CITY OF SAN GABRIEL
CALIFORNIA

FOUNDED 1771
CITY WITH A MISSION

Comprehensive Annual Financial Report

Fiscal Year Ended
June 30, 2005

CITY OF SAN GABRIEL, CALIFORNIA

Comprehensive Annual Financial Report

Year ended June 30, 2005

Prepared by:
FINANCE DEPARTMENT

Thomas Marston
Director of Finance

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CITY OF SAN GABRIEL

Comprehensive Annual Financial Report

Year ended June 30, 2005

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION:	
Letter of Transmittal	i
Officials of the City of San Gabriel	iii
Organization Chart	iv
Certificate of Achievement for Excellence in Financial Reporting (GFOA)	v
Certificate of Award for Outstanding Financial Reporting (CSMFO)	vi
FINANCIAL SECTION:	
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Proprietary Funds:	
Statement of Net Assets	20
Statement of Revenues, Expenses and Changes in Fund Net Assets	21
Statement of Cash Flows	22
Fiduciary Fund – Agency Fund:	
Statement of Fiduciary Assets and Liabilities	23
Notes to the Basic Financial Statements	24

CITY OF SAN GABRIEL

Comprehensive Annual Financial Report

(Continued)

TABLE OF CONTENTS, (CONTINUED)

	Page
Required Supplementary Information:	
Notes to Required Supplementary Information	48
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
General Fund	49
Retirement Fund	51
Proposition C Local Return Fund	52
Grants Fund	53
Supplementary Schedules:	
Non-Major Special Revenue Funds:	
Combining Balance Sheet	57
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	59
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Special Gas Tax	61
Proposition A Local Return	62
Low and Moderate Income Housing	63
Citizens Option for Public Safety (COPS)	64
Traffic Congestion Relief	65
Parks and Recreation Activity	66
Civic Auditorium Facility	67
Local Law Enforcement Block Grant	68
Air Quality Management District	69
Narcotic Seizure	70
Waste Management	71
Development Impact Fees	72
Street Light	73
Office of Traffic Safety Grant	74
Major Capital Project Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Redevelopment	76
Internal Service Funds:	
Combining Statement of Net Assets	78
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	79
Combining Statement of Cash Flows	80

TABLE OF CONTENTS, (CONTINUED)

	Table	Page
Fiduciary Fund – Agency Fund:		
Statement of Changes in Fiduciary Net Assets		82
STATISTICAL SECTION:		
Government-wide Expenses by Function	1	84
Government-wide Revenues	2	85
General Government - Expenditures by Function	3	86
General Government - Revenues by Source	4	87
General Government Tax Revenue by Source	5	88
Assessed Value, Tax Levies and Collections	6	89
Property Tax Rates for All Overlapping Governments	7	90
Ten Largest Locally Secured Taxpayers	8	91
2003 Top Property Owner Summary	9	92
Schedule of Direct and Overlapping Bonded Debt	10	93
Computation of Legal Debt Margin	11	94
Demographic Statistics	12	95
Property Value, Construction and Bank Deposits	13	96
Schedule of Insurance	14	97
Miscellaneous Statistical Data	15	98

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INTRODUCTORY SECTION

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City of San Gabriel

◆ City With A Mission ◆ Founded 1771 ◆

December 6, 2005

Honorable Mayor and City Council
City of San Gabriel
San Gabriel, California

It is with great pleasure that we present to you the City of San Gabriel Comprehensive Annual Financial Report. This is the third year that the City's annual financial report has been reformatted to comply with the new financial reporting model developed by the Governmental Accounting Standards Board (GASB) Statement 34. The new financial reporting model completely changes the format of the City's financial statements. It is intended to improve financial reporting by adding significant additional information not previously available in local government financial statements. The notes to the financial statements reflect the new GASB 38 pronouncement, which provides additional disclosure on the City's debt and inter-fund loans.

In addition to the fund-by-fund financial information currently presented in the City's financial statements, the government-wide financial statements are also presented. These statements include a Statement of Net Assets that presents the total net equity of the City including infrastructure. The Statement of Activities shows the cost of providing government services. These statements have been prepared using the accrual basis of accounting versus the modified accrual method used in the fund financial statements. A reconciliation report is provided as a key to understanding the changes between the two reporting methods. In addition, the revised reporting model includes an emphasis on the City's major funds as shown in the Governmental Fund Statements. These statements combined with other information are further analyzed in a narrative section called Management's Discussion and Analysis (MDA). The MDA provides "financial highlights" and interprets the financial reports. In addition, the MDA is intended to disclose any known significant events or decisions that affect the financial condition of the City. The City of San Gabriel's implementation of GASB 34 will enable the City Council and residents of San Gabriel to become more aware of the benefits and information contained in the revised financial reporting model. The Comprehensive Annual Financial Report includes the financial activity for all funds of the City.

The City of San Gabriel is an established residential community with a rich history and is located approximately 10 miles northeast of the City of Los Angeles. San Gabriel was incorporated in 1913 as a general law city and operates under the

City Hall: 425 South Mission Drive, San Gabriel, California ◆ Mail: P.O. Box 130, San Gabriel, California 91778-0130
◆ 626-308-2800 ◆ FAX 626-458-2830 ◆

incorporated in 1913 as a general law city and operates under the council-manager form of government. The City Council is comprised of five members who are elected at large serving a staggered term of four years. The City provides a full range of municipal services including police and fire protection, engineering and planning, street maintenance, traffic control, code enforcement, parks and recreation services, and general administrative activities. In addition to the preceding activities, the City is financially accountable for the City of San Gabriel Redevelopment Agency. This entity is considered a component unit of the City and its activities have been blended into the reporting entity.

The three major revenue sources to the City are Sales, Utility Users, and Property Taxes. Tax receipts from these three sources exceeded the 2003-2004 levels. This was anticipated when revenues were estimated, resulting in actual revenue collections in the major sources as expected. The City continues to expand economic development activities directed toward retail development to generate jobs, shopping, and entertainment opportunities, and stimulate additional sales, transient occupancy and property tax revenues.

