

**City of Fountain Valley
California**

**Comprehensive Annual
Financial Report
Fiscal Year Ended
June 30, 2006**

City of Fountain Valley California

Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2006

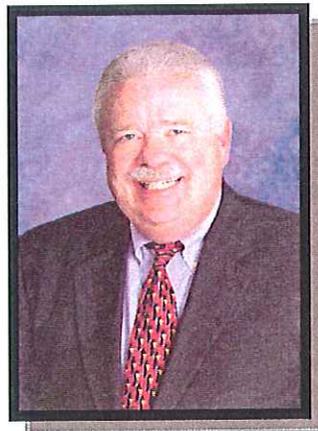
Prepared by the Finance Department

Elizabeth Fox
Finance Director/City Treasurer

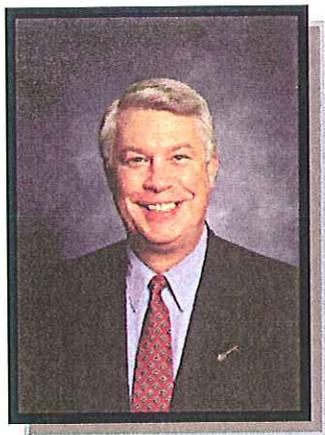
City Council 2005-2006



Cheryl Brothers
Mayor



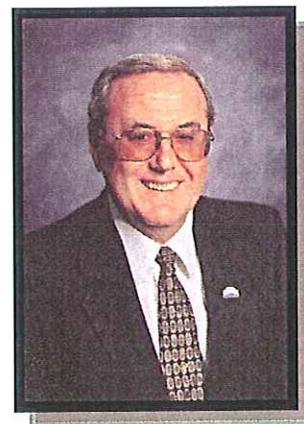
Gus Ayer
Mayor Pro Tempore



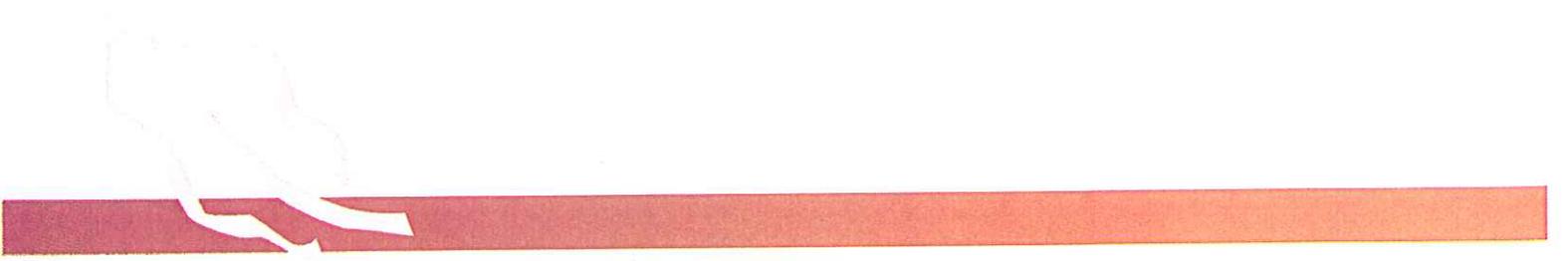
John Collins



Larry R. Crandall
Council Member



Guy Carrozzo
Council Member



City Directory

Mayor

Cheryl Brothers

Council Members

Gus Ayer	Mayor Pro Tempore
Guy Carrozzo	Council Member
John Collins	Council Member
Larry R. Crandall	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
Mark Nix	Community Services Manager
Jean Hirai	Personnel Manager
Donald Heinbuch	Administrative Services Manager
Dan Llorens	Police Captain
Kevin Childe	Police Captain
Randy Anno	Fire Marshall
Craig Laser	Battalion Chief
Joe Vasile	Battalion Chief
Sherri Holman	Accounting Manager
Lee Pratt	Information Systems Manager
Cathy Wagner	Purchasing Manager



CITY OF FOUNTAIN VALLEY

12200 SLATER AVENUE • FOUNTAIN VALLEY, CA 92708-4736 • (714) 593-4400, FAX: (714) 593-4498

March 30, 2007

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

Transmitted Through the City Manager:

The Comprehensive Annual Financial Report (CAFR) of the City of Fountain Valley for the fiscal year ended June 30, 2006, 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, 2006 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, 2006, 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.

