

REPORT OF INDEPENDENT AUDITORS

The Honorable Mayor and the Members of the City Council City of Carson, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Carson, California as of and for the year ended June 30, 2011, 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 Carson. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 19, the California Supreme Court has upheld legislative bill ABX1 26 which dissolves California redevelopment agencies and establishes mechanisms for paying existing agency debts and liquidating agency assets. The effect of this legislation on the City of Carson's financial position and operations is not yet reasonably determinable.

In our opinion, the basic 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 Carson, California, as of June 30, 2011, and the respective changes in financial position of the City of Carson, California for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the City of Carson has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*, effective for the fiscal year ended June 30, 2011. As a result of this required implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the new fund balance classifications under GASB 54.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information on pages 3 through 13 and 58 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Carson's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 12, 2012 for consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Varguez + Company LLP

Los Angeles, California
January 12, 2012

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, 2011. 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

Government-wide Financial Statements

- The assets of the City exceeded its liabilities at June 30, 2011 by \$379.6 million. This amount is referred to as the net assets of the City. Of this amount, \$339.2 million is invested in capital assets net of accumulated depreciation, \$61.1 million is restricted, and an unrestricted deficit amount of \$20.6 million represents the long-term debt acquired to fund capital project acquisitions and improvements.
- The City's net assets decreased by \$39.6 million during the past year as a result of total expenditures exceeding total revenues by \$39.6 million. For FY 2010/11, revenues increased by \$1.4 million and expenditures increased by \$5.6 million over FY 2009/10 levels.

Fund Financial Statements

- As of June 30, 2011, the City's governmental funds reported combined ending fund balances of \$232.1 million, an increase of \$28.9 million over the prior fiscal year. Approximately \$7.2 million (3.1%) of the \$232.1 million balance is unassigned and is available for spending at the government's discretion.
- As of June 30, 2011, the total fund balance of the City's General Fund was \$23.5 million, a 29.3% increase or \$5.3 million from the prior year level of \$18.2 million.
- In the General Fund, revenues exceeded expenditures by \$4.4 million, before other financing sources/uses.
- The City's total long-term liabilities increased by \$41.9 million, or 24.0%, for the fiscal year ended June 30, 2011, from \$174.5 million to \$216.5 million mainly due to the increase in the bonds payable by \$36.2 million and the OPEB liability by \$4.7 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 make up 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 reimbursement.

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 Consolidated Capital Project Fund, 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.

During the fiscal year ended June 30, 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The Statement establishes new fund balance classifications that comprise a hierarchy based on the extent to which a government is bound by constraints imposed upon the use of the resources reported in the governmental fund.

More details on these fund balance classification can be found on Note No. 1 in the Notes to the Basic Financial Statements.

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 20 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 58 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 65 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 \$379.6 million as of June 30, 2011. Net assets decreased by \$39.6 million, or 9.5%, for fiscal year 2010/11 as explained in the financial highlights at the beginning of the discussion. Assets increased by 0.3% while liabilities increased by 22.1% compared to June 30, 2010, mainly due to a 24.0% or \$41.9 million increase in long-term payables.

By far, the largest portion of the City's net assets at June 30, 2011 (\$339.2 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, 2011 and June 30, 2010.