The Comprehensive Annual Financial Report of the City of San Gabriel for fiscal year ended June 30, 2005 is hereby presented. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the City. All disclosures necessary to enable an understanding of the City's financial activities have been included.

The preparation of the Comprehensive Annual Financial Report in accordance with GASB 34 financial reporting model was made possible by the dedicated work of the Finance Department Staff. Each member of the staff has our sincere appreciation for their contributions made in the preparation of the report. We would also like to thank the members of the City Council for their interest and support in planning and conducting the financial operations of the City, and to the firm of Conrad and Associates for their professional assistance and expertise.

Respectfully submitted,

P. Michael Paules
City Manager

Thomas C. Marston
Finance Director

CITY OF SAN GABRIEL

Officials of the City of San Gabriel

June 30, 2005

CITY COUNCIL

Juli Costanzo - Mayor

Chi Mui - Vice Mayor

Harry L. Baldwin

David R. Gutierrez

Kevin B. Sawkins

ELECTED OFFICIALS

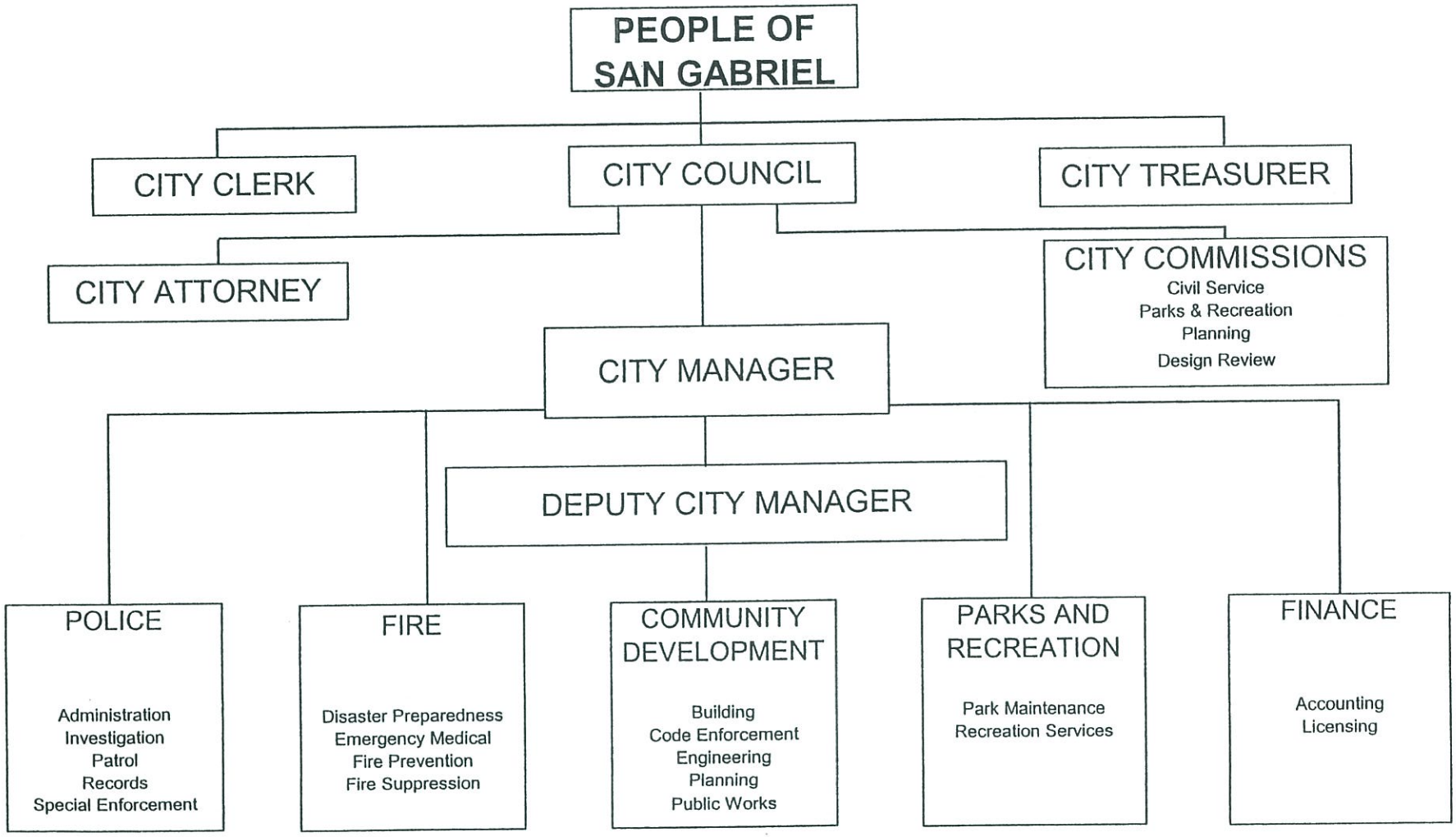
Cynthia Trujillo - City Clerk

John Janosik - City Treasurer

ADMINISTRATION AND DEPARTMENT HEADS

City Manager	P. Michael Paules
Deputy City Manager	Steven Preston
Police Chief	David Lawton
Fire Chief	Joseph Nestor
Director of Finance	Thomas Marston
Director of Parks and Recreation	Robert L. Harris
Civic Auditorium Manager	William Shaw

City of San Gabriel Organization Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Gabriel, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2003-04

Presented to the

City of San Gabriel

This certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared.

February24, 2005

William J. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

FINANCIAL SECTION

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CONRAD AND ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

2301 DUPONT DRIVE, SUITE 200
IRVINE, CALIFORNIA 92612
(949) 474-2020
Fax (949) 263-5520

The Honorable Mayor and City Council
City of San Gabriel
San Gabriel, California

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of San Gabriel, 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 management of the City of San Gabriel. 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 *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, each major fund, and the aggregate remaining fund information of the City of San Gabriel, California, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, of the City of San Gabriel, California for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of San Gabriel's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

MEMBERS OF AICPA AND CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES PRACTICE SECTION

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Conrad and Associates, L.L.P.