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, 2006. 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 to consider construction of a large mall. However, as it was the emerging era of the big box retailer, Fountain Valley set about becoming the home for big box discount retailers. This strategy has served us well as companies such as Costco, Sam's Club, La Curacao and Fry's Electronics do well 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

The Los Caballeros Development: Currently consisting 332 residential condominium units is located in the newly approved Warner/Newhope Specific Plan area which changed the zoning for 332 commercial housing units to residential condominium units, currently 89 new units are under construction.

Senior/Community Center and Senior Housing Campus: This completed development of 156 Senior Affordable Apartments, 54 for sale condominiums for moderate income seniors and new Senior/Community Center that celebrated its grand opening in September 2005 achieved 100% occupancy before the amenities of the project were completed.

Industrial Development: The newly created Newhope Design Corridor, a public/private cooperative project that resulted in the construction of four new buildings and the renovation of one to be used for restaurants, retail, household goods and furniture showrooms, resulted in the addition of sixteen new retail businesses in a run down area that was predominately warehouse and industry.

Management's Transmittal Letter

Last fiscal year 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 during the 2005-06 fiscal year three of the five were near completion at fiscal year-end and perspective tenants include Noritz Corporation and Surefire, LLC .

The Costco development Specific Plan was amended last fiscal year to allow for the construction of a members only gas station as part of the Costco development which opened in June of 2006.

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. Construction was completed for the most part during the 2005-06 fiscal year and the grand re-opening of the store was scheduled for late October. The existing Sam's Club remained open during the entire construction phase to ensure there was no loss of business. After all inventory has been transferred, upon completion the existing store will be demolished to accommodate the new facilities parking, additional retail development and a members only 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, originally scheduled for completion in 2004/05 experienced major cost and design related discrepancies and, consequently, the bids were rejected. The Recreation Center project has now been redesigned and new bids were solicited shortly after fiscal year end, 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

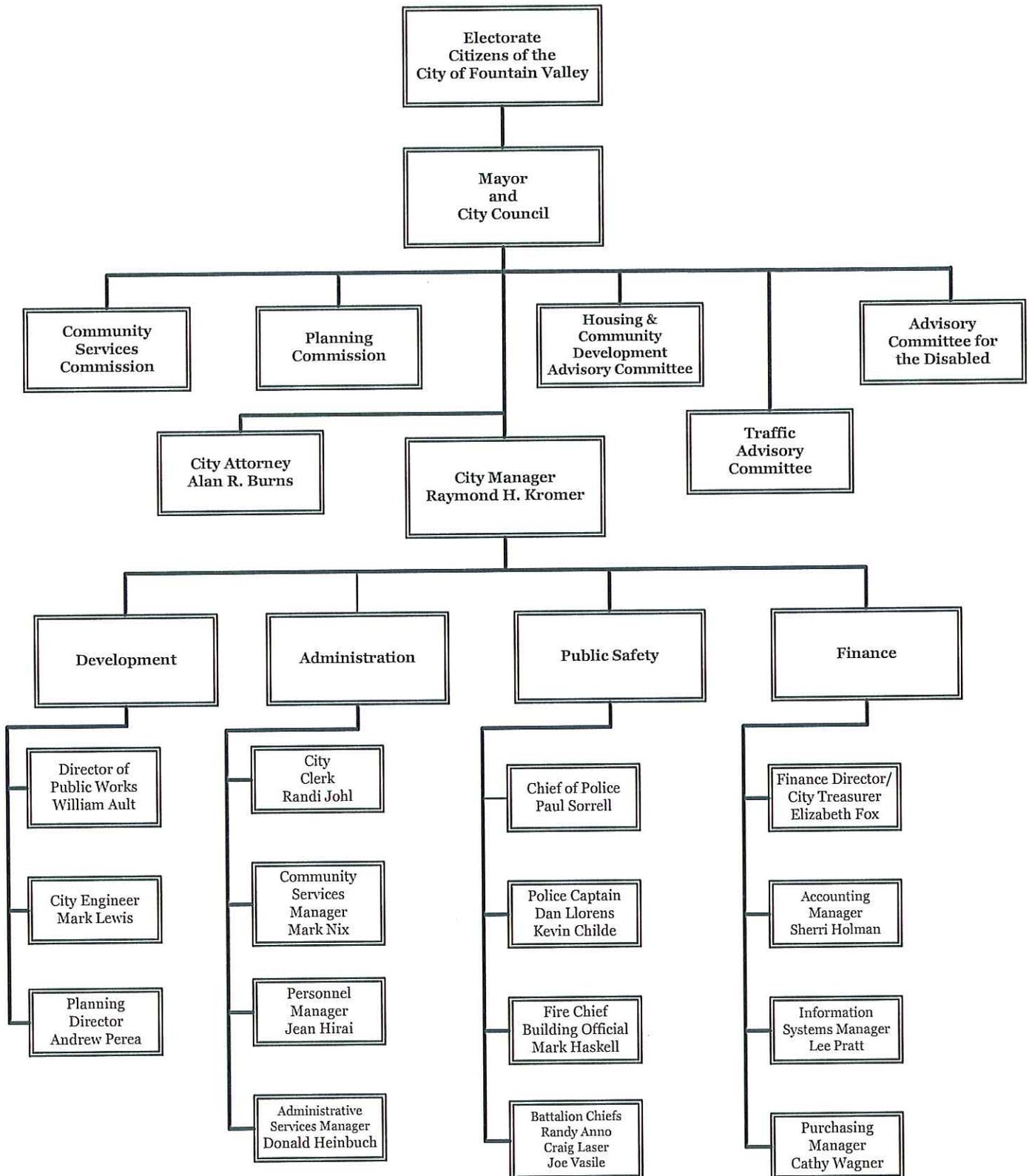
Every employee's commitment to the progressive approach to the financial operations of the City has allowed the citizens of this community to consistently receive a superior level of service while maintaining a sound financial base from which to operate.

