



Popular Annual Financial Report

Fiscal Year Ended June 30, 2014

**National City, California
Incorporated September 17, 1887**

ABOUT THE PAFR

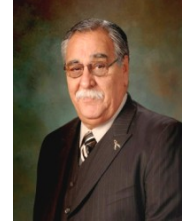
The City of National City is pleased to present its Fiscal Year 2014 Popular Annual Financial Report (“PAFR”). The PAFR is published to increase public awareness about the City’s financial condition. This report provides an overview of the City’s financial position, including sources and uses of funds, economic information about the community, and a highlight of City’s spending for the current fiscal year. It is our goal this report is easy to read and understandable.

The PAFR summarizes and condenses the financial activities of the City of National City’s governmental and business-type activities, deriving its information from the City’s Comprehensive Annual Financial Report (“CAFR”) for the Fiscal Year Ended June 30, 2014. The CAFR has been prepared in conformance with generally accepted accounting principles (“GAAP”) and includes financial statements audited by Pun & McGeady LLP, an independent firm of licensed certified public accountants. The PAFR, however, is unaudited and presented on a non-GAAP basis. The primary elements of the GAAP-basis presentation of the CAFR not found in the PAFR are the presentation of individual funds and disclosure of material events, financial and non-financial, in the notes to the financial statements. Both the PAFR and the CAFR are available online at www.NationalCityCA.gov and at City Hall located at 1243 National City Boulevard, National City, CA.

Your questions, comments, and suggestions regarding the information in this report are welcome. Please refer to the back cover of this report or the City’s website for detailed contact information.



Ron Morrison
Mayor



Luis Natividad
Vice Mayor



Jerry Cano
Councilmember



Mona Rios
Councilmember



Alejandra Sotelo-Solis
Councilmember

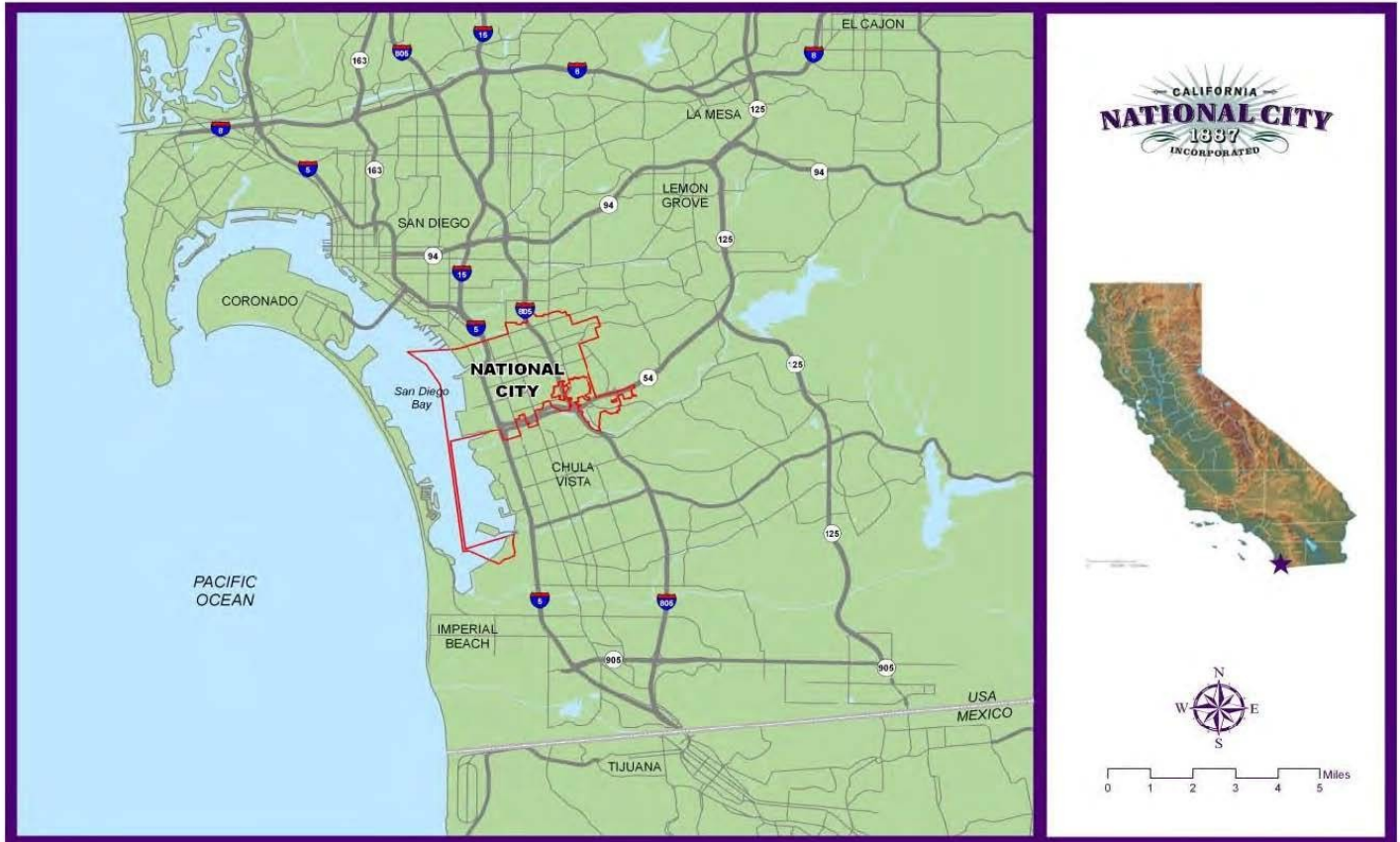
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PROFILE OF THE CITY

