Sunnyvale Financing Authority

Sunnyvale, California

Basic Financial Statements
and Independent Auditors' Reports
For the year ended June 30, 2004

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C&L
Caporicci & Larson
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of the Governing Board
of the Sunnyvale Financing Authority
Sunnyvale, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sunnyvale Financing Authority (Authority), a component unit of the City of Sunnyvale, as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority as of June 30, 2004, and the results of its activities and changes in net assets for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the Authority adopted statements of the Governmental Accounting Standards Board No. 39, *Determining Whether Certain Organizations are Component Units*; No. 40, *Deposit and Investment Risk Disclosure*; and, No. 41, *Budgetary Comparison Schedules – Perspective Differences.*

The accompanying Required Supplementary Information, such as management's discussion and analysis as listed in the table of contents, 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 inquires 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.

Caporicci & Larson

Oakland, California
October 21, 2004

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Management's Discussion and Analysis
Fiscal Year Ended June 30, 2004

This analysis of the Sunnyvale Financing Authority (Authority) of the City of Sunnyvale's (City) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the accompanying basic component unit financial statements and the accompanying notes to those component unit financial statements.

A. FINANCIAL HIGHLIGHTS

- At June 30, 2004, the Authority had net assets of $2.8 million; total net assets increased by $0.1 million during the fiscal year because lease revenue and interest revenue exceeded interest expenses by $0.1 million.
- The Authority's other bonded indebtedness decreased by $1,570,000 during the fiscal year as a result of current debt service repayments. The Authority uses lease payments from the City to service its debt. The City paid the Authority a total of $3,004,752 in lease payments, which reduced the lease receivable by $1,570,000 and the remaining $1,434,752, plus interest earned from investments, was sufficient to pay interest expense of $1,582,009 in the bonded debt.

B. OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements.

The basic financial statements include only the Authority, which is a component unit of the City and is reported in the City's financial statements using the blended method.

The Authority's main activity is the issuance of debt for the benefit of the City.

Government-Wide Financial Statements

The Government-Wide Financial Statements present the financial picture of the Authority and provide readers with a broad view of the Authority's finances. These statements present governmental activities and include all assets of the Authority as well as all liabilities (including long-term debt). Additionally, certain interfund receivables, payables and other interfund activity have been eliminated as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets report information about the Authority as a whole and about its activities. These statements include *all* assets and liabilities of the Authority 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.

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

Government-Wide Financial Statements, Continued

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

The Statement of Activities and Changes in Net Assets presents information showing how the Authority's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows.

The Authority only has governmental activities, which are shown in the Statement of Net Assets and the Statement of Activities and Changes in Net Assets. The Authority has no business-type activities.

The Authority's main function is the issuance of debt and as a result, the activities of the Authority are restricted to the payment of interest expense and other debt related costs such as bond issuance costs. The Authority's revenue sources are lease payments from the City and interest income.

Fund Financial Statements

The Fund Financial Statements provide detailed information about the Authority's individual funds, not the Authority as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using its resources.

The Fund Financial Statements include statements for the Governmental Funds which are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The 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 Funds Financial Statements focus on current financial resources, which emphasize near-term inflows and outflows of spendable resources as well as balances of spendable resources at the end of the fiscal year. This information is essential in evaluating the Authority's near-term financial requirements.

In order to better understand the Authority's long-term and short-term requirements, it is useful to compare the Authority's Governmental Fund Statements with the governmental activities in the Government-Wide Financial Statements. A reconciliation is provided for both the Governmental Fund Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances to facilitate this comparison.

B. OVERVIEW OF FINANCIAL STATEMENTS, Continued

Fund Financial Statements, Continued

All of the Authority's funds were determined to be major funds. These funds include the 2001 Government Center Certificates of Participation Debt Service Fund, the Water and Wastewater Revenue Bonds, Series 2001 Debt Service Fund and the 2001 Wastewater Capital Projects Fund, which are reported in detail in the Governmental Fund Financial Statements.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and Fund Financial Statements.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

Net assets are a good indicator of the Authority's financial position. By the end of this fiscal year, the Authority had net assets of $2.8 million.

The following is the condensed comparative Statement of Net Assets.

