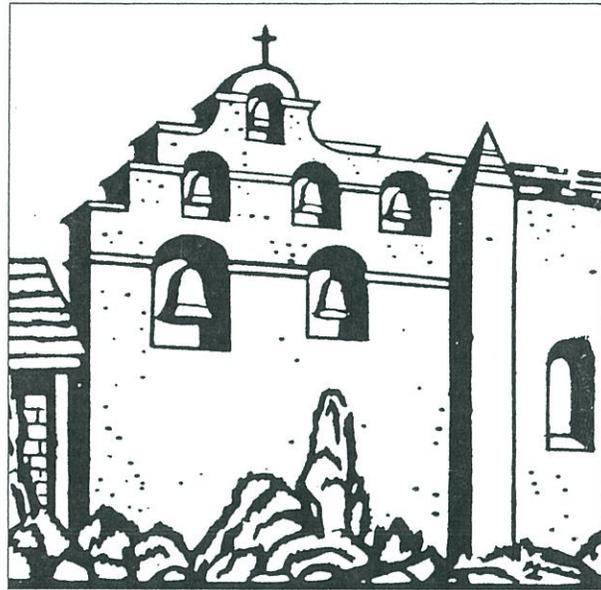


CITY OF SAN GABRIEL CALIFORNIA



FOUNDED 1771
CITY WITH A MISSION

Comprehensive Annual Financial Report

Fiscal Year Ended
June 30, 2004

CITY OF SAN GABRIEL,
CALIFORNIA

Comprehensive Annual Financial Report

Year ended June 30, 2004

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, 2004

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CITY OF SAN GABRIEL

Comprehensive Annual Financial Report

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CITY OF SAN GABRIEL
Comprehensive Annual Financial Report
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INTRODUCTORY SECTION

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City of San Gabriel

◆ City With A Mission ◆ Founded 1771 ◆

November 29, 2004

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 second 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. The government-wide financial statements include a Statement of Net Assets that provides the total net equity of the City including infrastructure and the Statement of Activities that 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

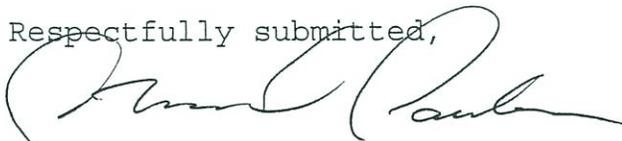
incorporated in 1913 as a general law city and operates under the council-manager form of government. The City Council is comprised of five members who are elected at large serving a staggered term of four years. The City provides a full range of municipal services including police and fire protection, 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 2002-2003 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.

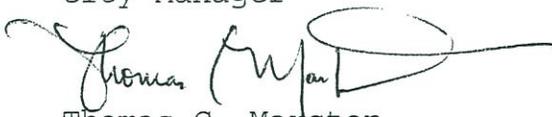
The Comprehensive Annual Financial Report of the City of San Gabriel for fiscal year ended June 30, 2004 is hereby presented. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge 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, 2004

