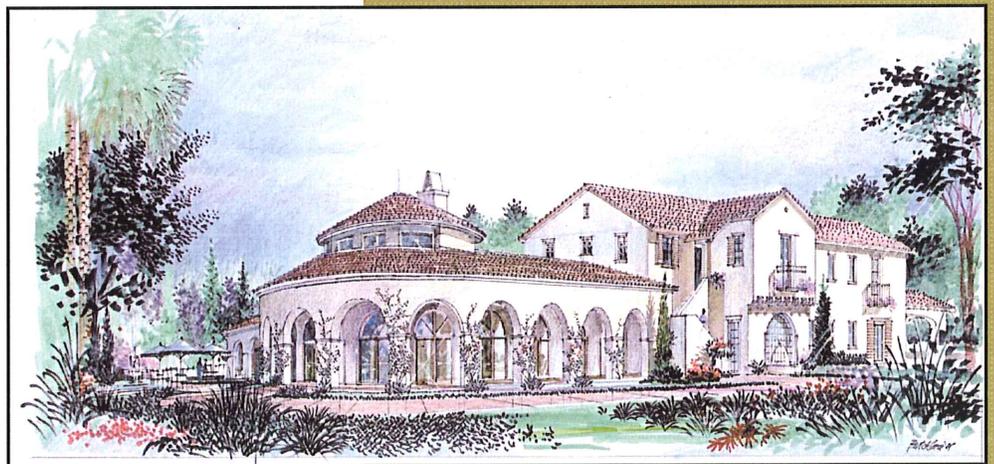


**City of Fountain Valley
California**

**Comprehensive Annual
Financial Report
Fiscal Year Ended
June 30, 2005**



*Fountain Valley
Senior and Community Center*

City of Fountain Valley California

Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2005

Prepared by the Finance Department

Elizabeth Fox
Finance Director/City Treasurer

Fountain Valley City Council

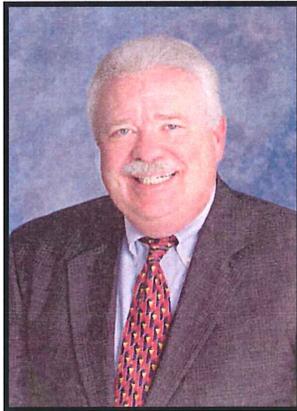
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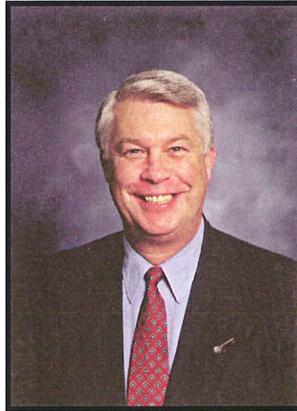
Larry R. Crandall
Mayor



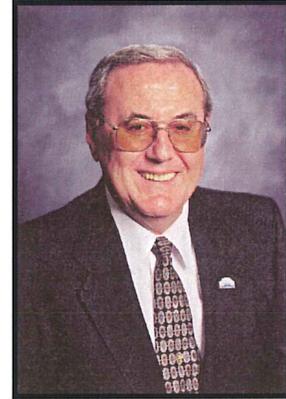
Cheryl Brothers
Mayor Pro Tempore



Gus Ayer
Council Member



John J. Collins
Council Member



Guy Carrozzo
Council Member

City Directory

Mayor

Larry R. Crandall

Council Members

Gus Ayer	Council Member
Cheryl Brothers	Mayor Pro Tempore
Guy Carrozzo	Council Member
John J. Collins	Council Member

City Officials

Raymond H. Kromer	City Manager
Alan R. Burns	City Attorney
Andrew E. Perea	Planning Director
William Ault	Director of Public Works
Paul Sorrell	Chief of Police
Mark Haskell	Fire Chief/Building Director
Elizabeth Fox	Finance Director/City Treasurer
Robert Kellison	Field Services Manager
Mark Lewis	City Engineer
Randi Johl	City Clerk
Sally Satterfield	Community Services Manager
Jean Hirai	Personnel Manager
Donald Heinbuch	Administrative Services Manager
Dan Llorens	Police Captain
Kevin Childe	Police Captain
Steve Nagel	Fire Marshall
Craig Laser	Battalion Chief
Joe Vasile	Battalion Chief
Randy Anno	Battalion Chief
Sherri Holman	Accounting Manager
Lee Pratt	Information Systems Manager
Cathy Wagner	Purchasing Manager

City of Fountain Valley, CA
 Comprehensive Annual Financial Report
 Fiscal Year Ended June 30, 2004

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CITY OF FOUNTAIN VALLEY

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

December 30, 2005

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, 2005, 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.

The City of Fountain Valley's financial statements have been audited by Moreland and Associates, Inc., a 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, 2005 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.

Management's Transmittal Letter

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, 2005, 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.

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.

Management's Transmittal Letter

Governmental Profile

The City of Fountain Valley, incorporated June 13, 1957, has an estimated population of 57,353 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 water, sewer, storm drain maintenance and construction of parks, roads and highways; development services for land use planning, and zoning; housing and community development; 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

Management's Transmittal Letter

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 prior to requesting a purchase order, and estimated 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 open encumbrances are reported as reservations of fund balances at June 30, 2005. 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 city approaching fifty years of age. 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 pride ourselves in the excellent level of service that our residents have come to expect.

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 in the game to consider the possibility of any large mall construction or even major automobile dealerships. However, as it was the remerging era of the big box retailer, Fountain Valley set about becoming the home for the big box discount retailers. This strategy has served us well as companies such as Costco, Sam's Club, and Fry's Electronics do well regardless of the gyrations of the 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,

Management's Transmittal Letter

with the State's fiscal crises looming on the horizon just as we were completing the design stage for two major projects, the expansion of Mile Square Park and the construction of a Senior/Community Center, we decided 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 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 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

Senior/Community Center and Senior Housing Campus. The City Council approved agreements for the construction of 156 Senior Affordable Apartments, 54 for sale condominiums for moderate income seniors and a new 16,556 square foot Senior/Community Center on a former elementary school site. Completed in 2004-05 100% occupancy for the senior apartments was almost immediate. Agency housing set-aside funds, along with federal tax credits and the financial assistance from the County of Orange made affordable housing possible for low and very low income senior households. The affordability agreements remain with the units for the next 55 years. The sale of the 54 affordable senior condominiums was again almost instantaneous. These units were assisted by Agency housing set-aside funds, and their affordability agreements remain with the properties for the next 45 years. The final component or phase three was the Senior/Community Center which is complete and ready for occupancy and a grand opening event is scheduled for September 2005.

Industrial Development: Approval was given to Fountain Valley Partners I, LLC for the demolition of two buildings, remodeling of one building and the construction of four new buildings to be used for restaurants, retail household goods and furniture showrooms located along the Newhope Extension located at the foot of the Euclid off ramp of the north bound San Diego Freeway. The completed project will be called the Newhope Design Corridor and will serve as the entrance to the Southpark Redevelopment Area. In addition, approval was obtained to build two commercial/manufacturing buildings north of Slater Ave. on Newhope.

Specific Plan Developments: Los Caballeros Racquet & Sports Club obtained approval for a mixed use Specific Plan that includes residential, commercial and manufacturing uses. Permission was also granted for a forty-two and forty-seven unit residential condominium development, the construction of an 8300 sq. ft. tennis court deck with twenty-one covered parking spaces and two 377 sq. ft. offices.

Management's Transmittal Letter

offices. Additionally, twenty nine self-storage units and five club offices with an elevated tennis court on top was approved.

Approval was also granted to JK Sakioka Company for the construction of five new industrial and commercial/office buildings ranging in size from 12,238 sq. ft. to 77,095 sq. ft. to be located in the Southpark Specific Plan.

The SouthPark Specific Plan was amended to allow for the construction of a gas station as part of the Costco development.

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, Club Café restaurant, 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. During the construction of the new development, the existing Sam's Club store will remain open, however, upon completion the existing store will be demolished to accommodate the new facilities parking and the fueling station.

Mile Square Park Expansion: Mile Square Park is the focal point of Fountain Valley. More than ten years ago, the City began negotiations with Orange County and the Department of the Navy to expand the 55-acre site, which currently belongs to the city, to approximately 80 acres. The park will provide extensive amenities for recreation activities for all segments of the population. The project was bid in 2003, however, there were major cost and design related discrepancies and, consequently, the bids were rejected. The Recreation Center project was redesigned in fiscal year 2004/05 and will be rebid in 2005/2006.

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, Moreland and Associates, 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.

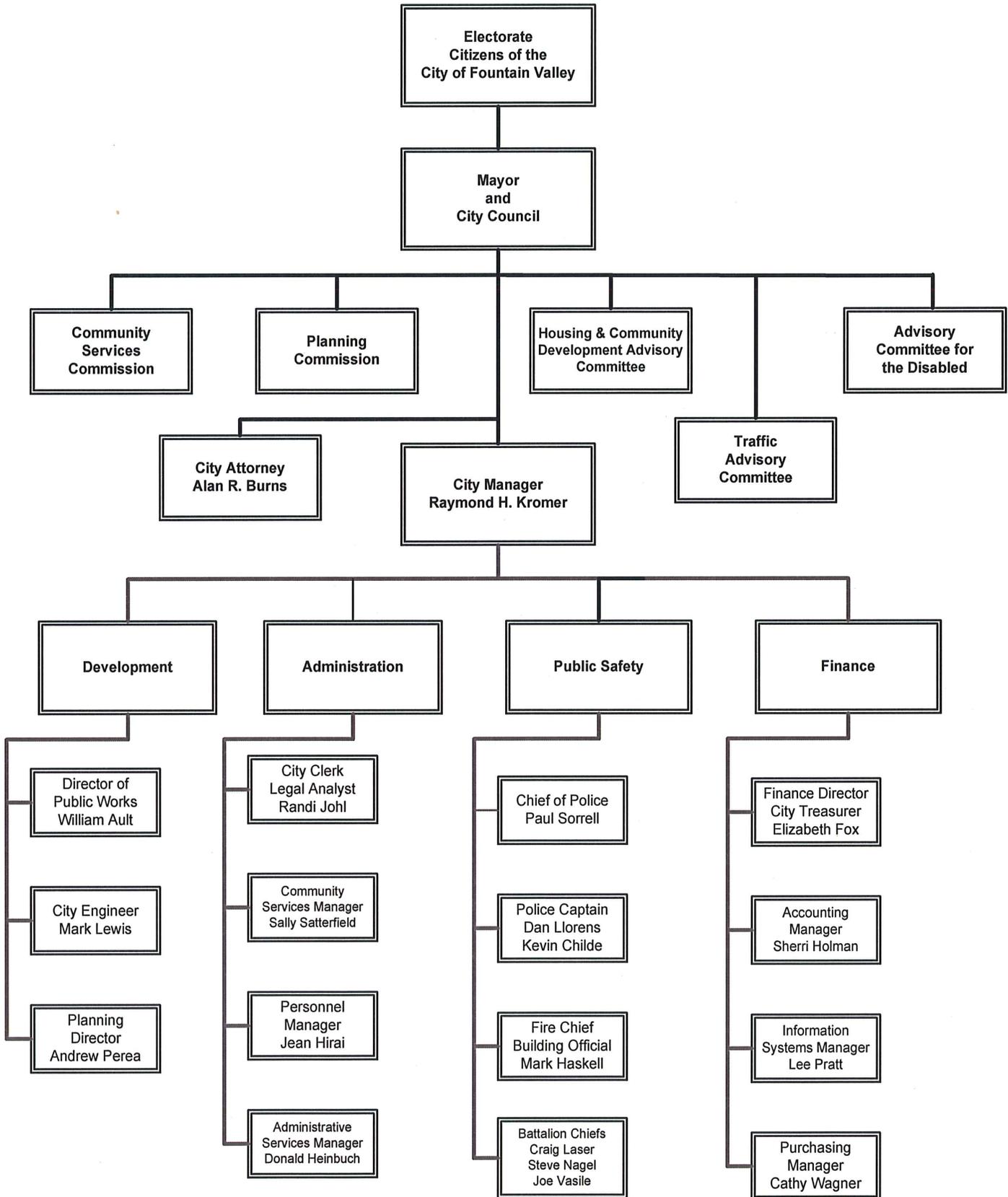
Management's Transmittal Letter

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





Financial Section

November 4, 2005

The Honorable City Council of
the City of 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, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fountain Valley's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 4, 2005 on our consideration of the City of Fountain Valley 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.

The management's discussion and analysis and other required supplementary information identified in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, the major fund budgetary comparison schedules and the combining and individual nonmajor fund financial statements and schedules listed as supplementary information in the table of contents, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The major fund budgetary comparison schedules and the combining and individual nonmajor 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 section 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.

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, 2005. 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 \$154,252,827 (*net assets*). Of this amount, \$87,500,161 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City total net assets increased by \$7,841,391. Ninety eight percent of the increase is from governmental activities, while business type activities increased by two percent.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$109,965,493 an increase of \$1,066,400 in comparison with the prior year. Approximately sixty percent of this amount, \$66,420,965 is unreserved but considered designated for future commitments and \$9,875,435 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, trash disposal, cultural and leisure, and interest and fiscal 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 11-13 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 Special Revenue Fund, the 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 14-19 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 22-24 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 25 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 27-52 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 54-59 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 68-89 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 case, assets exceeded liabilities by \$154,252,827 at the close of the fiscal year.

Seventy five percent of the City’s net assets reflect cash and investments and thirty 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.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 122,283	\$ 118,066	\$ 9,694	\$ 9,001	\$ 131,977	\$ 127,067
Capital assets	70,530	67,591	8,457	8,906	78,987	76,497
Total Assets	192,813	185,657	18,151	17,907	210,964	203,564
Long-term liabilities outstanding	49,112	50,474	996	1,025	50,108	51,499
Other liabilities	5,436	4,610	1,168	1,044	6,604	5,654
Total Liabilities	54,548	55,084	2,164	2,069	56,712	57,153
Net Assets:						
Invested in capital assets, net of related debt	39,798	35,172	7,529	7,942	47,327	43,114
Restricted	19,425	16,625			19,425	16,625
Unrestricted	79,042	78,776	8,458	7,896	87,500	86,672
Total Net Assets	\$ 138,265	\$ 130,573	\$ 15,987	\$ 15,838	\$ 154,252	\$ 146,411

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 2005 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.

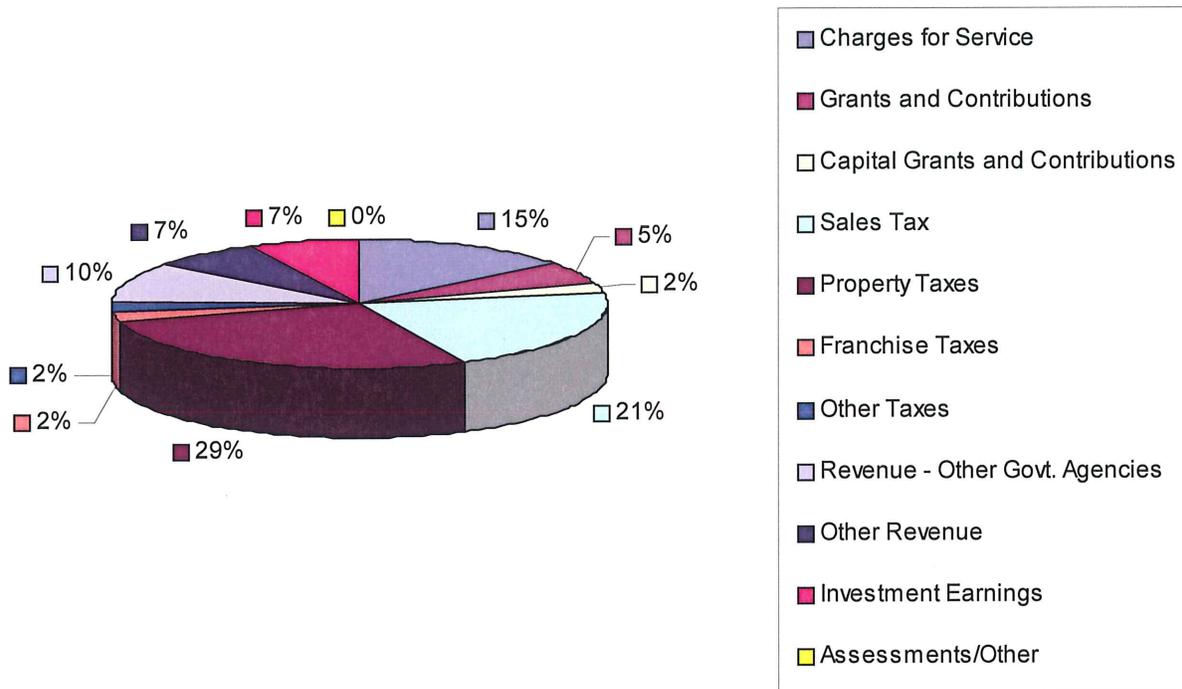
Governmental Activities

Governmental activities increased the City's net assets by \$7,692,794 thereby accounting for ninety eight percent of the total growth in the net assets of the City. Key elements of this increase follow:

City of Fountain Valley Changes in Net Assets
(Amount expressed in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 7,521	\$ 6,479	\$ 7,986	\$ 7,784	\$ 15,507	\$ 14,263
Operating grants and Contributions	2,707	2,461			2,707	2,461
Capital grants and Contributions	1,215	3,256			1,215	3,256
General revenues:						
Property taxes	14,269	14,469			14,269	14,469
Franchise taxes	1,267	1,239			1,267	1,239
Sales taxes	10,848	9,908			10,848	9,908
Other taxes	1,169	1,121			1,169	1,121
Revenues from other agencies	5,216	2,902			5,216	2,902
Other	3,723	2,097			3,723	2,097
Investment earnings	3,702	2,507	201	235	3,903	2,742
Assessments	43	55			43	55
Miscellaneous Transfers	(132)	(131)	132	131		
Loss on sale of property	(114)				(114)	
Total Revenues	51,434	46,363	8,319	8,150	59,753	54,513
Expenses:						
General government	6,473	4,751			6,473	4,751
Public safety	19,101	16,892			19,101	16,892
Transportation	7,495	10,988			7,495	10,988
Community development	3,000	3,156			3,000	3,156
Trash disposal	2,671	2,624			2,671	2,624
Culture and Leisure	2,237	2,326			2,237	2,326
Interest and fiscal charges	2,734	2,389			2,734	2,389
Amortization Expense	31	32			31	32
Water			8,170	7,835	8,170	7,835
Total Expenses	43,742	43,158	8,170	7,835	51,912	50,993
Increase in net assets	7,692	3,205	149	315	7,841	3,520
Net assets – July 1	130,573	127,368	15,838	15,523	146,411	142,891
Net Assets – June 30	\$ 138,265	\$ 130,573	\$ 15,987	\$ 15,838	\$ 154,252	\$ 146,411

Revenues by Source – Governmental Activities



Business-type Activity

The Business-type activity accounts for only \$148,597 or two percent of the total growth in the government's net assets.