Sunnyvale Financing Authority
Condensed Statements of Net Assets
(Amounts in Thousands)

	2004	2003
Assets:		
Current Assets	$ 16,202	$ 18,223
Noncurrent Assets	34,308	33,785
Total Assets	50,510	52,008
Liabilities:		
Current Liabilities	1,990	1,946
Long-term Liabilities	45,750	47,375
Total Liabilities	47,740	49,321
Net Assets:		
Restricted for Debt Service	2,770	2,686
Total Net Assets	$ 2,770	$ 2,686

The Authority's net assets of $2.8 million are subject to restrictions for debt service reserve requirements as determined by bond covenants and their use is determined by those restrictions and agreements.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Statement of Activities

The following is the condensed comparative Statement of Activities and Changes in Net Assets.

Sunnyvale Financing Authority
Condensed Statement of Activities and Changes in Net Assets
(Amounts in Thousands)

	2004	2003
Revenues:		
Program Revenues:		
Charges for Services	$ 1,665	$ 2,307
Expenses:		
Environmental Management	1,582	1,956
Increase (Decrease) in Net Assets	83	351
Net Assets - Beginning	2,687	2,336
Net Assets - Ending	$ 2,770	$ 2,687

The Authority's expenses during this fiscal year included interest on long-term debt. Revenues consisted of lease revenues received from the City and investment earnings, which were enough to cover the current year's expenses. As a result, net assets increased by $0.1 million.

D. FUND FINANCIAL STATEMENT ANALYSIS

The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Authority's governmental funds is to provide information on short-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements.

As of the end of fiscal year 2004, the Authority's governmental funds reported a combined ending fund balance of $14.6 million. The fund balance was reserved for capital projects in the amount of $10.8 million and for debt service requirements in the amount of $3.8 million.

E. BUDGETARY HIGHLIGHTS

The funds of the Authority are not budgeted. Spending control is achieved through requirements of bond covenants.

F. LONG-TERM OBLIGATIONS

As of June 30, 2004, the Authority had outstanding debt issues as listed below (amounts in thousands).

2001 Government Center Certificates of Participation	$	17,600
Water and Wastewater Revenue Bonds, Series 2001		29,775
Total Long-Term Debt	$	47,375

For more detailed information on the Authority's long-term debt, see the Notes to the Component Unit Basic Financial Statements.

G. REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Sunnyvale Finance Department, 650 W. Olive Avenue, Sunnyvale, California 94086.

Government-Wide Financial Statements

Sunnyvale Financing Authority

Statement of Net Assets
June 30, 2004

	Governmental Activities
Assets:	
Current Assets	
Cash and Investments Held by Fiscal Agent	$ 14,572,323
Interest Receivable	4,205
Lease Receivable Due Within One Year	1,625,000
Total Current Assets	16,201,528
Noncurrent Assets	
Lease Receivable Due in More Than One Year	34,308,520
Total Noncurrent Assets	34,308,520
Total Assets	$ 50,510,048
Liabilities:	
Current Liabilities	
Interest Payable	364,757
Long Term Debt - Due Within One Year	1,625,000
Total Current Liabilities	1,989,757
Noncurrent Liabilities	
Long-term Debt - Due in More than One Year	45,750,000
Total Noncurrent Liabilities	45,750,000
Total Liabilities	47,739,757
Net Assets:	
Restricted for:	
Debt Service	2,770,291
Total Net Assets	$ 2,770,291

See Accompanying Notes to Basic Financial Statements

Sunnyvale Financing Authority

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2004

	Governmental Activities
Program Expenses:	
Environmental Management :	
Interest Expense	$ 1,582,009
Total Program Expenses	1,582,009
Program Revenues:	
Charges for Services:	
Lease Revenue from City	1,434,752
Investment Earnings - Restricted	230,677
Total Program Revenues	1,665,429
Change in Net Assets	83,420
Net Assets - Beginning of Year	2,686,871
Net Assets - End of Year	$ 2,770,291

See Accompanying Notes to Basic Financial Statements

CITY OF SUNNYVALE
CALIFORNIA

Governmental Fund Financial Statements

The 2001 Government Center Certificates of Participation Fund is used to accumulate funds for the debt service payments of the Certificates of Participation issued in 2001 to finance the acquisition of land and buildings for possible constuction of a new government center. Debt service is financed with lease payments from the City.

The Water and Wastewater Revenue Bonds, Series 2001 Fund is used to accumulate funds for the debt service payments of the Revenue Bonds issued in 2001 to defease the Authority's outstanding 1992 Utilities Revenue Bonds, Series A, and to finance certain improvements to the Wastewater System. Debt service is financed with lease payments from the City's Water Supply and Distribution and Wastewater Management Enterprise Funds.