Respectfully submitted,

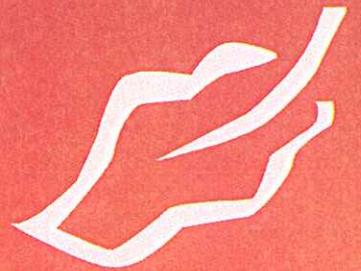
A handwritten signature in cursive script, appearing to read "Elizabeth Fox".

Elizabeth Fox
Finance Director/City Treasurer

City of Fountain Valley Organizational Chart



Financial Section





October 10, 2006

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, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 10, 2006 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, 2006. 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 \$159,273,561 (*net assets*). Of this amount, \$88,932,755 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$5,020,734. One hundred percent of the increase is from governmental activities, while business type activities decreased by sixty percent.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$113,411,072 an increase of \$3,445,579 in comparison with the prior year. Approximately sixty percent of this amount, \$66,055,953 is unreserved but considered designated for future commitments and \$8,382,474 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 55-60 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 69-90 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the City of Fountain Valley's case, assets exceeded liabilities by \$159,273,561 at the close of the fiscal year.

Seventy seven percent of the City's net assets reflect cash and investments and thirty three 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 125,706	\$ 122,283	\$ 10,238	\$ 9,694	\$ 135,944	\$ 131,977
Capital assets	<u>72,070</u>	<u>70,530</u>	<u>8,016</u>	<u>8,457</u>	<u>80,086</u>	<u>78,987</u>
Total Assets	<u>197,776</u>	<u>192,813</u>	<u>18,254</u>	<u>18,151</u>	<u>216,030</u>	<u>210,964</u>
Long-term liabilities outstanding	48,026	49,112	954	996	48,980	50,108
Other liabilities	<u>6,369</u>	<u>5,436</u>	<u>1,407</u>	<u>1,168</u>	<u>7,777</u>	<u>6,604</u>
Total Liabilities	<u>54,395</u>	<u>54,548</u>	<u>2,361</u>	<u>2,164</u>	<u>56,757</u>	<u>56,712</u>
Net Assets:						
Invested in capital assets, net of related debt	43,252	39,798	7,125	7,529	50,378	47,327
Restricted	19,962	19,425			19,962	19,425
Unrestricted	<u>80,166</u>	<u>79,042</u>	<u>8,767</u>	<u>8,458</u>	<u>88,932</u>	<u>87,500</u>
Total Net Assets	<u>\$ 143,380</u>	<u>\$ 138,265</u>	<u>\$ 15,892</u>	<u>\$ 15,987</u>	<u>\$ 159,272</u>	<u>\$ 154,252</u>