September 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of San Gabriel's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's net assets decreased .1% to $47.7 million as a result of this year's operations.
- During the year, the City's governmental expenses exceeded taxes and general revenues by $31,000.
- The total revenues from all sources equaled $27.5 million.
- The total cost of all City programs equaled $27.6 million.
- The General Fund reported excess revenues over expenditures of $1.2 million.
- For the General Fund, actual resources available for appropriation (revenues and transfers-in) were more than the final budget by $1.2 million while actual expenditures were $516,000 less than the budget.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail that the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *All* assets and liabilities using the *accrual basis of accounting,* which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into

account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets—the difference between assets and liabilities-- as one way to measure the City's financial health, or *financial position.* Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

The Statement of Net Assets and the Statement of Activities, present information about the following:

- Governmental activities— All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, parks and recreation and the Civic Auditorium. Property taxes, transient occupancy taxes, sales taxes, and vehicle license fees finance most of these activities.
- Component units— The City's governmental activities include blending the San Gabriel Redevelopment Agency, a separate legal entity. Although legally separate, this "component unit" is important because the City is financially accountable for it.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds—*governmental and proprietary*—use different accounting approaches.

- *Governmental Funds*—Most of the City's basic services are reported in governmental funds, which focus on how money flows in and out and the balances left at year-end that are available for spending. These funds are reported using an accounting method called the *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operation and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship between governmental *activities* (reported in the Statement of Net Assets and the Statement of

Activities) and governmental *funds* in reconciliation at the bottom of the fund financial statements.

- *Proprietary funds*—When the City charges its own department for certain services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or *fiduciary,* for certain amounts held on behalf of developers, property owners, and others. The City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental activities. The City has chosen to account for its Civic Auditorium operation in the General Fund rather than in an enterprise fund. Therefore, no business type activities are reported in the government-wide statements.

Table 1
Statement of Net Assets
(in Millions)

	Governmental Activities	
	2005	2004
Current and other assets	$19.0	$16.2
Capital Assets	34.6	34.6
Total Assets	**$53.6**	**$50.8**
Long-term debt outstanding	1.2	.8
Other Liabilities	4.7	2.3
Total Liabilities	**5.9**	**3.1**
Net Assets:		
Invested in capital assets,net of debt	34.6	34.6
Unrestricted	13.2	13.2
Total net Assets	**47.7**	**47.8**

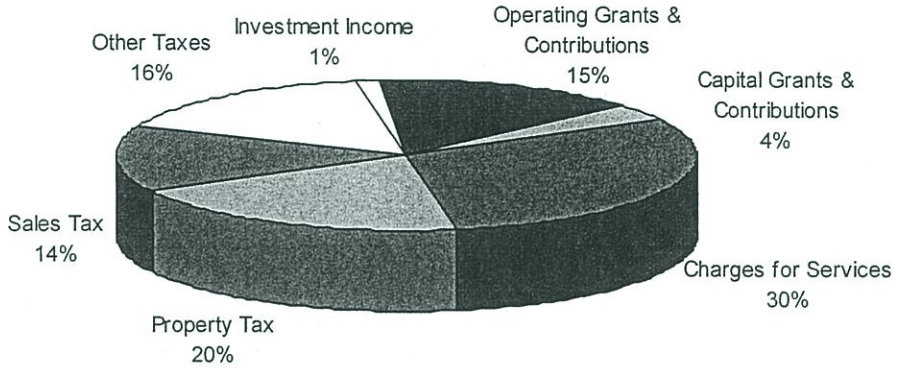
The City's net assets from governmental activities decreased .1% from $47.8 million to $47.7 million. This decrease of $.1 million

comes from the change in net assets as recorded in the Statement of Activities and flows through the Statement of Net Assets.

FISCAL YEAR 2005 GOVERNMENTAL ACTIVITIES

(See Table 2)

Sources of Revenue
Total - $27,550,839



Functional Expenses
Total - $27,581,417

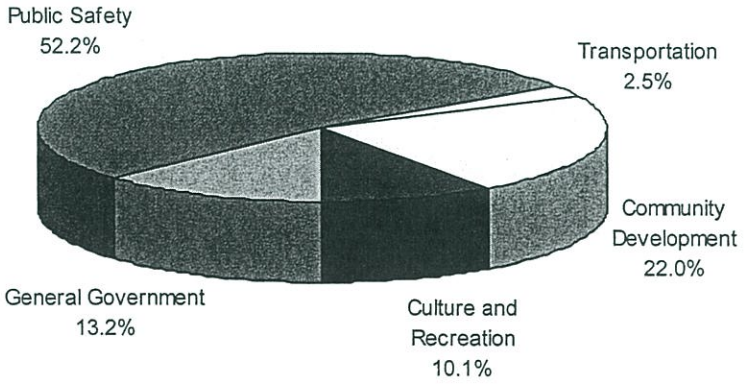


Table 2
Statement of Activities
(in Millions)

	Governmental Activities 2005	2004
Revenues		
Program Revenues		
Charges for Service	$ 8.3	$ 5.6
Operating Contributions and Grants	4.0	3.2
Capital Contributions and Grants	1.0	1.2
General Revenues		
Taxes		
Property Taxes	5.4	5.4
Utility User Taxes	3.2	3.2
Sales Taxes	3.9	3.7
Franchise Taxes	.6	.6
Transient Occupancy Taxes	.4	.1
Property Transfer Taxes	.2	.2
Investment Income	.4	.3
Other Revenue	.1	.6
Total Revenues	27.5	24.5
Expenses		
General Government	3.6	3.5
Public Safety	14.4	12.1
Transportation	.7	2.3
Community Development	6.1	4.2
Culture and Recreation	2.8	2.6
Total Expenses	27.6	24.7
Increase (decrease) in net assets	**$(.1)**	**$(.2)**

The City's total revenues were $27.5 million, while the total cost of all programs and services were $27.6 million. This is an increase of 12.2% in revenue and 11.7% increase in expenses over the prior year. The major increase in revenue came from Charges for Services reflective of an increase in fees to offset the increased cost of providing service. Additionally, there was an increase in revenue in sales and transient occupancy tax affected by the opening of a Hilton hotel.