CITY COUNCIL

Harry L. Baldwin - Mayor

Juli Costanzo - Vice Mayor

Mary Cammarano

David R. Gutierrez

Chi Mui

ELECTED OFFICIALS

Cynthia Trujillo - City Clerk

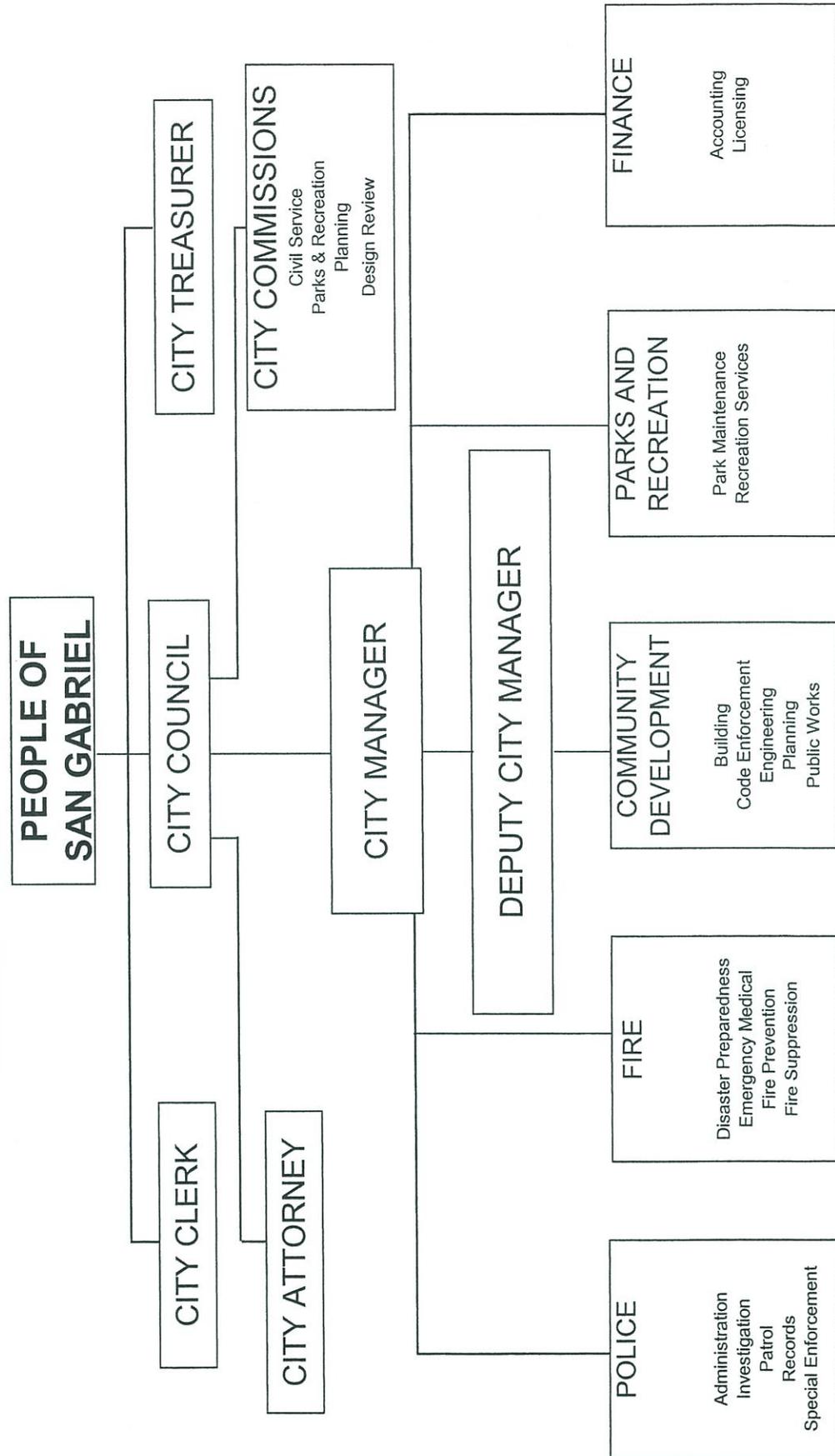
John Janosik - City Treasurer

ADMINISTRATION AND DEPARTMENT HEADS

City Manager
Deputy City Manager
Police Chief
Fire Chief
Director of Finance
Director of Parks and Recreation
Civic Auditorium Manager

P. Michael Paules
Steven Preston
David Lawton
Joseph Nestor
Thomas Marston
Robert L. Harris
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, 2003

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 2002-2003

Presented to the

City of San Gabriel

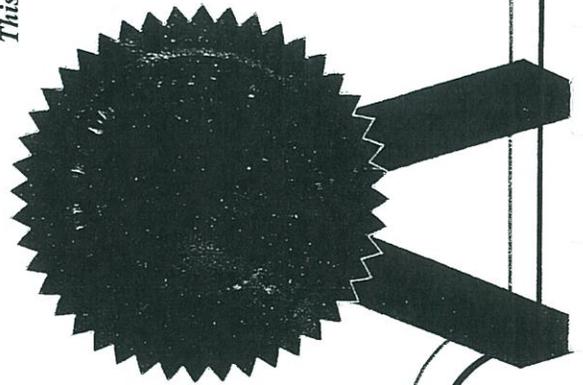
*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

March 1, 2004

Bret M. Humlee

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



FINANCIAL SECTION

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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, 2004, 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, 2004, 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.

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

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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2004 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 and grants. 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 24, 2004

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, 2004. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's net assets decreased .4% to \$47.8 million as a result of this year's operations.
- During the year, the City's taxes and other governmental expenses exceeded revenues by \$.2 million.
- The total revenues from all sources equaled \$24.5 million.
- The total cost of all City programs equaled \$24.7 million.
- The General Fund reported excess expenditures over revenues of \$721,000.
- For the General Fund, actual resources available for appropriation (revenues and transfers-in) were more than the final budget by \$7,000 while actual expenditures were \$102,000 more 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 than 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.