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

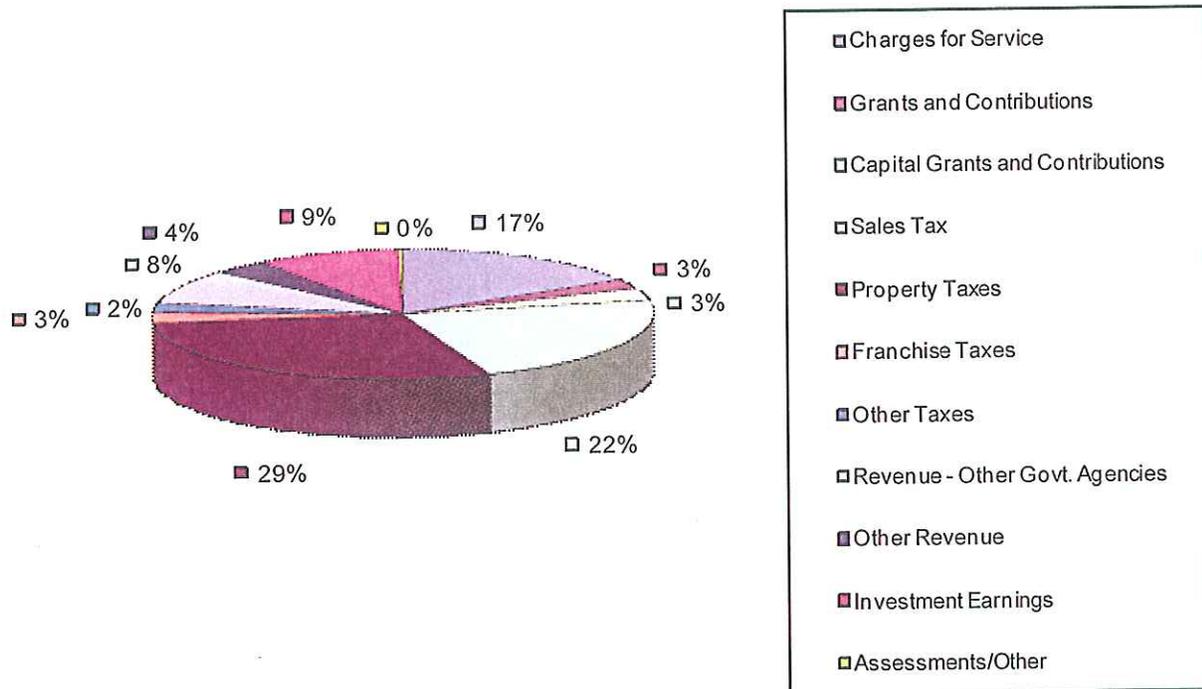
At the end of the 2006 fiscal year, the City of Fountain Valley is able to report positive balances in all three categories of net assets, both for the government as a whole as well as for its separate governmental and business-type activities.

Governmental Activities

Governmental activities increased the City's net assets by \$5,114,919 thereby accounting for one hundred percent of the total growth in the net assets of the City. Key elements of this increase follow:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 8,589	\$ 7,521	\$ 8,333	\$ 7,986	\$ 16,922	\$ 15,507
Operating grants and Contributions	1,328	2,707			1,328	2,707
Capital grants and Contributions	1,555	1,215			1,555	1,215
General revenues:						
Property taxes	15,090	14,269			15,090	14,269
Franchise taxes	1,349	1,267			1,349	1,267
Sales taxes	11,517	10,848			11,517	10,848
Other taxes	1,274	1,169			1,274	1,169
Revenues from other agencies	4,316	5,216			4,316	5,216
Other	1,891	3,723			1,891	3,723
Investment earnings	4,770	3,702	300	201	5,070	3,903
Assessments	143	43			143	43
Miscellaneous Transfers	(132)	(132)	132	132		
Loss on sale of property	(485)	(114)			(485)	(114)
Total Revenues	51,205	51,434	8,765	8,319	59,970	59,753
Expenses:						
General government	7,317	6,473			7,317	6,473
Public safety	20,924	19,101			20,924	19,101
Transportation	6,405	7,495			6,405	7,495
Community development	3,508	3,000			3,508	3,000
Trash disposal	2,761	2,671			2,761	2,671
Culture and Leisure	2,793	2,237			2,793	2,237
Interest and fiscal charges	2,355	2,734			2,355	2,734
Amortization Expense	28	31			28	31
Water			8,859	8,170	8,859	8,170
Total Expenses	46,091	43,742	8,859	8,170	54,950	51,912
Increase in net assets	5,114	7,692	(94)	149	5,020	7,841
Net assets – July 1	138,265	130,573	15,987	15,838	154,252	146,411
Net Assets – June 30	\$ 143,379	\$ 138,265	\$ 15,893	\$ 15,987	\$ 159,272	\$ 154,252