Government Activities

Table 3 presents the cost of each of the City's five largest programs—general government, public safety, transportation, community development and culture and recreation—as well as the

net cost (total cost less revenues generated by the activities). The net cost shows the financial impact on the City's taxpayers for each of these functions.

Table 3
Net Cost of Governmental Activities
(in Millions)

	Total Cost Of Service		Net Cost Of service	
	2005	2004	2005	2004
Expenses				
General Government	3.6	3.5	(.1)	(2.3)
Public Safety	14.4	12.1	(12.5)	(9.8)
Transportation	.7	2.3	.6	(1.0)
Community Development	6.1	4.2	(.3)	1.2
Culture and Recreation	2.8	2.6	(1.9)	(2.1)
Totals	27.6	24.7	(14.2)	(14.0)

- Community Development includes expenditures for the City's redevelopment agency.
- The net cost of services indicates that the overall cost of government is greater than the revenues generated to support it from fees and user charges. This is an indication that the taxes and general revenues charged by the City are necessary to support operations. The largest areas of tax support come from the property taxes $5.4 million, Sales Taxes $3.9 million, and Utility Users Taxes $3.2 million. See the Statement of Activities for further detail on program revenues and general revenues.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At year-end the City's governmental funds reported combined fund balances of $14.4 million, which is a $700,000 increase from last year. Included in this amount is a net increase in fund balance for the General fund of approximately $1.2 million.

- The City's General Fund unreserved fund balance is $1.5 million. However, it should be noted this amount includes approximately $600,000 that is currently unavailable for immediate appropriation due to interfund loans. The remaining $900,000 is less than the City's policy of having $1.4 million available for emergencies and for immediate appropriation.
- The City currently has four funds that have deficit balances for which the General Fund provided interfund loans to. The Office of Traffic Safety Fund, Gas Tax Fund, and Traffic Congestion Relief Fund were in deficit balances due to

accelerated expenditures and should return to positive balances within the next year. The Redevelopment Fund is the fourth fund in a deficit position and this is due to the City policy that the General fund will provide "start-up" funding to the Redevelopment agency in an ongoing capacity.

General Fund Budgetary Highlights

The final appropriation for the General Fund at year-end was $516,000 less than the final budget. The budget to actual variance in appropriations was in part due to departments spending more than their historical average. The City's budget policy is to incorporate a "Budget Savings" line item in each department's budget, anticipating a budgetary underexpenditure that has historically materialized, but did not this year. The department's overexpenditure was "masked over" by a combined $590,000 facility and equipment set-a-side. It is the City's policy to budget in the Police and Fire operating budgets an amount sufficient to provide for future acquisition of a new Police Facility and Fire Engines. The appropriate accounting treatment requires that the funds not be expended, but rather treated as a reserve to fund balance until such time as the set-a-side resources will be combined with the budgeted debt service payments. Actual revenues were more than the final budget by $1.2 million, largely attributed to the State of California's early repayment of a Vehicle license fee loan. Budget amendments and supplemental appropriations were made during the year to prevent budget overruns and to increase appropriation for unanticipated expenditures after adoption of the original budget.

CAPIAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the City had $34.6 million invested in a broad range of capital assets, including police and fire equipment, buildings, land, park facilities and roads (See Table 4 below and refer to the Notes to the Financial Statements for additional information). This amount represents a net decrease (including additions and deductions) of $403,000 or 1.2% over last year. Readers desiring more detailed information on Capital Assets activity will find it in the disclosure provided in the Notes to the Basic financial Statements.

Table 4
Capital Assets at Year-End
(Net of Depreciation, in Millions)

	Government Activities	
	2005	2004
Land	1.9	1.9
Buildings & Improvements	4.5	4.5

Machinery & Equipment	3.2	2.7
Infrastructure	25.0	25.5
Totals	34.6	34.6

Debt

At year-end, the City had no outstanding bonded indebtedness. The City's only long-term liability is for compensated absences for accumulated employee vacation and sick-time. At year-end the City's liability was $1,487,000 or $497,000 more than the prior year. Of the $1,487,000, $297,000 is anticipated to be due within one year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

While the City maintains a diverse and robust housing stock, the City's economy is predominately commercial and retail based. However, an important growing component to the City's economy is a budding tourism based economy. This is most evidenced by the November 2004 completion of a 200 room Hilton hotel and its complementary multi-level shopping complex.

The City's 2005-06 Budget takes into account the historical trends of sales for the community and projecting transient occupancy tax, sales tax, and property taxes. The 2005-06 Budget reflects an increase in expenditures, equally offset by increases in revenue with the results producing a "balanced budget."

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department, at the City of San Gabriel 425 S. Mission Drive, San Gabriel, California 91776.

BASIC FINANCIAL STATEMENTS

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CITY OF SAN GABRIEL

Statement of Net Assets

June 30, 2005

	Governmental Activities
Assets:	
Cash and investments (note 2)	$ 15,140,464
Accounts receivable, net	1,234,402
Prepaids	39,101
Interest receivable	59,056
Due from other governments	2,582,830
Capital assets, not depreciated (note 4)	1,928,325
Capital assets, depreciated (note 4)	32,621,885
Total assets	53,606,063
Liabilities:	
Accounts payable	2,276,108
Accrued payroll	284,241
Claims payable (note 12)	1,823,145
Long-term liabilities (note 5):	
Due within one year	297,332
Due in more than one year	1,189,327
Total liabilities	5,870,153
Net assets:	
Invested in capital assets	34,550,210
Unrestricted	13,185,700
Total net assets	$ 47,735,910

See accompanying notes to the basic financial statements.

CITY OF SAN GABRIEL

Statement of Activities

Year ended June 30, 2005

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Governmental Activities
Governmental activities:					
General government	$ 3,632,467	3,505,044	-	-	(127,423)
Public safety	14,394,449	1,343,392	511,128	43,573	(12,496,356)
Transportation	697,797	6,500	1,227,895	106,100	642,698
Community development	6,072,509	2,919,783	2,236,601	640,638	(275,487)
Culture and recreation	2,784,195	506,565	51,043	250,394	(1,976,193)
Total governmental activities	$ 27,581,417	8,281,284	4,026,667	1,040,705	(14,232,761)

General revenues:	
Taxes:	
Property taxes	5,408,729
Utility users tax	3,259,972
Sales taxes	3,924,613
Franchise taxes	565,710
Transient occupancy tax	367,974
Property transfer tax	198,064
Investment income	353,378
Other	123,743
Total general revenues	14,202,183
Change in net assets	(30,578)
Net assets at beginning of year	47,766,488
Net assets at end of year	$ 47,735,910

See accompanying notes to the basic financial statements.