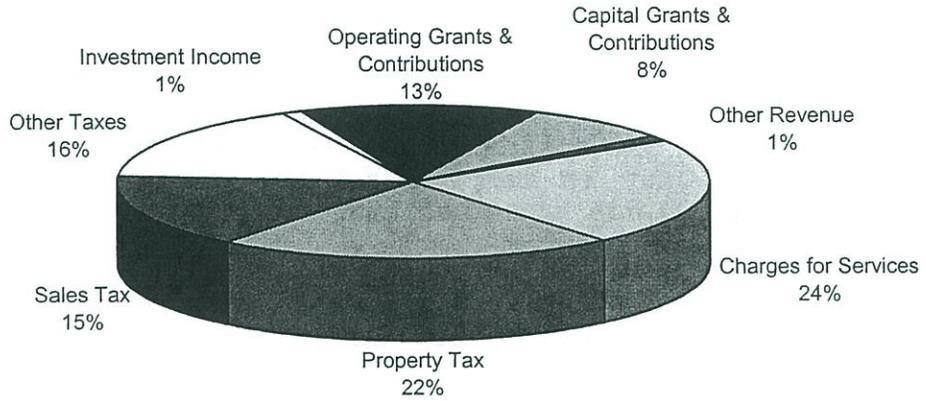
Table 1
Statement of Net Assets
(in Millions)

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
Current and other assets	\$16.2	\$15.6
Capital Assets	<u>34.6</u>	<u>35.0</u>
Total Assets	\$50.8	\$50.6
Long-term debt outstanding	.8	.8
Other Liabilities	<u>2.3</u>	<u>1.8</u>
Total Liabilities	3.1	2.6
Net Assets:		
Invested in capital assets, net of debt	34.6	35.0
Unrestricted	<u>13.2</u>	<u>13.0</u>
Total net Assets	<u>47.8</u>	<u>48.0</u>

The City's net assets from governmental activities decreased .4% from \$48.0 million to \$47.8 million. This decrease of \$.2 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 2004 GOVERNMENTAL ACTIVITIES
(See Table 2)

Sources of Revenue
Total - \$24,519,498



Functional Expenses
Total - \$24,759,046

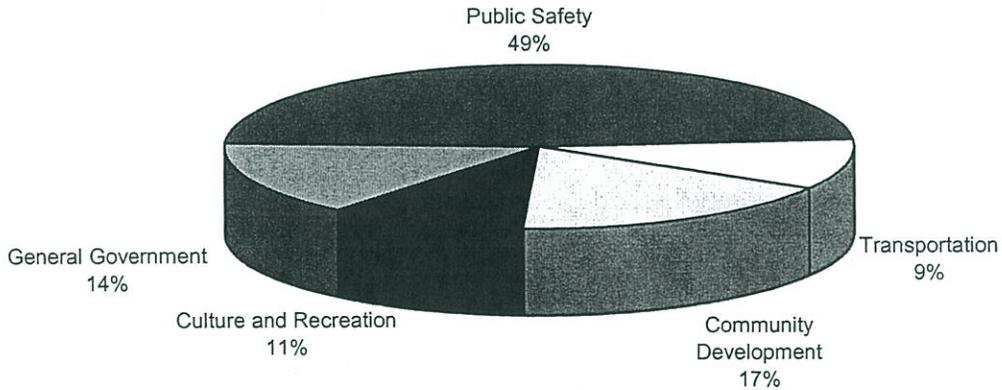


Table 2
Statement of Activities
(in Millions)

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
Revenues		
Program Revenues		
Charges for Service	\$ 5.6	\$ 6.0
Operating Contributions and Grants	3.2	4.4
Capital Contributions and Grants	1.9	.7
General Revenues		
Taxes		
Property Taxes	5.4	4.8
Utility User Taxes	3.2	2.9
Sales Taxes	3.7	3.6
Franchise Taxes	.6	.6
Transient Occupancy Taxes	.1	.1
Property Transfer Taxes	.2	.2
Investment Income	.3	.3
Other Revenue	.3	.6
Total Revenues	<u>24.5</u>	<u>24.2</u>
Expenses		
General Government	3.5	3.1
Public Safety	12.1	10.3
Transportation	2.3	2.2
Community Development	4.2	3.7
Culture and Recreation	2.6	2.2
Total Expenses	<u>24.7</u>	<u>21.5</u>
Increase (decrease) in net assets	\$ (<u>.2</u>)	\$ <u>2.7</u>

The City's total revenues were \$24.5 million, while the total cost of all programs and services were \$24.7 million. This is an increase of 1.2% in revenue and 14.8% increase in expenses over the prior year. The major increase in revenue came from property taxes reflective of a robust residential and commercial real estate market. Likewise, there was an increase in revenue in sales and utility user taxes affected by the improving economy.

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	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Expenses				
General Government	3.5	3.1	.3	(1.0)
Public Safety	12.1	10.3	(10.4)	(8.5)
Transportation	2.3	2.2	(1.1)	(1.7)
Community Development	4.2	3.7	1.0	1.0
Culture and Recreation	<u>2.6</u>	<u>2.2</u>	<u>(.9)</u>	<u>(.2)</u>
Totals	<u>24.7</u>	<u>21.5</u>	<u>(11.1)</u>	<u>(10.4)</u>

- 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 \$3.7 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 \$13.7 million, which is a \$700,000 increase from last year. Included in this amount is a net decrease in fund balance for the General fund of approximately \$721,000.

