

In accordance with Government Accounting Standards Board (GASB) Statement No. 34, the management of the City of Carson ("City"), offers readers of the City's financial statements this narrative overview and analysis of the financial activities and performance of the City for the fiscal year ended June 30, 2010. Please read it in conjunction with the accompanying transmittal letter at the front of this report, and the basic financial statements, which follow this section.

### **Financial Highlights**

- The assets of the City exceeded its liabilities at June 30, 2010 by \$419.3 million. This amount is referred to as the net assets of the City. Of this amount, \$339.1 million is invested in capital assets net of accumulated depreciation and related debt, \$121.4 million is restricted, and an unrestricted deficit amount of \$41.2 million represents the long-term debt acquired to fund capital project acquisitions and improvements.
- The City's net assets decreased by \$40.2 million during the past year as a result of total expenditures exceeding total revenues by \$35.4 million and prior years' negative adjustment of \$4.8 million in invested capital assets. For FY 2009-10, revenues increased by \$5.3 million while expenditures decreased by \$13.7 million over FY 2008-09 levels. However, this was negated by the recognition of OPEB liability of \$9.7 million and the \$4.8 million adjustment in invested capital assets.
- As of June 30, 2010, the City's governmental funds reported combined ending fund balances of \$203.3 million, a decrease of \$37.4 million over the prior fiscal year. Approximately \$133.5 million (65.7%) of the \$203.3 million balance is unreserved and is available for spending at the government's discretion.
- As of June 30, 2010, the total fund balance of the City's General Fund was \$18.2 million, a decrease of \$2.6 million from the prior year level of \$20.8 million.
- In the General Fund, expenditures exceeded revenues by \$3.4 million, before other financing sources/uses.
- The City's total long-term liabilities increased by \$13.4 million, or 8.3%, for the fiscal year ended June 30, 2010, from \$161.1 million to \$174.5 million mainly due to the increase in the bonds payable by \$8.4 million and the OPEB liability by \$5 million.

### **Overview of the Financial Statements**

This discussion and analysis are an introduction to the City's basic financial statements, which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also consists of supplementary information in addition to the basic financial statements.

### **Government-wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The Statement of Net Assets and the Statement of Activities consist the government-wide financial statements. The focus of these statements is the primary government and they exclude information about the fiduciary funds.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

All of the City's activities are considered to be governmental in nature and as a result, no business-type activities are reported in these statements. The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The *governmental activities* of the City include general government, public services, development services, economic development, capital maintenance programs, pass-through payments, interest on long-term debt and interfund reimbursements.

The government-wide financial statements include not only the City itself (known as the primary government), but also two legally separate entities, the Carson Redevelopment Agency, and the Carson Joint Powers Financing Authority. The City is financially accountable for these entities and financial information for these blended component units is reported within the financial information presented for the primary government itself.

The government-wide financial statements can be found beginning on page 14 of this report.

### **Fund Financial Statements.**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the City's funds can be divided into two categories: governmental funds and fiduciary funds.

*Governmental Funds.* Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Redevelopment Agency Capital Project Funds (Project Areas 1 through 4), and the Low/Moderate Income Housing Fund, each of which are considered to be major funds. Data from the other remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* in the *nonmajor governmental funds supplementary information* section of this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate its compliance with this budget.

The governmental fund financial statements can be found beginning on page 16 of this report.

*Fiduciary Funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. These funds are custodial in nature and the measurement of operations is not appropriate.

The fiduciary fund financial statements can be found on page 22 of this report.

#### **Notes to the Basic Financial Statements.**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements follow the basic financial statements.

#### **Other Information.**

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees and a comparison of budgeted to actual results for the General Fund. *Required supplementary information* can be found beginning on page 56 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following *the required supplementary information*. Combining and individual fund statements and schedules can be found beginning on page 64 of this report.

#### **Government-wide Financial Statements Analysis**

**Net assets.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, net assets were approximately \$419.3 million as of June 30, 2010. Net assets decreased by \$40.2 million, or 8.8%, for the fiscal year 2009/10 as explained in the financial highlights at the beginning of the discussion. Assets decreased by 2.7% and liabilities decreased by 3.3% compared to June 30, 2009.

By far, the largest portion of the City's net assets at June 30, 2010 (\$339.1 million, or 80.9% of total net assets) reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; these assets are not available for

future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following table presents a comparison of the net assets as of June 30, 2009 and June 30, 2010.