The City of National City, incorporated on September 17, 1887, is located in southwestern San Diego County and occupies 9.2 square miles, bordered by the City of San Diego to the north and east, San Diego Bay to the west, and the City of Chula Vista to the south.



The City is a general law city and operates under the council-manager form of government with five City Councilmembers, including the Mayor, elected to four-year overlapping terms, and an appointed city manager. The citizens of National City also elect the City Treasurer and the City Clerk.

The City provides a full range of services to its nearly 60,000 residents, including general government, public safety (police, fire, disaster preparedness, and building inspection), construction and maintenance of the City's infrastructure, economic development, affordable housing, cultural and recreational programs, library and literacy programs, and senior nutrition services.



PROFILE OF THE CITY

Demographic Statistics

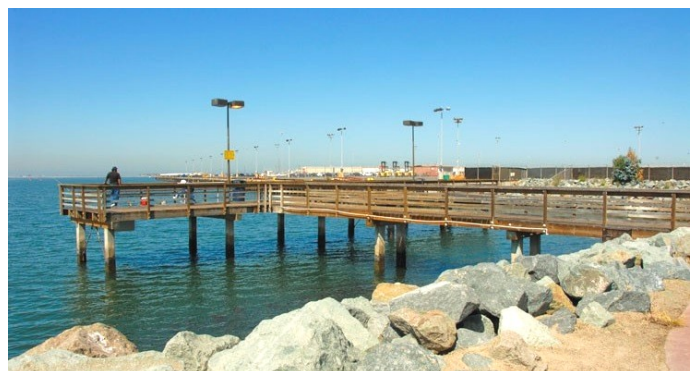
Year	Population	Per Capita Personal Income	Personal Income	Unemployment Rate
2014	59,381	\$ 16,538	\$ 982,042,978	11.9%

Race	% of Pop.
Hispanic or Latino	63.0
Asian	17.8
White	11.7
Black or African American	4.5
Native Hawaiian / Other Pacific Islander	0.7
American Indian or Alaska Native	0.3
Other Race(s)	2.0

Age	% of Pop.
Under 5 years	6.9
5 to 17 years	18.6
18 to 44 years	43.3
45 to 61 years	18.5
62 to 64 years	2.1
65 years and over	10.6
Median age (years)	30.2

Sources: San Diego Association of Governments ("SANDAG"), 2014; US Census Bureau, 2010

National City Full-time Equivalent Positions	
<u>General Government</u>	
Administration	28.50
Finance	14.48
Community Development	93.64
<u>Public Safety</u>	
Police	125.38
Fire	43.00
<u>Engineering & Public Works</u>	
Engineering	10.00
Public Works	42.00
<u>Housing, Grants, & Asset Management</u>	24.00
Total	381.00