The 2001 Wastewater Capital Projects Fund accounts for the use of proceeds from the issuance of Water and Wastewater Revenue Bonds, Series 2001.

Sunnyvale Financing Authority

Balance Sheet
Governmental Funds
June 30, 2004

	Major Funds			
	2001 Government Center Certificates of Participation	**Water & Wastewater Revenue Bonds Series 2001**	**2001 Wastewater Capital Projects**	**Total Major Governmental Funds**
Assets:				
Cash and Investments Held by Fiscal Agent	$ 1,275,372	$ 2,517,356	$ 10,779,595	$ 14,572,323
Accrued Interest Receivable	15	-	4,190	4,205
Lease Receivable	17,600,000	18,333,520	-	35,933,520
Total Assets	$ 18,875,387	$ 20,850,876	$ 10,783,785	$ 50,510,048
Liabilities and Fund Balances:				
Liabilities:				
Accrued Interest Payable	$ 15,056	$ -	$ -	$ 15,056
Deferred Revenue	17,600,000	18,333,520	-	35,933,520
Total Liabilities	17,615,056	18,333,520	-	35,948,576
Fund Balances:				
Reserved for Capital Projects	-	-	10,783,785	10,783,785
Reserved for Debt Service	1,260,331	2,517,356	-	3,777,687
Total Fund Balances	1,260,331	2,517,356	10,783,785	14,561,472
Total Liabilities and Fund Balances	$ 18,875,387	$ 20,850,876	$ 10,783,785	$ 50,510,048

See Accompanying Notes to Basic Financial Statements

Sunnyvale Financing Authority

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets
June 30, 2004

Total Fund Balances - Total Governmental Funds	$	14,561,472
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:		
Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in Governmental Funds Balance Sheet.		(349,701)
Deferred revenues resulting from leases that do not meet the revenue recognition criteria in governmental financial statements are reclassified as revenues in the Government-Wide Financial Statements.		
This amount represents lease receivable and deferred revenue related to the Government Center lease recorded in the Fund Financial Statements.		17,600,000
This amount represents net asset increase due to the refunding of the Water and Wastewater Revenue Bonds, increased by funds released to City for project costs in current year.		18,333,520
Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.		(47,375,000)
Net Assets of Governmental Activities	$	2,770,291

See Accompanying Notes to Basic Financial Statements

Sunnyvale Financing Authority

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004

	Major Funds			
	2001 Government Center Certificates of Participation	**Water & Wastewater Revenue Bonds Series 2001**	**2001 Wastewater Capital Projects**	**Total Major Governmental Funds**
Revenues:				
Lease Payments from City	$ 551,295	$ 2,453,457	$ -	$ 3,004,752
Interest Income	29,787	145,063	55,827	230,677
Total Revenues	581,082	2,598,520	55,827	3,235,429
Expenditures:				
Capital Outlay	-	-	2,148,520	2,148,520
Debt Service:				
Principal Retirement	380,000	1,190,000	-	1,570,000
Interest Charges	171,304	1,422,605	-	1,593,909
Total Expenditures	551,304	2,612,605	2,148,520	5,312,429
Excess (Deficiency) of Revenues Over (Under) Expenditures	29,778	(14,085)	(2,092,693)	(2,077,000)
Other Financing Sources (Uses):				
Transfers In	-	-	494	494
Transfers Out	-	(494)	-	(494)
Total Other Financing Sources (Uses)	-	(494)	494	-
Net Change in Fund Balances	29,778	(14,579)	(2,092,199)	(2,077,000)
Fund Balances - Beginning of Year	1,230,553	2,531,935	12,875,984	16,638,472
Fund Balances - End of Year	$ 1,260,331	$ 2,517,356	$ 10,783,785	$ 14,561,472

See Accompanying Notes to Basic Financial Statements

Sunnyvale Financing Authority

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets
Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	$ (2,077,000)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets.	
This amount represents long-term debt repayments.	1,570,000
Cash lease payments from City are recognized as revenues in the Governmental Funds. The principal portion of the lease payment is treated as a reduction in lease receivable in the Government-Wide Statement of Activities and Changes in Net Assets.	(1,570,000)
The amount reimbursed to City for project costs is reclassified as lease receivable.	2,148,520
Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in Governmental Funds. The following amount represents the change in accrued interest from prior year.	11,900
Change in Net Assets of Governmental Activities	$ 83,420

See Accompanying Notes to Basic Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Sunnyvale Financing Authority (Authority), a component unit of the City of Sunnyvale (City), California, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Reporting Entity

The Authority was established on September 29, 1992 by the Joint Exercise of Powers Agreement between the City and the Redevelopment Agency of the City of Sunnyvale (Agency).