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 2005 fiscal year, the City of Fountain Valley's governmental funds reported combined ending fund balances of \$109,965,493, an increase of \$1,066,400 in comparison with the prior year. Approximately nine percent of the total fund balance constitutes *unreserved and undesignated fund balance*, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved designated fund balance in the general fund was \$39,420,223 and total fund balance was \$39,501,950. The fund balance of the City of Fountain Valley's general fund increased by \$1,401,140 during the 2005 fiscal year. The key factor for this increase is position vacancies throughout the fiscal year. In the 2005 fiscal year, revenues were over budgetary estimates by \$1,406,413.

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 \$8,457,716. Other factors concerning the finances of the Water Fund have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS (EXCLUDES CAPITAL)

Differences between the original budget and the final amended budget were relatively minor (\$3,963,998 increase in appropriations) and can be briefly summarized as follows:

- (\$ 157,946) in transportation
- (\$ 20,000) in culture and leisure
- \$ 4,414,944 in capital work in progress

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, 2005, amounts to \$78,987,802 (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 three percent.

City of Fountain Valley Capital Assets
(net of depreciation / in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 3,885	\$ 3,885	\$ 123	\$ 123	\$ 4,008	\$ 4,008
Vehicles and Equipment	2,151	2,595	10	13	2,161	2,608
Furniture and Fixtures	497	329			497	329
Buildings	4,811	5,022	3,942	4,298	8,753	9,320
Construction in progress	3,926				3,926	
Improvements other than Structures	677	753	4,382	4,473	5,059	5,226
Infrastructure	54,583	55,008			54,583	55,008
Total	\$ 70,530	\$ 67,592	\$ 8,457	\$ 8,907	\$ 78,987	\$ 76,499

Additional information on the City's capital assets can be found in the notes on pages 39-40 of this report.

Long-Term Debt

At year-end, the City had total long term debt outstanding of \$52,020,771. Additional information on the City of Fountain Valley's debt can be found in notes to the financial statements on pages 42 through 45. The bonded debt of the City's is secured solely by tax increment.

City of Fountain Valley's Outstanding Debt
Leases, Tax Allocation Bonds, and Notes
(Amounts expressed in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Leases Payable	\$ 1,052	\$ 1,206			\$ 1,052	\$ 1,206
Tax allocation bonds	16,755	17,945			16,755	17,945
Note Payable	17,369	16,788			17,369	16,788
Certificate of	12,925	13,270			12,925	13,270
Compensated Absences	2,094	1,959	\$ 106		2,200	1,959
Claims Payable	791	1,054		\$ 97	791	1,151
Loans Payable				965		965
Total	\$ 50,986	\$ 52,222	\$ 106	\$ 1,062	\$ 51,092	\$ 53,284

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the area is currently 3.4 percent which is an increase over last year. This rate also compares favorably to the state's average unemployment rate of 6.3 percent and the national average rate of 5.7 percent.

- Property values in Fountain Valley are projected to increase 6.1 percent and have averaged 5.35 percent increase over the past five years.
- Interest rate declines 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.
- All of these factors were considered in preparing the City's budget for the 2005-2006 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.



Basic Financial Statements

CITY OF FOUNTAIN VALLEY
Statement of Net Assets
June 30, 2005

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Cash and investments	\$ 106,747,966	\$ 9,281,140	\$ 116,029,106
Receivables (net of allowance for uncollectibles)	5,934,385	413,056	6,347,441
Inventory	81,727		81,727
Prepaid expense	1,645		1,645
Loans receivable	9,165,943		9,165,943
Deferred bond issue costs	351,560		351,560
Capital assets:			
Not being depreciated	52,180,742	123,076	52,303,818
Being depreciated (net of accumulated depreciation)	18,349,693	8,334,291	26,683,984
 Total Assets	 192,813,661	 18,151,563	 210,965,224
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	2,271,879	1,119,777	3,391,656
Deposits payable		10,500	10,500
Deferred revenue	78,262		78,262
Interest payable	436,829		436,829
Bond premium	8,521		8,521
Notes payable	765,858		765,858
Non-current liabilities:			
Due within one year	1,874,768	37,878	1,912,646
Due in more than one year	49,111,760	996,365	50,108,125
 Total Liabilities	 54,547,877	 2,164,520	 56,712,397
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	39,798,450	7,529,327	47,327,777
Restricted for:			
Special revenue purposes	4,733,584		4,733,584
Affordable housing and redevelopment	14,691,305		14,691,305
Unrestricted	79,042,445	8,457,716	87,500,161
 Total Net Assets	 \$ 138,265,784	 \$ 15,987,043	 \$ 154,252,827

See Accompanying Notes to Financial Statements.

CITY OF FOUNTAIN VALLEY
Statement of Activities
For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 6,473,399	\$ 34,151		
Public safety	19,100,664	5,260,495	\$ 28,135	
Transportation	7,494,152		2,231,087	\$ 1,214,932
Community development	2,999,652	1,987,629	448,002	
Trash disposal	2,670,763			
Culture and leisure	2,236,799	239,246		
Interest and fiscal charges	2,734,356			
Amortization expense	31,185			
Total governmental activities	<u>43,740,970</u>	<u>7,521,521</u>	<u>2,707,224</u>	<u>1,214,932</u>
Business-type activities:				
Water	<u>8,170,303</u>	<u>7,985,576</u>		
Total business-type activities	<u>8,170,303</u>	<u>7,985,576</u>		
Total	<u>\$ 51,911,273</u>	<u>\$ 15,507,097</u>	<u>\$ 2,707,224</u>	<u>\$ 1,214,932</u>

General Revenue

Taxes:

 Property taxes

 Franchise taxes

 Sales taxes

 Other taxes

 Revenue from other governmental agencies

 Other revenue

Investment earnings

Assessments

Transfers

Loss on sale of property

Total General Revenue and Transfers

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

See Accompanying Notes to Financial Statements.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (6,439,248)		\$ (6,439,248)
(13,812,034)		(13,812,034)
(4,048,133)		(4,048,133)
(564,021)		(564,021)
(2,670,763)		(2,670,763)
(1,997,553)		(1,997,553)
(2,734,356)		(2,734,356)
(31,185)		(31,185)
<u>(32,297,293)</u>		<u>(32,297,293)</u>
	\$ (184,727)	(184,727)
	(184,727)	(184,727)
<u>(32,297,293)</u>	<u>(184,727)</u>	<u>(32,482,020)</u>
14,269,491		14,269,491
1,266,573		1,266,573
10,847,674		10,847,674
1,168,804		1,168,804
5,216,273		5,216,273
3,723,171		3,723,171
3,701,881	200,907	3,902,788
42,528		42,528
(132,417)	132,417	
(113,891)		(113,891)
<u>39,990,087</u>	<u>333,324</u>	<u>40,323,411</u>
7,692,794	148,597	7,841,391
<u>130,572,990</u>	<u>15,838,446</u>	<u>146,411,436</u>
<u>\$ 138,265,784</u>	<u>\$ 15,987,043</u>	<u>\$ 154,252,827</u>

CITY OF FOUNTAIN VALLEY
Balance Sheet
Governmental Funds
June 30, 2005

	General	Debt Service Fund Industrial Redevelopment Area
<u>ASSETS</u>		
Cash and investments	\$ 36,910,508	\$ 17,600,036
Accounts receivable and accrued revenue	3,614,123	33,085
Loans receivable	2,280	
Advances to other funds		
Due from other funds	240,976	
Inventory	81,727	
Prepaid expense	1,645	
	<u>\$ 40,851,259</u>	<u>\$ 17,633,121</u>
 <u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,249,459	\$ 431,302
Advances from other funds		
Notes payable		
Due to other funds		
Deferred revenue	99,850	
	<u>1,349,309</u>	<u>431,302</u>
Fund Balances:		
Reserved	81,727	17,201,819
Unreserved:		
Designated	39,420,223	
Undesignated:		
Special revenue funds		
Debt service funds		
Capital projects funds		
	<u>39,501,950</u>	<u>17,201,819</u>
Total Fund Balances	<u>\$ 40,851,259</u>	<u>\$ 17,633,121</u>
Total Liabilities and Fund Balances	<u>\$ 40,851,259</u>	<u>\$ 17,633,121</u>

See Accompanying Notes to Financial Statements.

<u>Capital Projects Funds</u>			
<u>Industrial Redevelopment Area</u>	<u>Housing Set-Aside</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 26,294,690	\$ 6,054,263	\$ 19,888,469	\$ 106,747,966
412,145	35,678	1,839,352	5,934,383
	8,785,350	378,313	9,165,943
256,538			256,538
		35,060	276,036
			81,727
			1,645
<u>\$ 26,963,373</u>	<u>\$ 14,875,291</u>	<u>\$ 22,141,194</u>	<u>\$ 122,464,238</u>
\$ 7,850	\$ 52,189	\$ 531,077	\$ 2,271,877
		256,538	256,538
765,858			765,858
35,060	131,796	109,180	276,036
	8,335,350	493,236	8,928,436
<u>808,768</u>	<u>8,519,335</u>	<u>1,390,031</u>	<u>12,498,745</u>
2,217,304	640,027	13,528,216	33,669,093
23,937,301		3,063,441	66,420,965
		1,819,919	1,819,919
		2,160,134	2,160,134
	5,715,929	179,453	5,895,382
<u>26,154,605</u>	<u>6,355,956</u>	<u>20,751,163</u>	<u>109,965,493</u>
<u>\$ 26,963,373</u>	<u>\$ 14,875,291</u>	<u>\$ 22,141,194</u>	<u>\$ 122,464,238</u>

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CITY OF FOUNTAIN VALLEY
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2005

Fund balances for governmental funds \$ 109,965,493

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 70,530,435

Other long-term assets are not available to pay for current expenditures and, therefore, are not recorded in the funds, certain revenues are not available to pay current expenditures and are deferred in the funds. 8,850,080

Long-term liabilities, including bonds payable, loan payable, and interest payable, are not due and payable in the current period and therefore are not reported in the funds.

Long-term debt	\$(50,986,528)	
Interest payable	(436,735)	
Bond premium	(8,521)	
Deferred bond issue cost	351,560	(51,080,224)

Net Assets of Governmental Activities \$ 138,265,784

See Accompanying Notes to Financial Statements.

CITY OF FOUNTAIN VALLEY
Combined Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2005

	General	Debt Service Fund Industrial Redevelopment Area
Revenues:		
Taxes	\$ 20,168,728	\$ 5,760,653
Licenses and permits	1,214,689	
Fines and penalties	411,460	
Revenue from use of money and property	1,608,826	37,671
Net (decrease) in fair value of investments	(10,417)	
Revenue from other governmental agencies	3,994,021	
Charges for services	2,564,554	
Assessments and fees		
Other revenue	1,356,593	
Total Revenues	<u>31,308,454</u>	<u>5,798,324</u>
Expenditures:		
Current:		
General government	2,354,364	
Public safety	18,727,404	
Transportation	2,817,123	
Community development	1,745,616	
Trash disposal		
Culture and leisure	2,390,204	
Developer reimbursement		351,925
Capital outlay	5,573,310	
Debt service:		
Principal retired	189,052	1,190,000
Interest and fiscal charges	7,449	1,663,853
Payments to escrow agents		
Total Expenditures	<u>33,804,522</u>	<u>3,205,778</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,496,068)</u>	<u>2,592,546</u>
Other Financing Sources (Uses):		
Transfers in	5,025,758	
Transfers out	<u>(1,128,550)</u>	
Total Other Financing Sources (Uses)	<u>3,897,208</u>	
Net Change in Fund Balance	1,401,140	2,592,546
Fund Balance, July 1	<u>38,100,810</u>	<u>14,609,273</u>
Fund Balance, June 30	<u>\$ 39,501,950</u>	<u>\$ 17,201,819</u>

See Accompanying Notes to Financial Statements.

Capital Projects Funds		Nonmajor Governmental Funds	Total Governmental Funds
Industrial Redevelopment Area	Housing Set-Aside		
	\$ 1,484,430	\$ 177,061	\$ 27,590,872
			1,214,689
		367,362	778,822
\$ 1,090,276	167,719	297,247	3,201,739
(67,986)			(78,403)
		4,385,803	8,379,824
		2,809,973	5,374,527
		1,141,503	1,141,503
46,128	215,950		1,618,671
<u>1,068,418</u>	<u>1,868,099</u>	<u>9,178,949</u>	<u>49,222,244</u>
1,879,279	1,528,274		5,761,917
		268,608	18,996,012
		1,532,634	4,349,757
100,000		468,055	2,313,671
		2,670,764	2,670,764
			2,390,204
			351,925
451,022	556,071	741,976	7,322,379
			1,379,052
		468,874	2,140,176
		347,570	347,570
<u>2,430,301</u>	<u>2,084,345</u>	<u>6,498,481</u>	<u>48,023,427</u>
<u>(1,361,883)</u>	<u>(216,246)</u>	<u>2,680,468</u>	<u>1,198,817</u>
		1,255,345	6,281,103
		(5,284,970)	(6,413,520)
		(4,029,625)	(132,417)
(1,361,883)	(216,246)	(1,349,157)	1,066,400
<u>27,516,488</u>	<u>6,572,202</u>	<u>22,100,320</u>	<u>108,899,093</u>
<u>\$ 26,154,605</u>	<u>\$ 6,355,956</u>	<u>\$ 20,751,163</u>	<u>\$ 109,965,493</u>

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CITY OF FOUNTAIN VALLEY
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

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

Net change in fund balances - total governmental funds: \$ 1,066,400

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. All capital outlay was expended for capital assets.

Capital outlay less deletions	\$ 4,668,864	
Depreciation	<u>(1,730,494)</u>	2,938,370

Some revenues reported in the statement of activities do not represent current financial resources and therefore are not taken into revenue in the governmental funds. 2,459,302

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. 1,236,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

Prior year interest	\$ 460,736	
Current year interest	(436,829)	
Amortization expense	<u>(31,185)</u>	<u>(7,278)</u>

Change in net assets of governmental activities \$ 7,692,794

See Accompanying Notes to Financial Statements.

CITY OF FOUNTAIN VALLEY
Statement of Net Assets
Proprietary Fund
June 30, 2005

	<u>Water Utility</u>
<u>ASSETS</u>	
Cash and investments	\$ 9,281,140
Accounts receivable and accrued revenue	413,056
Capital assets:	
Not being depreciated	123,076
Being depreciated (net of accumulated depreciation)	<u>8,334,291</u>
Total Assets	<u>18,151,563</u>
<u>LIABILITIES</u>	
Accounts payable and accrued liabilities	1,119,777
Deposits	10,500
Noncurrent liabilities:	
Due within one year	37,878
Due in more than one year	<u>996,365</u>
Total Liabilities	<u>2,164,520</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	7,529,327
Unrestricted	<u>8,457,716</u>
Total Net Assets	<u><u>\$ 15,987,043</u></u>

See Accompanying Notes to Financial Statements.

CITY OF FOUNTAIN VALLEY
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2005

	<u>Water Utility</u>
Operating Revenues:	
Charges for services	\$ 7,880,769
Assessments and fees	17,176
Miscellaneous	<u>87,631</u>
Total Operating Revenues	<u>7,985,576</u>
Operating Expenses:	
Utility administration	247,754
Pumping and maintenance	6,910,393
Customer service	269,992
Water treatment	277,787
Depreciation	<u>464,377</u>
Total Operating Expenses	<u>8,170,303</u>
Operating (Loss)	<u>(184,727)</u>
Nonoperating Revenues:	
Interest income	<u>200,907</u>
Total Nonoperating Revenues	<u>200,907</u>
Income Before Operating Transfers	16,180
Transfers in	<u>132,417</u>
Change in Net Assets	148,597
Net Assets - July 1	<u>15,838,446</u>
Net Assets - June 30	<u><u>\$ 15,987,043</u></u>

See Accompanying Notes to Financial Statements.