Revenues by Source – Governmental Activities



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 2006 fiscal year, the City of Fountain Valley's governmental funds reported combined ending fund balances of \$113,411,072, an increase of \$3,445,579 in comparison with the prior year. Approximately seven 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 40,267,890 and total fund balance was \$40,873,007. The fund balance of the City of Fountain Valley's general fund increased by \$1,371,057 during the 2006 fiscal year. The key factor for this increase is position vacancies throughout the fiscal year. In the 2006 fiscal year, revenues were over budgetary estimates by \$1,371,057.

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 \$8,766,951. Other factors concerning the finances of the Water Fund have already been addressed in the discussion of the City's business-type activities.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounts to \$80,086,300 (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 1.39 percent.

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 3,885	\$ 3,885	\$ 123	\$ 123	\$ 4,008	\$ 4,008
Vehicles and Equipment	1,903	2,151	8	10	1,911	2,161
Furniture and Fixtures	9	497			9	497
Buildings	9,188	4,811	3,677	3,942	12,865	8,753
Construction in progress	1,545	3,926			1,545	3,926
Improvements other than Structures	640	677	4,208	4,382	4,848	5,059
Infrastructure	54,900	54,583			54,900	54,583
Total	\$ 72,070	\$ 70,530	\$ 8,016	\$ 8,457	\$ 80,086	\$ 78,987

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 \$50,962,268. 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	
	2006	2005	2006	2005	2006	2005
Leases Payable	\$ 792	\$ 1,052			\$ 792	\$ 1,052
Tax allocation bonds	15,520	16,755			15,520	16,755
Note Payable	17,904	17,369			17,904	17,369
Certificate of Participation	12,505	12,925			12,505	12,925
Compensated Absences	2,385	2,094	\$ 103	\$ 106	2,488	2,200
Claims Payable	862	791			862	791
Loans Payable			890	928	890	
Total	\$ 49,968	\$ 50,986	\$ 993	\$ 1,034	\$ 50,961	\$ 51,092

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the area is currently 3.7 percent which is an increase from the rate of 3.4 percent last year. This rate also compares favorably to the state's average unemployment rate of 4.9 percent and the national average rate of 4.6 percent as of June 30.

Interest rates affect all industries and local government is no exception. The amount of interest income the City can anticipate deriving from the investment of inactive funds in the next year depends on actions taken by the Federal Reserve Board, as it will determine the market rate of return.

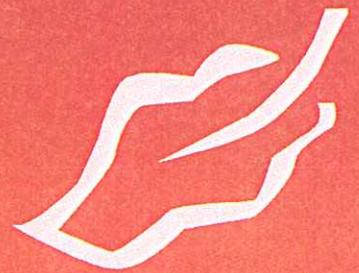
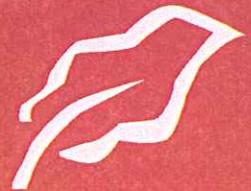
Property values in Fountain Valley are projected to increase 5 percent and have averaged 6.78 percent increase over the past five years.