- The City's General Fund unreserved fund balance is \$1.5 million. However, it should be noted this amount includes approximately \$300,000 that is currently unavailable for immediate appropriation due to interfund loans. The remaining \$1.2 million is slightly 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 \$102,000 more than the final budget. The budget to actual variance in appropriations was principally due to departments spending more than their historical average. The City's budget policy is to incorporate a 3% "Budget Savings" line item in each department's budget, anticipating a budgetary underexpenditure that has historically materialized, but did not this year. Actual revenues were more than the final budget by \$7,252, essentially on target. 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 2004, 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). This amount represents a net decrease (including additions and deductions) of \$403,000 or 1.2% over last year.

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

	Government Activities	
	<u>2004</u>	<u>2003</u>
Land	1.9	1.9
Buildings & Improvements	4.5	4.5
Machinery & Equipment	2.7	2.0
Infrastructure	<u>25.5</u>	<u>26.5</u>
Totals	<u>34.6</u>	<u>34.9</u>

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 \$990,000 or \$179,000 more than the prior year. Of the \$990,000, \$198,000 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 2004-05 budget takes into account the historical trends of sales for the community and projecting transient occupancy tax, sales tax, and property taxes. The 2004-05 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, 2004

	<u>Governmental Activities</u>
Assets:	
Cash and investments (note 2)	\$ 13,992,980
Accounts receivable, net	680,598
Prepays	39,710
Interest receivable	57,876
Due from other governments	1,460,945
Capital assets, not depreciated (note 4)	1,928,325
Capital assets, depreciated (note 4)	<u>32,656,189</u>
Total assets	<u>50,816,623</u>
Liabilities:	
Accounts payable	473,097
Accrued payroll	205,794
Claims payable (note 12)	1,380,903
Long-term liabilities (note 5):	
Due within one year	198,068
Due in more than one year	<u>792,273</u>
Total liabilities	<u>3,050,135</u>
Net assets:	
Invested in capital assets	34,584,514
Unrestricted	<u>13,181,974</u>
Total net assets	<u><u>\$ 47,766,488</u></u>

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 to expenditure 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.

CAPITAL PROJECT FUND

The Capital Project Fund is established to account for administrative cost for start-up for 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, 2004

(With Comparative Data for Prior Year)

	General Fund	Special Revenue Funds		Capital Project Fund	Non-Major Governmental Funds	Totals	
		Retirement	Proposition C Local Return	Redevelopment		2004	2003
Assets:							
Cash and investments (note 2)	\$ 668,485	6,097,747	2,393,588	599,754	2,526,604	12,286,178	11,268,129
Accounts receivable, net	575,326	-	-	-	57,197	632,523	208,331
Interest receivable	57,876	-	-	-	-	57,876	39,128
Special assessments receivable	-	-	-	-	-	-	3,001
Due from other funds (note 3)	314,639	-	-	-	-	314,639	504,964
Due from other governments	945,596	50,116	-	26,623	438,610	1,460,945	1,961,996
Prepays	4,740	-	-	-	10,056	14,796	2,640
Advances to other funds (note 3)	1,360,422	-	-	-	-	1,360,422	1,139,688
Total assets	\$ 3,927,084	6,147,863	2,393,588	626,377	3,032,467	16,127,379	15,127,877
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 255,464	-	1,030	68,133	121,640	446,267	340,870
Accrued payroll	197,680	-	-	151	5,360	203,191	59,062
Due to other funds (note 3)	-	-	-	-	314,639	314,639	504,964
Advances from other funds (note 3)	-	-	-	1,360,422	-	1,360,422	1,139,688
Deferred revenue	-	-	-	-	63,126	63,126	89,490
Total liabilities	453,144	-	1,030	1,428,706	504,765	2,387,645	2,134,074
Fund balances (deficits):							
Reserved for:							
Capital replacement	259,570	-	-	-	-	259,570	-
Encumbrances	299,266	-	-	-	-	299,266	703,252
Retirement	-	6,147,863	-	-	-	6,147,863	5,758,216
Prepays	4,740	-	-	-	10,056	14,796	2,640
Advances to other funds	1,360,422	-	-	-	-	1,360,422	1,139,688
Unreserved:							
Reported in:							
General fund	1,549,942	-	-	-	-	1,549,942	2,349,402
Special revenue funds	-	-	2,392,558	-	2,517,646	4,910,204	3,833,019
Capital project fund	-	-	-	(802,329)	-	(802,329)	(792,414)
Total fund balances (deficit)	3,473,940	6,147,863	2,392,558	(802,329)	2,527,702	13,739,734	12,993,803
Total liabilities and fund balances	\$ 3,927,084	6,147,863	2,393,588	626,377	3,032,467	16,127,379	15,127,877