**Summary of Net Assets  
June 30, 2010 and 2009**

	Governmental Activities	
	2010	2009
<b>ASSETS</b>		
Cash and other assets	\$ 268,339,067	\$ 292,643,242
Capital assets net of accumulated depreciation	339,117,408	338,573,211
<b>Total assets</b>	<b>607,456,475</b>	<b>631,216,453</b>
<b>LIABILITIES</b>		
Current and other liabilities	13,609,524	15,455,706
Long-term liabilities	174,560,591	161,081,593
<b>Total liabilities</b>	<b>188,170,115</b>	<b>176,537,299</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	339,117,408	338,573,211
Restricted	121,397,519	129,980,874
Unrestricted	(41,228,567)	(13,874,931)
<b>Total net assets \$</b>	<b>419,286,360</b>	<b>\$ 454,679,154</b>

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$419.3 million at June 30, 2010.

A portion of the City's net assets (29%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, which represent a deficit of \$41.2 million, is the result of long-term debt used to fund capital project acquisition and improvements.

**City of Carson  
Management's Discussion and Analysis  
Year ended June 30, 2010**

**Statement of Activities.** Governmental activities decreased the City's net assets by \$35.4 million for fiscal year 2009-10. The total revenue for the fiscal year is \$108 million, which is an increase of \$5.3 million from the prior year. While most revenues decrease, the net revenue increase is contributed mainly by the increase in grant funding, the City's new utility users tax, and one-time other revenue sources such as the transfer of unclaimed funds to the General Fund in accordance with Government Code Sections 50057 and 50052. The following table presents the comparative revenues and expenditures data for fiscal years ended June 30, 2009 and 2010.

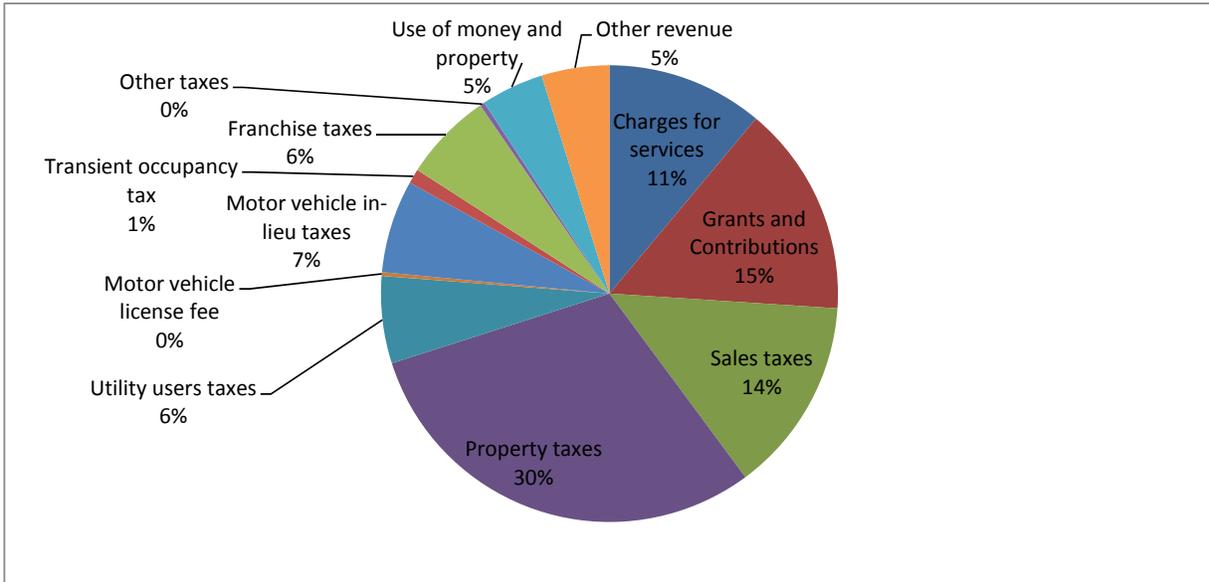
**Statement of Activities  
For the Year Ended June 30, 2010 and 2009**