All of these factors were considered in preparing the City's budget for the 2006-2007 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, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and investments	\$ 112,829,967	\$ 9,681,377	\$ 122,511,344
Receivables (net of allowance for uncollectibles)	4,228,024	557,050	4,785,074
Inventory	78,856		78,856
Prepaid expense	4,189		4,189
Loans receivable	8,242,925		8,242,925
Deferred bond issue costs	322,198		322,198
Capital assets:			
Not being depreciated	49,799,962	123,076	49,923,038
Being depreciated (net of accumulated depreciation)	<u>22,270,271</u>	<u>7,892,991</u>	<u>30,163,262</u>
 Total Assets	 <u>197,776,392</u>	 <u>18,254,494</u>	 <u>216,030,886</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	2,482,785	1,298,240	3,781,025
Deposits payable		69,895	69,895
Interest payable	429,524		429,524
Bond premium	7,811		7,811
Notes payable	1,506,802		1,506,802
Non-current Liabilities:			
Due within one year	1,942,289	39,205	1,981,494
Due in more than one year	<u>48,026,478</u>	<u>954,296</u>	<u>48,980,774</u>
 Total Liabilities	 <u>54,395,689</u>	 <u>2,361,636</u>	 <u>56,757,325</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	43,252,159	7,125,907	50,378,066
Restricted for:			
Special revenue purposes	4,141,363		4,141,363
Affordable housing and redevelopment	15,821,377		15,821,377
Unrestricted	<u>80,165,804</u>	<u>8,766,951</u>	<u>88,932,755</u>
 Total Net Assets	 <u>\$ 143,380,703</u>	 <u>\$ 15,892,858</u>	 <u>\$ 159,273,561</u>

See Accompanying Notes to Financial Statements.

CITY OF FOUNTAIN VALLEY
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 7,316,887	\$ 38,432		
Public safety	20,923,978	5,926,408	\$ 70,552	
Transportation	6,405,142		908,682	\$ 1,555,614
Community development	3,508,622	2,358,636	348,612	
Trash disposal	2,760,863			
Culture and leisure	2,792,982	265,853		
Interest and fiscal charges	2,354,687			
Amortization expense	28,652			
Total Governmental Activities	46,091,813	8,589,329	1,327,846	1,555,614
Business-type Activities:				
Water	8,859,328	8,332,738		
Total Business-type Activities	8,859,328	8,332,738		
Total	\$ 54,951,141	\$ 16,922,067	\$ 1,327,846	\$ 1,555,614

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
\$ (7,278,455)		\$ (7,278,455)
(14,927,018)		(14,927,018)
(3,940,846)		(3,940,846)
(801,374)		(801,374)
(2,760,863)		(2,760,863)
(2,527,129)		(2,527,129)
(2,354,687)		(2,354,687)
(28,652)		(28,652)
<u>(34,619,024)</u>		<u>(34,619,024)</u>
	\$ (526,590)	(526,590)
	(526,590)	(526,590)
<u>(34,619,024)</u>	<u>(526,590)</u>	<u>(35,145,614)</u>
15,090,054		15,090,054
1,349,173		1,349,173
11,517,398		11,517,398
1,274,410		1,274,410
4,316,227		4,316,227
1,891,451		1,891,451
4,770,235	299,804	5,070,039
143,422		143,422
(132,601)	132,601	
(485,826)		(485,826)
<u>39,733,943</u>	<u>432,405</u>	<u>40,166,348</u>
5,114,919	(94,185)	5,020,734
<u>138,265,784</u>	<u>15,987,043</u>	<u>154,252,827</u>
<u>\$ 143,380,703</u>	<u>\$ 15,892,858</u>	<u>\$ 159,273,561</u>

CITY OF FOUNTAIN VALLEY
Balance Sheet
Governmental Funds
June 30, 2006

	General	Debt Service Fund Industrial Redevelopment Area
<u>ASSETS</u>		
Cash and investments	\$ 39,348,591	\$ 20,895,127
Accounts receivable and accrued revenue	3,116,773	38,888
Loans receivable	2,280	
Due from other funds	53,342	
Inventory	78,856	
Prepaid expense	4,189	
	<u>\$ 42,604,031</u>	<u>\$ 20,934,015</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,638,959	\$ 219,438
Notes payable		
Due to other funds		
Deferred revenue	92,065	
	<u>1,731,024</u>	<u>219,438</u>
Fund Balances:		
Reserved for:		
Inventory	78,856	
Work in progress	526,261	
Loans receivable		
Affordable housing		
Debt service		20,714,577
Unreserved:		
Designated	40,267,890	
Undesignated:		
Special revenue funds		
Debt service funds		
Capital projects funds		
	<u>40,873,007</u>	<u>20,714,577</u>
Total Fund Balances	<u>\$ 42,604,031</u>	<u>\$ 20,934,015</u>
Total Liabilities and Fund Balances	<u>\$ 42,604,031</u>	<u>\$ 20,934,015</u>

See Accompanying Notes to Financial Statements.