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, 2004

Fund balances of governmental funds	\$ 13,739,734
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.	34,542,631
Compensated absences have not been included in the governmental fund activity:	
Compensated absences	(955,142)
Revenues that are measurable but not available. Amounts are recorded as deferred revenue under the modified accrual basis of accounting.	63,126
Internal service funds are used by management to charge the costs of certain 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.	<u>376,139</u>
Net assets of governmental activities	<u><u>\$ 47,766,488</u></u>

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, 2004
(With Comparative Data for Prior Year)

	General Fund	Special Revenue Funds		Capital Project Fund	Non-Major Governmental Funds	Totals	
		Retirement	Proposition C Local Return	Redevelopment		2004	2003
Revenues:							
Taxes	\$ 10,236,517	2,658,563	-	310,968	144,189	13,350,237	12,502,126
Intergovernmental	2,068,589	-	472,920	-	3,204,174	5,745,683	6,331,359
Charges for services	2,329,593	-	-	-	688,257	3,017,850	2,556,007
Fines and forfeitures	589,054	-	-	-	-	589,054	653,878
Licenses and permits	1,466,456	-	-	-	-	1,466,456	1,095,006
Investment income	292,887	-	77,193	12,390	38,771	421,241	384,816
Other	295,356	-	-	-	10	295,366	609,655
Total revenues	17,278,452	2,658,563	550,113	323,358	4,075,401	24,885,887	24,132,907
Expenditures:							
Current:							
General government	3,212,121	-	-	-	136,222	3,348,343	3,056,428
Public safety	11,309,542	-	-	-	161,809	11,471,351	9,877,622
Community development	3,013,355	-	-	198,155	-	3,211,510	3,015,748
Culture and recreation	2,143,499	-	-	-	290,898	2,434,397	2,061,358
Transportation	-	-	448,148	-	602,115	1,050,263	921,018
Pass-throughs	-	-	-	131,342	-	131,342	104,641
Capital outlay	989,902	-	-	-	1,368,258	2,358,160	2,943,895
Total expenditures	20,668,419	-	448,148	329,497	2,559,302	24,005,366	21,980,710
Excess (deficiency) of revenues over (under) expenditures	<u>(3,389,967)</u>	<u>2,658,563</u>	<u>101,965</u>	<u>(6,139)</u>	<u>1,516,099</u>	<u>880,521</u>	<u>2,152,197</u>
Other financing sources (uses):							
Transfers in (note 3)	2,668,925	-	-	1,588	370,364	3,040,877	3,136,576
Transfers out (note 3)	-	(2,268,916)	-	(5,364)	(901,187)	(3,175,467)	(3,252,745)
Total other financing sources (uses)	2,668,925	(2,268,916)	-	(3,776)	(530,823)	(134,590)	(116,169)
Net change in fund balances	(721,042)	389,647	101,965	(9,915)	985,276	745,931	2,036,028
Fund balances (deficits) at beginning of year	4,194,982	5,758,216	2,290,593	(792,414)	1,542,426	12,993,803	10,957,775
Fund balances (deficits) at end of year	\$ 3,473,940	6,147,863	2,392,558	(802,329)	2,527,702	13,739,734	12,993,803

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, 2004

Changes in fund balances of governmental funds \$ 745,931

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. (438,651)

To record as an expense the net change in compensated absences in the statement of activities. (176,853)

Revenues that are measurable but not available. Amounts are recorded as deferred revenue under the modified accrual basis of accounting. (26,364)

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. (343,611)

Changes in net assets of governmental activities. \$ (239,548)

See accompanying notes to the basic financial statements.

CITY OF SAN GABRIEL
Proprietary Funds

Statement of Net Assets

June 30, 2004

(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	2004	2003
Assets:		
Current assets:		
Cash and investments (note 2)	\$ 1,706,802	2,036,566
Accounts receivable, net	48,075	43,836
Prepays	24,914	50,195
Total current assets	1,779,791	2,130,597
Noncurrent assets:		
Capital assets (note 4):		
Building	115,780	77,800
Machinery and equipment	11,200	11,200
Accumulated depreciation	(85,097)	(82,581)
Capital assets, net	41,883	6,419
Total assets	1,821,674	2,137,016
Liabilities:		
Current liabilities:		
Accounts payable	26,830	51,209
Accrued payroll	2,603	1,424
Compensated absences (note 5)	35,199	33,436
Claims payable - current portion (note 12)	1,380,903	1,331,197
Total current liabilities	1,445,535	1,417,266
Net assets:		
Invested in capital assets	41,883	6,419
Unrestricted	334,256	713,331
Total net assets	\$ 376,139	719,750