	<u>Governmental Activities</u>		<u>Increase/ (Decrease)</u>
	<u>2010</u>	<u>2009</u>	
<b>Program revenues</b>			
Charges for services	\$ 12,061,204	\$ 11,976,952	\$ 84,252
Grants and Contributions	16,260,466	9,657,986	6,602,480
<b>General revenues</b>			
Taxes			
Sales taxes	15,051,658	19,262,212	(4,210,554)
Property taxes	32,874,557	34,892,648	(2,018,091)
Utility users taxes	6,722,319	1,028	6,721,291
Motor vehicle license fee, unrestricted	288,398	334,137	(45,739)
Motor vehicle in-lieu taxes	7,153,876	7,235,463	(81,587)
Transient occupancy tax	1,121,092	1,244,543	(123,451)
Franchise taxes	6,876,484	9,686,804	(2,810,320)
Other taxes	362,105	105,019	257,086
Use of money and property	4,842,082	8,488,288	(3,646,206)
Other revenue	5,212,274	638,428	4,573,846
<b>Total</b>	<u>108,826,515</u>	<u>103,523,508</u>	<u>5,303,007</u>
<b>Expenditures</b>			
<b>Governmental activities</b>			
General government	20,353,651	27,028,260	(6,674,609)
Public services	42,720,041	40,435,251	2,284,790
Development services	16,439,031	13,221,772	3,217,259
Economic development	27,435,269	49,624,372	(22,189,103)
Capital maintenance programs	27,685,936	21,186,535	6,499,401
Pass-through expenditures	1,726,691	-	1,726,691
Interest and other charges	7,858,690	6,429,807	1,428,883
	<u>144,219,309</u>	<u>157,925,997</u>	<u>(13,706,688)</u>
Change in net assets	(35,392,794)	(54,402,489)	19,009,695
Net assets, beginning as restated	454,679,154	509,081,643	(54,402,489)
Net assets, ending	<u>\$ 419,286,360</u>	<u>\$ 454,679,154</u>	<u>\$ (35,392,794)</u>

Key elements of the significant changes in fiscal year 2009/10 revenues are as follows:

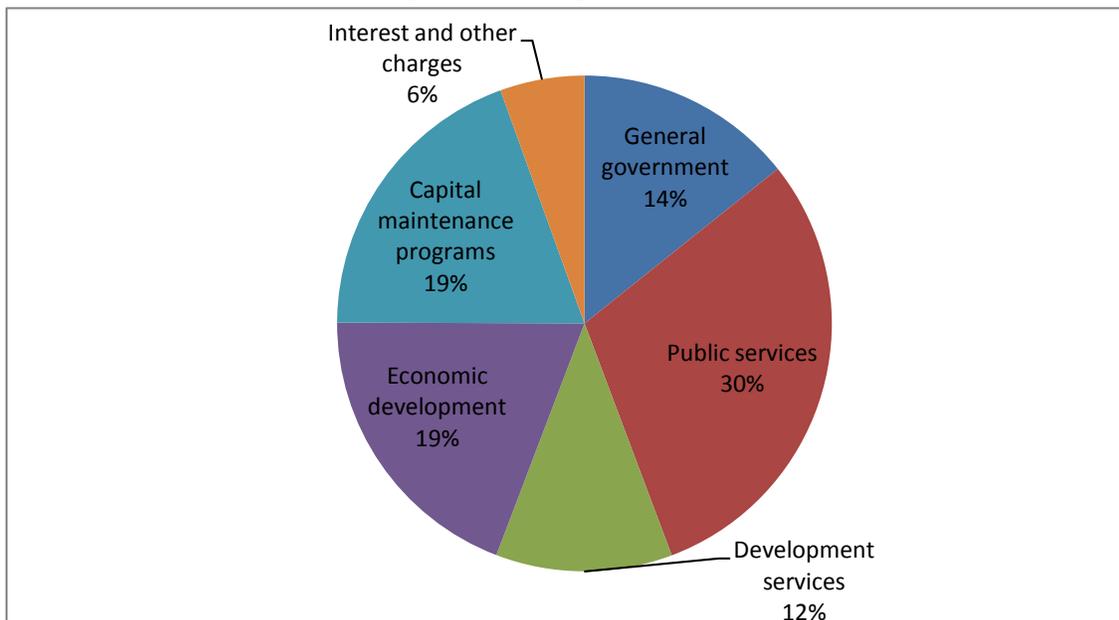
- An increase of \$6.6 million came mainly from grant monies: The City received approximately \$3.5 million from the federal stimulus funds for various purposes: \$1.8 million for capital projects (Federal Highway grants and CDBG-R), \$1.3 in Neighborhood Stabilization Program money for the acquisition, rehabilitation, and reselling of foreclosed homes, \$320 thousand from the Workforce Investment Act Fund for employment development, \$30 thousand from the Department of Energy for energy efficiency. The city also received \$1.5 million from the State's Prop 1B-LSR money, \$1.2 million funding from the Department of Housing and Urban Development (HUD) for the acquisition of a mobile home park, and approximately \$600 thousand from the Los Angeles County's Measure R ½ cent sales tax money.
- Sales tax revenues had a decrease of \$4.2 million. This is directly attributable to the current economic crisis which has reduced sales revenues throughout the region. While all sectors of sales tax were down, sales tax revenue from car sales greatly impacted the fiscal year. In addition, the triple flip component of the city's total sales tax was approximately \$1.5 million short due to a reduction in funding from the state.
- Property taxes decreased by \$2.0 million due to the downturn in the housing market and mainly to the Prop 1A state borrowing of \$1.5 million from the city which will be repaid by June 30, 2013 with 2% interest. These receivable was recognized as deferred revenues in the City's financial records.
- Utility users' taxes, a new tax measure for FY 2009/10 increased the city's revenue source by \$6.7 million.
- Franchise taxes decreased by \$2.8 million due to an abnormal spike in the price of natural gas in the prior mid-2009 year.
- Investment income decreased by \$3.6 million. While the decreasing interest rates played a part, the decrease is due mostly to a significant reduction in principal. During the fiscal year, the Carson Redevelopment Agency paid \$39 million toward the "The Boulevards" project and provided a \$13.9 million loan to developer Thomas Safran for the development of the Carson City Center which includes 86-unit affordable Senior Housing units.
- Other revenues increased by \$4.6 million. This is due to a one-time additional franchise fees of \$2.0 million as part of a contract extension negotiation with Waste Management and a one-time \$2.6 million transfer of unclaimed deposits from the Trust and Agency Fund to the General Fund.