<u>Capital Projects Funds</u>		<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Industrial Redevelopment Area</u>	<u>Housing Set-Aside</u>		
\$ 23,954,228	\$ 7,972,714	\$ 20,659,307	\$ 112,829,967
479,885	10,904	581,574	4,228,024
	7,891,632	349,013	8,242,925
		72,154	125,496
			78,856
			4,189
<u>\$ 24,434,113</u>	<u>\$ 15,875,250</u>	<u>\$ 21,662,048</u>	<u>\$ 125,509,457</u>
\$ 3,444	\$ 531	\$ 620,413	\$ 2,482,785
1,506,802			1,506,802
72,154	53,342		125,496
	7,441,632	449,605	7,983,302
<u>1,582,400</u>	<u>7,495,505</u>	<u>1,070,018</u>	<u>12,098,385</u>
1,058,754		1,544,442	78,856
	450,000		3,129,457
	4,878,784	670,494	450,000
		9,050,477	5,549,278
			29,765,054
21,792,959		3,995,104	66,055,953
		3,032,273	3,032,273
		2,160,176	2,160,176
	3,050,961	139,064	3,190,025
<u>22,851,713</u>	<u>8,379,745</u>	<u>20,592,030</u>	<u>113,411,072</u>
<u>\$ 24,434,113</u>	<u>\$ 15,875,250</u>	<u>\$ 21,662,048</u>	<u>\$ 125,509,457</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, 2006

Fund balances for governmental funds		\$ 113,411,072
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		72,070,233
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.		7,983,302
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	\$(49,968,767)	
Interest payable	(429,524)	
Bond premium	(7,811)	
Deferred bond issue cost	322,198	(50,083,904)
Net Assets of Governmental Activities		\$ 143,380,703

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, 2006

	General	Debt Service Fund Industrial Redevelopment Area
Revenues:		
Taxes	\$ 21,648,439	\$ 6,065,995
Licenses and permits	1,445,694	
Fines and penalties	548,345	
Revenue from use of money and property	2,059,840	108,186
Net (decrease) in fair value of investments	(106,801)	
Revenue from other governmental agencies	3,861,372	
Charges for services	1,717,418	
Assessments and fees		
Miscellaneous	1,985,126	
Total Revenues	33,159,433	6,174,181
Expenditures:		
Current:		
General government	2,391,391	
Public safety	20,421,390	
Transportation	3,082,476	
Community development	1,798,950	
Trash disposal		
Culture and leisure	2,599,928	
Deferral payment		
Capital outlay	1,939,053	
Debt service:		
Principal retired	199,880	1,235,000
Interest and fiscal charges		1,426,423
Total Expenditures	32,433,068	2,661,423
Excess (Deficiency) of Revenues Over Expenditures	726,365	3,512,758
Other Financing Sources (Uses):		
Transfers in	1,520,182	
Transfers out	(875,490)	
Total Other Financing Sources (Uses)	644,692	
Net Change in Fund Balance	1,371,057	3,512,758
Fund Balance, July 1	39,501,950	17,201,819
Fund Balance, June 30	\$ 40,873,007	\$ 20,714,577

See Accompanying Notes to Financial Statements.

<u>Capital Projects Funds</u>		Nonmajor Governmental Funds	Total Governmental Funds
<u>Industrial Redevelopment Area</u>	<u>Housing Set-Aside</u>		
	\$ 2,263,076		\$ 29,977,510
			1,445,694
		\$ 323,550	871,895
\$ 1,771,889	146,170	506,827	4,592,912
(82,089)			(188,890)
		3,674,015	7,535,387
		2,898,709	4,616,127
		1,346,372	1,346,372
	102,048	407,849	2,495,023
<u>1,689,800</u>	<u>2,511,294</u>	<u>9,157,322</u>	<u>52,692,030</u>
3,020,249	487,505	1,225	5,900,370
		276,990	20,698,380
		3,322,666	6,405,142
100,000		714,723	2,613,673
		2,760,863	2,760,863
			2,599,928
746,578			746,578
1,125,865		581,471	3,646,389
		420,000	1,854,880
		461,224	1,887,647
<u>4,992,692</u>	<u>487,505</u>	<u>8,539,162</u>	<u>49,113,850</u>
<u>(3,302,892)</u>	<u>2,023,789</u>	<u>618,160</u>	<u>3,578,180</u>
		880,748	2,400,930
		(1,658,041)	(2,533,531)
		(777,293)	(132,601)
(3,302,892)	2,023,789	(159,133)	3,445,579
26,154,605	6,355,956	20,751,163	109,965,493
<u>\$ 22,851,713</u>	<u>\$ 8,379,745</u>	<u>\$ 20,592,030</u>	<u>\$ 113,411,072</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, 2006