CITY OF FOUNTAIN VALLEY
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2005

	Water Utility
Cash Flows From Operating Activities:	
Cash received from customers	\$ 8,105,738
Cash payments to suppliers for goods and services	(7,573,679)
Other operating revenue	104,807
Net cash provided by operating activities	636,866
Cash Flows from Non-Capital Financing Activities:	
Transfers from other funds	132,417
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	(15,074)
Deletion of from capital debt	(36,599)
Cash Flows from Investing Activities:	
Interest on investments	200,907
Net Increase in Cash and Cash Equivalents	918,517
Cash and Cash Equivalents, July 1	8,362,623
Cash and Cash Equivalents, June 30	\$ 9,281,140
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating (Loss)	\$ (184,727)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:	
Depreciation expense	464,377
Change in Assets and Liabilities:	
(Increase) decrease in accounts receivable and accrued revenue	225,365
Increase (decrease) in accounts payable and accrued liabilities	123,065
Increase (decrease) in deposits	(396)
Increase (decrease) in liability for compensated absences	9,182
Total Adjustments	821,593
Net Cash Provided by (Used for) Operating Activities	\$ 636,866

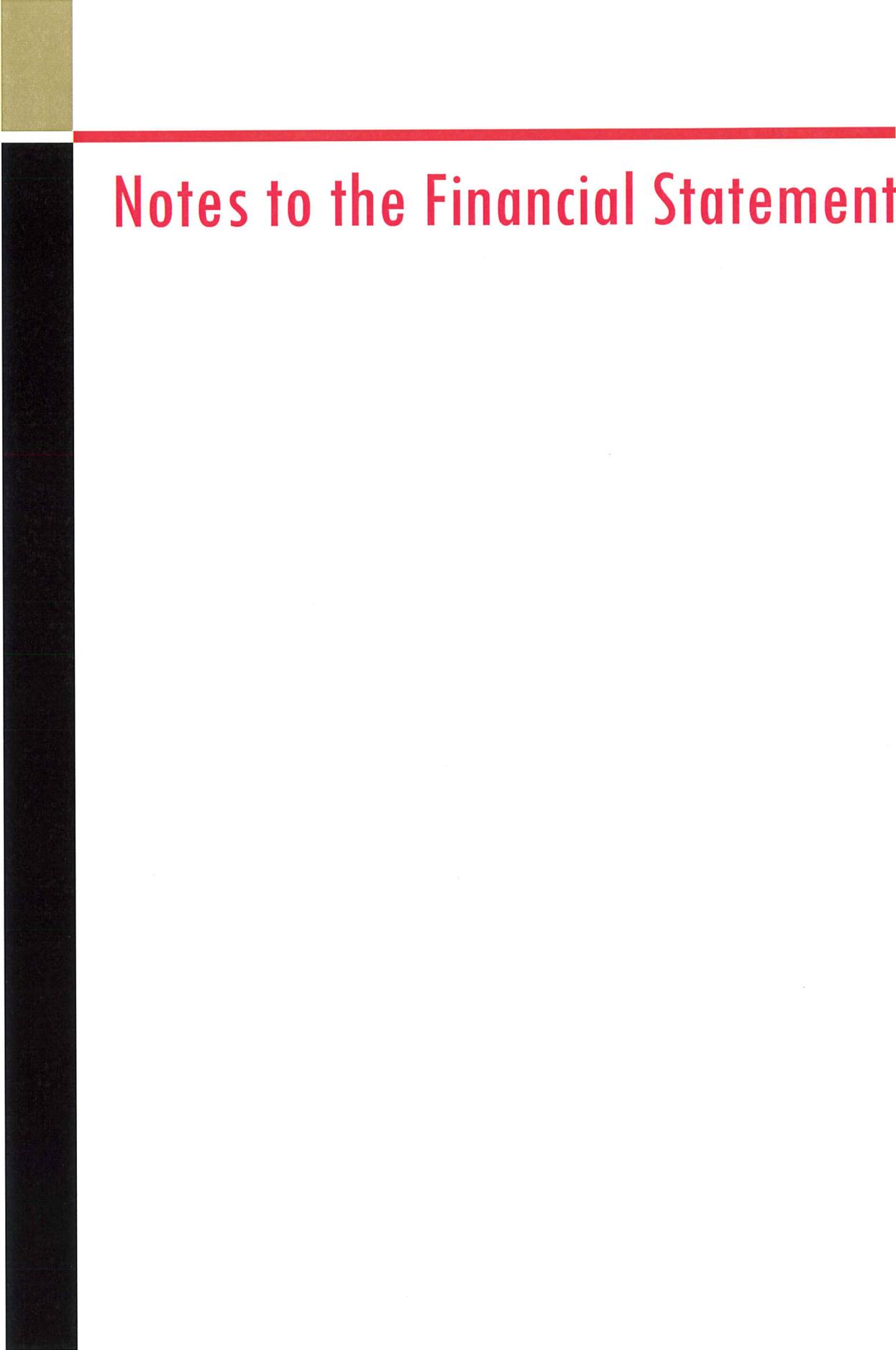
See Accompanying Notes to Financial Statements.

CITY OF FOUNTAIN VALLEY
Statement of Fiduciary Net Assets
Agency Funds
June 30, 2005

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and investments	<u>\$ 722,046</u>
Total Assets	<u><u>\$ 722,046</u></u>
<u>Liabilities</u>	
Deposits	<u>\$ 722,046</u>
Total Liabilities	<u><u>\$ 722,046</u></u>

See Accompanying Notes to Financial Statements.

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Notes to the Financial Statements

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements
June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description of the 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 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 purpose 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 Financial Statements (Continued)
June 30, 2005

A. Government-wide and Fund Financial Statements

Government-wide Statements: The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements and eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contribution that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year for which all eligibility requirements have been satisfied.

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recognized as expenditure to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Other revenue items are considered to be measurable and available only when cash is received by the government.

The City applies all applicable GASB pronouncements in accounting and reporting for its proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to members, customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

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

The City reports the following major governmental funds:

General Fund - Account for all financial resources and transactions 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 related interest income on one of the two Project Areas, 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 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 reports the following major proprietary 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.

Additionally, the City reports the following fund types:

Governmental Funds:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

Capital Projects Funds - Capital Projects Funds are used to account for financial resources used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).

Fiduciary Funds:

Agency Funds - Money received by the City of Fountain Valley as an agent for individuals, other governments and other entities is accounted for in these funds.

D. Assets, Liabilities, and Net Assets

1. Cash Equivalents:

All cash and investments of the enterprise fund are pooled with the City's cash and investments and are, therefore, considered cash equivalents for the purposes of the statement of cash flows.

2. Investments:

All investments are stated at fair value (the value at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale).

3. Inventories:

Inventories in the General Fund consist primarily of safety equipment and automotive parts and fuel. Inventories are stated at average cost.

4. 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 recognizes tax revenues when levied to the extent they are available to finance current operations.

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien date	January 1
Levy date	July 1 to June 30
Due date	November 1 - 1st installment February 1 - 2nd installment
Collection date	December 10 - 1st installment April 10 - 2nd installment

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

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 donated. 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 provided over the estimated useful lives 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 main	25-75 years
Water meters and hydrants	30 years
Other water equipment	6-25 years

The following represent the minimum threshold in which assets 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.

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

6. Compensated Absences:

In governmental funds, compensated absences are recorded as expenditures in the year paid, as it is the City's policy to liquidate any unpaid vacation or sick leave at June 30 from future resources rather than currently available expendable resources. The balance of unpaid vacation and compensatory time as of June 30, 2005 is recorded as a long-term liability.

Unpaid compensated absences in the proprietary fund are recorded as a fund liability as the vested benefits to the employees accrue.

7. Claims and Judgments:

Claims and judgments are recorded when it is probable that the liability has been incurred at year end and the amount of the loss can be reasonably estimated. At June 30, 2005, estimated claims payable is recorded as a long-term liability.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

A. Budgetary Information

The City budget is prepared under the direction of the City Manager. Revenues are budgeted based on source. Expenditures are budgeted by department, program and object of expenditure.

The City Council approves total budgeted appropriations and any amendments to total appropriations during the year. This "appropriated budget" covers substantially all City expenditures of the governmental funds, with the exception of debt service on prior years' bond issues and capital improvement projects. Debt service payments and capital projects constitute legally-authorized "non-appropriated budget." There were no significant non-budgeted financial activities. No budgetary comparisons are presented for the Home Grant Special Revenue Fund, the 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.

Although the appropriated budget is classified by departments, programs and objects of expenditure, the City Manager is authorized to transfer budgeted amounts between funds, departments, programs/projects and object categories. Council approval is required for an increase in total appropriations.

Budgeted amounts are adopted on a basis substantially consistent with generally accepted accounting principles. Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items.

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

B. Individual Fund Disclosures

Funds where expenditures exceeded appropriations:

Major Funds:	
Industrial Redevelopment Area Debt Service Funds	\$116,381
Nonmajor Funds:	
Solid Waste Special Revenue Fund	175,739

II. DETAILED NOTES ON ALL FUNDS:

A. Cash and Investments:

For the year ended June 30, 2005, the City has implemented the provisions of GASB 40, *Deposit and Investment Risk Disclosures*. This statement establishes and modifies disclosure requirements related to investment and deposit risks; accordingly, the note disclosure on cash and investments has been revised to conform to the provisions of GASB Statement No. 40.

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 116,029,106
Fiduciary funds:	
Cash and investments	<u>722,046</u>
 Total Cash and Investments	 <u><u>\$ 116,751,152</u></u>

Cash and investments at June 30, 2005 are classified as follows:

Cash on hand	\$ 23,175
Deposits with financial institutions	6,502,286
Investments	<u>110,225,691</u>
 Total Cash and Investments	 <u><u>\$ 116,751,152</u></u>

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

Investments Authorized by the City's Investment Policy

The City of Fountain Valley's Statement of Investment Policy is reviewed and adopted by the City Council each year. The investment policy is more conservative and restrictive than the investment vehicles authorized by Section 53601 of the California Government Code. Investment vehicles not specifically mentioned in the City's investment policy are not authorized unless the policy is amended by the City Council or are approved as part of the provisions of the bond indentures. Investments are limited to:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentages of Portfolio *</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Bills	5 years	None	None
U.S. Treasury Notes	5 years	30%	None
Federal Agency Issues	5 years	None	None
Certificate of Deposit	5 years	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	40%	10%
County Pool Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

* Excluding amounts held by bond trustee that are subject to California Government Code restrictions.

The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee 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, credit risk, and concentration of credit risk.

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentages of Portfolio</u>	<u>Maximum Investment In One Investor</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securites	None	None	None
Bankers' Acceptances	180 days	40%	30%
Commerical Paper	270 days	40%	10%
Money Market Mutual Funds	N/A	20%	10%

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.

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:

<u>Investment Type</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>
Money market funds	\$ 18,503	\$ 18,503		
Held by Fiscal Agent:				
Money market funds	12,615,375	2,310,394		\$ 10,304,981
U.S. Agency Securities	58,121,300	16,530,010	\$ 27,688,460	\$ 13,902,830
State investment pool	39,470,513	39,470,513		
Total	<u>\$ 110,225,691</u>	<u>\$ 58,329,420</u>	<u>\$ 27,688,460</u>	<u>\$ 13,902,830</u>
		<u>\$ 10,304,981</u>		

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

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. The column marked "exempt from disclosure" identifies those investment types for which GASB No. 40 does not require disclosure as to credit risk:

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>AAA</u>	<u>Not Rated</u>
Money market funds	\$ 18,503	A		\$ 18,503	
Held by Fiscal Agent:					
Money market funds	12,615,375	A	\$ 2,310,394	10,304,981	
U.S. Agency Securities	57,680,360	N/A		57,680,360	
State investment pool	<u>39,470,513</u>	N/A			<u>\$ 39,470,51</u>
Total	<u>\$ 109,784,751</u>		<u>\$ 2,310,394</u>	<u>\$ 68,003,844</u>	<u>\$ 39,470,51</u>

The investment policy of the City contains 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 that represents 5% or more of the total Agency's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
FNMA – City	Federal Agency Securities	\$30,628,741
FNMA – Agency	Federal Agency Securities	\$20,571,687

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:

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

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.

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.

B. Receivables:

Receivables at June 30, 2005 are as follows:

	Accounts	Interest	Total
Governmental Activities:			
General fund	\$ 3,282,710	\$ 331,413	\$ 3,614,123
Industrial redevelopment debt service fund	33,085		33,085
Industrial redevelopment capital projects fund	412,145		412,145
Housing set-aside fund	35,678		35,678
Nonmajor governmental funds	1,839,352		1,839,352
	\$ 5,602,970	\$ 331,413	\$ 5,934,383
	Accounts		Total
Business-type Activity			
Water Utility	\$ 413,056		\$ 413,056

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

C. Capital Assets:

A summary of changes in capital asset activity for the year ended June 30, 2005 is as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 3,885,105			\$ 3,885,105
Construction in progress		\$ 3,926,271		3,926,271
Infrastructure	44,369,366			44,369,366
	<u>48,254,471</u>	<u>3,926,271</u>		<u>52,180,742</u>
Total Capital Assets, Not Being Depreciated				
Capital Assets, Being Depreciated:				
Buildings	10,300,669			10,300,669
Improvements other than buildings	752,560			752,560
Vehicles and equipment	6,758,968	598,969	\$ (225,940)	7,131,997
Furniture and fixtures	698,461	257,515		955,976
Infrastructure	21,789,641			21,789,641
	<u>40,300,299</u>	<u>856,484</u>	<u>(225,940)</u>	<u>40,930,843</u>
Total Capital Assets, Being Depreciated				
Less Accumulated Depreciation For:				
Buildings	(5,278,860)	(210,580)		(5,489,440)
Improvements other than buildings		(75,256)		(75,256)
Vehicles and equipment	(4,163,523)	(929,845)	112,049	(4,981,319)
Furniture and fixtures	(369,569)	(89,395)		(458,964)
Infrastructure	(11,150,753)	(425,418)		(11,576,171)
	<u>(20,962,705)</u>	<u>(1,730,494)</u>	<u>112,049</u>	<u>(22,581,150)</u>
Total Accumulated Depreciation				
Total Capital Assets, Being Depreciated	<u>19,337,594</u>	<u>(874,010)</u>	<u>(113,891)</u>	<u>18,349,693</u>
Governmental Activities Capital Assets	<u>\$ 67,592,065</u>	<u>\$ 3,052,261</u>	<u>\$ (113,891)</u>	<u>\$ 70,530,435</u>

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

A summary of property, plant and equipment at June 30, 2005 for the City's business-type activities is as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Business-type Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 123,076			\$ 123,076
Total Capital Assets, Not Being Depreciated	123,076			123,076
Capital Assets, Being Depreciated:				
Buildings and structures	8,231,901			8,231,901
Improvements other than buildings	10,416,608	\$ 15,074		10,431,682
Field equipment	13,113			13,113
Total Capital Assets, Being Depreciated	18,661,622	15,074		18,676,696
Less Accumulated Depreciation	(9,878,028)	(464,377)		(10,342,405)
Total Capital Assets, Being Depreciated	8,783,594	(449,303)		8,334,291
Business-type Activities Capital Assets	<u>\$ 8,906,670</u>	<u>\$ (449,303)</u>	<u>\$ -</u>	<u>\$ 8,457,367</u>

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

Governmental activities:	
General government	\$ 929,321
Public safety	293,887
Transportation	74,663
Community development	334,057
Culture and leisure	<u>98,566</u>
Total depreciation expense - governmental activities	<u>\$ 1,730,494</u>

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

D. Interfund receivables, payables, and transfers:

1. Interfund receivables and payables were as follows at June 30, 2005:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 240,976	
Industrial Redevelopment Capital Projects Fund		\$ 35,060
Housing Set-Aside Capital Projects Fund		131,796
Nonmajor Governmental Funds	<u>35,060</u>	<u>109,180</u>
Total	<u>\$ 276,036</u>	<u>\$ 276,036</u>

The purpose of Due To/Froms is to loan money to certain funds for various projects.

	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
Industrial Redevelopment Capital Projects Fund	\$ 256,538	
Nonmajor Governmental Funds		<u>\$ 256,538</u>
Total Advances	<u>\$ 256,538</u>	<u>\$ 256,538</u>

Advances to (from) other funds consists of \$256,538 loaned from the Industrial Redevelopment Project Area to the City Center Project Area within the Fountain Valley Agency for Community Redevelopment.

2. Interfund transfers were as follows for the year ended June 30, 2005:

Transfer From	<u>Transfer To</u>			Total
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Water Fund</u>	
Governmental Funds:				
General Fund		\$ 1,128,550		\$ 1,128,550
Nonmajor Governmental Funds	<u>\$ 5,025,758</u>	<u>126,795</u>	<u>\$ 132,417</u>	<u>5,284,970</u>
Total	<u>\$ 5,025,758</u>	<u>\$ 1,255,345</u>	<u>\$ 132,417</u>	<u>\$ 6,413,520</u>

Interfund transfers were primarily used to fund capital improvement projects and to cover water utility operating shortfalls.

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

E. Long-Term Debt:

Governmental Funds:

The following is a summary of the changes in the governmental funds long-term debt for the year ended June 30, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental-Type Activities:</u>					
Leases payable	\$ 1,205,635	\$ 43,067	\$ (196,717)	\$ 1,051,985	\$ 219,768
Tax allocation bonds	17,945,000		(1,190,000)	16,755,000	1,235,000
Note payable	16,788,410	581,585		17,369,995	
Certificates of participation	13,270,000		(345,000)	12,925,000	420,000
Compensated absences	1,958,989	1,466,372	(1,331,423)	2,093,938	
Claims payable	1,054,494	222,526	(486,410)	790,610	
				<u>790,610</u>	
Governmental Activities Long-Term Liabilities	<u>\$ 52,222,528</u>	<u>\$ 2,313,550</u>	<u>\$ (3,549,550)</u>	<u>\$ 50,986,528</u>	<u>\$ 1,874,768</u>
<u>Business-type Activities:</u>					
Compensated absences	\$ 97,021	\$ 103,570	\$ (94,388)	\$ 106,203	
Loans payable	964,639		(36,599)	928,040	\$ 37,878
				<u>928,040</u>	
Business-type Activities Long-term Liabilities	<u>\$ 1,061,660</u>	<u>\$ 103,570</u>	<u>\$ (130,987)</u>	<u>\$ 1,034,243</u>	<u>\$ 37,878</u>

1. Governmental

Leases Payable:

Automailer:

On October 2, 2002, the City entered into a lease/purchase agreement with the Key Equipment Finance for a 4 Station Folder / Inserter. The term of this lease is five years. The lease / purchase agreement provides for minimum annual payments of \$7,449.

Color Copier:

The July 1, 1997 lease the City had with Canon was replaced with a new lease dated August 1, 2000. The lease agreement was for the lease/purchase of a color copier in the amount of \$76,159. The term of this lease is five years. The lease agreement provides for minimum annual lease payments of \$16,374 representing principal and interest. During fiscal year 2004-05, principal payments were made in the amount of \$15,232.

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

Digital Copier:

On October 1, 2003, the City entered into a lease/purchase agreement with the Imagining Plus for a Ricoh 2090 Digital Copier/Printer/Scanner System. The term of this lease is five years. The lease / purchase agreement provides for minimum annual payments of \$9,456.