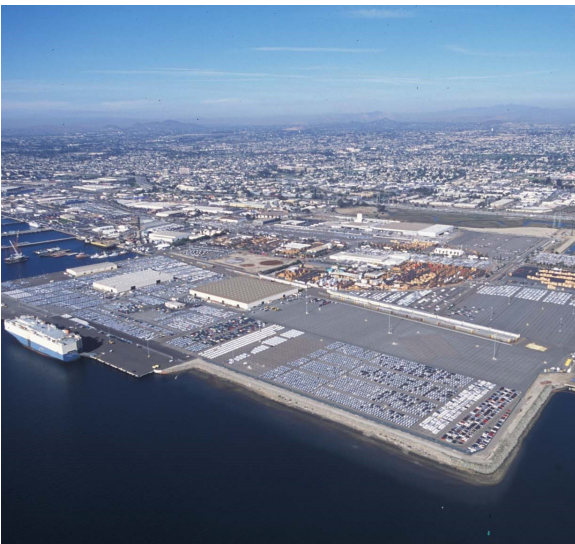
ECONOMIC PROFILE

National City, San Diego County's second oldest city, is centrally located in a thriving bi-national region of five million consumers. It is ten minutes from everywhere and positioned for prosperity, with proximity to the San Diego Bay, the US-Mexico border, downtown San Diego, an international airport, rail lines, San Diego State University, and other colleges and universities. It is encircled by interstates 5 and 805 and highways 54 and 15, and it is serviced by the San Diego Trolley and the Metropolitan Transit System ("MTS") seven days a week, conveniently connecting the City to the region. With its location and accessible transportation network, National City is "in the center of it all," giving it a competitive edge in business and industry.

The City has a progressive history of commercial development, including the "Mile of Cars," San Diego County's first major auto park, and the County's first indoor mall and largest enclosed mall in the South San Diego Bay area. Both draw shoppers from throughout the County, as well as outlying areas. Overall, National City is home to more than three thousand businesses – a remarkable number for a city with an estimated population of 59,381 – from small family-owned operations to multi-million dollar corporations.

The National City Marine Terminal, part of the Unified Port of San Diego, is the most advanced vehicle import and export facility on the West Coast, processing more than 270,000 vehicles annually. Lumber is also imported from the Pacific Northwest for construction use throughout the region. The City's port area extends three miles along San Diego Bay and is part of the largest US Navy installation on the West Coast.

National City's diversified commercial, retail, and industrial presence reduces the impacts of economic downturns and helps it rebound steadily, as with the most recent recession.



STRATEGIC PLAN INITIATIVES

During the Fiscal Year 2014 budget process, City management reviewed and updated the City's five-year Strategic Plan. The Strategic Plan is approved by the City Council every two years in conjunction with adoption of the annual budget. Its purpose is to establish a long-range vision for the City and provide a basis for developing a work plan to ensure the goals of the Strategic Plan are met.

City of National City Strategic Plan 2013-2018

Provide Quality Services
Achieve Fiscal Sustainability
Improve Quality of Life
Enhance Housing and Community Assets
Promote a Healthy Community

National City's Capital Improvement Program, a "sliding" five-year budgeting process for establishing the City's capital priorities and financing plan, addresses many of the Strategic Plan's initiatives. Amongst the most notable projects planned, underway, or completed during the fiscal year are the following:

- 8th Street Safety Enhancements (complete)
- A Avenue "Green" Street
- Safe Routes to School (complete)
- Bicycle Safety Enhancements (complete)
- Westside Infill Transit Oriented Development ("WI-TOD") Housing Project
- Waterfront Adventure Center

Amongst its efforts to achieve fiscal sustainability, the City added \$2 million to the Contingency Reserve for strengthening its ability to withstand unexpected financial emergencies and accumulating funds for large scale purchases, bringing its balance to nearly \$9.1 million. In upcoming fiscal year, staff plans to review and improve the City's reserve policy and develop plans to fund its seven reserves at or near their target levels.

The City of National City supports its residents by providing quality services and sponsoring or co-sponsoring several free events and programs throughout the year to improve quality of life and promote a healthy community, including various homework, literacy, craft, and computer programs, free book week, movie nights at the library and City parks, Walk to School Day, Community Service Day, yoga classes, National Night Out BBQ & pool party, Firefighters' Halloween "Tower of Terror," and electronic newsletters and social media posts to inform the community of past and upcoming events. The City also co-sponsors a 4th of July carnival and fireworks and Automobile Heritage Day for which admission are free. Information on upcoming events can be found on the "Calendar of Events" page of the City's website.

Statement of Net Position

The following financial summary is a condensed view of the City of National City's assets and liabilities for all governmental and business-type funds as of June 30, 2014 and 2013.

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current & Other Assets	\$ 93,170,831	\$ 87,667,687	\$ 2,321,672	\$ 2,521,928	\$ 95,492,503	\$ 90,189,615
Capital Assets, Net	122,901,094	114,873,200	6,302,056	6,595,917	129,203,150	121,469,117
Total Assets	216,071,925	202,540,887	8,623,728	9,117,845	224,695,653	211,658,732
Deferred Outflows of Resources	58,800				58,800	
Liabilities						
Current Liabilities	13,422,195	9,782,693	460,578	551,371	13,882,773	10,334,064
Long-term Liabilities	18,743,734	18,612,331	1,311,137	1,586,419	20,054,871	20,198,750
Total Liabilities	32,165,929	28,395,024	1,771,715	2,137,790	33,937,644	30,532,814
Net Position:						
Invested in Capital Assets, Net of Related Debt	108,881,192	99,343,176	4,725,523	4,760,761	113,606,715	104,103,937
Restricted	34,673,951	3,340,422	2,121,988	1,953,838	36,795,939	5,294,260
Unrestricted	40,409,653	71,462,265	4,502	265,456	40,414,155	71,727,721
Total Net Position	\$183,964,796	\$174,145,863	\$ 6,852,013	\$ 6,980,055	\$190,816,809	\$181,125,918