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, 2004
(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	<u>2004</u>	<u>2003</u>
Operating revenues:		
Charges for services	\$ <u>2,656,242</u>	<u>2,316,419</u>
Total operating revenues	<u>2,656,242</u>	<u>2,316,419</u>
Operating expenses:		
Personnel services	212,810	203,556
Contractual services	11,544	5,098
Vehicle operating	183,831	209,148
Building operating	-	11
Depreciation	2,516	2,302
Utilities	4,605	4,728
Uniforms	2,087	1,828
Allowances	50	790
Insurance premiums	570,663	577,829
Claims and judgments	<u>2,194,093</u>	<u>1,518,426</u>
Total operating expenses	<u>3,182,199</u>	<u>2,523,716</u>
Operating income (loss)	<u>(525,957)</u>	<u>(207,297)</u>
Non-operating revenues:		
Investment income	<u>47,756</u>	<u>59,637</u>
Income (loss) before transfers	<u>(478,201)</u>	<u>(147,660)</u>
Transfers in (note 3)	<u>134,590</u>	<u>116,169</u>
Change in net assets	(343,611)	(31,491)
Total net assets at beginning of year	<u>719,750</u>	<u>751,241</u>
Total net assets at end of year	<u>\$ 376,139</u>	<u>719,750</u>

See accompanying notes to the basic financial statements.

CITY OF SAN GABRIEL
Proprietary Funds
Statement of Cash Flows
Year ended June 30, 2004
(With Comparative Data for Prior Year)

	Governmental Activities - Internal Service Funds	
	2004	2003
Cash flows from operating activities:		
Cash received from user departments	\$ 2,652,003	2,309,187
Cash payments to suppliers for goods and services	(2,916,420)	(2,356,822)
Cash payments to employees for services	(209,713)	(202,331)
Net cash provided by (used for) operating activities	(474,130)	(249,966)
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	134,590	116,169
Net cash provided by noncapital financing activities	134,590	116,169
Cash flows from investing activities:		
Interest received from investments	47,756	59,637
Net cash provided by investing activities	47,756	59,637
Net increase (decrease) in cash and cash equivalents	(329,764)	(74,160)
Cash and cash equivalents at beginning of year	2,036,566	2,110,726
Cash and cash equivalents at end of year	\$ 1,706,802	2,036,566
Reconciliation of net operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (525,957)	(207,297)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	2,516	2,302
(Increase) decrease in prepaids	25,281	(368)
(Increase) decrease in accounts receivable	(4,239)	(7,232)
Increase (decrease) in accounts payable	(24,379)	(32,377)
Increase (decrease) in accrued payroll	1,179	(976)
Increase (decrease) in compensated absences	1,763	996
Increase (decrease) in claims payable	49,706	(5,014)
Total adjustments	51,827	(42,669)
Net cash provided by (used for) operating activities	\$ (474,130)	(249,966)

Supplemental information:

During the year ended June 30, 2004, 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, 2004

	Deposits Fund	
	<u>2004</u>	<u>2003</u>
<u>Assets</u>		
Cash and investments (note 2)	\$ 113,770	94,157
Accounts receivable	<u>49,293</u>	<u>28,550</u>
Total assets	<u>\$ 163,063</u>	<u>122,707</u>
<u>Liabilities</u>		
Accounts payable	\$ 31,877	17,681
Deposits payable	<u>131,186</u>	<u>105,026</u>
Total liabilities	<u>\$ 163,063</u>	<u>122,707</u>

See accompanying notes to the basic financial statements.

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CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

Year ended June 30, 2004

(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.

CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

(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.

CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

(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 represented 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 statement, 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.

CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

(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 their 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.

CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

(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 sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

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

Proprietary and Fiduciary Funds

The City's 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.

CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

(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 revenue and expenditure 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.

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.

(d) Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Assets

The "total fund balances" of the City's governmental funds \$13,739,734 differs from "net assets" of governmental activities \$47,766,488 reported in the statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the spending measurement focus of the governmental balance sheets.

CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

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

(d) Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Assets, (Continued)

Capital Related Items

When capital assets that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$78,343,519
Accumulated depreciation	<u>(43,800,888)</u>
Total capital assets, net	<u>\$34,542,631</u>

Long-Term Liabilities Transactions

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets.

Compensated absences payable	\$955,142
------------------------------	-----------

Deferred Revenue

Because the focus of governmental funds is on short term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in governmental funds, and thus are not included in fund balances.

Deferred revenue eliminated	\$63,126
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Internal Service Funds

Internal service funds are used by management to charge the costs of certain activities, such as equipment management, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Net assets added	\$376,139
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CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

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

(d) Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Assets, (Continued)

Reclassifications and Eliminations

Interfund balances must generally be eliminated in the governmental statements, except for residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that the expenses are reported only once in the function in which they are allocated.