Fire Trucks:

On March 1, 2001, the City entered into a lease agreement with American LaFrance of Los Angeles for fire trucks. The term of this lease is nine years. The lease agreement provides for minimum annual lease payments of \$219,862 representing principal and interest. During fiscal year 2004-2005, principal payments were made in the amount of \$152,819.

Computer Hardware:

On July 10, 2001, the City entered into a lease/purchase agreement with Hewlett Packard for two central processing units, which support the Finance and Police Information Systems. The term of this lease is five years.

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) with interest rates varying from 3.80% to 4.70%.

\$16,755,000

Note Payable:

The Industrial Project Area has an outstanding note payable to Price Company in the amount of \$17,369,995 bearing interest at the prime rate charged by Bank of America NT. The interest rate will be adjusted annually on the anniversary date of the note year. The note will be repaid from property tax increment revenues. The 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 21 years or until accrued interest and principal are paid in full whichever occurs first.

\$17,369,995

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

Certificates of Participation:

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.

\$12,925,000

Compensated Absences:

The governmental fund's accumulated vacation and sick leave accrual is recorded as a long-term liability.

\$ 2,093,938

Claims Payable:

The estimated amount of probable future self-insurance claims for workers' compensation is recorded as a long-term liability.

\$ 790,610

The annual requirements to amortize the Capital Lease Obligations, Tax Allocation Bonds, and Certificates of Participation, as of June 30, 2005, are as follows:

Year Ending June 30,	Capitalized Lease Obligations		Tax Allocations Bonds		Certificates of Participation	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 219,768	\$ 59,621	\$ 1,235,000	\$ 728,678	\$ 420,000	\$ 465,424
2007	227,289	47,903	1,285,000	680,513	430,000	457,024
2008	197,909	36,562	1,335,000	629,513	440,000	448,424
2009	200,089	25,105	1,390,000	575,713	445,000	439,624
2010-2014	206,930	12,933	7,880,000	1,941,213	2,430,000	2,015,156
2015-2019			3,630,000	257,795	2,860,000	1,574,201
2020-2024					3,465,000	974,675
2025-2027					2,435,000	222,525
Totals	<u>\$ 1,051,985</u>	<u>\$ 182,124</u>	<u>\$ 16,755,000</u>	<u>\$ 4,813,425</u>	<u>\$ 12,925,000</u>	<u>\$ 6,597,053</u>

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

2. Proprietary

Compensated Absences:

The proprietary fund's accumulated vacation and sick leave accrual is being reported in the Water Utility Fund. \$106,203

Loans Payable:

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, 2005 the amount outstanding on the loan is \$928,040. 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, 2005 are as follows:

Year Ending June 30,	Loans Payable OCWD	
	Principal	Interest
2006	\$ 37,878	\$ 32,481
2007	39,205	31,156
2008	40,578	29,783
2009	41,998	28,363
2010-2014	223,095	118,711
2015-2019	276,843	74,962
2020-2023	268,443	23,003
Total	\$ 928,040	\$ 338,459

F. Reservations and Designations of Fund Balances

A city may establish "reserves" of fund equity to segregate fund balances which are not appropriable for expenditure in future periods, or which are legally set aside for a specific future use. Fund "designations" also may be established to indicate tentative plans for financial resource utilization in a future period.

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

The reserved and designated fund balances at June 30, 2005 were as follows:

General Fund

Reserved for:		
Inventory		<u>\$ 81,727</u>
Total Reserved		<u>\$ 81,727</u>
Designated for:		
Information processing	\$ 1,067,868	
Government building	1,684,048	
Fleet management	2,735,527	
Capital equipment	179,919	
Self-insurance	3,219,961	
Employee benefits	6,143,646	
Future capital expenditures	7,212,518	
Contingencies	<u>17,176,736</u>	
Total Designated		<u>\$39,420,223</u>

Industrial Development Debt Service Fund

Reserved for debt service	<u>\$17,201,819</u>
---------------------------	---------------------

Industrial Development Capital Project Fund

Reserved for:		
Affordable housing	\$ 1,960,766	
Long-term receivables	<u>256,538</u>	
Total Reserved		<u>\$ 2,217,304</u>
Designated for capital projects		<u>\$ 23,937,301</u>

Housing Set-Aside Capital Projects Fund

Reserved for:		
Affordable housing	\$ 190,027	
Long-term receivables	<u>450,000</u>	
Total Reserved		<u>\$ 640,027</u>

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

Nonmajor Governmental Funds

Reserved for:		
Work in progress	\$ 3,341,634	
Affordable housing	771,851	
Debt service	<u>9,414,731</u>	
Total Reserved	<u>\$ 13,528,216</u>	
Designated for capital projects		<u>\$ 3,063,441</u>
Total Reserved, All Funds	<u>\$ 33,669,093</u>	
Total Designated, All Funds		<u>\$ 66,420,965</u>

The City's reserves at June 30, 2005 are described below.

Reserve for Inventory:

A reserve has been established for inventory held by the General Fund.

Reserve for Long-Term Receivables:

A reserve has been established for loans and advances that are long-term in nature.

Reserve for Debt Service:

A reserve has been established for funds held for payment of principal and interest on bonds.

Reserve for Affordable Housing:

This reserve has been established to provide affordable housing benefits within the redevelopment areas.

II. OTHER INFORMATION

A. Insurance

Self-Insurance:

At June 30, 2005, the City was self-insured for workers' compensation, employee long-term disability insurance and general liability. Additionally, the City has purchased coverage for individual claims in excess of \$275,000 for workers' compensation. The long-term disability self-insurance pays a maximum of \$1,500 per month, two months after the employee ceases working, and the City's self-insurance retention is limited to the first four months of disability, at which time the excess carrier handles the claim.

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

The City's general and auto liability self-insurance retention is \$20,000, 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, earthquake and vehicle physical damage.

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

The City is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 91 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 coverages. The Authority's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a 9-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). Six months after the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Costs are spread to members as follows: the first \$30,000 of each occurrence is charged directly to the member; costs from \$30,001 to \$750,001 are pooled based on a member's share of costs under \$20,000; costs from \$500,001 to \$5,000,000 are pooled based on payroll. Costs of covered claims above \$5,000,000 are currently paid by reinsurance. The protection for each member is \$50,000,000 per occurrence and \$50,000,000 annual aggregate.

Workers Compensation – The City is self-insured for the first \$500,000 of each claim. Costs in excess of \$500,000 are covered by a separate excess workers compensation insurance policy.

Adequacy of Protection:

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 coverage in the prior year.

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

Claims Liability:

The following is a summary of changes in claims liability:

	Beginning Balance	Claims and Changes in Estimates	Less Claim Payments	Ending Balance
2003-2004	\$ 880,757	\$ 420,887	\$ (247,150)	\$ 1,054,49
2004-2005	1,054,494	222,526	(486,410)	790,61

B. Pension Plans

1. Defined Benefit Pension Plan:

Plan Description:

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

Funding Policy:

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 4.913% for non-safety employees and 19.938% for safety employees of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost:

For 2005, the City's annual pension cost of \$3,507,216 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2004, actuarial valuation using the entry age actuarial cost method.

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005, for the unfunded liability is ten years.

THREE-YEAR TREND INFORMATION FOR PERS (\$ Amount in Thousands)

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$1,555	100%	\$ -
6/30/04	1,715	100%	-
6/30/05	3,507	100%	-

Defined Contribution Pension Plan:

As of January 1, 1992, the City implemented a defined contribution 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 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, 2005, the City's payroll covered by the plan was \$373,274. The City made employer contributions of \$13,998 (3.75% of current covered payroll), and employees contributed \$13,998 (3.75% of current covered payroll).

C. Post Employment Benefits

Employees who retire from the City are eligible to receive health care benefits covering themselves and any qualified family members. For all covered employees with effective dates of retirement after October 1, 1980 and a minimum of 10 years of continuous service, the City contributes the actual cost of insurance up to the amount contributed for active employees.

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

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. 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. For police employees, insurance with the City will be supplemental to Medicare upon reaching the age of 65.

The cost of retiree health care insurance benefits is recognized as an expenditure as insurance premiums are paid on a monthly basis. For the fiscal year ended June 30, 2005, those costs totaled \$643,507. As of June 30, 2005, 95 retired employees received post-employment benefits.

D. Loans Receivable

The City has made rehabilitation and first time home buyer loans totaling \$2,257,592 to qualified applicants. The Housing Set-Aside Capital Projects Fund furnished \$1,879,279 of loans; the Community Development Block Grant (CDBG) Special Revenue Fund furnished \$270,826 of loans; and the HOME Grant Special Revenue Fund furnished \$107,487 of loans. All housing rehabilitation loans are repaid when title to the property changes or by 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 homeowner as a 30-year loan (\$30,000 per home). The 30-year loan accrues no interest for the first 10 years and thereafter will accrue at 5% simple interest. The \$30,000 loan will become due and payable to the City if the homeowner resells 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 back \$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, fund balance is reserved for the entire amount outstanding. At June 30, 2005, the outstanding balance is \$450,000.

The Fountain Valley Agency for Community Development, as part of an Affordable Housing Agreement with Fountain Valley Development Co. LLC., has made a loan for the development of condominiums for seniors. As of June 30, 2005, \$850,000 was loaned at an interest rate of 7%. Due to the long-term mature of the loan, the Agency has deferred recognition of revenues until payment has been received. The amount outstanding at June 30, 2005 is \$850,000.

CITY OF FOUNTAIN VALLEY
Notes to Financial Statements (Continued)
June 30, 2005

The Fountain Valley Agency for Community Development has made a loan to Fountain Valley Partners, L.P. for the development of an apartment complex for seniors, in the amount of \$5,606,071. See Note IV.E.

E. Commitments

During the fiscal year ended June 30, 1986, the Fountain Valley Agency for Community Development deferred its required set-aside of 20% of tax increment received in the Industrial Project Area and the City Center Project Area. The deferral was made in order to meet required debt service payments. The total deferral was for \$5,056,126. Repayment of the deferral, from the Industrial Project Area Fund to the Housing Set-Aside fund, commenced during FY 1994-95. No payments were made during FY 2004-05. Through June 30, 2005, \$2,986,312 has been paid.

On October 1, 2002, the Fountain Valley Agency for Community Development 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. \$5,606,073. As of June 30, 2005, \$5,606,071 was loaned at an interest rate of 2%. The remaining amount will be loaned based on the progress of the project. 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, 2005, is \$5,606,071.

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Required Supplementary Information

CITY OF FOUNTAIN VALLEY
Required Supplementary Information
PERS Schedule of Funding Progress
June 30, 2005

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (Excess Assets) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll [(B-A)/C]
6/30/02:						
Misc.	\$ 37,855	\$ 34,455	\$ (3,400)	109.9%	\$ 7,189	(47.294%)
Safety	<u>69,586</u>	<u>76,111</u>	<u>6,525</u>	<u>91.4%</u>	<u>7,173</u>	<u>90.966%</u>
Total	<u>\$ 107,441</u>	<u>\$ 110,566</u>	<u>\$ 3,125</u>	<u>97.2%</u>	<u>\$ 14,362</u>	<u>21.759%</u>
6/30/03:						
Misc.	\$ 37,842	\$ 38,732	\$ 890	97.7%	\$ 7,395	12.035%
Safety	<u>69,708</u>	<u>81,085</u>	<u>11,377</u>	<u>86.0%</u>	<u>7,960</u>	<u>142.927%</u>
Total	<u>\$ 107,550</u>	<u>\$ 119,817</u>	<u>\$ 12,267</u>	<u>89.8%</u>	<u>\$ 15,355</u>	<u>79.889%</u>
6/30/04:						
Misc.	\$ 39,169	\$ 43,506	\$ 4,337	90.0%	\$ 7,342	59.071%
Safety	<u>72,696</u>	<u>85,645</u>	<u>12,949</u>	<u>84.9%</u>	<u>7,838</u>	<u>165.208%</u>
Total	<u>\$ 111,865</u>	<u>\$ 129,151</u>	<u>\$ 17,286</u>	<u>86.6%</u>	<u>\$ 15,180</u>	<u>113.874%</u>

See Accompanied Notes to Required Supplementary Information.

CITY OF FOUNTAIN VALLEY
General Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	Budget		Actual	Variance
	Original	Final		Positive (Negative)
Revenues:				
Taxes	\$ 18,909,900	\$ 18,909,900	\$ 20,168,728	\$ 1,258,828
Licenses and permits	759,600	759,600	1,214,689	455,089
Fines and penalties	381,400	381,400	411,460	30,060
Revenue from use of money and property	1,613,000	1,613,000	1,608,826	(4,174)
Net decrease in fair value of investments			(10,417)	(10,417)
Revenue from other governmental agencies	3,304,300	3,491,558	3,994,021	502,463
Charges for services	2,277,700	3,545,383	2,564,554	(980,829)
Other revenue	1,201,200	1,201,200	1,356,593	155,393
Total Revenues	28,447,100	29,902,041	31,308,454	1,406,413
Expenditures:				
Current:				
General government	2,533,749	2,533,749	2,354,364	179,385
Public safety	20,018,158	20,018,158	18,727,404	1,290,754
Transportation	3,322,742	3,164,796	2,817,123	347,673
Community development	1,947,339	1,927,339	1,745,616	181,723
Culture and leisure	2,641,320	2,641,320	2,390,204	251,116
Capital outlay	1,185,212	5,327,156	5,573,310	(246,154)
Debt service:				
Principal retired	7,356	7,356	189,052	(181,696)
Interest and fiscal charges	55,000	55,000	7,449	47,551
Total Expenditures	31,710,876	35,674,874	33,804,522	1,870,352
Excess (Deficiency) of Revenues Over Expenditures	(3,263,776)	(5,772,833)	(2,496,068)	3,276,765
Other Financing Sources (Uses):				
Transfers in	860,000	1,127,207	5,025,758	3,898,551
Transfers out	(1,210,000)	(6,564,026)	(1,128,550)	5,435,476
Total Other Financing Sources (Uses)	(350,000)	(5,436,819)	3,897,208	9,334,027
Net Change in Fund Balance	(3,613,776)	(11,209,652)	1,401,140	12,610,792
Fund Balances, July 1	38,100,810	38,100,810	38,100,810	
Fund Balances, June 30	<u>\$ 34,487,034</u>	<u>\$ 26,891,158</u>	<u>\$ 39,501,950</u>	<u>\$ 12,610,792</u>

See Accompanying Notes to Required Supplementary Information.

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CITY OF FOUNTAIN VALLEY
Notes to Required Supplementary Information
June 30, 2005

1. Budgetary Information

The City budget is prepared under the direction of the City Manager. Revenues are budgeted based on source. Expenditures are budgeted by department, program and object of expenditure.

The City Council approves total budgeted appropriations and any amendments to total appropriations during the year. This "appropriated budget" covers substantially all City expenditures of the governmental funds, with the exception of debt service on prior years' bond issues and capital improvement projects. Debt service payments and capital projects constitute legally-authorized "non-appropriated budget." There were no significant non-budgeted financial activities.

Although the appropriated budget is classified by departments, programs and objects of expenditure, the City Manager is authorized to transfer budgeted amounts between funds, departments, programs/projects and object categories. Council approval is required for an increase in total appropriations.

Budgeted amounts are adopted on a basis substantially consistent with generally accepted accounting principles. Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items.

2. Disclosures for the Street, Sidewalks, Curbs and Gutters

A. Streets

The condition of the City's roadway pavements is measured using the CarteGraph Pavement Management System. The system uses a measurement scale that is based on an Overall Condition Index (OCI) ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The City's road system is divided into roadway segments according to the classifications of Primary, Major and Secondary routes, which are combined for reporting purposes as Arterial and Collector routes, and Residential roadways. Field condition surveys of the pavement surface are conducted using 19 pavement distress types and a seven level measurement scale to develop the OCI for each roadway segment and an overall pavement network rating. The seven levels are: Excellent (85-100), Very Good (70-84), Good (55-69), Fair (40-54), Poor (25-39), Very Poor (10-24), and Failed (0-9). Field condition surveys are undertaken and OCI ratings are compiled bi-annually for Arterial and Collector roadways, and for Residential roadways, the assessments will be completed over a three-year period to comply with the GASB 34 requirements. It is the City's policy to maintain a weighted average of all roadway segments at an OCI of 65 or better.

CITY OF FOUNTAIN VALLEY
Notes to Required Supplementary Information (Continued)
June 30, 2005

Condition	OCI Range					Total	
		Primary	Major	Secondary	Residential	Sections	Percentage
Excellent	85-100	31	15	24	311	381	39
Very Good	70-84	7	12	1	250	270	28
Good	55-69	1	5	1	138	145	15
Fair	40-54	0	3	1	106	110	11
Poor	25-39	2	0	4	28	34	3
Very Poor	10-24	2	1	2	6	11	1
Failed	0-9	7	4	4	11	26	3

The overall condition of the City's pavement network is "Very Good" with a weighted average OCI of 75.8 based on the surface area of each segment.

A. Sidewalks, Curbs and Gutters

The City's maintenance standards for sidewalks are based upon the various vertical offset criteria listed below:

Sidewalk Maintenance

- 0" to 12" – will be flagged for identification purposes, however will be excluded from the budgetary section of the report. These distress locations are potential hazards and should be considered for future maintenance.
- ½" to 1" – will be flagged for grinding maintenance.
- 1" to 2" – will be flagged for ramping maintenance.
- >2" not caused by a tree – will be flagged as ramp maintenance until the tree is removed. Then the City will remove the deficient sidewalk and/or curbs and gutter.

It is the City's policy to perform the maintenance on sidewalks consistent with the above criteria.

Curbs and Gutters

The City's maintenance standards for curbs and gutters requires that sections of curbs and gutters that experience an vertical offset of 1-1/2" inches or greater which create "standing" water shall be placed on a schedule for removal and replacement consistent with existing City Council policy. To the greatest extent possible, removal and replacement of curbs and gutters meeting the above criteria shall be performed in conjunction with street resurfacing projects within which the deficient curbs and gutters sections are located.