**Revenues by Source- Governmental Activities**



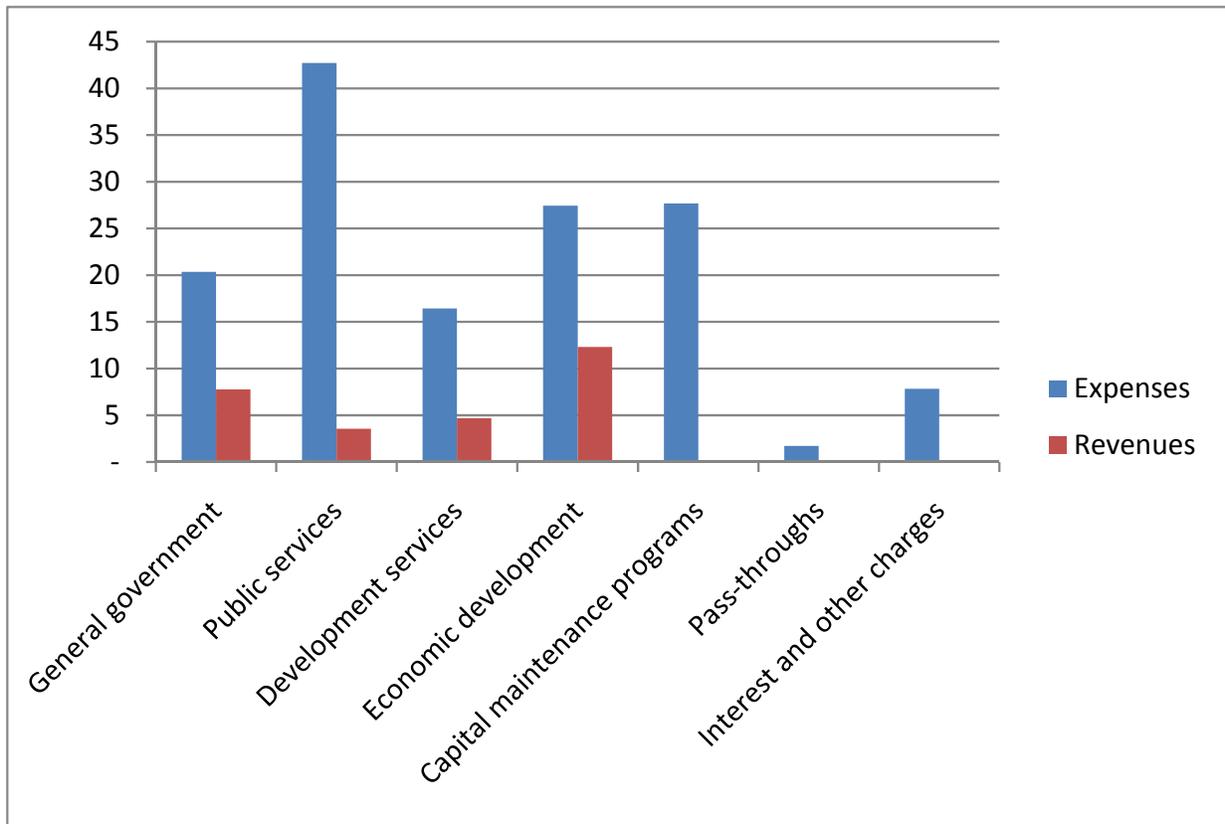
The top seven major revenue sources come from: 1) No/low property taxes - 30%, 2) grants and contributions – 15%, 3) sales and use taxes – 14%, 4) charges for services – 11%, 5) motor vehicles in-lieu taxes – 7%, 6) utility users taxes – 6%, and 7) franchise tax – 6%. Due to one-time many one-time funding, grants and contributions jumped from 5<sup>th</sup> to 2<sup>nd</sup> place this year. Use of money and property, which includes mainly investment income, dropped from 8% to 4% this year. Charges for services, which increased slightly over prior year, are fees imposed on the user for public safety, public works, youth and adult services provided by the City. Examples of these services include business license application, charges for planning and zoning checks, building code assessments, public works inspections, filing fees, and various parks and recreation program fees.

