

**City of
Huntington Park**

**COMPREHENSIVE
ANNUAL FINANCIAL
REPORT**



Fiscal Year Ended

June 30, 2011

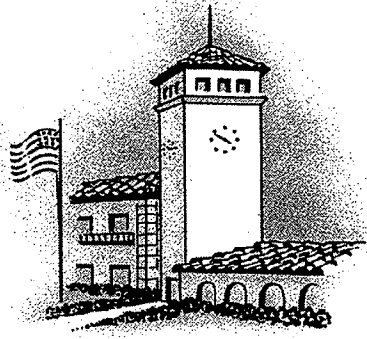
Prepared by: Finance Department

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City of
HUNTINGTON PARK

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FINANCE DEPARTMENT

January 31, 2012

To the Members of the City Council and Citizens of the City of Huntington Park:

It is the policy of the City of Huntington Park to annually publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Huntington Park ("the City") for the fiscal year ended June 30, 2011.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Vasquez & Company LLP, a firm of certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2011, were fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited City's internal controls and regulations involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City was incorporated on September 1, 1906 under the general laws of the State of California. The City currently occupies a land area of 3.03 square miles and serves a population of 58,314. The City is empowered to levy property tax on both real and personal properties located within its boundaries. The City is also empowered by state statute to extend its corporate limits by annexation where deemed appropriate by the City Council.

The City operates under a Council-Manager form of government. Policy-making and legislative authority are vested in the City Council consisting of the Mayor and four other council members. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing all other department heads. The council is elected on a non-partisan basis. Council members serve four-year staggered terms. Council members are elected in March on odd-numbered years. The Mayor and Vice-Mayor are chosen by the Council to serve a one year term.

The City provides a full range of services, including police protection; the construction and maintenance of streets and other infrastructure; and recreational activities and cultural events. The City is financially accountable for a redevelopment agency and financing authority, both of which are reported separately within the City's financial statements. Additional information regarding all three of these legally separate entities can be found in the notes to the financial statements.

The annual budget serves as the foundation for the City's financial planning and control. All agencies of the City are required to submit requests for appropriation to the City Manager; these requests are the starting point for developing a proposed budget. The City manager then presents this proposed budget to the Council for review. The Council is required to hold public hearings on the proposed budget and to adopt a final budget by resolution.

The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). The City Council and Manager charge department directors with the responsibility of controlling department budgets. Budgetary control is exercised through an on-line computerized system, which interfaces with the City's general ledger. The system maintains an on-going record of budget balances throughout the year based on actual expenditures and unfilled purchase orders.

City Council has the legal authority to amend the budget at any time during the fiscal year but policy amendments to the budget are limited to the mid-year budget review and following the end of the fiscal year. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and major special revenue funds, this comparison is presented as part of the required supplementary information in the accompanying financial statements. For governmental funds that have appropriated annual budgets, other than the general fund and major special revenue funds, this comparison is presented in the supplementary section of the accompanying financial statements.

It is the City's policy to maintain an un-obligated reserve of an amount equal to half of its most recent annual general fund revenues and the same for working capital balances in the water and sewer fund. This objective was not met because revenues were not enough to cover expenditures and no surplus was available.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local Economy. The City has a variety of business activity and is not dependent on one large source tax revenue. The region has a varied manufacturing and industrial base that adds to the relative stability of the unemployment rate. Although businesses come and go, in 2010-2011 the City's sales tax revenues, one of our key sources of revenues, increased by 14% compared to 2009-2010. The City's central business district is experiencing vacancies in a variety of stores, specialty shops and commercial businesses. Meanwhile, there continues to be a discernable trend toward steady residential growth.

Key Revenue Sources. Sales tax and Utility Users' Tax are the City's largest revenue source, accounting for about 42% of General Fund revenues. Utility Users' Tax receipts variance from estimated to actual was large, due to no budget adjustment, and was about \$640,000 more than budget but 25% higher than prior year due to voters approving the tax increase. City's voter approved Utility Users' Fee of 9.25% for communications and 9.75% for all other utilities.

Future Outlook. The City works on a year to year forecast but is in the process of implementing a procedure to present a five year forecast to its Council members. The City implements a fiscally responsible budget by presenting expenditures required to service the community and not more than its revenues.