The \$9,690,891 (5.4%) increase in the City's total net position resulted from a growth in governmental activities of \$9,818,933 (5.6%) offset by a decline in business-type activities of \$128,042 (1.8%). Key elements of the increase in the net position of governmental activities were capital grants proceeds received toward the WI-TOD and Waterfront Adventure Center projects; charges for services, resulting from implementation of a cost allocation plan to recover overhead costs from internal departments; and sales-related tax revenues, due to improving economic conditions. In addition, the City implemented provisions of financial reporting standards of the Governmental Accounting Standards Board ("GASB"), which resulted in a restatement of net assets that decreased the governmental activities Fiscal Year 2014 starting net position by \$3.6 million. The decrease in business-type activities' net position was due to an overall increase in the expenses associated with the City's low and moderate income housing for seniors, primarily attributable to costs associated with unanticipated repairs.

Current & Other Assets – assets that reasonably can be expected to be converted to cash, sold, or consumed within one year.

Capital Assets, Net – the City's long-term investments in land, buildings, equipment, improvements, infrastructure, and construction in progress. The City uses these capital assets to provide services to citizens; consequently, the assets are not available for future spending.

Current Liabilities – primarily debts that can be paid off in one year or less, including accounts payable, accrued payroll, accrued interest payable, and deferred revenue.

Long-Term Liabilities – mainly represents debt obligations of the City. The proceeds from these debt issues are used to finance large projects, such as building construction and renovations, major equipment purchases, and roadway construction.

Net Position – the difference between total assets and total liabilities. Over time, changes in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

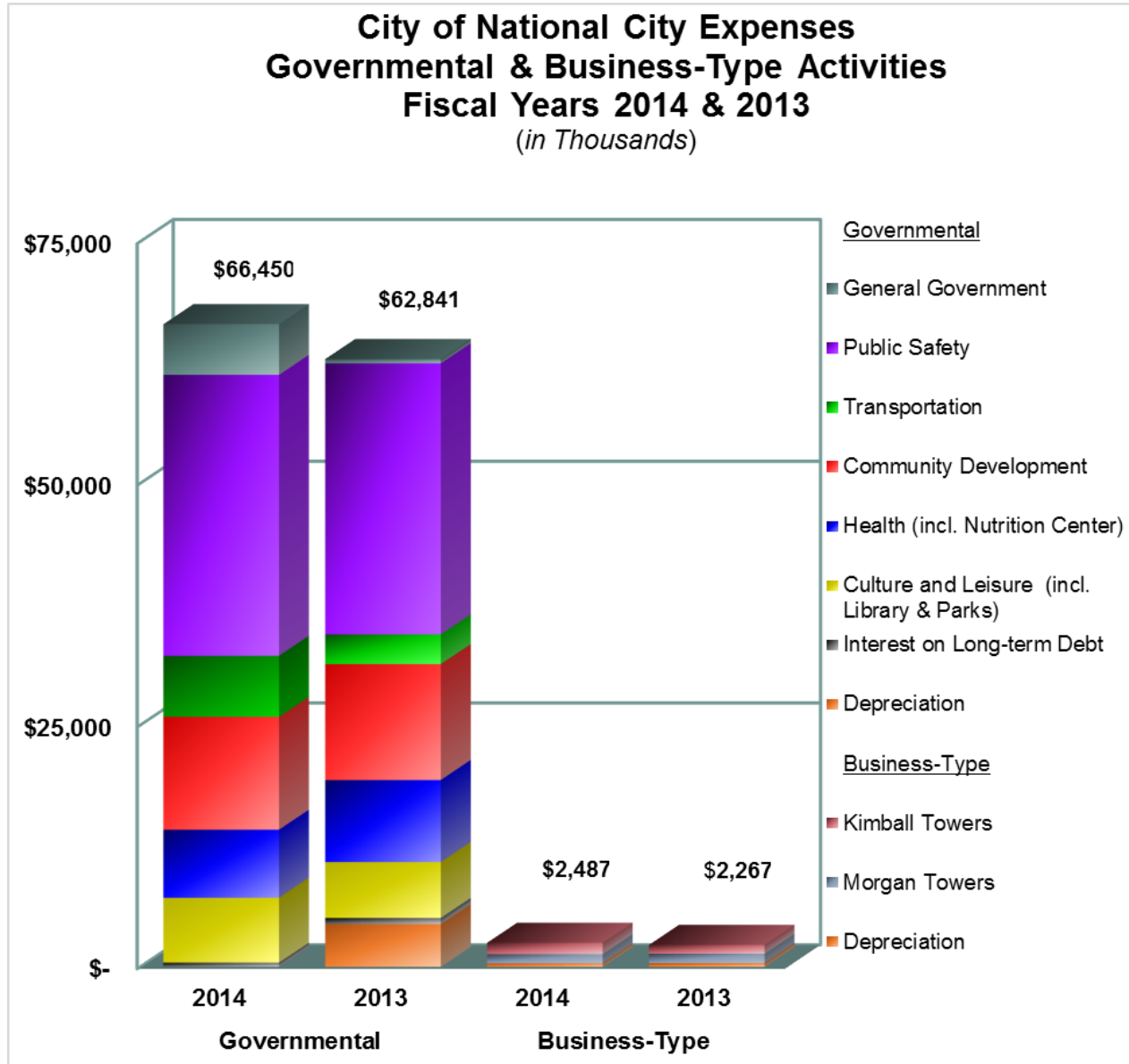
Invested in Capital Assets, Net of Related Debt – the City's investment in its capital assets, less accumulated depreciation and any outstanding debt attributable to the assets. The resources needed to repay the debt must be provided by other sources, since the capital assets themselves cannot be used to liquidate the liabilities.