**Expenditures by Function**



Expenses of the governmental activities totaled \$144.2 million, which is a decrease of \$13.7 million or 8.7% from the prior year. The decrease is due to a city-wide efforts including suspension of city programs such as summer youth program and unfunding for several full-time positions. Public services, which account for 30% of total expenses, include the cost of public safety, parks and recreation and human services programs.

### Governmental Activities Expenses versus Program Revenues



Program expenses exceed program revenues in all categories resulting to a \$115.9 million deficit for FY 2009/10. The City depends on general tax revenues to fund the operations and program activities.

#### Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information may be useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$203.3 million. The City's governmental funds report a balance of \$133.5 million in its *unreserved fund balance*. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to pay debt service (\$11.9 million), (2) reflect amounts due from other funds that are long-term in nature and thus do not represent available spendable resources (\$6.3 million), (3) for property held for resale (\$35.4 million) (4) for low and moderate income housing (\$9.1 million), and other reservations (\$7.1 million).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance is \$18.2 million, \$11.7 million of which is unreserved. As a measure of General Fund liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. General Fund unreserved fund balance represents 18.67% of total general fund expenditures of \$62.7 million.

The City's General Fund balance decreased by \$2.6 million during the current fiscal year. Key factors of this decrease were attributed to lower tax revenues during the year as discussed in the preceding pages.

All of the Redevelopment Agency's Capital Projects funds had decreases in the fund balance for a total of \$20.7 million for all the projects areas. This was because of accelerated redevelopment activities in all project areas and the payment of Supplemental Education Augmentation Funds (SERAF). Low and Moderate Income Housing fund balance also decreased by \$14.8 million because of higher capital improvement program expenditures during the year.

**General Fund Budgetary Highlights**

In the General Fund, differences between the original budget and the final amended budget resulted in an increase in appropriation of \$462 thousand due to changes in the development services, general government and public services categories.

**Capital Asset and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental activities amounts to \$339.1 million (net of accumulated depreciation of \$173.6 million) as of June 30, 2010. This investment in capital assets includes land, buildings, improvements other than building, infrastructure (roads, sidewalks, streetlights, etc.), and machinery and equipment. After reflecting the adjustments to capital assets for adoption of GASB 34 (previously discussed), the total decrease in the City's investment in capital assets for the current fiscal year was \$1,257,074 before depreciation.

**(Net of Accumulated Depreciation)  
June 30, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
Land, land right and improvements	\$ <b>94,841,042</b>	\$ 92,842,312
Buildings and improvements	<b>47,193,384</b>	41,980,320
Machineries and equipment	<b>4,407,117</b>	4,492,687
Infrastructure	<b>174,464,406</b>	179,215,225
Construction in progress	<b>18,211,459</b>	20,042,666
Total	<b>\$ 339,117,408</b>	\$ 338,573,211

Additional information on the City's capital assets can be found in note 4 to the basic financial statements of this report.