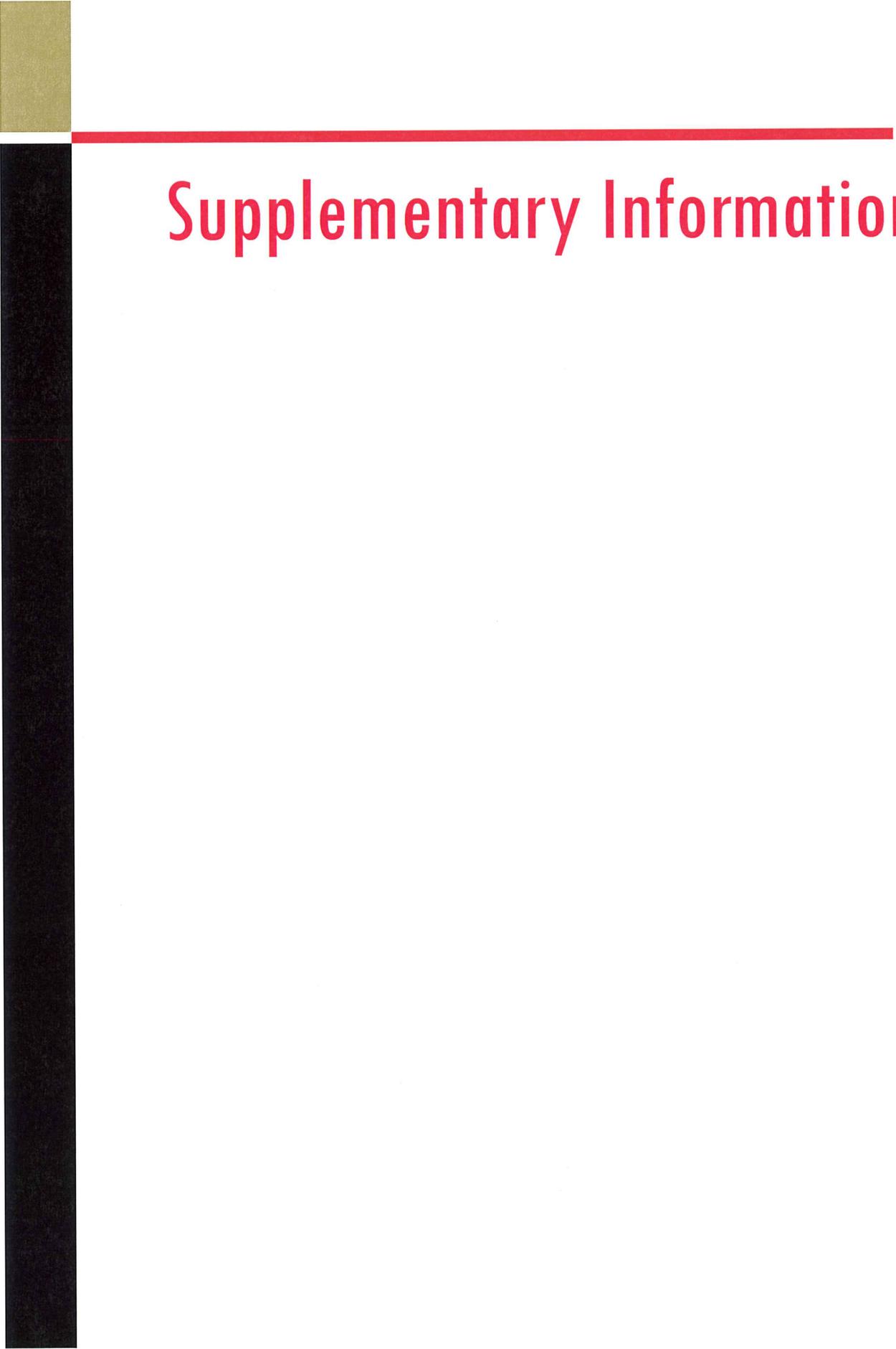
CITY OF FOUNTAIN VALLEY
Notes to Required Supplementary Information (Continued)
June 30, 2005

Comparison of Needed-to-Actual Maintenance/Preservation
(In Thousands)

	<u>FY 2004-2005</u>
<u>Sidewalks</u>	
Budgeted	\$ 382,000
Actual	87,342
<u>Curbs and Gutters</u>	
Budgeted	70,000
Actual	66,751
<u>Roadway Classification</u>	
Arterial and Collectors	
Budgeted	600,000
Actual	53,096
Residential Roadway	
Budgeted	600,000
Actual	504,595

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Supplementary Information

CITY OF FOUNTAIN VALLEY
Industrial Redevelopment Area Debt Service Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Tax increment	\$ 6,467,191	\$ 5,760,653	\$ (706,538)
Revenue from use of money and property		<u>37,671</u>	<u>37,671</u>
Total Revenues	<u>6,467,191</u>	<u>5,798,324</u>	<u>(668,867)</u>
Expenditures:			
Current:			
Developer reimbursement	575,000	351,925	223,075
Debt service:			
Interest and fiscal charges	1,369,397	1,663,853	(294,456)
Principal retired	<u>1,145,000</u>	<u>1,190,000</u>	<u>(45,000)</u>
Total Expenditures	<u>3,089,397</u>	<u>3,205,778</u>	<u>(116,381)</u>
Net Change in Fund Balance	3,377,794	2,592,546	(785,248)
Fund Balance, July 1	<u>14,609,273</u>	<u>14,609,273</u>	<u> </u>
Fund Balance, June 30	<u>\$ 17,987,067</u>	<u>\$ 17,201,819</u>	<u>\$ (785,248)</u>

CITY OF FOUNTAIN VALLEY
Industrial Redevelopment Area Capital Projects Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Revenue from use of money and property	\$ 750,000	\$ 1,090,276	\$ 340,276
Net decrease in fair value of investments		(67,986)	(67,986)
Other revenue	<u>239,736</u>	<u>46,128</u>	<u>(193,608)</u>
Total Revenues	<u>989,736</u>	<u>1,068,418</u>	<u>78,682</u>
Expenditures:			
Current:			
General government	1,830,427	1,879,279	(48,852)
Community development	100,000	100,000	
Capital outlay	9,384,795	451,022	8,933,773
Debt service:			
Housing set-aside payment	<u>1,790,289</u>	<u> </u>	<u>1,790,289</u>
Total Expenditures	<u>13,105,511</u>	<u>2,430,301</u>	<u>10,675,210</u>
Net Change in Fund Balance	(12,115,775)	(1,361,883)	10,753,892
Fund Balance, July 1	<u>27,516,488</u>	<u>27,516,488</u>	<u> </u>
Fund Balance, June 30	<u>\$ 15,400,713</u>	<u>\$ 26,154,605</u>	<u>\$ 10,753,892</u>

CITY OF FOUNTAIN VALLEY
Housing Set-Aside Capital Projects Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Tax increment	\$ 1,820,809	\$ 1,484,430	\$ (336,379)
Revenue from use of money and property	5,000	167,719	162,719
Other revenue	27,000	215,950	188,950
Total Revenues	<u>1,852,809</u>	<u>1,868,099</u>	<u>15,290</u>
Expenditures:			
Current:			
General government	2,338,484	1,528,274	810,210
Capital outlay	556,071	556,071	
Total Expenditures	<u>2,894,555</u>	<u>2,084,345</u>	<u>810,210</u>
Net Change in Fund Balance	(1,041,746)	(216,246)	825,500
Fund Balance, July 1	<u>6,572,202</u>	<u>6,572,202</u>	
Fund Balance, June 30	<u>\$ 5,530,456</u>	<u>\$ 6,355,956</u>	<u>\$ 825,500</u>

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Supplemental Schedules

Description of Non-Major Government Funds

Special Revenue Funds

Traffic Improvement	To account for Measure M revenues received by the City. These funds may be used for street projects to improve traffic.
Traffic Safety	To account for receipts and expenditures of traffic safety fines.
Special Gas Tax	To account for State gasoline taxes received by the City. These funds may be used for street maintenance, right-of-way acquisition and street construction.
Community Development Block Grant	To account for federal Housing and Community Development Block Grant funds.
Home Grant	To account for federal HOME Grant funds.
Criminal Activities	To account for the receipts and disbursements of seized and forfeited assets used for sale of controlled substances and to account for state monies to be used for policing activities.
Park Improvement	To account for the expansion and renovation of the City's recreation center and other park facilities next to Mile Square Regional Park.
Traffic Congestion Relief	To account for the preservation, maintenance and rehabilitation of the local street and road system.
Pollution Reduction	To account for South Coast Air Quality Management District revenues received by the City. These funds may be used for various programs to reduce air pollution.
Solid Waste	To account for fees and services for trash disposal.

Description of Non-Major Government Funds

Debt Service Funds

Fountain Valley Financing Authority	To account for the repayment of principal and interest on the indebtedness of the authority.
City Center Redevelopment Area	To account for tax increment revenue and related interest income generated from the City Center Project Area. Tax increment revenues are used for repayment of principal and interest on the indebtedness of the Agency.

Capital Projects Funds

City Center Redevelopment Area	To account for the construction of all capital projects located in the City Center and financed by the Redevelopment Agency.
Local Drainage	To account for the implementation of goals and objectives of the master drainage plan and to mitigate water runoff impacts of new development in the drainage area.
Sewer Assessment	To account for the development impact fees used to pay for the development fair share of improvements.
Median Beautification	To account for the purchase of the replacement planting in various medians throughout the City.
Bicycle Trails	To account for the Transportation Development Act (TDA) Article 3 Funds of the Bikeways and Pedestrian Facilities program.
Fountain Valley Financing Authority	To account for the construction of certain improvements associated with the issuance of the 2003 Certificates of Participation.

CITY OF FOUNTAIN VALLEY
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

<u>ASSETS</u>	Special Revenue Funds			
	Traffic Improvement	Traffic Safety	Special Gas Tax	Community Development Block Grant
Cash and investments	\$ 1,545,214		\$ 1,107,273	
Accounts receivable and accrued revenue	1,311,220	\$ 16,616	47,596	\$ 192,479
Loans receivable				270,826
Due from other funds	35,060			
Total Assets	\$ 2,891,494	\$ 16,616	\$ 1,154,869	\$ 463,305
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 24,088		\$ 8,904	\$ 16,148
Advances from other funds				
Due to other funds				109,180
Deferred revenue				280,853
Total Liabilities	24,088		8,904	406,181
Fund Balances:				
Reserved for:				
Work in progress	2,913,665			
Affordable housing				
Debt service				
Unreserved:				
Designated for capital expenditures				
Undesignated	(46,259)	\$ 16,616	1,145,965	57,124
Total Fund Balance	2,867,406	16,616	1,145,965	57,124
Total Liabilities and Fund Balance	\$ 2,891,494	\$ 16,616	\$ 1,154,869	\$ 463,305

Special Revenue Funds

Home Grant	Criminal Activities	Park Improvement	Traffic Congestion Relief	Pollution Reduction	Solid Waste
\$ 155,545	\$ 67,408	\$ 2,168	\$ 48,371	\$ 352,178	\$ 249,436
107,487	2,300			18,767	140,420
<u>\$ 263,032</u>	<u>\$ 69,708</u>	<u>\$ 2,168</u>	<u>\$ 48,371</u>	<u>\$ 370,945</u>	<u>\$ 389,856</u>
	\$ 11,058		\$ 48,249	\$ 3,294	\$ 222,623
<u>\$ 182,044</u>	<u>30,339</u>				
<u>182,044</u>	<u>41,397</u>		<u>48,249</u>	<u>3,294</u>	<u>222,623</u>
<u>80,988</u>	<u>28,311</u>	<u>\$ 2,168</u>	<u>122</u>	<u>367,651</u>	<u>167,233</u>
<u>80,988</u>	<u>28,311</u>	<u>2,168</u>	<u>122</u>	<u>367,651</u>	<u>167,233</u>
<u>\$ 263,032</u>	<u>\$ 69,708</u>	<u>\$ 2,168</u>	<u>\$ 48,371</u>	<u>\$ 370,945</u>	<u>\$ 389,856</u>

(Continued)

CITY OF FOUNTAIN VALLEY
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2005

	Debt Service Fund		Capital Projects Funds	
	Fountain Valley Financing Authority	City Center Redevelopment Area	City Center Redevelopment Area	Local Drainage
<u>ASSETS</u>				
Cash and investments	\$ 889,750	\$ 1,279,232	\$ 4,002,146	\$ 39,269
Accounts receivable and accrued revenue				6,615
Loans receivable				
Due from other funds				
Total Assets	\$ 889,750	\$ 1,279,232	\$ 4,002,146	\$ 45,884
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable and accrued liabilities		\$ 8,848		
Advances from other funds			\$ 256,538	
Due to other funds				
Deferred revenue				
Total Liabilities		8,848	256,538	
Fund Balances:				
Reserved for:				
Work in progress				
Affordable housing			771,851	
Debt service				
Unreserved:				
Designated for capital expenditures			2,973,757	\$ 45,884
Undesignated	\$ 889,750	1,270,384		
Total Fund Balance	889,750	1,270,384	3,745,608	45,884
Total Liabilities and Fund Balance	\$ 889,750	\$ 1,279,232	\$ 4,002,146	\$ 45,884

Capital Projects Funds				
<u>Sewer Assessment</u>	<u>Median Beautification</u>	<u>Bicycle Trails</u>	<u>Fountain Valley Financing Authority</u>	<u>Total</u>
\$ 694,638	\$ 40,998	\$ 112	\$ 9,414,731	\$ 19,888,469
100,649	2,690			1,839,352
				378,313
				35,060
<u>\$ 795,287</u>	<u>\$ 43,688</u>	<u>\$ 112</u>	<u>\$ 9,414,731</u>	<u>\$ 22,141,194</u>
\$ 187,865				\$ 531,077
				256,538
				109,180
				493,236
<u>187,865</u>				<u>1,390,031</u>
427,969				3,341,634
				771,851
			\$ 9,414,731	9,414,731
	\$ 43,688	\$ 112		3,063,441
<u>179,453</u>				<u>4,159,506</u>
<u>607,422</u>	<u>43,688</u>	<u>112</u>	<u>9,414,731</u>	<u>20,751,163</u>
<u>\$ 795,287</u>	<u>\$ 43,688</u>	<u>\$ 112</u>	<u>\$ 9,414,731</u>	<u>\$ 22,141,194</u>

CITY OF FOUNTAIN VALLEY
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

	Special Revenue Funds			Community Development Block Grant
	Traffic Improvement	Traffic Safety	Special Gas Tax	
Revenues:				
Taxes				
Fines and penalties		\$ 367,362		
Revenue from use of money and property	\$ 37,305		\$ 20,198	\$ 2,579
Revenue from other governmental agencies	2,267,038		1,050,671	559,895
Charges for services Assessments and fees				
Total Revenues	<u>2,304,343</u>	<u>367,362</u>	<u>1,070,869</u>	<u>562,474</u>
Expenditures:				
Current:				
Public safety				
Transportation	1,001,648		26,391	
Community development				428,370
Trash disposal				
Capital outlay				
Debt service:				
Interest and fiscal charges				
Payments to escrow agents				
Total Expenditures	<u>1,001,648</u>		<u>26,391</u>	<u>428,370</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,302,695</u>	<u>367,362</u>	<u>1,044,478</u>	<u>134,104</u>
Other Financing Sources (Uses):				
Transfers in				
Transfers out	<u>(431,550)</u>	<u>(350,746)</u>	<u>(476,089)</u>	<u>(134,104)</u>
Total Other Financing Sources (Uses)	<u>(431,550)</u>	<u>(350,746)</u>	<u>(476,089)</u>	<u>(134,104)</u>
Net Change in Fund Balance	871,145	16,616	568,389	
Fund Balance, July 1	<u>1,996,261</u>		<u>577,576</u>	<u>57,124</u>
Fund Balance, June 30	<u>\$ 2,867,406</u>	<u>\$ 16,616</u>	<u>\$ 1,145,965</u>	<u>\$ 57,124</u>

Special Revenue Funds

Home Grant	Criminal Activities	Park Improvement	Traffic Congestion Relief	Pollution Reduction	Solid Waste
\$ 1,469	\$ 232		\$ 221	\$ 8,603	
5,971	226,096		98,994	77,138	\$ 2,809,973
<u>7,440</u>	<u>226,328</u>		<u>99,215</u>	<u>85,741</u>	<u>2,809,973</u>
	223,290		504,595	30,343	
		\$ 39,685			2,670,764
	<u>223,290</u>	<u>39,685</u>	<u>504,595</u>	<u>30,343</u>	<u>2,670,764</u>
<u>7,440</u>	<u>3,038</u>	<u>(39,685)</u>	<u>(405,380)</u>	<u>55,398</u>	<u>139,209</u>
		(773,696)	431,550 (40,000)	(65,723)	(132,417)
		<u>(773,696)</u>	<u>391,550</u>	<u>(65,723)</u>	<u>(132,417)</u>
7,440	3,038	(813,381)	(13,830)	(10,325)	6,792
<u>73,548</u>	<u>25,273</u>	<u>815,549</u>	<u>13,952</u>	<u>377,976</u>	<u>160,441</u>
<u>\$ 80,988</u>	<u>\$ 28,311</u>	<u>\$ 2,168</u>	<u>\$ 122</u>	<u>\$ 367,651</u>	<u>\$ 167,233</u>

(Continued)

CITY OF FOUNTAIN VALLEY
Combining Statement of Revenues,
Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds (Continued)
For the Year Ended June 30, 2005

	Debt Service Fund		Capital Projects Funds	
	Fountain Valley Financing Authority	City Center Redevelopment Area	City Center Redevelopment Area	Local Drainage
Revenues:				
Taxes		\$ 177,061		
Fines and penalties				
Revenue from use of money and property	\$ 45,495			
Revenue from other governmental agencies				\$ 100,000
Charges for services				
Assessments and fees				42,528
Total Revenues	45,495	177,061		142,528
Expenditures:				
Current:				
Public safety				14,975
Transportation				
Community development				
Trash disposal				
Capital outlay				172,265
Debt service:				
Interest and fiscal charges	468,874			
Payments to escrow agents	345,000			
Total Expenditures	813,874			187,240
Excess (Deficiency) of Revenues Over Expenditures	(768,379)	177,061		(44,712)
Other Financing Sources (Uses):				
Transfers in	813,736			10,059
Transfers out	(45,245)			
Total Other Financing Sources (Uses)	768,491			10,059
Net Change in Fund Balance	112	177,061		(34,653)
Fund Balance, July 1	889,638	1,093,323	\$ 3,745,608	80,537
Fund Balance, June 30	\$ 889,750	\$ 1,270,384	\$ 3,745,608	\$ 45,884