The City is facing a very difficult budget decision in 2011-12. While revenues will increase at a steady pace the increases in the purchase of services are larger than the revenues generated. The City is still conservative in its spending but the shortfalls in revenues will force the City to use contingency funds. A budget committee was formed to develop a long-term strategy to deal with the economic reality the City is facing. The success of the City will depend upon engaging employees, the Council, and the community in addressing the fiscal challenges ahead of us. Ongoing challenges facing the City are:

- **Revenue Sources.** Trends and forecast seem to predict that the nation has reached a plateau and the road to recovery will begin but the growth will be moderate and it will take several years before the housing sector and consumer spending reaches a comfortable level. Although Sales taxes have increased by 14% from prior year, property taxes have decreased by 8%, both accounting for 24% of the general fund. Dependent on these revenues the challenge will be to find new sources of revenues for the general fund.
- **City Facilities and Infrastructure Maintenance.** In the past reserves in the General fund were used to finance a portion of costs recorded in the Capital Improvement project fund; this has not been possible in the past three years. The awards received for Grants such as ARRA and other Federal grants have made it possible to improve some of the roads and facilities. In the future it will be a challenge to find adequate funding to continue the maintenance and repairing of equipment and facilities.

- **Redevelopment Agency.** The proposal from the Governor to eliminate redevelopment agencies will be a challenge to the City's future in redeveloping blighted areas of the City and provide affordable housing. Without this revenue source the City will need to seek other venues to attract new development and provide housing affordable to low income citizens.

Budget Actions. During the budget preparation for 2011-12, the City prepared a lean budget and still provides quality services to the community. There is a gap of \$748,128 between general fund revenues and expenditures. In the budget for the general fund three vacant positions were included but if Council decides that the City can operate without these positions there will be a savings close to \$500,000. The remaining \$248,128 will be covered through increase in revenues or further decrease in expenditures.

Award For Excellence in Financial Reporting. The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Huntington Park for its CAFR for the fiscal year ended June 30, 2010. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable organized comprehensive annual financial report whose contents conform to program standards. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City is very proud of receiving its second Certificate of Achievement. We believe our current CAFR conforms to the Certificate of Achievement program requirements. Due to time constraints the City will not submit to GFOA the application to determine its eligibility for another certificate but is working to file for the award for Fiscal Year 2012.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department, working in conjunction with the City's independent auditors. We would like to express our appreciation to all members of the department and independent auditors who assisted and contributed to the preparation of this report. Credit also must be given to City Council for its unflinching support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,