The Authority is administered by a Board of Directors consisting of seven persons, each serving in his or her individual capacity as a Director of the Authority. The sitting members of the City Council constitute the Directors of the Authority until such time as they cease to be members of the City Council.

Additionally, the Authority shall have four officers as follows:

Chairperson – Mayor of the City
Vice-Chairperson – Vice-Mayor of the City
Executive Director – City Manager
Treasurer – Director of Finance

The City Attorney shall serve as General Counsel to the Authority and the City Clerk shall serve as Secretary. In addition to having the same governing board, the City is financially accountable for the Authority and conducts management activities of the Authority. Though legally a separate entity, the Authority is, in substance, a component unit of the City and is reported in the City's Comprehensive Annual Financial Report using the blended method.

The Board of the Authority is required to hold at least one regular meeting each year.

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Authority resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Authority's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental Activities for the Authority. The Authority has no Business-Type Activities.

The Government-Wide Financial Statements are presented on an *"economic resources"* measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. Currently, the Authority has no capital assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as revenues for the Authority are lease revenues received from the City and interest revenues. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. In the Statement of Activities, interfund transfers have been eliminated.

The Authority applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) to the governmental activities.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide financial statements. The Authority has presented all governmental funds as major funds because the Authority believes the financial position and activities of those funds are significant to the Authority as a whole.

All governmental funds are accounted for on a spending or *"current financial resources"* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 90 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Authority, are lease revenues and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to apply restricted net assets first.

D. Cash, Deposits and Investments

The Authority's cash and investments consist of restricted funds held by fiscal agents to meet debt obligations. The Authority does not have any unrestricted cash and investments.

E. Long-term Debt

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in the governmental activities.

Fund Financial Statements

The Fund Financial Statements do not present long-term debt, which is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

1. SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Net Assets and Fund Equity

Government-Wide Financial Statements

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition "restricted net assets."

Fund Financial Statements

Fund Equity – Reservations and designations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenditures and expenses. Actual results could differ from these estimates and assumptions.

H. Implementation of New GASB Pronouncements

In fiscal year 2004, the Authority adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- Statement No. 39, *Determining Whether Certain Organizations are Component Units.*
- Statement No. 40, *Deposit and Investment Risk Disclosures*.
- Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*

There were no effects on the financial statements as a result of the above Statements.

2. CASH AND INVESTMENTS

The Authority's cash and investments consist of cash and investments held by fiscal agents. At June 30, 2004, the Authority had the following cash and investment balances:

Cash and Investments Held by Fiscal Agents:	
2001 Government Center Certificates of Participation	$ 1,275,372
Water and Wastewater Revenue Bonds, Series 2001	13,296,951
Total Cash and Investments Held By Fiscal Agents	$ 14,572,323

Refer to the City's Comprehensive Annual Financial Report for detailed disclosure on cash and investments.

3. LEASE RECEIVABLE AND DEFERRED REVENUE

The Authority has recorded a lease receivable in the amount of $35,933,520 pursuant to the lease agreement between the Authority and the City in relation to the bonded indebtedness. The lease receivable along with investments held by fiscal agents secures the repayment of the different debt issues. The lease revenue is equal to the Authority's debt service requirements and is used for that purpose.

In the Fund Financial Statements a corresponding amount is recorded as deferred revenue since the assets are not current financial resources. In the Government-Wide Financial Statements the assets are offset by long-term debt with any remaining amounts being reflected in Net Assets.

4. LONG TERM DEBT

Following is a summary of long term debt transactions during the fiscal year ended June 30, 2004:

Description	Beginning Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004	Amounts Due Within One Year
Governmental Activities:					
2001 Government Center Certificates of Participation	$ 17,980,000	$ -	$ (380,000)	$ 17,600,000	$ 395,000
Water and Wastewater Revenue Bonds, Series 2001	30,965,000	-	(1,190,000)	29,775,000	1,230,000
Total Governmental Activities	$ 48,945,000	$ -	$ (1,570,000)	$ 47,375,000	$ 1,625,000

4. LONG TERM DEBT , Continued

$18,710,000 2001 Government Center Certificates of Participation

Due in annual installments of $360,000-$995,000 through April 1, 2031, variable interest rate determined weekly by the remarketing agent. Repayments are made from lease payments from the City General Services Fund (an Internal Service Fund) and the Water Supply and Distribution, Wastewater Management and Solid Waste Management Enterprise Funds based on a predetermined prorata share of each activity's use of the premises.