Restricted Net Position – resources of which use is subject to externally imposed restrictions. The City has resources set aside for debt service and capital (primarily sewer-related) projects established by the City Council.

Unrestricted Net Position – Resources accessible to the City to provide services to the residents, if there were no additional revenues or resources available.

Statement of Activities

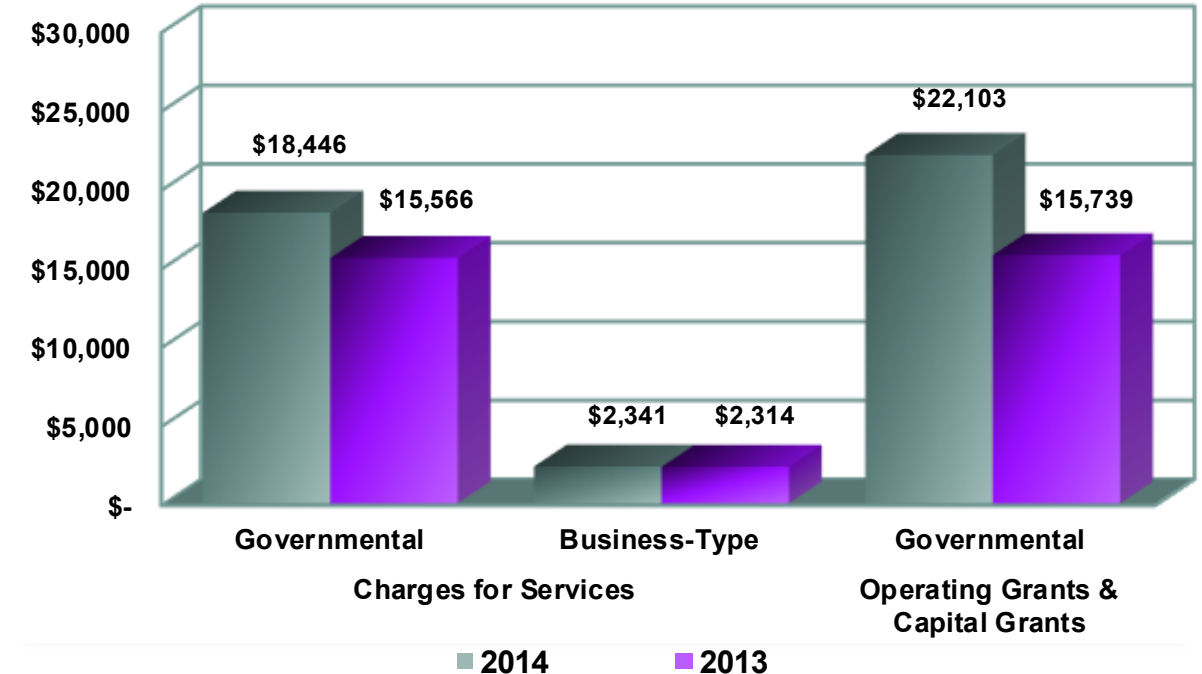
The following graphs show revenues and expenses for governmental and business-type activities, as they relate to the program category in which the funds were collected or expended. Governmental activities include general government, public safety, transportation, community development, health, and culture and leisure. Business-type activities comprise Morgan Towers and Kimball Towers, the City's low and moderate income housing for seniors.