Capital Projects Funds				
<u>Sewer Assessment</u>	<u>Median Beautification</u>	<u>Bicycle Trails</u>	<u>Fountain Valley Financing Authority</u>	<u>Total</u>
				\$ 177,061
				367,362
			\$ 181,145	297,247
				4,385,803
				2,809,973
\$ 1,080,416	\$ 18,559			1,141,503
<u>1,080,416</u>	<u>18,559</u>		<u>181,145</u>	<u>9,178,949</u>
				268,608
				1,532,634
				468,055
				2,670,764
569,711				741,976
				468,874
			2,570	347,570
<u>569,711</u>			<u>2,570</u>	<u>6,498,481</u>
<u>510,705</u>	<u>18,559</u>		<u>178,575</u>	<u>2,680,468</u>
				1,255,345
			(2,835,400)	(5,284,970)
			(2,835,400)	(4,029,625)
510,705	18,559		(2,656,825)	(1,349,157)
<u>96,717</u>	<u>25,129</u>	<u>\$ 112</u>	<u>12,071,556</u>	<u>22,100,320</u>
<u>\$ 607,422</u>	<u>\$ 43,688</u>	<u>\$ 112</u>	<u>\$ 9,414,731</u>	<u>\$ 20,751,163</u>

CITY OF FOUNTAIN VALLEY
Nonmajor Traffic Improvement Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Revenue from use of money and property	\$ 16,000	\$ 37,305	\$ 21,305
Revenue from other governmental agencies	<u>2,148,404</u>	<u>2,267,038</u>	<u>118,634</u>
Total Revenues	2,164,404	2,304,343	139,939
Expenditures:			
Current:			
Transportation	<u>4,894,258</u>	<u>1,001,648</u>	<u>3,892,610</u>
Excess (Deficiency) of Revenues Over Expenditures	(2,729,854)	1,302,695	4,032,549
Other Financing (Uses):			
Transfers out	<u>(600,000)</u>	<u>(431,550)</u>	<u>168,450</u>
Net Change in Fund Balance	(3,329,854)	871,145	57,737
Fund Balance, July 1	<u>1,996,261</u>	<u>1,996,261</u>	<u> </u>
Fund Balance, June 30	<u>\$ (1,333,593)</u>	<u>\$ 2,867,406</u>	<u>\$ 4,258,736</u>

CITY OF FOUNTAIN VALLEY
Nonmajor Traffic Safety Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Fines and penalties	\$ 410,000	\$ 367,362	\$ (42,638)
Other Financing Sources (Uses):			
Transfers out	<u>(410,000)</u>	<u>(350,746)</u>	<u>59,254</u>
Net Change in Fund Balance		16,616	16,616
Fund Balances, July 1	<u> </u>	<u> </u>	<u> </u>
Fund Balances, June 30	<u><u>\$ -</u></u>	<u><u>\$ 16,616</u></u>	<u><u>\$ 16,616</u></u>

CITY OF FOUNTAIN VALLEY
Nonmajor Special Gas Tax Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Revenue from use of money and property	\$ 10,000	\$ 20,198	\$ 10,198
Revenue from other governmental agencies	<u>1,020,000</u>	<u>1,050,671</u>	<u>30,671</u>
Total Revenues	1,030,000	1,070,869	40,869
Expenditures:			
Current:			
Transportation	<u>374,854</u>	<u>26,391</u>	<u>348,463</u>
Excess (Deficiency) of Revenues Over Expenditures	655,146	1,044,478	389,332
Other Financing (Uses):			
Transfers out	<u>(450,000)</u>	<u>(476,089)</u>	<u>(26,089)</u>
Net Change in Fund Balance	205,146	568,389	363,243
Fund Balances, July 1	<u>577,576</u>	<u>577,576</u>	<u> </u>
Fund Balances, June 30	<u>\$ 782,722</u>	<u>\$ 1,145,965</u>	<u>\$ 363,243</u>

CITY OF FOUNTAIN VALLEY
Nonmajor Community Development Block Grant Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Revenue from use of money and property	\$ 17,047	\$ 2,579	\$ (14,468)
Revenue from other governmental agencies	432,000	559,895	127,895
Total Revenues	449,047	562,474	113,427
Expenditures:			
Current:			
Community development	580,953	428,370	152,583
Excess (Deficiency) of Revenues Over Expenditures	(131,906)	134,104	266,010
Other Financing (Uses):			
Transfers out	(40,000)	(134,104)	(94,104)
Net Change in Fund Balance	(171,906)		171,906
Fund Balance, July 1	57,124	57,124	
Fund Balance, June 30	\$ (114,782)	\$ 57,124	\$ 171,906

CITY OF FOUNTAIN VALLEY
Nonmajor Criminal Activities Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Revenue from use of money and property	\$ 100	\$ 232	\$ 132
Revenue from other governmental agencies	<u>274,402</u>	<u>226,096</u>	<u>(48,306)</u>
Total Revenues	274,502	226,328	(48,174)
Expenditures:			
Current:			
Public safety	<u>274,502</u>	<u>223,290</u>	<u>51,212</u>
Net Change in Fund Balance		3,038	3,038
Fund Balance, July 1	<u>25,273</u>	<u>25,273</u>	
Fund Balance, June 30	<u><u>\$ 25,273</u></u>	<u><u>\$ 28,311</u></u>	<u><u>\$ 3,038</u></u>

CITY OF FOUNTAIN VALLEY
Nonmajor Park Improvement Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Revenue from other governmental agencies	\$ 8,930,400		\$ (8,930,400)
Expenditures:			
Current:			
Community development	<u>17,113,075</u>	<u>\$ 39,685</u>	<u>17,073,390</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(8,182,675)</u>	<u>(39,685)</u>	<u>8,142,990</u>
Other Financing Sources (Uses):			
Transfers out	<u>(26,440)</u>	<u>(773,696)</u>	<u>(747,256)</u>
Net Change in Fund Balance	(8,209,115)	(813,381)	7,395,734
Fund Balance, July 1	<u>815,549</u>	<u>815,549</u>	
Fund Balance, June 30	<u><u>\$ (7,393,566)</u></u>	<u><u>\$ 2,168</u></u>	<u><u>\$ 7,395,734</u></u>

CITY OF FOUNTAIN VALLEY
Nonmajor Traffic Congestion Relief Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Revenue from use of money and property		\$ 221	\$ 221
Revenue from other governmental agencies		<u>98,994</u>	<u>98,994</u>
Total Revenues		99,215	99,215
Expenditures:			
Current:			
Transportation	<u>\$ 560,000</u>	<u>504,595</u>	<u>55,405</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(560,000)</u>	<u>(405,380)</u>	<u>154,620</u>
Other Financing Sources (Uses):			
Transfers in	600,000	431,550	(168,450)
Transfers out	<u>(40,000)</u>	<u>(40,000)</u>	<u> </u>
Total Other Financing Sources (Uses)	<u>560,000</u>	<u>391,550</u>	<u>(168,450)</u>
Net Change in Fund Balance		(13,830)	(13,830)
Fund Balance, July 1	<u>13,952</u>	<u>13,952</u>	<u> </u>
Fund Balance, June 30	<u><u>\$ 13,952</u></u>	<u><u>\$ 122</u></u>	<u><u>\$ (13,830)</u></u>

CITY OF FOUNTAIN VALLEY
Nonmajor Pollution Reduction Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Revenue from use of money and property	\$ 1,500	\$ 8,603	\$ 7,103
Revenue from other governmental agencies	<u>90,700</u>	<u>77,138</u>	<u>(13,562)</u>
Total Revenues	92,200	85,741	(6,459)
Expenditures:			
Current:			
Public safety	<u>93,274</u>	<u>30,343</u>	<u>62,931</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,074)	55,398	56,472
Other Financing Sources (Uses):			
Transfers out	<u>(65,723)</u>	<u>(65,723)</u>	<u> </u>
Net Change in Fund Balance	(66,797)	(10,325)	56,472
Fund Balance, July 1	<u>377,976</u>	<u>377,976</u>	<u> </u>
Fund Balance, June 30	<u><u>\$ 311,179</u></u>	<u><u>\$ 367,651</u></u>	<u><u>\$ 56,472</u></u>

CITY OF FOUNTAIN VALLEY
Nonmajor Solid Waste Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for services	\$ 2,626,025	\$ 2,809,973	\$ 183,948
Expenditures:			
Current:			
Trash disposal	2,495,025	2,670,764	(175,739)
Excess (Deficiency) of Revenues Over Expenditures	131,000	139,209	8,209
Other Financing (Uses):			
Transfers out	(131,000)	(132,417)	(1,417)
Net Change in Fund Balance		6,792	6,792
Fund Balance, July 1	160,441	160,441	
Fund Balance, June 30	\$ 160,441	\$ 167,233	\$ 6,792

CITY OF FOUNTAIN VALLEY
Nonmajor City Center Redevelopment Area Debt Service Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Taxes	<u>\$ 950,300</u>	<u>\$ 177,061</u>	<u>\$ (773,239)</u>
Net Change in Fund Balance	950,300	177,061	(773,239)
Fund Balance, July 1	<u>1,093,323</u>	<u>1,093,323</u>	<u> </u>
Fund Balance, June 30	<u><u>\$ 2,043,623</u></u>	<u><u>\$ 1,270,384</u></u>	<u><u>\$ (773,239)</u></u>

CITY OF FOUNTAIN VALLEY
Nonmajor Local Drainage Capital Projects Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Revenue from other governmental agencies		\$ 100,000	\$ 100,000
Assessments and fees	\$ 10,000	42,528	32,528
Total Revenues	<u>10,000</u>	<u>142,528</u>	<u>132,528</u>
Expenditures:			
Current:			
Public safety		14,975	(14,975)
Capital outlay	1,368,616	172,265	1,196,351
Total Expenditures	<u>1,368,616</u>	<u>187,240</u>	<u>1,181,376</u>
Excess (Deficiency) of Revenues Over Expenditures	(1,358,616)	(44,712)	1,313,904
Other Financing Sources (Uses):			
Transfers in	1,200,000	10,059	(1,189,941)
Net Change in Fund Balance	(158,616)	(34,653)	123,963
Fund Balance, July 1	<u>80,537</u>	<u>80,537</u>	<u> </u>
Fund Balance, June 30	<u>\$ (78,079)</u>	<u>\$ 45,884</u>	<u>\$ 123,963</u>

CITY OF FOUNTAIN VALLEY
Nonmajor Sewer Assessment Capital Projects Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Revenue from other government agencies	\$ 300,000		\$ (300,000)
Assessments and fees	<u>1,223,780</u>	<u>\$ 1,080,416</u>	<u>(143,364)</u>
Total Revenues	1,523,780	1,080,416	(443,364)
Expenditures:			
Capital outlay	<u>1,781,500</u>	<u>569,711</u>	<u>1,211,789</u>
Net Change in Fund Balance	(257,720)	510,705	768,425
Fund Balance, July 1	<u>96,717</u>	<u>96,717</u>	<u> </u>
Fund Balance, June 30	<u><u>\$ (161,003)</u></u>	<u><u>\$ 607,422</u></u>	<u><u>\$ 768,425</u></u>

CITY OF FOUNTAIN VALLEY
Nonmajor Fountain Valley Financing Authority Capital Projects Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Revenue from use of money and property		\$ 181,145	\$ 181,145
Expenditures:			
Payment to escrow agents	\$ 12,010,000	2,570	12,007,430
Excess (Deficiency) of Revenues Over Expenditures	<u>(12,010,000)</u>	<u>178,575</u>	<u>12,188,575</u>
Other Financing Sources (Uses):			
Transfers out	(124,150)	(2,835,400)	(2,711,250)
Proceeds of debt	<u>53,000</u>		<u>(53,000)</u>
Total Other Financing Sources (Uses)	<u>(71,150)</u>	<u>(2,835,400)</u>	<u>(2,764,250)</u>
Net Change in Fund Balance	(12,081,150)	(2,656,825)	9,424,325
Fund Balance, July 1	<u>12,071,556</u>	<u>12,071,556</u>	
Fund Balance, June 30	<u>\$ (9,594)</u>	<u>\$ 9,414,731</u>	<u>\$ 9,424,325</u>

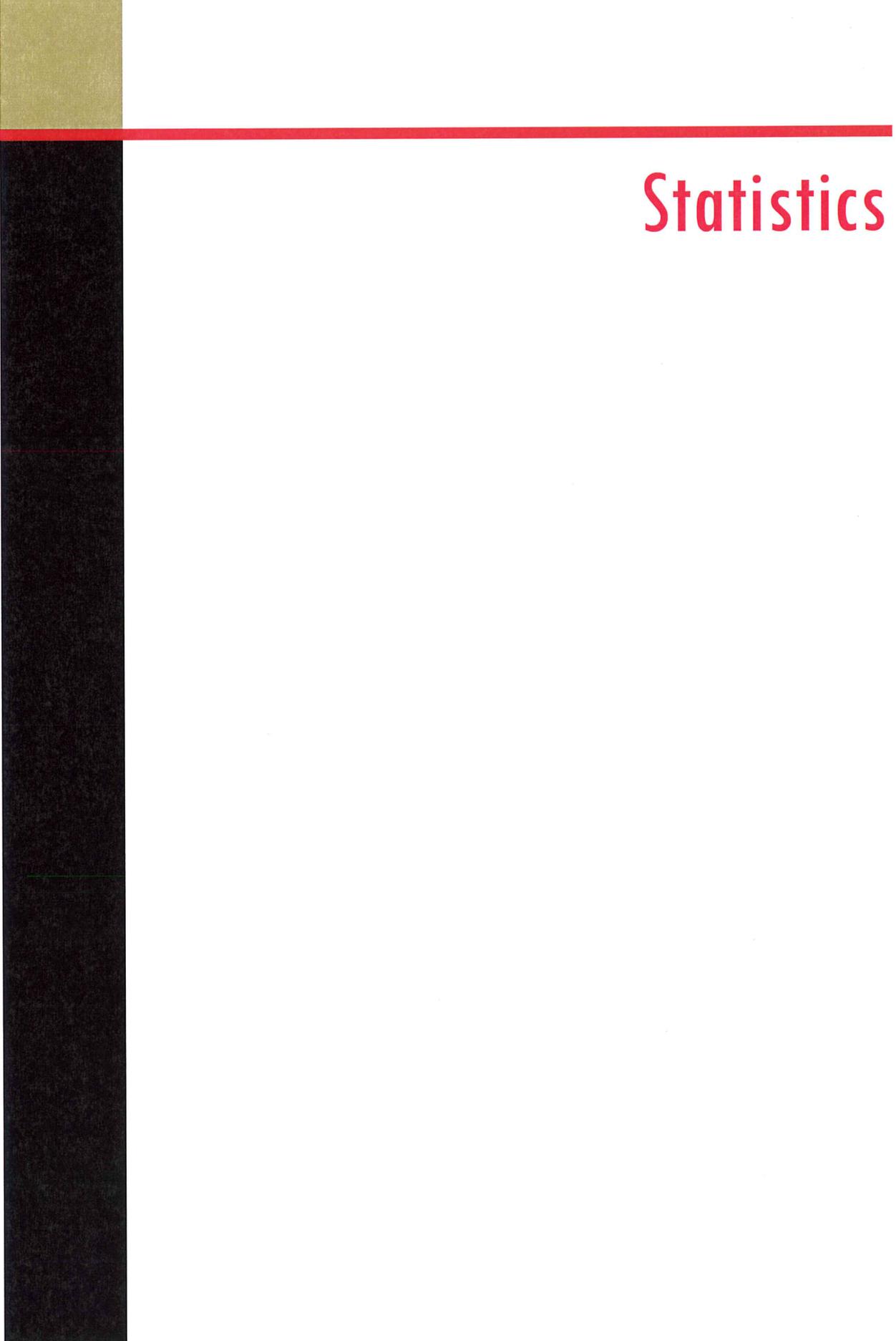
CITY OF FOUNTAIN VALLEY
Combining Statement of Agency Funds
Assets and Liabilities
June 30, 2005

	Agency Funds			Total
	Recreation Contract Program Fund	Special District and Receipt Fund	Reimbursement Agreement Fund	
<u>Assets</u>				
Cash and investments	\$ 28,540	\$ 608,223	\$ 85,283	\$ 722,046
Total Assets	\$ 28,540	\$ 608,223	\$ 85,283	\$ 722,046
<u>Liabilities</u>				
Deposits	\$ 28,540	\$ 608,223	\$ 85,283	\$ 722,046
Total Liabilities	\$ 28,540	\$ 608,223	\$ 85,283	\$ 722,046

CITY OF FOUNTAIN VALLEY
Agency Funds
Combining Statement of Changes in Assets and Liabilities
Year Ended June 30, 2005

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
<u>Recreation Contract Program Fund</u>				
Assets:				
Cash and investments	\$ 39,167	\$ 152,691	\$ 163,318	\$ 28,540
Liabilities:				
Deposits	\$ 39,167	\$ 288,215	\$ 298,842	\$ 28,540
<u>Special Deposit and Receipt Fund</u>				
Assets:				
Cash and investments	\$ 375,101	\$ 698,797	\$ 465,675	\$ 608,223
Liabilities:				
Deposits	\$ 375,101	\$ 954,694	\$ 721,572	\$ 608,223
<u>Reimbursement Agreement Fund</u>				
Assets:				
Cash and investments	\$ 154,717	\$ 1,746	\$ 71,180	\$ 85,283
Liabilities:				
Deposits	\$ 154,717	\$ 13,031	\$ 82,465	\$ 85,283
<u>All Agency Funds</u>				
Assets:				
Cash and investments	\$ 568,985	\$ 853,234	\$ 700,173	\$ 722,046
Liabilities:				
Deposits	\$ 568,985	\$ 1,255,940	\$ 1,102,879	\$ 722,046