GENERAL FUND

General Fund – This fund has been classified as a major fund and is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for specific revenues that are legally restricted for a particular purpose. The following funds have been classified as major funds. The budget-actual comparisons for these funds have been presented in the accompanying financial statements are *required supplementary information*:

Retirement Fund – This fund is used to account for the receipt of property taxes of a voter-approved tax levy. These funds are used to pay the City's cost of retirement for employees.

Proposition C Local Return Fund – This fund is used to account for monies received from an allocation of sales tax revenue restricted to fund local transportation related activities in accordance with Proposition C regulations.

Grants Fund – This fund is used to account for funds from the Community Development Block Grant and State – Federal Natural Disaster Assistance Act for neighborhood improvement and rehabilitation purposes.

CAPITAL PROJECT FUND

The Capital Project Fund is established to account for administrative cost for start-up of the Redevelopment Agency and costs of redevelopment. The following fund has been classified as a major fund in the accompanying financial statements:

Redevelopment Fund – This fund is used to account for administrative and other costs of the Redevelopment Agency.

CITY OF SAN GABRIEL
Governmental Funds

Balance Sheet

June 30, 2005
(With Comparative Data for Prior Year)

	General Fund	Special Revenue Funds: Retirement	Special Revenue Funds: Proposition C Local Return	Special Revenue Funds: Grants	Capital Project Fund: Redevelopment	Non-Major Governmental Funds	Totals 2005	Totals 2004
Assets:								
Cash and investments (note 2)	$ 755,091	5,100,943	2,566,912	-	2,674,448	3,005,770	14,103,164	12,286,178
Accounts receivable, net	806,195	-	-	-	-	55,132	861,327	632,523
Interest receivable	59,056	-	-	-	-	-	59,056	57,876
Due from other funds (note 3)	560,640	-	-	-	-	-	560,640	314,639
Due from other governments	1,478,108	53,592	-	998,024	18,178	34,928	2,582,830	1,460,945
Prepaids	2,640	-	-	-	-	-	2,640	14,796
Advances to other funds (note 3)	1,659,609	-	-	-	-	-	1,659,609	1,360,422
Total assets	$ 5,321,339	5,154,535	2,566,912	998,024	2,692,626	3,095,830	19,829,266	16,127,379
Liabilities and Fund Balances								
Liabilities:								
Accounts payable	$ 291,749	-	1,261	81,910	1,794,564	38,290	2,207,774	446,267
Accrued payroll	269,722	-	-	4,488	216	6,151	280,577	203,191
Due to other funds (note 3)	-	-	-	422,928	-	137,712	560,640	314,639
Advances from other funds (note 3)	-	-	-	-	1,659,609	-	1,659,609	1,360,422
Deferred revenue	82,663	-	-	592,360	-	52,060	727,083	63,126
Total liabilities	644,134	-	1,261	1,101,686	3,454,389	234,213	5,435,683	2,387,645
Fund balances (deficits):								
Reserved for:								
Capital replacement	1,111,420	-	-	-	-	-	1,111,420	259,570
Encumbrances	355,776	-	-	-	-	-	355,776	299,266
Retirement	-	5,154,535	-	-	-	-	5,154,535	6,147,863
Prepaids	2,640	-	-	-	-	-	2,640	14,796
Advances to other funds	1,659,609	-	-	-	-	-	1,659,609	1,360,422
Unreserved:								
Reported in:								
General fund	1,547,760	-	-	-	-	-	1,547,760	1,549,942
Special revenue funds	-	-	2,565,651	(103,662)	-	2,861,617	5,323,606	4,910,204
Capital project fund	-	-	-	-	(761,763)	-	(761,763)	(802,329)
Total fund balances (deficit)	4,677,205	5,154,535	2,565,651	(103,662)	(761,763)	2,861,617	14,393,583	13,739,734
Total liabilities and fund balances	$ 5,321,339	5,154,535	2,566,912	998,024	2,692,626	3,095,830	19,829,266	16,127,379

See accompanying notes to the basic financial statements.

CITY OF SAN GABRIEL
Governmental Funds

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

June 30, 2005

Fund balances of governmental funds	$ 14,393,583
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of depreciation, have not been included as financial resources in governmental fund activity.	34,510,565
Compensated absences have not been included in the governmental fund activity:	
Compensated absences	(1,443,573)
Revenues that are measurable but not available. Amounts are recorded as deferred revenue under the modified accrual basis of accounting.	727,083
activities, such as equipment management, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.	(451,748)
Net assets of governmental activities	$ 47,735,910

See accompanying notes to the basic financial statements.

CITY OF SAN GABRIEL
Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2005
(With Comparative Data for Prior Year)