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CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

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

(d) Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Assets. (Continued)

	Total Governmental Funds	Capital Related Items	Compensated Absences Payable
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash and investments	\$ 12,286,178	-	-
Accounts receivable, net	632,523	-	-
Interest receivable	57,876	-	-
Due from other funds	314,639	-	-
Due from other governments	1,460,945	-	-
Prepays	14,796	-	-
Advances to other funds	1,360,422	-	-
Capital assets, net	-	34,542,631	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 16,127,379</u>	<u>34,542,631</u>	<u>-</u>
Liabilities:			
Accounts payable	\$ 446,267	-	-
Accrued payroll	203,191	-	-
Due to other funds	314,639	-	-
Advances from other funds	1,360,422	-	-
Deferred revenue	63,126	-	-
Compensated absences payable	-	-	955,142
Claims payable	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>2,387,645</u>	<u>-</u>	<u>955,142</u>
Fund balances/net assets	<u>13,739,734</u>	<u>34,542,631</u>	<u>(955,142)</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances/net assets	<u>\$ 16,127,379</u>	<u>34,542,631</u>	<u>-</u>

<u>Certain Deferred Revenue</u>	<u>Internal Service Funds</u>	<u>Reclassifications and Eliminations</u>	<u>Government-wide Financial Statements</u>
-	1,706,802	-	13,992,980
-	48,075	-	680,598
-	-	-	57,876
-	-	(314,639)	-
-	-	-	1,460,945
-	24,914	-	39,710
-	-	(1,360,422)	-
-	41,883	-	34,584,514
<u>-</u>	<u>1,821,674</u>	<u>(1,675,061)</u>	<u>50,816,623</u>
-	26,830	-	473,097
-	2,603	-	205,794
-	-	(314,639)	-
-	-	(1,360,422)	-
(63,126)	-	-	-
-	35,199	-	990,341
-	1,380,903	-	1,380,903
<u>(63,126)</u>	<u>1,445,535</u>	<u>(1,675,061)</u>	<u>3,050,135</u>
<u>63,126</u>	<u>376,139</u>	<u>-</u>	<u>47,766,488</u>
<u>-</u>	<u>1,821,674</u>	<u>(1,675,061)</u>	<u>50,816,623</u>

CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

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

(e) Explanation of Difference between Governmental Funds Operating Statements and the Statement of Activities

The “net changes in fund balances” for governmental funds of \$745,931 differs from the “changes in net assets” for the governmental activities of \$(239,548) reported in the statement of activities. The differences arise primarily from the long term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effects of the differences are illustrated below.

Capital Related Items

When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. As a result, fund balance increases by the amount of financial resources expended, whereas net assets decrease by the amounts of depreciation expense charged for the year.

Capital outlay	\$3,742,345
Depreciation expense	<u>(3,924,557)</u>
	<u>\$ (182,212)</u>

The change in net assets differs from the change in fund balance by the net loss on disposition of a capital asset.

\$256,439

Long-term Liabilities

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.

Net change in compensated absences	\$176,853
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Deferred Revenue

Because the focus of governmental funds is on short term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in governmental funds, and thus are not included as revenues.

\$26,364

CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

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

- (e) Explanation of Difference between Governmental Funds Operating Statements and the Statement of Activities, (Continued)

Internal Service Funds

Internal service funds are used by management to charge the costs of certain activities, such as equipment management, to individual funds. The adjustments for internal service funds “closes” those funds by charging additional amounts to participating governmental activities to completely cover the internal service fund’s cost for the year.

\$343,611

Reclassifications and Eliminations

Interfund balances must generally be eliminated in the governmental statements, except for residual amounts due between governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated.

CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

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

(e) Explanation of Differences between Governmental Funds Operating Statements and the Statement of Net Assets. (Continued)

	Total Governmental Funds	Capital Related Items	Compensated Absences Payable
Revenues:			
Taxes	\$ 13,350,237	-	-
Intergovernmental	5,745,683	-	-
Charges for services	3,017,850	-	-
Fines and forfeitures	589,054	-	-
Licenses and permits	1,466,456	-	-
Investment income	421,241	-	-
Other	295,366	(256,439)	-
Total revenues	<u>24,885,887</u>	<u>(256,439)</u>	<u>-</u>
Expenditures:			
Current:			
General government	3,348,343	94,732	22,843
Public safety	11,471,351	276,301	106,208
Community development	3,211,510	772,620	42,480
Culture and recreation	2,434,397	115,333	5,322
Transportation	1,050,263	1,281,386	-
Pass-throughs	131,342	-	-
Capital outlay	2,358,160	(2,358,160)	-
Total expenditures	<u>24,005,366</u>	<u>182,212</u>	<u>176,853</u>
Other financing sources (uses):			
Transfers in	3,040,877	-	-
Transfers out	(3,175,467)	-	-
Total other financing sources (uses)	<u>(134,590)</u>	<u>-</u>	<u>-</u>
Net change in fund balances/net assets	745,931	(438,651)	(176,853)
Fund balances/net assets at beginning of year	<u>12,993,803</u>	<u>34,981,282</u>	<u>(778,289)</u>
Fund balances/net assets at end of year	<u>\$ 13,739,734</u>	<u>34,542,631</u>	<u>(955,142)</u>