The City's governmental activities expenses increased from \$62,841,000 in Fiscal Year 2013 to \$66,450,000 in Fiscal Year 2014, primarily due to transportation-related capital projects. Expenses of business-type activities increased due to costs associated with repairs necessary as a result of flooding caused by a fire suppression pipeline break at Morgan Tower.

Statement of Activities

**City of National City Program Revenues
Governmental & Business-Type Activities
Fiscal Years 2014 & 2013**
(in Thousands)



Program Revenues – Revenues derived directly from the program operated by the City, such as user fees and charges, which reduce the cost of the function financed from the government’s general revenues.

Charges for services of governmental activities increased from \$15,566,000 in Fiscal Year 2013 to \$18,446,000 in Fiscal Year 2014, due to increases in transportation, community development, general government, and culture and leisure revenues. Operating and capital grants for governmental activities increased from \$15,739,000 in Fiscal Year 2013, to \$22,103,000 in Fiscal Year 2014 as a result of increases in community development, culture and leisure, and health revenues. Charges for services related to business-type activities remained somewhat constant from the prior fiscal year.



CITY FINANCIALS

Governmental Funds

The City of National City maintains twenty-one individual governmental funds, including the General Fund. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements (*Statement of Net Position* and *Statement of Activites*). However, unlike the government-wide financial statements, the 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 financing requirements.

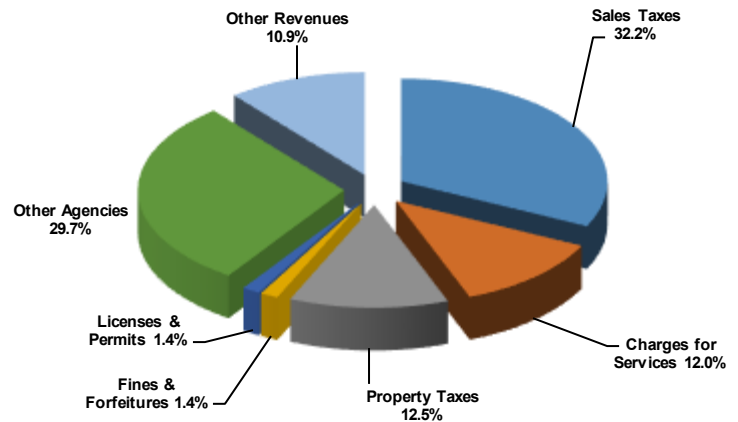
There are five types of governmental funds:

- general fund – the primary operating fund of the City; accounts for financial activity not required to be accounted for in another fund;
- special revenue funds – used to account for and report the proceeds of specific revenue sources restricted or committed to expenditures for specified purposes, other than debt service or capital projects;
- debt service funds – used to account for the receipts for, and payment of, general long-term debt principal and interest;
- capital projects funds – used to account for and report financial resources for capital outlay expenditures;
- permanent funds – used to account for and report resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, i.e., for the benefit of the government or its citizenry.

In addition to the General Fund, the City's major governmental funds are the Housing Fund, Housing Choice Voucher (Section 8) Fund, and Sewer Service Fund, all of which are special revenue funds. The City's capital projects and debt service funds are considered non-major funds. The City does not have a permanent fund.

Where the Money Comes From (Revenue/Resources)

Revenue Source	(000s)	
	FY 14	FY 13
Sales Taxes	\$25,587	\$23,758
Charges for Services	9,532	10,080
Property Taxes	9,908	9,821
Fines & Forfeitures	1,112	1,044
Licenses & Permits	1,100	1,226
Other Agencies	23,572	15,804
Other Revenues	8,665	6,785
Total	\$79,476	\$68,518



The most significant source of revenue for the City is **Sales Taxes**. Sales taxes are imposed on retail transactions and are collected and administered by the State. National City receives the equivalent of 1.0% of the total taxable sales generated within the City from the state-imposed sales & use tax and an additional 1% from its voter-approved district transactions & use tax.

Other Agencies, reimbursements from other agencies – primarily the State, San Diego Unified Port District, and Successor Agency, is the next largest revenue source.

Charges for Services is revenues collected for services provided, the majority of which is sewer service charges.

Property Taxes is ad valorem (“according to value”) levies on the assessed value of real and personal property within the City. This total includes revenue for property tax in lieu of vehicle license fee (“VLF”), California’s property tax – VLF “swap.”

Fines & Forfeitures is penalty revenues, e.g., parking violation fines, court and traffic fines, and library fines.