	General Fund	Special Revenue Funds			Capital Project Fund	Non-Major Governmental Funds	Totals	
		Retirement	Proposition C Local Return	Grants	Redevelopment		2005	2004
Revenues:								
Taxes	$ 10,795,960	2,929,103	-	-	443,883	110,970	14,279,916	13,350,237
Intergovernmental	3,460,188	-	502,344	1,060,143	-	1,623,167	6,645,842	5,745,683
Charges for services	2,511,411	-	-	-	-	921,763	3,433,174	3,017,850
Fines and forfeitures	505,031	-	-	-	-	-	505,031	589,054
Licenses and permits	1,522,070	-	-	-	-	-	1,522,070	1,466,456
Investment income	353,378	-	97,576	12	28,229	63,989	543,184	421,241
Other	123,743	-	-	-	-	320	124,063	295,366
Total revenues	19,271,781	2,929,103	599,920	1,060,155	472,112	2,720,209	27,053,280	24,885,887
Expenditures:								
Current:								
General government	3,342,653	-	-	141,722	-	-	3,484,375	3,348,343
Public safety	12,891,163	-	-	-	-	194,098	13,085,261	11,471,351
Community development	3,497,376	-	-	-	271,649	-	3,769,025	3,211,510
Culture and recreation	2,248,867	-	-	59,341	-	169,578	2,477,786	2,434,397
Transportation	-	-	15,000	-	-	606,934	621,934	1,050,263
Pass-throughs	-	-	-	-	154,563	-	154,563	131,342
Capital outlay	568,420	-	411,827	1,364,692	-	292,369	2,637,308	2,358,160
Total expenditures	22,548,479	-	426,827	1,565,755	426,212	1,262,979	26,230,252	24,005,366
Excess (deficiency) of revenues over (under) expenditures	(3,276,698)	2,929,103	173,093	(505,600)	45,900	1,457,230	823,028	880,521
Other financing sources (uses):								
Transfers in (note 3)	4,479,963	-	-	27,956	2,323	369,816	4,880,058	3,040,877
Transfers out (note 3)	-	(3,922,431)	-	-	(7,657)	(1,119,149)	(5,049,237)	(3,175,467)
Total other financing sources (uses)	4,479,963	(3,922,431)	-	27,956	(5,334)	(749,333)	(169,179)	(134,590)
Net change in fund balances	1,203,265	(993,328)	173,093	(477,644)	40,566	707,897	653,849	745,931
Fund balances (deficits) at beginning of year	3,473,940	6,147,863	2,392,558	373,982	(802,329)	2,153,720	13,739,734	12,993,803
Fund balances (deficits) at end of year	$ 4,677,205	5,154,535	2,565,651	(103,662)	(761,763)	2,861,617	14,393,583	13,739,734

See accompanying notes to the basic financial statements.

CITY OF SAN GABRIEL
Governmental Funds

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

Year ended June 30, 2005

Changes in fund balances of governmental funds	$ 653,849
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(32,066)
To record as an expense the net change in compensated absences in the statement of activities.	(488,431)
Revenues that are measurable but not available. Amounts are recorded as deferred revenue under the modified accrual basis of accounting.	663,957
Internal service funds are used by management to charge the costs of certain activities, such as equipment management, to individual funds. The net revenues (expenses) of the internal service funds are reported with governmental activities.	(827,887)
Changes in net assets of governmental activities.	$ (30,578)

See accompanying notes to the basic financial statements.

CITY OF SAN GABRIEL
Proprietary Funds

Statement of Net Assets

June 30, 2005
(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
Assets:	2005	2004
Current assets:		
Cash and investments (note 2)	$ 1,037,300	1,706,802
Accounts receivable, net	373,075	48,075
Prepaids	36,461	24,914
Total current assets	1,446,836	1,779,791
Noncurrent assets:		
Capital assets (note 4):		
Building	115,780	115,780
Machinery and equipment	11,200	11,200
Accumulated depreciation	(87,335)	(85,097)
Capital assets, net	39,645	41,883
Total assets	1,486,481	1,821,674
Liabilities:		
Current liabilities:		
Accounts payable	68,334	26,830
Accrued payroll	3,664	2,603
Compensated absences (note 5)	43,086	35,199
Claims payable - current portion (note 12)	1,823,145	1,380,903
Total current liabilities	1,938,229	1,445,535
Net assets:		
Invested in capital assets	39,645	41,883
Unrestricted	(491,393)	334,256
Total net assets	$ (451,748)	376,139

See accompanying notes to the basic financial statements.

CITY OF SAN GABRIEL
Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

Year ended June 30, 2005
(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	2005	2004
Operating revenues:		
Charges for services	$ 2,526,517	2,656,242
Total operating revenues	2,526,517	2,656,242
Operating expenses:		
Personnel services	239,024	212,810
Contractual services	4,014	11,544
Vehicle operating	246,595	183,831
Depreciation	2,238	2,516
Utilities	5,539	4,605
Uniforms	2,158	2,087
Allowances	-	50
Insurance premiums	645,896	570,663
Claims and judgments	2,417,720	2,194,093
Total operating expenses	3,563,184	3,182,199
Operating income (loss)	(1,036,667)	(525,957)
Non-operating revenues:		
Investment income	39,601	47,756
Income (loss) before transfers	(997,066)	(478,201)
Transfers in (note 3)	169,179	134,590
Change in net assets	(827,887)	(343,611)
Total net assets at beginning of year	376,139	719,750
Total net assets at end of year	$ (451,748)	376,139

See accompanying notes to the basic financial statements.

CITY OF SAN GABRIEL
Proprietary Funds

Statement of Cash Flows

Year ended June 30, 2005
(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	2005	2004
Cash flows from operating activities:		
Cash received from user departments	$ 2,201,517	2,652,003
Cash payments to suppliers for goods and services	(2,849,723)	(2,916,420)
Cash payments to employees for services	(230,076)	(209,713)
Net cash provided by (used for) operating activities	(878,282)	(474,130)
Cash flows from capital related and financing activities:		
Purchase of capital assets	-	(37,980)
Net cash provided by (used for) capital related and financing activities	-	(37,980)
Cash flows from noncapital financing activities:		
Cash received from other funds	169,179	134,590
Net cash provided by noncapital financing activities	169,179	134,590
Cash flows from investing activities:		
Interest received from investments	39,601	47,756
Net cash provided by investing activities	39,601	47,756
Net increase (decrease) in cash and cash equivalents	(669,502)	(329,764)
Cash and cash equivalents at beginning of year	1,706,802	2,036,566
Cash and cash equivalents at end of year	$ 1,037,300	1,706,802
Reconciliation of net operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$ (1,036,667)	(525,957)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	2,238	2,516
(Increase) decrease in prepaids	(11,547)	25,281
(Increase) decrease in accounts receivable	(325,000)	(4,239)
Increase (decrease) in accounts payable	41,504	(24,379)
Increase (decrease) in accrued payroll	1,061	1,179
Increase (decrease) in compensated absences	7,887	1,763
Increase (decrease) in claims payable	442,242	49,706
Total adjustments	158,385	51,827
Net cash provided by (used for) operating activities	$ (878,282)	(474,130)

Supplemental information:
During the year ended June 30, 2005, there were no noncash investing, capital or financing activities.