**Summary of Net Assets
June 30, 2011 and 2010**

| | Governmental Activities | | Increase |
|---|--------------------------------|---------------------|---------------------|
| | 2011 | 2010 | (Decrease) |
| ASSETS | | | |
| Cash and other assets | \$ 270,249,685 | \$ 268,339,067 | \$ 1,910,618 |
| Capital assets net of accumulated depreciation | <u>339,193,971</u> | <u>339,117,408</u> | <u>76,563</u> |
| Total assets | <u>609,443,656</u> | <u>607,456,475</u> | <u>1,987,181</u> |
| LIABILITIES | | | |
| Current and other liabilities | 13,289,462 | 13,609,524 | (320,062) |
| Long-term liabilities | <u>216,509,615</u> | <u>174,560,591</u> | <u>41,949,024</u> |
| Total liabilities | <u>229,799,077</u> | <u>188,170,115</u> | <u>41,628,962</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 339,193,971 | 339,117,408 | 76,563 |
| Restricted | 61,056,380 | 121,397,519 | (60,341,139) |
| Unrestricted | <u>(20,605,772)</u> | <u>(41,228,567)</u> | <u>20,622,795</u> |
| Total net assets \$ | <u>379,644,579</u> | <u>419,286,360</u> | <u>(39,641,781)</u> |

A portion of the City's net assets (16.1%) 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 \$20.6 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, 2011

Statement of Activities. Governmental activities decreased the City's net assets by \$39.6 million for fiscal year 2010/11. The total revenue for the fiscal year is \$110 million, which is an increase of \$1.4 million from the prior year. The total expenses increased by \$5.6 million to \$149.8 million from the prior year. The following table presents the comparative revenue and expenditure data for fiscal years ended June 30, 2011 and 2010.

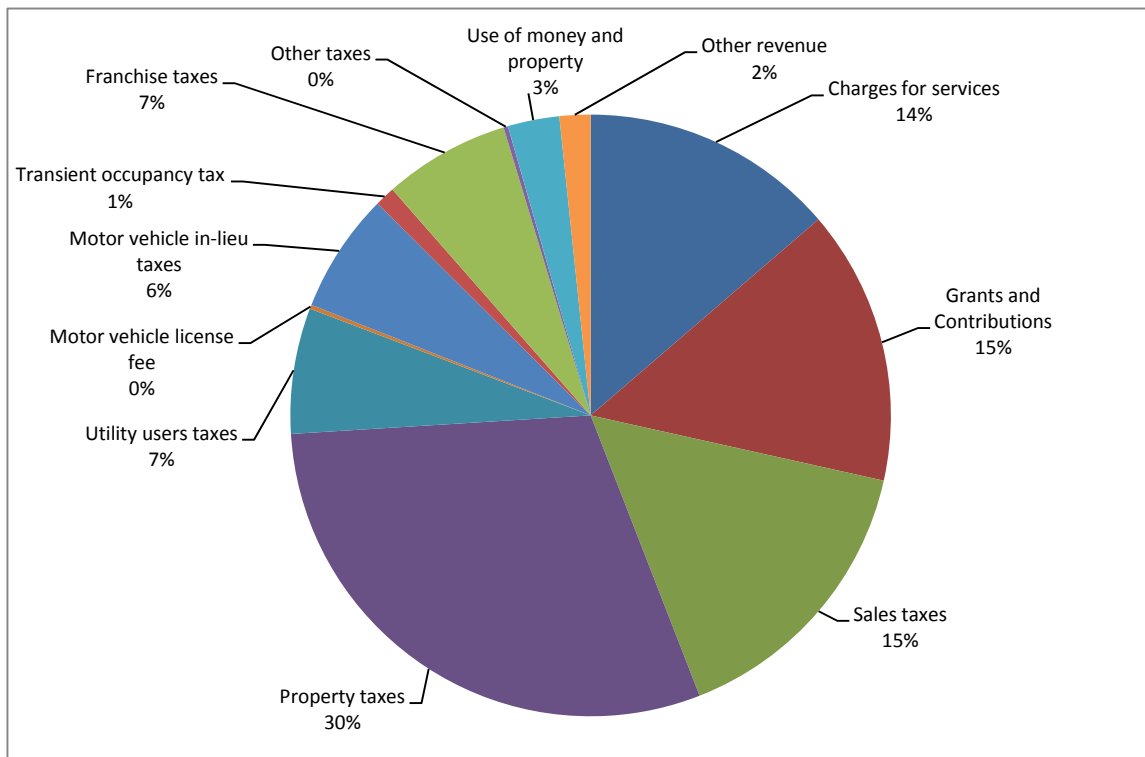
Statement of Activities
For the Year Ended June 30, 2011 and 2010