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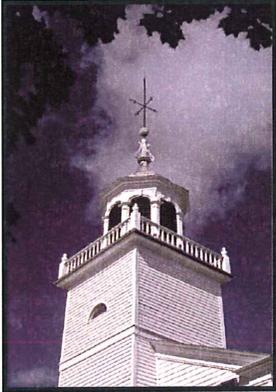


Statistics

Fountain Valley Facts

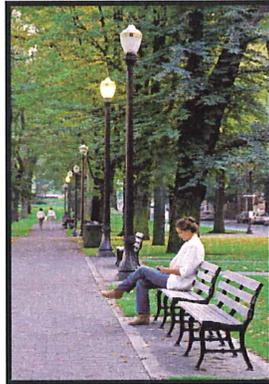
Incorporated: June 13, 1957

Total Population: 57,353 (as of January 1, 2005)



GENERAL LAW

City Council/City Manager government
5 Council Members elected for 4yr terms
Mayor elected annually by the Council



CULTURAL

21 Parks
18 Churches
1 Public Library
55-acre Recreation Center
3 Eighteen Hole Golf Courses
1 Community/Senior Center

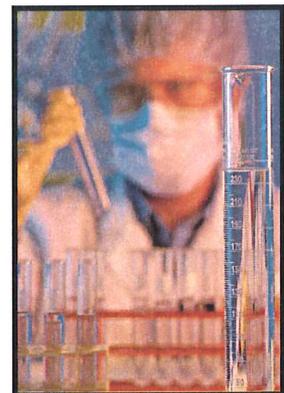
EDUCATION

8 Elementary Schools
1 K-8 School
4 Middle Schools
2 High Schools
Coastline Community College



HEALTH & SAFETY

Fountain Valley Regional Hospital
Orange Coast Memorial Hospital
1 Police Station with 65 Officers
2 Fire Stations with 41 Firefighters



Economic Growth and Trends



Population

	1980	1990	2000	2003
Orange County	1,896,172	2,410,668	2,828,351	3,001,300
Fountain Valley	54,211	53,691	56,919	56,200



Taxable Retail Sales
(in thousands)

Orange County	11,588,782	17,486,433	44,462,460	44,869,156
Fountain Valley	201,753	494,649	869,965	809,698



Occupied Dwellings

Fountain Valley	16,519	18,019	18,232	18,992
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School Enrollment
Grades 1-6

Fountain Valley	6,050	4,167	6,287	6,320
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Source: State of California, Department of Finance, City/County Population and Housing Estimates, 1991-2000 with 1990 Census Count; State Board of Equalization, Fountain Valley Unified School District

Schedule of Insurance in Force

Property

Company	Policy Number	Expiration Date	Coverage	Liability Limit
California Joint Powers Insurance Authority Driver Alliant	P06	1/1/2007	All Risk Property Program Building and Contents	\$500,000,000
California Joint Powers Insurance Authority Driver Alliant	P06	1/1/2007	Emergency Vehicles physical damage All other vehicle physical damage	Coverage written at stated value
Pacific Insurance Company, LTD	ZG0029612	4/18/2005	Earthquake and Flood	\$5,000,000

Fidelity

Company	Policy Number	Expiration Date	Coverage	Liability Limit
California Joint Powers Insurance Authority Blanket Fidelity Bond	FB05	4/1/2006	Employee Dishonesty with Faithful Performance Depositor's Forgery Money and Securities Computer Fraud	\$1,000,000 \$1,000,000 \$1,000,000 \$1,000,000

Liability

Company	Policy Number	Expiration Date	Coverage	Liability Limit
California Joint Powers Insurance Authority	GL 05	Until Terminated	General Liability Automobile Liability	\$50,000,000
	PLL 05	7/1/2008	Pollution Legal Liability Remediation Legal Liability	\$10,000,000 / Member \$50,000 / S.I.R.
	SE 05	1/1/2006	Special Event Tenant / User Liability	\$1,000,000

Excess Workers' Compensation

Company	Policy Number	Expiration Date	Coverage	Liability Limit
Ace American Insurance Company	WCUC42781666	3/1/2006	Statutory Self-Insured Retention Employer Liability	\$1,000,000 Gen. Emp. \$500,000 S.I.R. Police and Fire \$750,000 S.I.R.

Travel

Company	Policy Number	Expiration Date	Coverage	Liability Limit
Federal Insurance Co.	6403-11-40	12/4/2006	Travel Accident	\$100,000

Budget Performance Summary

General Fund

When we evaluate the City's ability to weather events beyond its control, it is clear that even events of major proportions will not affect the financial integrity of Fountain Valley. A historical snapshot indicates how conservative fiscal policies adopted in Fountain Valley have served us well, as the table below indicates. Each year the Operating Revenues have exceeded Operating Expenditures and significant savings have been returned to the City's Operating Reserves.

Changes In Fund Balance

Year	Operating Revenue In Excess of Expenditures	Result
1994-1995	\$2,586,106	Revenue Surplus
1995-1996	\$3,504,302	Revenue Surplus
1996-1997	\$1,851,869	Revenue Surplus
1997-1998	\$59,884	Revenue Surplus
1998-1999	\$955,823	Revenue Surplus
1999-2000	\$1,340,285	Revenue Surplus
2000-2001	\$2,233,203	Revenue Surplus
2001-2002	\$2,484,663	Revenue Surplus
2002-2003	\$422,561	Revenue Surplus
2003-2004	\$177,958	Revenue Surplus
2004-2005	\$1,401,140	Revenue Surplus

Expenditures Per Capita

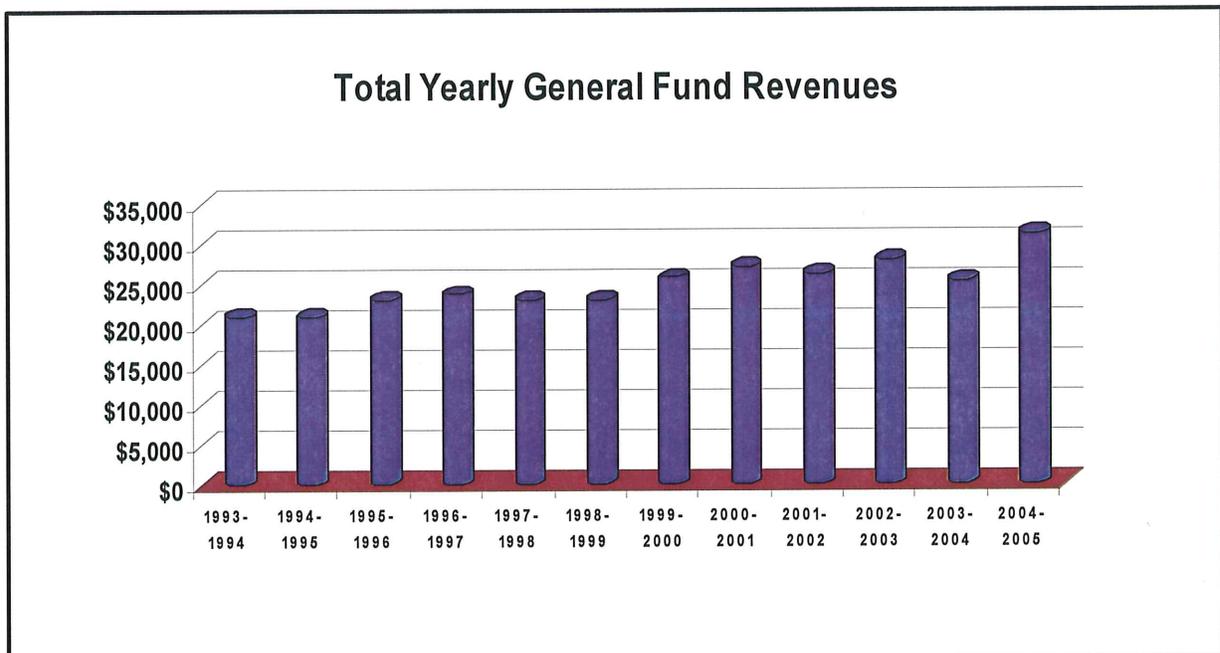
Year	Operating Budget Expenditures	Population	Result
1994-1995	\$21,768,164	54,239	\$401
1995-1996	\$22,927,184	54,311	\$422
1996-1997	\$25,019,756	54,797	\$457
1997-1998	\$23,617,776	55,790	\$423
1998-1999	\$23,071,337	55,971	\$412
1999-2000	\$24,948,169	56,919	\$438
2000-2001	\$26,135,098	55,875	\$468
2001-2002	\$25,508,699	55,886	\$456
2002-2003	\$27,988,228	56,268	\$497
2003-2004	\$27,112,004	56,521	\$480
2004-2005	\$33,804,522	57,353	\$589

General Fund Revenues By Source

Ten Year Summary

(in thousands)

Fiscal Year	Taxes	Licenses & Permits	Fines, Forfeits, & Penalties	Inter-Gov't Revenue	Charges for Service	Misc. Revenue	Total
1993-1994	\$13,412	\$333	\$319	\$3,082	\$853	\$2,986	\$20,985
1994-1995	13,700	344	344	3,046	998	2,638	21,070
1995-1996	14,468	499	385	3,163	1,345	3,298	23,158
1996-1997	14,605	396	374	3,006	1,158	4,256	23,795
1997-1998	15,192	528	370	2,536	788	3,625	23,039
1998-1999	15,617	479	388	2,546	801	3,306	23,137
1999-2000	16,533	529	386	2,993	1,786	3,647	25,874
2000-2001	17,633	498	382	3,321	1,504	3,875	27,213
2001-2002	16,993	494	388	3,137	897	4,454	26,363
2002-2003	17,314	904	384	3,275	3,630	2,059	26,349
2003-2004	18,447	1,146	419	2,702	1,576	1,244	25,534
2004-2005	20,169	1,215	411	3,994	2,565	2,956	31,310

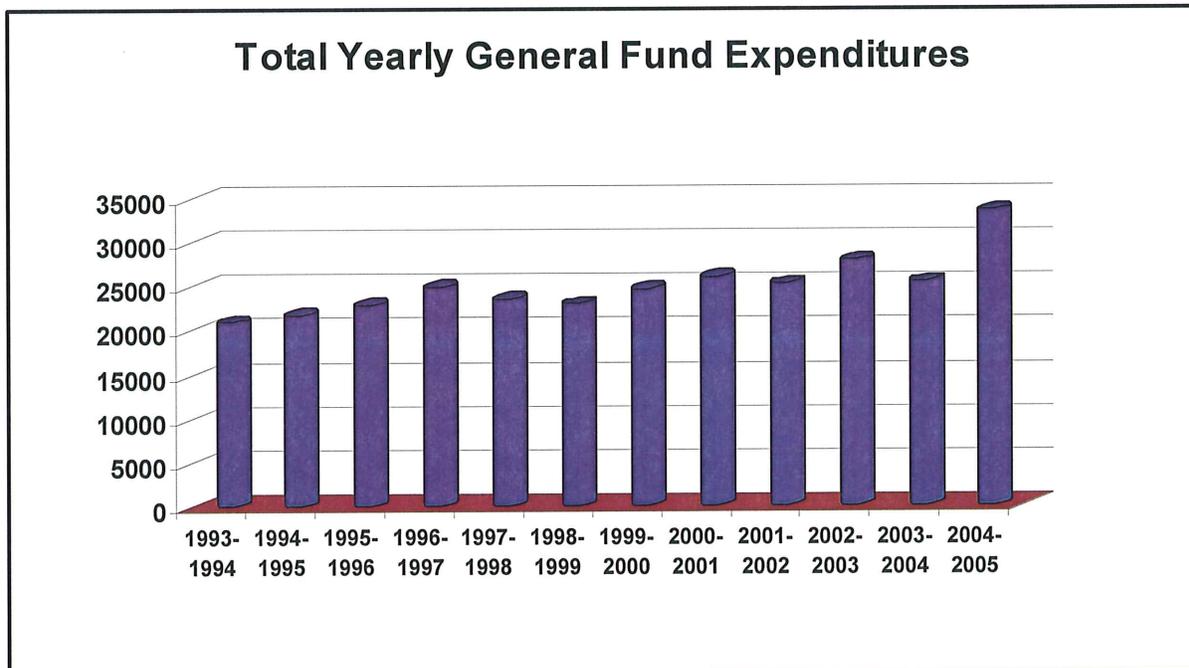


General Fund Expenditures By Function

Ten Year Summary

(in thousands)

Fiscal Year	General Government	Capital Outlay	Public Safety	Public Works	Culture & Recreation	Total
1993-1994	\$1,600	\$615	\$11,888	\$5,461	\$1,424	\$20,988
1994-1995	1,713	656	12,243	5,656	1,490	\$21,758
1995-1996	1,782	1,031	12,478	6,099	1,492	\$22,882
1996-1997	1,742	2,649	12,604	6,441	1,552	\$24,988
1997-1998	1,776	3,380	12,767	4,107	1,587	\$23,617
1998-1999	1,772	2,975	12,561	4,183	1,580	\$23,071
1999-2000	1,879	4,369	12,639	4,200	1,572	\$24,659
2000-2001	1,945	4,293	13,528	4,568	1,801	\$26,135
2001-2002	2,157	1,902	14,683	4,838	1,929	\$25,509
2002-2003	2,438	2,928	15,355	5138	2,129	\$27,988
2003-2004	2,196	1,789	16,630	4,210	2,228	\$27,053
2004-2005	2,354	5,573	18,727	4,563	2,390	\$33,607



Property Tax Rates All Overlapping Governments Ten Year Summary

Fiscal Year	Basic County City School Levy	Orange County	School Districts	County Flood Control	Metro Water District	Coast Community College	Total
1994-1995	1.000	0.0001	0.0874	0.0008	0.0089	0.0000	1.0972
1995-1996	1.000	0.0001	0.1010	0.0004	0.0089	0.0000	1.1104
1996-1997	1.000	0.0001	0.0897	0.0000	0.0089	0.0000	1.0987
1997-1998	1.000	0.0001	0.0695	0.0000	0.0089	0.0000	1.0785
1998-1999	1.000	0.0000	0.0649	0.0000	0.0089	0.0000	1.0738
1999-2000	1.000	0.0000	0.0645	0.0000	0.0089	0.0000	1.0734
2000-2001	1.000	0.0000	0.0657	0.0000	0.0077	0.0000	1.0734
2001-2002	1.000	0.0000	0.0657	0.0000	0.0077	0.0000	1.0734
2002-2003	1.000	0.0000	0.0644	0.0000	1.0067	0.0000	1.0711
2003-2004	1.000	0.0000	0.0669	0.0000	0.0061	0.0005	1.0735
2004-2005	1.000	0.0000	0.937	0.0000	0.0058	0.0275	1.1270

Source: Orange County Assessor's Office

Assessed and Actual Values Of All City Property Ten Year Summary

Total Fiscal Market Year	Land	Improvement	Personal Property	Exemptions	Gross Assessed
1994-1995	\$1,594,028,508	\$1,750,346,646	\$162,972,039	\$202,997,918	\$3,507,347,193
1995-1996	\$1,593,453,720	\$1,739,761,038	\$172,155,996	\$209,782,552	\$3,505,370,754
1996-1997	\$1,612,546,923	\$1,824,131,027	\$193,042,638	\$213,752,885	\$3,629,720,588
1997-1998	\$1,641,202,403	\$1,828,722,209	\$165,251,127	\$226,798,018	\$3,635,175,739
1998-1999	\$1,713,702,460	\$1,897,457,583	\$176,640,691	\$229,152,821	\$3,787,800,734
1999-2000	\$1,877,396,815	\$1,956,126,003	\$177,946,273	\$234,844,905	\$4,011,469,091
2000-2001	\$2,069,738,012	\$2,010,684,470	\$203,544,955	\$264,685,111	\$4,283,967,437
2001-2002	\$2,319,906,557	\$2,110,301,529	\$250,204,211	\$302,312,453	\$4,680,412,297
2002-2003	\$2,454,492,020	\$2,182,580,056	\$238,944,603	\$312,418,868	\$4,876,016,679
2003-2004	\$2,700,236,911	\$2,256,746,320	\$259,744,769	\$331,110,454	\$5,216,758,000
2004-2005	\$2,988,771,396	\$2,353,217,054	\$237,708,748	\$333,845,027	\$5,579,697,198

Source: HdL Coren & Cone

Tax Levies and Collections Ten Year Summary

Fiscal Year	Land	Improvement	Personal Property
1994-1995	\$1,594,028,508	\$1,750,346,646	\$162,972,039
1995-1996	\$1,593,453,720	\$1,739,761,038	\$172,155,996
1996-1997	\$1,612,546,923	\$1,824,131,027	\$193,042,638
1997-1998	\$1,641,202,403	\$1,828,722,209	\$165,251,127
1998-1999	\$173,702,460	\$1,897,457,583	\$176,640,691
1999-2000	\$1,877,396,815	\$1,956,126,003	\$177,946,273
2000-2001	\$2,069,738,012	\$2,010,684,470	\$203,544,955
2001-2002	\$2,319,906,557	\$2,110,301,529	\$250,204,211
2002-2003	\$2,454,492,020	\$2,182,580,056	\$238,944,603
2003-2004	\$2,700,236,911	\$2,256,746,320	\$259,774,769
2004-2005	\$2,988,771,396	\$2,353,217,054	\$237,708,748