Annual debt service requirements for the Government Center Certificates of Participation are based on a variable interest rate, which is determined by the remarketing agent as the rate, which would be necessary to enable the remarketing of the Certificates of Participation at 100% of the principal amount. At June 30, 2004, the average interest rate is 1.54%, which was the rate used to project the interest portion of the debt service payments for future years. This rate will change with market fluctuations.

The debt service requirements for the Certificates of Participation at June 30, 2004 were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	$ 395,000	$ 271,040	$ 666,040
2006	410,000	264,957	674,957
2007	425,000	258,643	683,643
2008	440,000	252,098	692,098
2009	455,000	245,322	700,322
2010-2014	2,540,000	1,116,038	3,656,038
2015-2019	3,030,000	905,905	3,935,905
2020-2024	3,625,000	654,885	4,279,885
2025-2029	4,325,000	354,970	4,679,970
2030-2031	1,955,000	45,430	2,000,430
Total	$ 17,600,000	$ 4,369,288	$ 21,969,288

4. LONG TERM DEBT , Continued

$32,115,000 Water and Wastewater Revenue Bonds, Series 2001

Due in annual installments of $1,150,000 - $3,395,000 through October 1, 2026, interest at 2.5% - 5.17%, repayments made from lease payments from the City's Water Supply and Distribution and Wastewater Management Enterprise Funds.

The debt service requirements for the bonds at June 30, 2004 were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	$ 1,230,000	$ 1,382,200	$ 2,612,200
2006	1,270,000	1,340,195	2,610,195
2007	1,320,000	1,294,170	2,614,170
2008	1,370,000	1,242,720	2,612,720
2009	1,435,000	1,179,608	2,614,608
2010-2014	8,160,000	4,895,467	13,055,467
2015-2019	8,815,000	2,571,475	11,386,475
2020-2024	3,565,000	1,115,875	4,680,875
2025-2027	2,610,000	200,250	2,810,250
Total	$ 29,775,000	$ 15,221,960	$ 44,996,960

5. SELF-INSURANCE AND CONTINGENT LIABILITIES

The Authority is covered under the City's self-insurance plan and various insurance policies. The City has $25,000,000 in general liability coverage, subject to a $500,000 self-insured retention (SIR), through the California Joint Powers Risk Management Authority (CJPRMA), a risk-sharing pool. The City has statutory limits coverage for workers' compensation claims and $1,000,000 in coverage for employer's liability claims, subject to a $275,000 SIR, through Discover Property & Casualty Insurance Company. Unemployment claims paid by the City are reimbursed dollar-for-dollar by the State.

6. INTERFUND TRANSFERS

An interfund transfer is a legally authorized transfer between funds in which one fund is responsible for the initial receipt of funds and another fund is responsible for the actual disbursement.

The Water and Wastewater Revenue Bonds, Series 2001 Debt Service Fund transferred excess interest earnings in the amount of $494 to the 2001 Wastewater Capital Projects Fund for project spending.

7. CLASSIFICATION OF NET ASSETS

Government-Wide Financial Statements

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The restrictions imposed on net assets by the Authority are for debt service requirements.

Unrestricted Net Assets – This category represents the net assets of the Authority, which are not restricted for any project or other purpose.

Fund Financial Statements

In the Fund Financial Statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked by the Authority Board and Management and can be increased, reduced or eliminated by similar actions.

In Governmental Funds, fund reservations are presented as a component of fund balance as follows:

	2001 Government Center Certificates of Participation	Water and Wastewater Revenue Bonds Series 2001	2001 Wastewater Capital Project Fund
Capital Projects	$ -	$ -	$ 10,783,785
Debt Service	1,260,331	2,517,356	-
Total	$ 1,260,331	$ 2,517,356	$ 10,783,785

Fund reservations are described as follows:

Reserved for capital projects represent amounts earmarked for wastewater improvement projects as prescribed in the bond covenants.

Reserved for Debt Service represents the portion of fund balance that is legally restricted as per the bond covenants for repayment of debt.

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