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

Net change in fund balances - total governmental funds: \$ 3,445,579

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	\$ 2,776,877	
Depreciation	<u>(1,237,079)</u>	1,539,798

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. (866,871)

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. 1,017,761

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	\$ 436,828	
Current year interest	(429,524)	
Amortization expense	<u>(28,652)</u>	<u>(21,348)</u>

Change in net assets of governmental activities \$ 5,114,919

See Accompanying Notes to Financial Statements.

CITY OF FOUNTAIN VALLEY
Statement of Net Assets
Proprietary Fund
June 30, 2006

	<u>Water Utility</u>
<u>ASSETS</u>	
Cash and investments	\$ 9,681,377
Accounts receivable and accrued revenue	557,050
Capital Assets:	
Not being depreciated	123,076
Being depreciated (net of accumulated depreciation)	<u>7,892,991</u>
Total Assets	<u>18,254,494</u>
<u>LIABILITIES</u>	
Accounts payable and accrued liabilities	1,298,240
Deposits	69,895
Noncurrent Liabilities:	
Due within one year	39,205
Due in more than one year	<u>954,296</u>
Total Liabilities	<u>2,361,636</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	7,125,907
Unrestricted	<u>8,766,951</u>
Total Net Assets	<u><u>\$ 15,892,858</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, 2006

	<u>Water Utility</u>
Operating Revenues:	
Charges for services	\$ 8,236,421
Assessments and fees	79,219
Miscellaneous	<u>17,098</u>
Total Operating Revenues	<u>8,332,738</u>
Operating Expenses:	
Utility administration	246,796
Pumping and maintenance	7,587,545
Customer service	255,943
Water treatment	303,872
Depreciation	<u>465,172</u>
Total Operating Expenses	<u>8,859,328</u>
Operating Income (Loss)	(526,590)
Nonoperating Revenues (expenses):	
Interest income	<u>299,804</u>
Income (Loss) Before Operating Transfers	(226,786)
Transfers in	<u>132,601</u>
Change in Net Assets	(94,185)
Net Assets - July 1	<u>15,987,043</u>
Net Assets - June 30	<u><u>\$ 15,892,858</u></u>

See Accompanying Notes to Financial Statements.

CITY OF FOUNTAIN VALLEY
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2006

	<u>Water Utility</u>
Cash Flows From Operating Activities:	
Cash received from customers	\$ 8,151,822
Cash payments to suppliers for goods and services	(8,218,555)
Other operating revenue	<u>96,317</u>
Net cash provided by operating activities	29,584
Cash Flows from Non-Capital Financing Activities:	
Transfers from other funds	132,601
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	(23,872)
Principal paid on capital debt	(37,880)
Cash Flows from Investing Activities:	
Interest on investments	<u>299,804</u>
Net Increase in Cash and Cash Equivalents	400,237
Cash and Cash Equivalents, July 1	<u>9,281,140</u>
Cash and Cash Equivalents, June 30	<u><u>\$ 9,681,377</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (526,590)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:	
Depreciation expense	465,172
Change in Assets and Liabilities:	
(Increase) decrease in accounts receivable and accrued revenue	(143,994)
Increase (decrease) in accounts payable and accrued liabilities	178,463
Increase (decrease) in customer deposits	59,395
Increase (decrease) in liability for compensated absences	<u>(2,862)</u>
Total Adjustments	<u>556,174</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ 29,584</u></u>

See Accompanying Notes to Financial Statements.

CITY OF FOUNTAIN VALLEY
Statement of Fiduciary Net Assets
Agency Funds
June 30, 2006

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash and investments	<u>\$ 949,942</u>
Total Assets	<u><u>\$ 949,942</u></u>
<u>LIABILITIES</u>	
Deposits	<u>\$ 949,942</u>
Total Liabilities	<u><u>\$ 949,942</u></u>

See Accompanying Notes to Financial Statements.