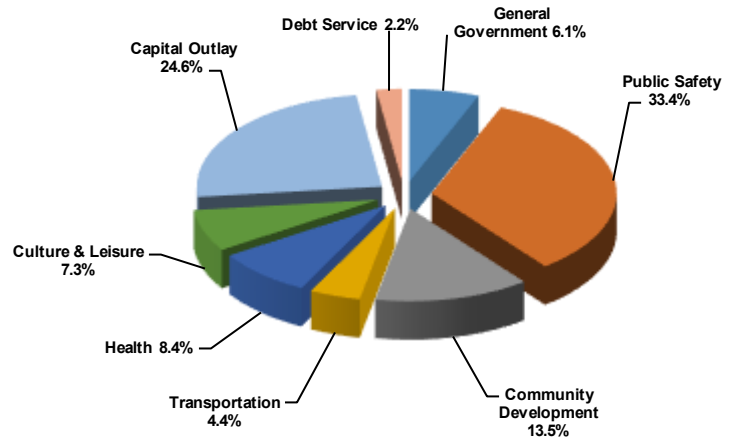
Licenses & Permits represents revenues from various activities, such as business licensing and building permits.

Other Revenues is the catch-all for revenue types that do not fall into one of the above categories.

Governmental Funds

Where the Money Goes (Expenditures/Services) (in Thousands)

Expenditures	(000s)	
	FY 14	FY 13
General Government	\$5,062	\$5,349
Public Safety	27,688	28,156
Community Development	11,235	10,529
Transportation	3,673	2,958
Health	6,994	8,560
Culture & Leisure	6,057	5,797
Capital Outlay	20,362	3,749
Debt Service	1,853	1,616
Total	\$82,924	\$66,714



General government: administrative and financial services provided for the benefit of the public and the governmental body, as a whole.

Public safety: police and fire protection of the City's residents and visitors, and building inspections.

Community Development: low- and moderate-income housing, housing inspections, code enforcement; graffiti removal, and current and advance planning

Transportation: construction, maintenance, and repair of streets and related facilities

Health: sewer- and storm drain-related extensions, maintenance, and repairs.

Culture & Leisure: provision and maintenance of cultural and leisure facilities, e.g., the City's library and parks, and operations of programs benefitting citizens and visitors.

Capital Outlay: construction, acquisition, and maintenance of City buildings, infrastructure, vehicles, and equipment.

Debt Service: retirement of City debt.