Source: Orange County Assessor's Office

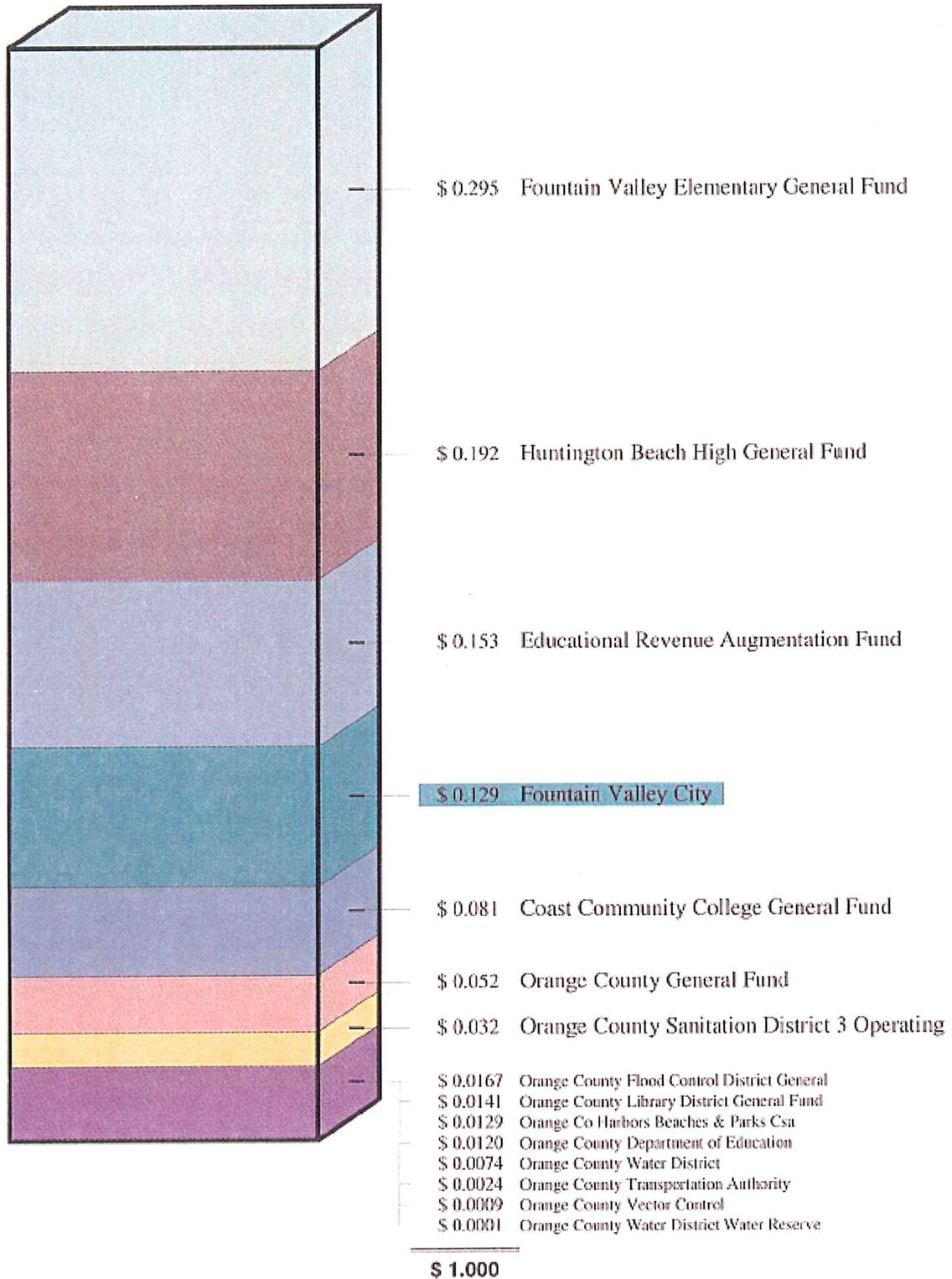
Top Property Tax Payers

OWNER	NO. OF PARCELS	2005 ASSESSED VALUE	ESTIMATED TOTAL TAX
Fountain Valley Regional Hospital	12	\$123,235,211	\$920,661.96
Johnny K. Sakioka Trust	19	\$69,016,459	\$664,324.25
Arden Realty Limited Partnership	1	\$37,849,284	\$376,997.00
Fountain Valley Senior Housing LLC	1	\$34,541,930	\$332,486.51
Hyundai Motor America	1	\$29,416,837	\$300,542.97
17665 Newhope Manufacturing LLC	1	\$23,421,896	\$225,449.61
Price Company	1	\$23,043,343	\$221,805.81
Chandler Real Properties	11	\$20,278,292	\$205,438.98
Priceland Properties International	7	\$14,663,672	\$141,146.52
Arden Realty Finance III LLC	1	\$11,575,551	\$118,263.92
Los Caballeros Racquet & Sports Club	9	\$10,287,577	\$99,024.01
Fountain Business Centre	7	\$8,603,972	\$87,904.19
Fountain Valley Commerce Center LLC	1	\$9,130,872	\$87,890.05
HPTRI Properties Trust	1	\$8,581,059	\$85,471.46
Hospitality Properties Trust	1	\$8,235,855	\$82,033.06
Main Street Santa Ana LLC	1	\$8,000,634	\$79,690.15
Camden House LLC	1	\$8,001,672	\$77,020.83
TIS Equities I LLC	1	\$6,959,532	\$66,989.61
Sleter Office Bldg LLC	1	\$6,400,507	\$63,752.12
Hudson B. Saffell	6	\$6,059,253	\$61,386.17

Fountain Valley Major Employers

Employer	No. Employees
Fountain Valley Regional Hospital	1744
Orange Coast Memorial	880
Kingston Technology Company	738
Ceridian Tax Service	513
Hyundai Motor Company	406
Costco Wholesale	399
Surefire, LLC	350
Holly Graphics	350
Fry's Electronics, Inc.	292
D-Link Systems, Inc.	281
Coastline Community College	200
Ultimate Maintenance Service	200

THE CITY OF FOUNTAIN VALLEY PROPERTY TAX DOLLAR BREAKDOWN



ATI (Annual Tax Increment) Ratios For Tax Rate Area 21-002, Excluding Redevelopment Factors & Additional Debt Service

Source: HdI, Coren & Cone, Orange County Assessor 2004/05 Annual Tax Increment Tables

NC508101634

This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HdI, Coren & Cone.

City of Fountain Valley Construction Activity Ten Year Summary

Fiscal Year	Number of Permits Issued	Percent of Change	Estimated Valuation	Percent of Change
1994-1995	1313	-0.054	17234243	0.002
1995-1996	1,762	34.2%	32,591,778	89.1%
1996-1997	1,493	-15.3%	18,694,248	-42.6%
1997-1998	1,658	11.1%	27,034,362	44.6%
1998-1999	2,546	53.6%	21,108,830	-21.9%
1999-2000	2,913	14.4%	55,776,582	164.2%
2000-2001	2,905	-0.3%	33,467,718	-40.0%
2001-2002	2,913	0.3%	20,518,906	-38.7%
2002-2003	3,094	6.2%	27,584,690	34.4%
2003-2004	3,340	8.0%	42,943,037	55.7%
2004-2005	3,130	-6.3%	32,646,374	-24%

City of Fountain Valley

Direct And Overlapping Bonded Debt And Debt Ratios

2004-05 Assessed Valuation: \$5,247,528,204
 Redevelopment Incremental Valuation: 828,596,407
Adjusted Assessed Valuation: \$4,418,931,797

OVERLAPPING TAX AND ASSESSMENT DEBT

	<u>% Applicable</u>	<u>Debt 6/30/05</u>
Orange County Teeter Plan Obligations	1.575 %	\$ 1,948,669
Metropolitan Water District	0.332	1,392,375
Coast Community College District	6.437	6,960,255
Rancho Santiago Community College District	0.410	872,090
Huntington Beach Union High School District	11.880	<u>21,260,457</u>
Total Overlapping Tax and Assessment Debt:		\$32,433,846

DIRECT AND OVERLAPPING GENERAL FUND DEBT

Orange County General Fund Obligations	1.575 %	\$13,804,859
Orange County Pension Obligations	1.575	1,760,417
Orange County Board of Education Certificates of Participation	1.575	313,425
Orange County Transit Authority	1.575	58,354
Municipal Water District of Orange County Water Facilities Corporation	1.877	660,047
Orange County Sanitation District Certificates of Participation	2.236	3,182,387
Coast Community College District Certificates of Participation	6.437	463,142
Huntington Beach Union High School District Certificates of Participation	11.880	2,019,600
Fountain Valley School District Certificates of Participation	70.959	10,409,685
Ocean View School District Certificates of Participation	1.116	104,960
City of Fountain Valley Certificates of Participation	100.	<u>12,925,000</u>
Total Gross Direct and Overlapping General Fund Debt		\$45,701,876
Less: MWDOC Water Facilities Corporation (100% self-supporting)		660,047
Orange County Transit District Authority (80% self-supporting)		<u>46,683</u>
Total Net Direct and Overlapping General Fund Debt		\$44,995,146

GROSS COMBINED TOTAL DEBT **\$78,135,722 (1)**
NET COMBINED TOTAL DEBT **\$77,428,992**

(1) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2004-05 Assessed Valuation

Total Overlapping Tax and Assessment Debt 0.62%

Ratios to Adjusted Assessed Valuation

Combined Direct Debt (\$12,925,000) 0.29%
 Gross Combined Total Debt 1.77%
 Net Combined Total Debt 1.75%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/05: \$5,552,939

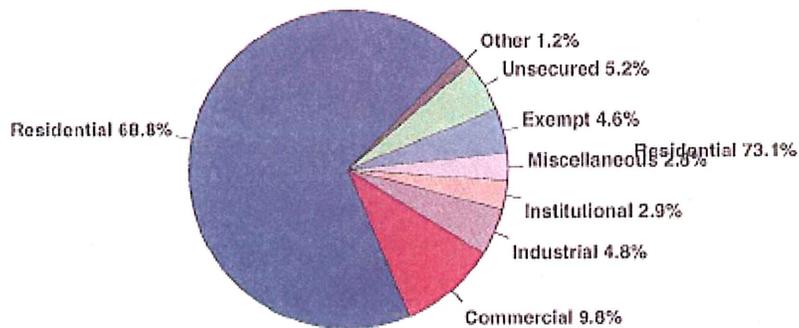
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THE CITY OF FOUNTAIN VALLEY

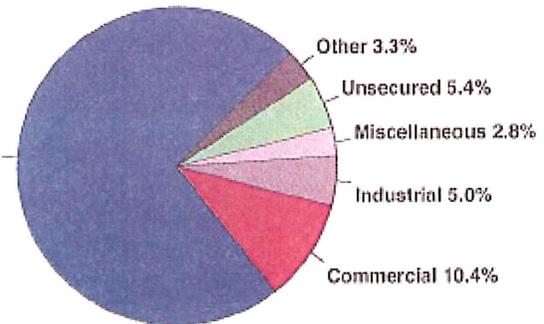
USE CATEGORY SUMMARY, 2004/05

<i>BASIC PROPERTY VALUE TABLE</i>			
CATEGORY	PARCELS	ASSESSED VALUE	NET TAXABLE VALUE
Residential	15,768	\$ 3,839,030,788 68.8%	\$ 3,835,261,474 73.1%
Commercial	412	\$ 546,770,969 9.8%	\$ 543,413,429 10.4%
Industrial	196	\$ 265,669,772 4.8%	\$ 262,713,217 5.0%
Recreational	8	\$ 18,085,847 0.3%	\$ 18,085,847 0.3%
Institutional	23	\$ 162,394,117 2.9%	\$ 104,821,845 2.0%
Miscellaneous	38	\$ 154,337,173 2.8%	\$ 148,444,772 2.8%
Vacant Land	46	\$ 50,522,792 0.9%	\$ 50,505,032 1.0%
Exempt	362	\$ 255,363,962 4.6%	\$ 0 0.0%
Unsecured	[3,215]	\$ 287,521,778 5.2%	\$ 282,606,555 5.4%
TOTALS	16,853	\$ 5,579,697,198	\$ 5,245,852,171

ASSESSED VALUE



NET TAXABLE VALUE



Source: HdL, Coren & Cone, Orange County Assessor 2004/05 Combined Tax Rolls
 This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HdL, Coren & Cone.

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Revenue Source Definitions

RECURRING MAJOR REVENUE SOURCES

Business License Tax

This revenue is generated from persons engaged in a business, trade or profession in Fountain Valley and the tax is assessed annually on a flat system. Estimated revenue is based on current number of businesses and turnover assumptions.

Property Tax

This revenue is generated from property taxes paid to the County Tax Collector by City homeowners and businesses. Property tax is based on land and structure assessments and growth in this revenue category is realized due to the 2% annual increase allowed by Proposition 13 as well as the increased valuation that often occurs as property is sold and reassessed. The average growth factor experienced by both the City and the County is used to estimate revenue.

Property Transfer Tax

This revenue is generated from the tax paid to the County Recorder when a change in deed pertaining to a real estate transaction within the City is filed with the County Recorder. The revenue estimate is based on an estimated number of real estate transfers and average selling price.

Sales Tax

This revenue is generated from the sales tax paid by consumers purchasing retail items in Fountain Valley. The City receives one percent of the seven and three-quarter percent (7 3/4%) sales tax. The revenue estimate assumes an increase due to inflation and real growth factors, as well as additional retail developments projected for the following year.

Licenses and Permits

This revenue is generated by fees paid by

contractors receiving permits for construction, plumbing, electrical, engineering and other construction activity occurring in the community.

Fines and Forfeitures

This revenue is generated from the fines paid by persons who receive citations for vehicle code and parking violations within the City of Fountain Valley. The revenue estimate is based on historical violation trends.

Franchise Tax

Revenue generated from taxes paid by businesses that have a franchise to operate and use the public right-of-way in Fountain Valley. Examples include Southern California Edison, and the Public Cable Television Authority. The revenue estimate is based on a percentage of the amount of income the utilities are anticipated to generate.

Use of Money and Property

This revenue is generated from the interest earnings by investing City cash. examples of approved investments are certificates of deposit, Government obligations and Corporate notes. Rents and concessions from the use of City facilities and other property are also included. Revenue estimates are based on investment trends and anticipated facility utilization.

Intergovernmental State

The City receives revenue as a pass-through from the state as a result of taxes paid that are distributed to local governments. The major one is Motor Vehicles License Fees, the annual fee paid by automobile owners registering their vehicles with the California Department of Motor Vehicles. Revenue estimates are provided by the California Department of Finance.

Revenue Source Definitions

Service Charge

This revenue is generated from fees collected for specific services rendered by the City to the user public. Services include planning and zoning review, building plan check, engineering services, police and fire services, recreation services and residential refuse collection. The revenue estimates are based on the level of activity.

NON-RECURRING MAJOR REVENUE SOURCES

Developer Impact Payments

This revenue is generated from a one-time payment by developers. This is assessed based on the impact the new development will have on the existing infrastructure. These payments are placed into capital reserves to facilitate the replacement of infrastructure capital projects. Examples are rehabilitation of public buildings, sidewalk restoration and traffic signals. The revenue estimate is based upon anticipated development.

Drainage Impact Payments

This revenue is generated from a one-time payment by developers. This payment is assessed based on the impact the new development will have on the drainage infrastructure. Examples are storm drains and pump stations. The revenue estimate is based upon anticipated development.

Glossary of Terms

Abatement

A lessening or reduction, usually applies to tax levies, special assessments, and service charges.

Account Group

Accounting entities used to establish control over and accountability for the government's general fixed assets and the immature principal of its general long-term debt, including special assessment debt for which the government is obligated in some manner.

Accounts Payable

A short-term liability account reflecting amounts owed to private persons or organizations for goods and services received by a government.

Accounts Receivable

An asset account reflecting amounts due from private persons or organizations for goods and services furnished by a government (does not include amounts due from other governments).

Accrued Salaries and Wages Payable

A liability account reflecting salaries and wages earned by employees but not due until a later date.

Agency Fund

A fund normally used to account for assets held by a government as an agent for individuals, private organizations or other governments and/or other funds.

Annual Financial Report

A financial report application to a single fiscal year.

Appropriation

A legal authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes.

Asset

A probable future economic benefit obtained or controlled by a particular entity as result of past transactions or events.

Audit

A systematic collection of the sufficient, competent, evidential matter needed to attest to the fairness of management's assertions in the financial statements or to evaluate whether management has efficiently and effectively carried out its responsibilities.

Balance Sheet

The financial statement disclosing the assets, liabilities and equity of an entity at a specified date in conformity with GAAP.

Budget

A plan of financial operation embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. Used without any modifier, the term usually indicates a financial plan for a single fiscal year.

Capital Expenditures

Expenditures resulting in the acquisition of or in addition to the government's general fixed assets having a unit cost of at least \$1000 and a useful life of at least one year.

City Charter

Legal authority approved in 1957 by the voters of Fountain Valley establishing the Council-Manager form of government.

Department

An organizational unit comprised of program and program managers with each department managed by a single director.

Glossary of Terms

Encumbrances

Commitments related to unperformed contracts for goods or services for which part of an appropriate has been reserved. For budgeting purposes, encumbrances are not GAAP expenditures or liabilities, but represent the estimated amount of expenditures ultimately to result if unperformed contracts in process are completed.

Expenditures

The present or future use of net current assets, debt service, capital outlays, intergovernmental grants, entitlements, or shared revenues.

Fiscal Year

A 12-month period to which the annual operating budget applies and at the end of which a government determines its financial position and the results of its operations.

Franchise

A special privilege granted by a government permitting the continued use of public property for operations such as refuse disposal or cable television, and usually involving the elements of monopoly and regulation.

Fund

A fiscal and accounting entity with a self-balancing set of accounts in which assets are recorded and segregated to carry on specific activities.

Fund Balance

The difference between fund assets and fund liabilities.

Grants

Contributions, gifts of cash, or transfer of other assets from another government agency to be used or expended for a specified purpose, activity, or facility.

Internal Service Fund

A fund used to account for financing of goods or services provided by one department to other departments on a cost-reimbursement basis.

Operating Budget

A plan of proposed expenditures and the proposed means for financing them. The annual operating budget is the primary means by which most of the financing, acquisition, spending, and service delivery activities of a government are controlled.

Operating Expenses

Proprietary fund expenses related directly to a fund's primary activities.

Ordinance

A formal legislative enactment by the governing board (City Council) of a municipality. If it is not in conflict with any higher form of law, an ordinance has the full force and effect of law within the boundaries of the municipality to which it applies.

Personnel

Budget category used to denote salaries and all personnel associated benefits.

Program

Group activities, operations, or organizational units directed to attaining specific purposes or objectives.

Taxes

Compulsory charges levied by a government to finance services performed for the common benefit.