Elba Padilla

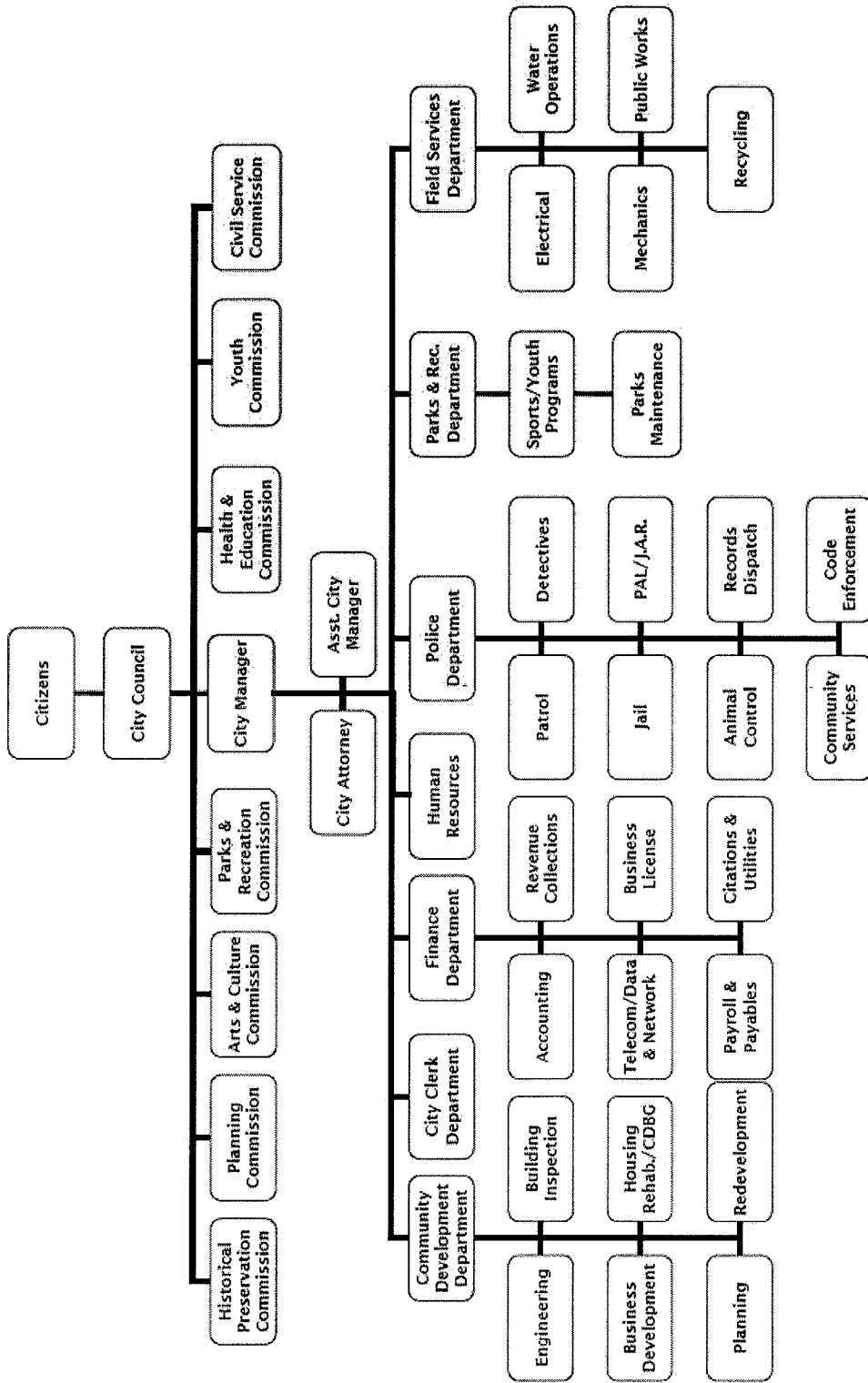
Director of Finance

City of Huntington Park

Elected Officials and Administrative Officials

Mayor	Ofelia Hernandez
Vice Mayor	Andy Molina
Council Member	Elba Guerrero
Council Member	Mario Gomez
Council Member	Rosa E. Perez
Interim City Manager	Raul T. Romero
City Clerk	Rosanna M. Ramirez
City Attorney	Leal-Trejo, LLP
Acting Public Works Superintendent	Claude Bilodeau
Director of Finance	Elba Padilla
Director of Parks and Recreation	Josette Espinosa
Chief of Police	Jorge A. Cisneros

CITY OF HUNTINGTON PARK ORGANIZATIONAL CHART



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Huntington Park
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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



Linda C. Danison

President

Jeffrey R. Egan

Executive Director

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REPORT OF INDEPENDENT AUDITORS

The Honorable Mayor and the Members of the City Council City of Huntington Park, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Huntington Park, California (the City), 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 City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 statements presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 23, the California Supreme Court has upheld legislative bill ABX 1 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 Huntington Park Community Development Commission's financial position and operations is not yet determinable.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Huntington Park, California, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the financial statements, the City had deficit unrestricted net assets in the amount of \$179,961,906 for governmental activities as of June 30, 2011. The City management doubts that economic conditions will allow for repayment of the Commission's advances from the City of Huntington Park and its debt to the County of Los Angeles for tax incremental deferral.

During the year, the City of Huntington Park implemented Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Government Fund-type Definitions*, as discussed in Note 2.

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012, on our consideration of the City's internal control over financial reporting and on 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 result 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.