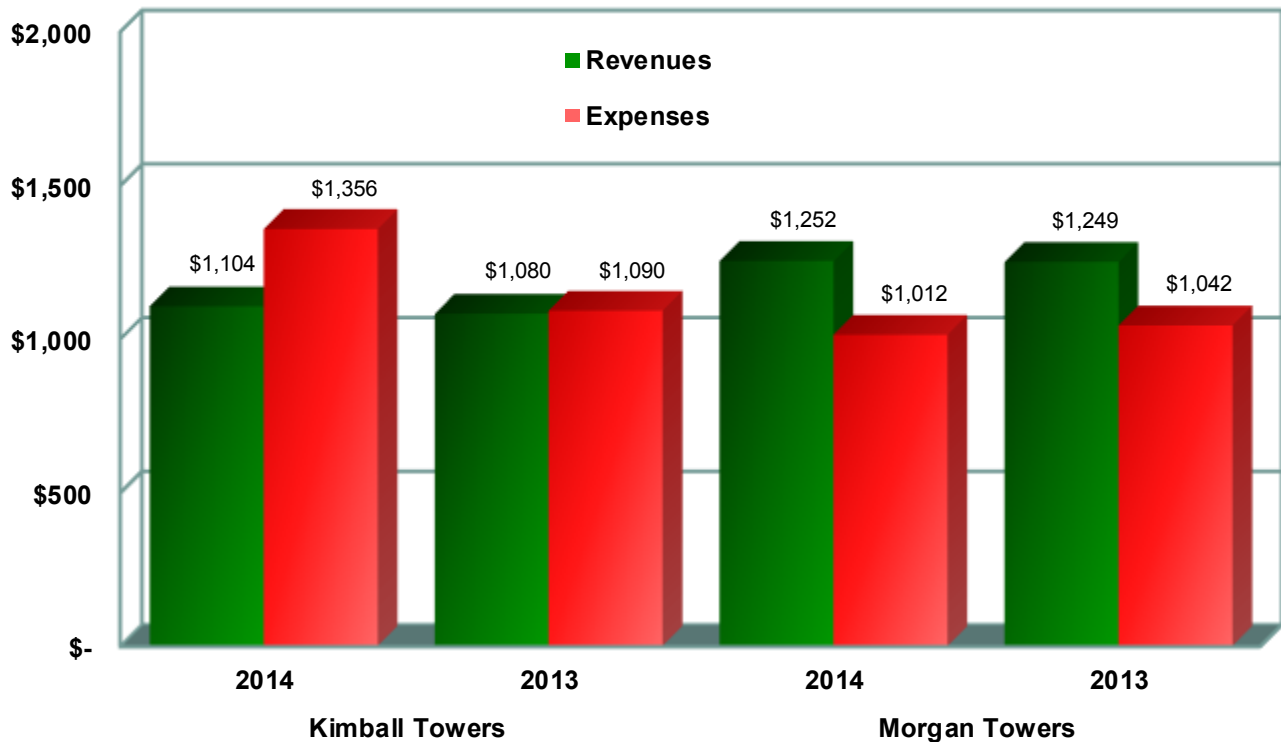
CITY FINANCIALS

Business-Type Funds

Business-type funds are used to report activities for which fees are charged to external users for goods or services in order to recover the cost of the services provided, similar to private businesses. Over time, these funds generate enough revenue to cover the costs of their operating expenses.

The City maintains two business-type funds, the Kimball Towers Fund and Morgan Towers Fund, to account for activities relating to the operations of Kimball Towers and Morgan Towers, which provide housing to low and moderate income seniors.

(in Thousands)



CAPITAL ASSETS & CITY DEBT

Capital Assets

The City's investment in capital assets for governmental and business-type activities, as of June 30, 2014, amounted to \$129,203,150 (net of accumulated depreciation). This investment includes land, rights of ways, construction in progress, buildings and improvements, machinery, and infrastructure. Infrastructure assets represent the largest portion of the City's total general governmental assets (44.9 percent).

Major additions to capital assets during the current fiscal year included construction in progress and land. Construction in progress totaled \$17,204,748 at June 30, 2014. Depreciation expense during the fiscal year was \$4,644,805 for governmental activities and \$369,396 for business-type activities. In addition, the City acquired, through a purchase agreement, 1.17 acres of land valued at \$1,652,089, increasing total land assets to \$20,247,687.

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 20,247,687	\$ 18,595,598	\$ 528,382	\$ 528,382	\$ 20,776,069	\$ 19,123,980
Right-of-Way	4,245,088	4,245,088	-	-	4,245,088	4,245,088
Construction in Progress	17,204,748	7,221,469	-	-	17,204,748	7,221,469
Buildings & Improvements	22,306,538	23,621,663	5,758,344	6,038,072	28,064,882	29,659,735
Machinery & Equipment	3,669,917	4,076,903	15,330	29,463	3,685,247	4,106,366
Infrastructure	55,227,116	57,112,479	-	-	55,227,116	57,112,479
Total	\$122,901,094	\$144,873,200	\$ 6,302,056	\$ 6,595,917	\$129,203,150	\$121,469,117

City Debt

The City's total debt decreased by \$542,911 during the current fiscal year. The net decrease primarily resulted from normal scheduled principal payments.

The City's general obligation bonds are rated "A+" by Standard & Poor's Rating Services.

City Debt

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Notes & Loans Payable	\$10,970,000	\$12,150,000	\$1,576,533	\$1,825,270	\$12,546,533	\$13,975,270
Capital Leases	1,571,831	1,866,025	-	-	1,571,831	1,866,025
Total	\$12,541,831	\$14,016,025	\$1,576,533	\$1,825,270	\$14,118,364	\$15,841,295

INVESTMENTS

The market value of the City's cash and investments as of June 30, 2014 is as follows:

Investment	Fair Value	Investment Maturities (in Years)				
		Less than 1	1 to 2	2 to 3	3 to 4	4 to 5
LAIF ¹	\$70,545,605	\$70,545,605	\$-	\$-	\$-	\$-
Money Market Funds	13,035	13,035	-	-	-	-
San Diego Pool ²	5,035,547	5,035,547	-	-	-	-
Time Certificates of Deposit	2,000,000	2,000,000	-	-	-	-
US Corporate	1,594,790	289,429	1,046,657	259,704	-	-
US Treasuries	4,548,026	939,857	2,530,521	1,077,648	-	-
US Agencies	14,784,212	3,319,557	5,752,079	4,132,916	1,579,660	-
Total	\$98,521,215	\$82,143,030	\$ 9,328,257	\$ 5,470,268	\$ 1,579,660	\$-

The weighted average maturity of the portfolio was 1.25 years.

¹ State of California's Local Agency Investment Fund

² San Diego County Treasurer's Pooled Money Fund

The City's cash and investment policies and practices are in compliance with state law and prudent investor rules.

City of National City
City Hall
1243 National City Boulevard
National City, California 91950
619-336-4330

CALIFORNIA
NATIONAL CITY
1887
INCORPORATED



National City's "Brick Row" then (1911)...



and now.