See accompanying notes to the basic financial statements.

CITY OF SAN GABRIEL
Agency Fund

Statement of Fiduciary Assets and Liabilities

June 30, 2005

	Deposits Fund	
	2005	2004
Assets		
Cash and investments (note 2)	$ 179,629	113,770
Accounts receivable	40,180	49,293
Total assets	$ 219,809	163,063
Liabilities		
Accounts payable	$ 29,589	31,877
Deposits payable	190,220	131,186
Total liabilities	$ 219,809	163,063

See accompanying notes to the basic financial statements.

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(1) Summary of Significant Accounting Policies

The City of San Gabriel (City) was incorporated April 24, 1913 under the general laws of the state of California and enjoys all the rights and privileges pertaining to such "General Law" cities. The City is a municipal corporation governed by an elected five-member council.

The accounting policies of the City conform to generally accepted accounting principles. The following is a summary of the more significant policies.

(a) Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City of San Gabriel and its component units, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and the City is able to impose its will on that organization or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the City are such that their exclusion would cause the City's financial statements to be misleading or incomplete. A brief description of the component unit follows:

- The San Gabriel Redevelopment Agency (Agency) was established February 1991, pursuant to the State of California Health and Safety Code Section 33000 entitled, "Community Redevelopment Law." Although it is a legally separate entity from the City, the Agency is reported as if it were part of the City because of its purpose to prepare and execute plans for the improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the City. Separate financial statements for the Agency are available at City Hall.

Since the City Council serves as the governing board for this component unit, it is considered to be a blended component unit. Blended component unit, although legally separate entity, is in substance, part of the City's operations and so data from the unit is reported with the interfund data of the primary government. The Agency issues separate component unit financial statements and upon their completion, can be obtained at City Hall.

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

(b) Measurement Focus and Basis of Accounting

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

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

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

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. The City of San Gabriel has no business-type activities or discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

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

(b) Measurement Focus and Basis of Accounting, (Continued)

Program revenues include charges for services and payments made by parties outside the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

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

Fund Financial Statements

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

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

Governmental Funds

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

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

(b) Measurement Focus and Basis of Accounting, (Continued)

Sales taxes, property taxes, franchise taxes, gas taxes, motor vehicle in lieu, transient occupancy taxes, grants 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 to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available where cash is received by the government.

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

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

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables. Non-current portions of long-term receivables are offset by fund balance reserve accounts.

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

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

(b) Measurement Focus and Basis of Accounting, (Continued)

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

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

Proprietary and Fiduciary Funds

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

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 City's internal service funds are charges to customers for sales and services. Operating expenses for internal service funds 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 noncapital revenues and expenses.

Amounts paid to acquire capital assets are capitalized as assets in the internal service fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the internal service fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the internal service fund are reported as a reduction of the related liability, rather than as an expenditure.

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

(c) Major Governmental Funds, Internal Service Funds and Fiduciary Fund Types

The City's major governmental funds are as follows:

General Fund – The primary fund of the City is used to account for all revenues and expenditures of the City not legally restricted as to use. A broad range of municipal activities are provided through this fund including City Manager, City Attorney, Finance, City Clerk, Community Development, Public Safety and Culture and Recreation.

Retirement Fund – This fund is used to account for the receipt of property taxes of a voter-approved tax levy and pay the City's cost of retirement for employees.

Proposition C Local Return Fund – This fund is used to account for monies received from an allocation of sales tax revenue restricted to fund local transportation related activities in accordance with Proposition C regulations.

Grants Fund – This fund is used to account for funds from the Community Development Block Grant and State-Federal Natural Disaster Assistance Act for neighborhood improvement and rehabilitation purposes.

Other fund types of the City are as follows:

Internal Service Funds:

Self-Insurance Fund – This fund is used to account for payments for the City's workers' compensation and general liability claims.

Automotive Maintenance Fund – This fund is used to account for the costs of operating a maintenance facility for automotive equipment used by City departments.

Agency Fund:

Deposits Fund – This fund is used to account for deposits collected by the City which will be refunded at some later date.

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

(d) Investments

For financial reporting purposes, investments are adjusted to their fair value whenever the difference between fair market value and the carrying amount is material.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

The City pools cash and investments of all fund. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balances.

(e) Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents also represent the proprietary funds' share in the cash and investment pool of the City of San Gabriel. Cash equivalents have an original maturity date of three months or less from the date of purchase. For purposes of the statement of cash flows, the entire balance of cash and investments on the combined balance sheet for the internal service fund is considered cash and cash equivalents.

(f) Capital Assets

Capital assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of $5,000 are capitalized if they have an expected useful life of three years or more.

Capital assets include additions to public domain (infrastructure) general fixed assets consisting of certain improvements including roads, streets, sidewalks, medians, and storm drains.

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

(f) Capital Assets, (Continued)

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements and in the fund financial statements of the internal service funds. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class are as follows:

Buildings and improvements	20-50 years
Machinery and equipment	5-20 years
Infrastructure	15-50 years

(g) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the governmental funds. Encumbrances outstanding at year-end do not constitute expenditures or liabilities, but are reported as reservations of fund balance.

(h) Compensated Absences

Permanent City employees earn from 10 to 20 vacation days and 12 sick leave days a year. Upon termination, employees are paid for all unused vacation hours. Upon a service retirement, employees are paid one-third of accumulated sick leave.

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

Under GASB Statement No. 16 a liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. This is estimated by including in the liability the unused balances of employees currently entitled to receive termination payment, as well as those who are expected to become eligible to receive termination benefits as a result of continuing their employment with the City.

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

(i) 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 San Gabriel accrues only those taxes which are received from the county within 60 days after year-end:

Lien date	March 1
Levy date	July 1 to June 30
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

(j) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

(k) Prior Year Data

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles.