| | <u>Governmental Activities</u> | | <u>Increase/ (Decrease)</u> |
|---|--------------------------------|-----------------------|---------------------------------|
| | <u>2011</u> | <u>2010</u> | |
| Program revenues | | | |
| Charges for services | \$ 15,100,971 | \$ 12,061,204 | \$ 3,039,767 |
| Grants and Contributions | 16,285,997 | 16,260,466 | 25,531 |
| General revenues | | | |
| Taxes | | | |
| Sales taxes | 17,195,450 | 15,051,658 | 2,143,792 |
| Property taxes | 32,977,590 | 32,874,557 | 103,033 |
| Utility users taxes | 7,439,521 | 6,722,319 | 717,202 |
| Motor vehicle license fee, unrestricted | 242,811 | 288,398 | (45,587) |
| Motor vehicle in-lieu taxes | 7,104,861 | 7,153,876 | (49,015) |
| Transient occupancy tax | 1,197,800 | 1,121,092 | 76,708 |
| Franchise taxes | 7,483,227 | 6,876,484 | 606,743 |
| Other taxes | 266,446 | 362,105 | (95,659) |
| Use of money and property | 3,062,757 | 4,842,082 | (1,779,325) |
| Other revenue | 1,828,731 | 5,212,274 | (3,383,543) |
| Total | <u>110,186,162</u> | <u>108,826,515</u> | <u>1,359,647</u> |
| Expenditures | | | |
| Governmental activities | | | |
| General government | 20,080,004 | 20,353,651 | (273,647) |
| Public services | 36,479,108 | 42,720,041 | (6,240,933) |
| Development services | 13,370,105 | 16,439,031 | (3,068,927) |
| Economic development | 53,955,750 | 27,435,269 | 26,520,481 |
| Capital maintenance programs | 14,405,946 | 27,685,936 | (13,279,990) |
| Interest and other charges | 8,615,980 | 7,858,690 | 757,290 |
| | <u>149,827,943</u> | <u>144,219,309</u> | <u>5,608,634</u> |
| Change in net assets | (39,641,781) | (35,392,794) | (4,248,987) |
| Net assets, beginning as restated | 419,286,360 | 454,679,154 | (35,392,794) |
| Net assets, ending | <u>\$ 379,644,579</u> | <u>\$ 419,286,360</u> | <u>\$ (39,641,781)</u> |

Key elements of the significant changes in fiscal year 2010/11 revenues are as follows:

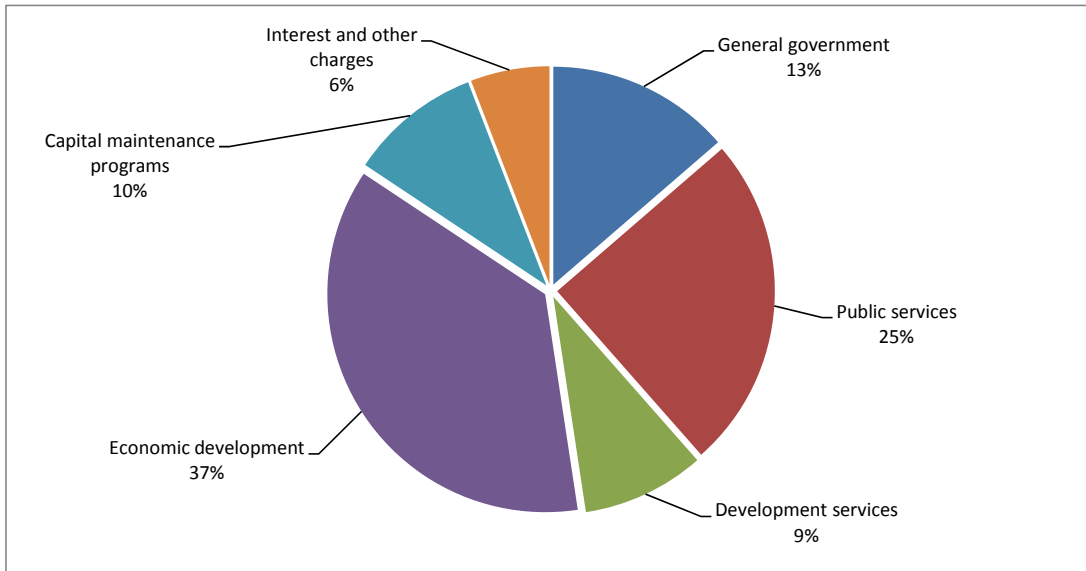
- Sales tax revenues had an increase of \$2.1 million. This 14% increase is a sign that the economy is slowly recovering from prior years' economic condition which had reduced sales revenues throughout the region.
- Utility users' taxes, a new tax measure beginning in FY 2009/10, increased the City's revenue source by \$717 thousand. The increase is due to the City lifting of the cap of the utility users' tax.
- Franchise taxes increased by \$606 thousand. Franchise taxes are paid for the privilege of using City property or to operate a franchise within the City limits. The largest franchise taxes were paid to the City by the electric and gas utility companies.
- Other revenues decreased by \$3.4 million due to a decrease in grant funds: Although the City received \$1.8 million in grant funds, the 65% decrease was due to a large drop in funding from the federal stimulus funds which were received in prior year.
- Revenue in the use of money and property category decreased by \$1.8 million. The decrease resulted mainly from a decrease in investment income. Interest income on investments decreased from \$2.8 million in FY 2009/10 to \$1.8 million in FY 2010/11 due to the lingering impact of the economic crisis.

Revenues by Source- Governmental Activities



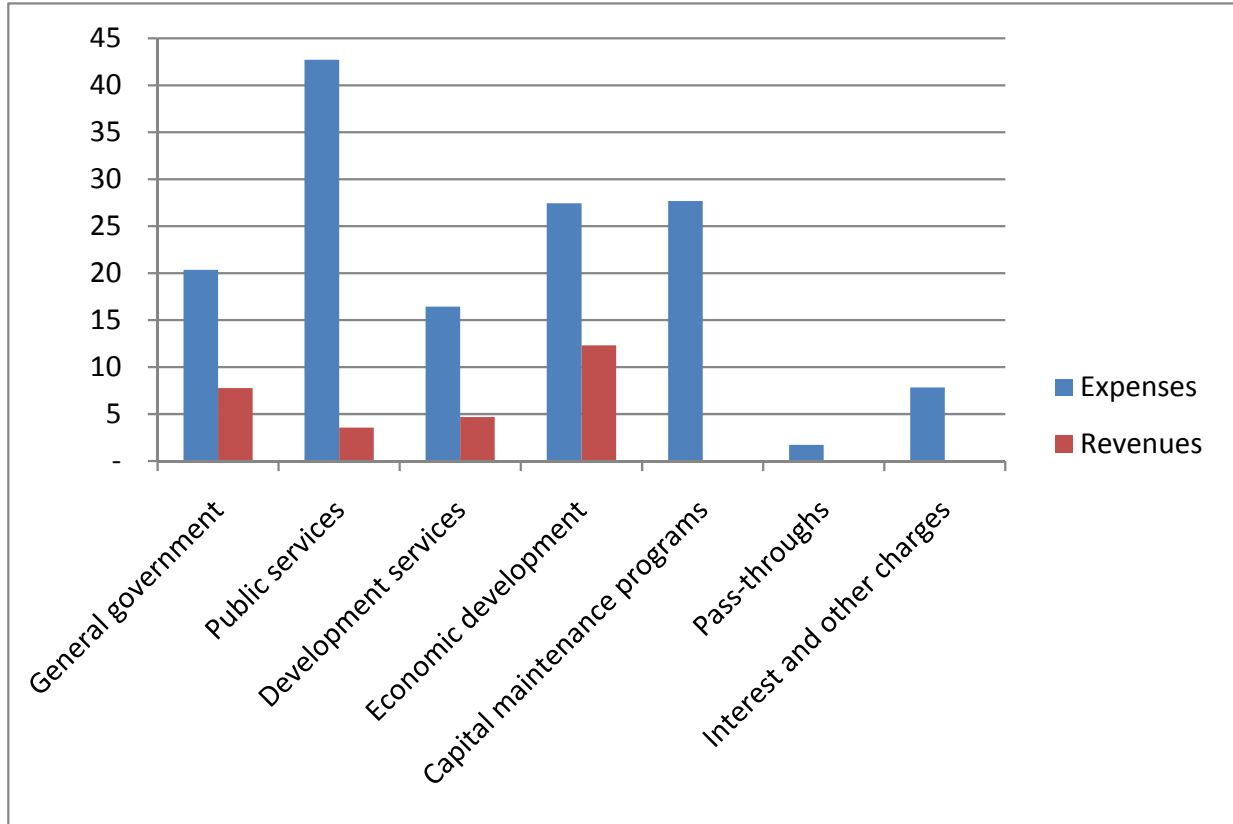
The top seven major revenue sources come from: 1) No/low property taxes - 30%, 2) sales and use taxes – 15%, 3) grants and contributions – 15%, 4) charges for services – 14%, 5) motor vehicles in-lieu taxes – 6%, 6) franchise tax – 7%, and 7) utility users taxes – 7%. Use of money and property, which includes mainly investment income, dropped from 5% to 3% this year. Charges for services, which increased 3% 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.