<u>Certain Deferred Revenue</u>	<u>Internal Service Funds</u>	<u>Reclassifications and Eliminations</u>	<u>Government-wide Financial Statements</u>
-	-	(131,342)	13,218,895
(26,364)	-	-	5,719,319
-	-	-	3,017,850
-	-	-	589,054
-	-	-	1,466,456
-	47,756	-	468,997
-	-	-	38,927
<u>(26,364)</u>	<u>47,756</u>	<u>(131,342)</u>	<u>24,519,498</u>
-	5,470	-	3,471,388
-	314,733	-	12,168,593
-	135,066	-	4,161,676
-	70,688	-	2,625,740
-	-	-	2,331,649
-	-	(131,342)	-
-	-	-	-
-	<u>525,957</u>	<u>(131,342)</u>	<u>24,759,046</u>
-	134,590	(3,175,467)	-
-	-	3,175,467	-
-	<u>134,590</u>	-	-
(26,364)	(343,611)	-	(239,548)
<u>89,490</u>	<u>719,750</u>	-	<u>48,006,036</u>
<u>63,126</u>	<u>376,139</u>	-	<u>47,766,488</u>

CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

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

(f) 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.

(g) 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.

(h) 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.

CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

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

(h) 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 fixed asset class are as follows:

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

(i) 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.

(j) 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.

CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

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

(k) 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

(l) 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.

(m) 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 are reported as follows:

Statement of Net Assets:	
Cash and investments	\$13,992,980
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	<u>113,770</u>
	<u>\$14,106,750</u>

CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Cash and investments consist of the following at June 30, 2004:

Cash and investments:

Petty cash	\$ 2,200
Demand deposits	1,108,774
Certificates of deposit	11,163,000
Local Agency Investment Fund	1,420,079
Mutual funds – government securities	<u>412,697</u>

Total cash and investments \$14,106,750

The City and its component units are generally authorized under Section 53601 of the California Government Code and the City's investment policy to invest in local agency bonds; U.S. Treasury Bills, notes or bonds; state registered warrants, notes or bonds; notes or bonds of other local California agencies; U.S. agencies; Banker's acceptances; prime commercial paper; negotiable certificates of deposit; repurchase and reverse repurchase agreements; medium term corporate notes; money market mutual funds and mutual funds; collateralized bank deposits; mortgage pass-through securities; Local Agency Investment Fund and County pooled investments funds.

Deposits

Under the California Government Code, a financial institution is required to secure deposits made by state or local governmental units by pledging securities held in the form of an undivided collateral pool. 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.

Deposits of cities and other state or local governments are classified in three categories to give an indication of the level of custodial risk assumed by the entity. Category 1 includes deposits that are insured or collateralized with securities held by the City or its agent in the City's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. Category 2 also includes deposits collateralized by an interest in an undivided collateral pool held by an authorized Agent of Depository and subject to certain regulatory requirements under State law. Category 3 includes deposits collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name. Category 3 also includes any uncollateralized deposits. Deposits are categorized as follows:

CITY OF SAN GABRIEL

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

<u>Form of Deposit</u>	<u>Category</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Deposits held by City:					
Demand deposits	\$ 200,000	1,891,692	-	2,091,692	1,108,774
Certificates of deposit	<u>11,163,000</u>	<u>-</u>	<u>-</u>	<u>11,163,000</u>	<u>11,163,000</u>
Total deposits	<u>\$11,363,000</u>	<u>1,891,692</u>	<u>-</u>	<u>13,254,692</u>	<u>12,271,774</u>

Investments

Investments of cities and other state or local governments are classified in three categories to give an indication of the level of custodial risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or the City's custodial agent (which must be a different institution other than the party through which the City purchased the securities) in the City's name. Investments held "in the City's name" include securities held in a separate custodial or fiduciary account and identified as owned by the City in the custodian's internal accounting records. Category 2 includes uninsured and unregistered investments for which the securities are held by the dealer's agent in the City's name (or by the trust department of the dealer if the dealer was a financial institution and another department of the institution purchased the securities for the City). Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer's agent but not in the City's name. Category 3 also includes all securities held by the broker-dealer agent of the City (the party that purchased the securities for the City) regardless of whether or not the securities are being held in the City's name:

<u>Form of Investment</u>	<u>Category</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Investments held by City not subject to categorization:				
Investment in State Investment Pool - LAIF				\$1,420,079
Mutual funds – government securities				<u>412,697</u>
Total investments				<u>\$1,832,776</u>

The carrying amount and the fair value of all investments reflected in the above table are the same.