(2) Cash and Investments

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

Statement of Net Assets:	
Cash and investments	$15,140,464
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	179,629
Total cash and investments	$15,320,093

(2) Cash and Investments, (Continued)

Cash and investments as of June 30, 2005 consist of the following:

Cash on hand	$ 2,200
Deposits with financial institutions and state	12,390,476
Investments	2,927,417
Total cash and investments	$15,320,093

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

The table below identifies the **investment types** that are authorized for the City by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address **interest rate risk, and concentration of credit risk.**

Investment Types Authorized by State Law	Authorized By Investment Policy	*Maximum Maturity	*Maximum Percentage Of Portfolio	*Maximum Investment In One Issuer
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	20%	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	92 days	20% of basic value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	10%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

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

(2) Cash and Investments, (Continued)

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 to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

		Remaining Maturity (in Months)			
Investment Type		12 Months Or Less	13 to 24 Months	25-60 Months	More Than 60 Months
Mutual funds	$ 210,127	210,127	-	-	
LAIF	2,717,290	2,717,290	-	-	-
Total	$2,927,417	2,927,417	-	-	-

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, and the actual rating as of year end for each investment type.

				Rating as of Year End		
Investment Type		Minimum Legal Rating	Exempt From Disclosure	AAA	Aa	Not Rated
Mutual funds	$ 210,127	N/A	-	210,127	-	-
LAIF	2,717,290	N/A	-	-	-	2,717,290
Total	$2,927,417		-	210,127	-	2,717,290

(2) Cash and Investments, (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2005, $1,160,785 of the City's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

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.

(3) Interfund Receivables, Payables and Transfers

Current interfund receivables and payables as of June 30, 2005 are as follows:

Due from other funds	Due to other funds	Amount
General Fund	Grants Fund	$422,928
	Non-Major Governmental Funds	137,712
		$560,640 (A)

(A) Short-term borrowing to cover temporary cash shortfalls.

(3) Interfund Receivables, Payables and Transfers, (Continued)

Noncurrent interfund receivables and payables as of June 30, 2005 are as follows:

Advances to other funds	Advances from other funds	Amount
General Fund	Redevelopment Capital Project Fund	$1,659,609 (B)

(B) To provide funding for capital projects within the project area. The advance accrues interest at 9.75% per annum with no required repayment date.

Transfers in and out for the year ended June 30, 2005 were as follows:

Transfers In	Transfers Out	Amount
General Fund	Retirement Fund	$3,663,454 (C)
	Non-Major Governmental Funds	816,509
Redevelopment Fund	Retirement Fund	2,323 (C)
Internal Service Funds	Retirement Fund	169,179 (C)
Non-Major Governmental Funds	Non-Major Governmental Funds	302,640
	Redevelopment Fund	7,657
	Retirement Fund	87,475 (C)
		$5,049,237

(C) To provide fundings for retirement costs.

(4) Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2005 was as follows:

	Balance at June 30, 2004	Additions	Deletions	Balance at June 30, 2005
Capital assets being depreciated:				
Building and improvements	$6,897,894	135,766	-	7,033,660
Machinery and equipment	5,498,716	1,051,986	340,019	6,210,683
Infrastructure	64,145,564	1,247,742	-	65,393,306
Total cost of depreciable assets	76,542,174	2,435,494	340,019	78,637,649
Less accumulated depreciation for:				
Building and improvements	2,421,978	140,919	-	2,562,897
Machinery and equipment	2,848,846	482,226	288,583	3,042,489
Infrastructure	38,615,161	1,795,217	-	40,410,378
Total accumulated depreciation	43,885,985	2,418,362	288,583	46,015,764
Net depreciable assets	32,656,189	17,132	51,436	32,621,885
Capital assets not depreciated:				
Land	1,928,325	-	-	1,928,325
Capital assets, net	$34,584,514	17,132	51,436	34,550,210

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

General government	$ 111,465
Public safety	329,925
Transportation	75,863
Community development	1,782,451
Culture and recreation	118,658
Total	$2,418,362

(5) Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2005 were as follows:

	Balance at June 30, 2004	Additions	Retirement	Balance at June 30, 2005	Amount due within one year	Amount beyond one year
Compensated absences	$990,341	1,159,982	663,664	1,486,659	297,332	1,189,327

Compensated Absences

The City's policies relating to compensated absences are described in Note 1. This liability amounting to $1,486,659 at June 30, 2005 is expected to be paid in future years from future resources, typically liquidated from the General Fund.

(6) Fund Deficits

At June 30, 2005, the following funds had deficit balances:

	Amount
Capital Project:	
Redevelopment	$761,763 (A)
Special Revenue:	
Grants	103,662 (B)
Non-Major Governmental:	
Special Gas Tax	31,296 (C)
Traffic Congestion Relief	89,852 (D)
Office of Traffic Safety Grant	16,564 (E)

(A) The deficit will be paid back in the future with tax increment revenues.

(B) The deficit will be reimbursed by federal funding from the U.S. Department of Housing and Urban Development.

(C) The deficit will be funded by future year allocation of gas tax money.

(D) The deficit will be funded by future year allocation from the State of California.

(E) The deficit will be reimbursed by federal funding from the Office of Traffic Safety.

(7) Expenditures in Excess of Appropriations

Expenditures for the year ended June 30, 2005 exceeded the appropriations of the following funds/departments:

	Budget	Actual	Variance
General:			
City Council	$203,153	218,668	(15,515)
City Clerk	293,215	293,588	(373)
City Manager	317,492	331,057	(13,565)
City Attorney	116,000	138,152	(22,152)
Finance	732,353	763,119	(30,766)
Personnel and Purchasing	220,678	244,718	(24,040)
General Services	1,053,065	1,073,611	(20,546)
Community Promotion	84,630	95,611	(10,981)
Disaster Preparedness	12,012	20,282	(8,270)
Development Services	1,585,307	1,820,752	(235,445)
Street Services	1,098,820	1,180,958	(82,138)
Civic Auditorium	687,771	736,040	(48,269)
Park Maintenance	647,791	685,137	(37,346)
Recreation	503,551	518,643	(15,092)
Special Revenue:			
Office of Traffic Safety Grant	45,178	53,672	(8,494)
Capital Project:			
Redevelopment	308,464	426,212	(117,748)

(8) Defined Benefit Pension Plan (PERS)

The City of San Gabriel contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.