Expenses by Function



Expenses of the governmental activities totaled \$149.8 million, which is an increase of \$5.6 million or 3.9% from the prior year. While most expenses of the various governmental activities decreased, the overall net increase of \$5.6 million was due mainly to the write-off of Redevelopment Agency loans. Because of the nature of various loans receivable in relation to development projects under disposition and development agreements, the Agency provides a \$27.2 million allowance for uncollectibility and \$13.4 million discount on notes receivable which are both reported as program costs under economic development. If not for the \$40.6 million provision made to the loans receivable, the overall expenses of the City will show a decrease. Capital maintenance programs decreased by \$13.3 million due to a one-time \$10 million financial assistance made by the Redevelopment Agency to the developer for the Boulevards project in FY 2009/10 that did not occur in FY 2010/11. A decrease in public services expenses is due to city-wide efforts including suspension of city programs such as summer youth program and unfunding of several full-time positions. Public services, which account for 25% 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 \$118.4 million deficit for FY 2010/11. 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, *restricted 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 \$232.1 million. The City's governmental funds report a balance of \$7.2 million in its *unassigned fund balance* which can be spent at the City's discretion. Assigned fund balance reports a total of \$4.3 million which are set aside for specific purposes. Restricted fund balance of \$181.4 million is subject to externally enforceable legal obligations which include (1) general fund - \$2.3 million, (2)

redevelopment agency capital projects - \$99.0 million, (3) the 20% set-aside for low and moderate income housing - \$51.9 million, (4) debt service - \$15.2 million, and (5) special revenue grants - \$13.0 million. Non-spendable fund balance of approximately \$33 million cannot be spent because they are not in spendable form. These include (1) property held for resale - \$32.2 million (2) inventory - \$442 thousand, and (3) prepaid assets and loans receivable totaling \$304 thousand. Committed fund balance of \$6.2 million represents amounts set aside for economic uncertainties.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance is \$23.5 million, \$22.3 million of which is unrestricted and is either committed, assigned or unassigned. As a measure of General Fund liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. General Fund unassigned fund balance represents 18.5% of total general fund expenditures of \$57.4 million.