**Debt Administration.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$156.2 million. The amount represents tax allocation bonds issued by the Redevelopment Agency to fund redevelopment projects within the project areas.

**Outstanding Debt  
June 30, 2010 and 2009**

	2010	2009
Bonded Indebtedness:		
Tax allocation bonds	\$ 156,170,863	\$ 147,770,863
Other long-term debt:		
Other post-employment benefits	9,735,207	4,681,467
Self-insurance claims payable	3,725,812	3,608,454
Compensated absences	4,928,709	5,020,909
Total	174,560,591	\$ 161,081,693

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total assessed valuation. The current debt limitation for the City is \$2.0 billion which is significantly in excess of the City's outstanding general obligation debt. Additional information on the City's long-term liabilities can be found in note 6 to the basic financial statements of this report.

**Economic Factors and Next Year's Budget**

The economic downturn impacted the entire nation and California is feeling the brunt of that economic recession. Like many other cities, our City experienced the impact through the declines in our revenue sources; however, we have been able to successfully strategize on ways to combat and lessen the impact of these negative trends while also improving organizational effectiveness and program efficiencies. The City's General Fund revenues were significantly lower compared to the FY 2009/10 budget and the City has once again adjusted its revenues down by approximately \$6 million for the FY 2010/11 budget to reflect the current economy. The City took further action to reduce city-wide spending and implement employee concessions that alone projected a saving of \$1.8 million in salaries and benefits for FY 2010/11.

Since it is likely that revenues will be affected if both job losses and lower consumer spending continue, the City is aggressively monitoring revenue and expenditure trends in order to be prepared financially for any further downturns. While we are hopeful that the worst may be behind us and we may be moving towards stabilization leading to recovery, we were very conservative in revenue projections for the upcoming year in order to avoid any impacts should the economic recovery be delayed.

The following are issues that will impact the City in the near and long term future:

- **SERAF:** As of part of its FY 2008/09 budget, the State required redevelopment agencies to shift a total of \$1.7 billion in property tax revenues to K-12 schools during FY 2009/10 via the Supplemental Education Revenue Augmentation Funds (SERAF). Although, the California Redevelopment Association filed a lawsuit, the court sided with the State. The Carson Redevelopment Agency paid its \$10.1 million portion in May 2010 and another \$2.1 million will be due May 2011.
- **Prop 1A State Borrowing:** Proposition 1A was passed in 2004 to safeguard tax revenues for local governments. With California's fiscal emergency, the State suspended Prop 1A with the passage of ABX4 14 and ABX4 15 as part of its 2009/10 budget package which allowed it to borrow 8% of the amount of property tax revenue, including those property tax revenues associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts, except for redevelopment agencies. With this passage, the State is borrowing from the City approximately \$1.5 million per year for the next three years. These funds will be repaid to the city by June 30, 2013 with a 2% interest rate.
- **GASB 45 – OPEB:** With the implementation of the Governmental Accounting Standards Board Statement (GASB) No. 45, the City is now required to report its "other post employment benefits (OPEB) obligations for current and future retirees. It will be the City's priority to plan for this significant unfunded liability. Information on the unfunded OPEB liability is found in note 12 to the basic financial statements of this report.

Despite tough economic times, the City continues to be mindful of ways to improve the level of services that it provides to the residents as well as to provide additional resources to the community. It is staff's endeavor to continue to improve overall City performance by continuing programs which include public safety, public infrastructure maintenance, parks and recreation, youth outreach programs, and employment and business development programs. For example, the City, in conjunction with its Redevelopment Agency, have implemented multiple economic and housing development projects that will not only improve the aesthetic features of the city but will also generate revenues that will be used to enhance the quality of life of its residents. The City continues its effort to bridge the digital gap within the senior community by expanding its 18-computer Senior Technology center with an addition of a new 3-computer Senior Cyber Café which offers a social setting where seniors have a place to relax, surf the web, and drink coffee. The City intends to continue these programs while preserving and enhancing the safety and welfare of the community.

### **Request for Information**

This financial report is designed to provide a general overview of the City's finances for readers of the financial statements. Questions concerning any of the information in this report or request for additional financial information should be addressed to the Department of Finance, 701 E Carson St. Carson, CA 90745.