The management's discussion and analysis, the budgetary comparison information, and the public employees' retirement system schedule of funding progress are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

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

Varguez + Company LLP

Los Angeles, California
January 17, 2012

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The following discussion and analysis of the financial performance of the City of Huntington Park (the City) provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

FINANCIAL HIGHLIGHTS

Government-wide:

- As of June 30, 2011, the City's total net assets were negative \$93.1 million. This was a decline from the prior year by \$10.8 million.
- The City's general revenues increased by \$0.4 million. The increase was primarily caused by a combination of increases in Sales and Use taxes, Franchise fees and Utility revenues but a decrease in Property taxes and Motor Vehicle fees.
- The City's capital assets did not increase from prior year. The projects carried over are being completed from the grants that were awarded in prior years. There is new funding granted for improvements to Parks and Recreation. These projects will start in fiscal year 2012 and throughout fiscal year 2013. The City is currently maintaining current infrastructure and working to increase revenues to do improvements on the City's water utilities.

Fund based:

- At June 30, 2011, the General Fund's fund balance was \$32.1 million, an increase of \$2.0 million from the previous fiscal year.
- The actual General Fund revenues increased by \$0.7 million from \$29.9 million in fiscal year 2010 to \$30.6 million in 2011 due to increases in sales taxes, permits, fines and forfeitures .
- The City's overall General Fund expenditures were \$1.1 million less than the adopted budget amount for fiscal 2011 due to a combination of less operational expenditures and savings in salaries for vacant positions.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended as an introduction to the City's basic financial statements. The basic financial statements are composed of three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. The report also contains other 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* 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 on 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).

The government-wide financial statements include the City and its component units. The City's component units are the Community Development Commission of the City of Huntington Park, Parking Authority of the City of Huntington Park and the Huntington Park Public Finance Authority. Although legally separate, these entities function for all practical purposes as departments of the City and therefore have been blended as part of the primary government.

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 the states and other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using the *modified accrual* basis of accounting, which measures cash and all other *current* financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship or differences between *governmental activities* (reported in the Statement of Net Assets and the Statement of Activities) and *governmental funds* are described in reconciliations accompanying the fund financial statements.

Proprietary funds. When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. Internal service funds (the other component of proprietary funds) are used to report activities that provide supplies and services for the City's other programs and activities.

Notes to the 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. The notes to the financial statements can be found immediately following the fund financial statements.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. The *required supplementary information* provides a schedule of funding progress for the City's defined benefit retirement program and budget to actual comparisons for revenue and expenditures of the City's general fund and all major special revenue funds. The *required supplementary information* can be found immediately following the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide statements report information about the City as a whole. The statement of net assets includes all of the City's assets and liabilities. All current year revenues and expenses are reported in the statement of activities regardless of when cash is received or paid.

Condensed Statements of Net Assets
(In \$ millions)

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current and other assets \$	78.3	\$ 82.0	\$ 2.4	\$ 4.3	\$ 80.7	\$ 86.3
Capital assets	53.7	53.9	17.5	16.8	71.2	70.7
Total assets	132.0	135.9	19.9	21.1	151.9	157.0
Long-term debt outstanding	235.5	230.0	0.1	0.1	235.6	230.1
Other liabilities	8.1	8.4	1.2	0.9	9.3	9.3
Total liabilities	243.6	238.4	1.3	1.0	244.9	239.4
Net assets:						
Invested in capital assets, net of related debt	42.4	42.0	17.5	16.8	59.9	58.8
Restricted	26.0	23.0	-	-	26.0	23.0
Unrestricted	(180.0)	(167.5)	1.1	3.4	(178.9)	(164.1)
Total net assets \$	(111.6)	\$ (102.5)	\$ 18.6	\$ 20.2	\$ (93.0)	\$ (82.3)

Note: Due to rounding, the dollar details may not add up to corresponding totals.

The City's government-wide total net assets were negative \$93.0 million, with assets of \$151.9 million and liabilities of \$244.9 million. The net investment in capital assets was \$59.9 million. Investment in capital assets (e.g., land, construction in progress, buildings and improvements, infrastructure, vehicles and property and equipment) for this financial reporting purpose is reduced by any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Furthermore, since the capital assets themselves cannot be used to liquidate any related debt, it should be noted that the resources needed to repay the debt must be provided from other available resources, primarily the unrestricted net assets.

The City's restricted net assets of \$26.0 million, represents resources that are subject to external restrictions in how they may be used. The remaining balance of negative or a deficit of \$178.9 million represents the City's unrestricted net assets (deficits). Unrestricted net assets are supposed to be used to meet ongoing obligations to citizens and creditors.