The City's General Fund balance increased by \$5.3 million during the current fiscal year. Key factors of this increase were attributed to an increase in revenue as well as decrease in actual expenditures during the year as discussed in the preceding pages.

The Redevelopment Agency funds had a net \$26.0 million increase in fund balance. The increase was due to the issuance of two housing bonds totaling \$40.6 million in proceeds.

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 \$495 thousand due to slight increases in public services, economic development, development services, capital improvement program, and a decrease in the general government categories.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental activities amounts to \$339.2 million (net of accumulated depreciation of \$182.9 million) as of June 30, 2011. This investment in capital assets includes land, buildings, improvements other than building, infrastructure (roads, sidewalks, streetlights, etc.), and machinery and equipment.

**(Net of Accumulated Depreciation)
June 30, 2011 and 2010**

| | 2011 | 2010 |
|-----------------------------------|----------------|----------------|
| Land, land right and improvements | \$ 92,936,028 | \$ 94,841,042 |
| Buildings and improvements | 45,873,520 | 47,193,384 |
| Machineries and equipment | 3,609,800 | 4,407,117 |
| Infrastructure | 171,149,377 | 174,464,406 |
| Construction in progress | 25,625,245 | 18,211,459 |
| Total | \$ 339,193,970 | \$ 339,117,408 |

Additional information on the City's capital assets can be found in note 5 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 \$192.3 million. The amount represents tax allocation bonds issued by the Redevelopment Agency to fund redevelopment projects within the project areas.

**Outstanding Debt
June 30, 2011 and 2010**

| | 2011 | 2010 |
|--------------------------------|-----------------------|----------------|
| Bonded Indebtedness: | | |
| Tax allocation bonds | \$ 192,340,863 | \$ 156,170,863 |
| Other long-term debt: | | |
| Other post-employment benefits | 14,400,682 | 9,735,207 |
| Self-insurance claims payable | 3,837,864 | 3,725,812 |
| Compensated absences | 5,930,206 | 4,928,709 |
| Total | 216,509,615 | \$ 174,560,591 |

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total assessed valuation. In FY 2010/11, the total assessed valuation is \$13.2 billion which provides the City a current debt limitation \$2.6 billion, an amount 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 which impacted the entire nation and California is expected to endure a long and slow recovery. Like many other cities, our City has experienced the impact through the declines in our revenue sources. 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. Although, an increase in sales tax revenue during FY 2010/11 may show signs that the economy is slowly recovering, the projected increase in sales tax for FY 2011/12 will be diluted by the reduction in other major revenues of the city. Therefore, the city anticipates the continuance of lean budgets with very tight controls on the expenditures.

FY 2011/12 General Fund revenues are projected to be \$65,842,595, an increase of \$1,019,078 above the FY 2010/11 year-end estimated revenues of \$64,823,517.

FY 2011/12 adopted a budget with projected expenditures of \$65,754,318, which is \$4.8 million greater than the year-end estimates for FY 2010/11. The significant increase is due to return to regular work schedules (no furloughs) and leave redemption, retirement and health insurance costs, capital asset replacement, and the sheriff's contract.

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:

- The California Legislature approved and the Governor signed bill ABX1 26 (legislation) which dissolves California redevelopment agencies and establishes mechanisms for paying existing agency debts and liquidating agency assets. This bill was appealed to the State Supreme Court which ruled, on December 29, 2011, that ABX1 26 is constitutional and valid. Consequently, all redevelopment agencies remain subject to the suspension provisions of ABX1 26 and are to be dissolved in accordance with that bill as of February 1, 2012. The legislation provides, however, that another local governmental entity may assume the role as successor agency to the dissolved redevelopment agency.
- 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 three years. These funds are to 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 13 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, has 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 Jackie Acosta, ASGM, Finance Department, 701 E Carson St. Carson, CA 90745.

