

CITY OF AVALON, CALIFORNIA

**Basic Financial Statements
Year ended June 30, 2014**

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CITY OF AVALON, CALIFORNIA
Basic Financial Statements
and Supplemental Data

Year ended June 30, 2014

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CITY OF AVALON, CALIFORNIA
Basic Financial Statements
and Supplemental Data

Year ended June 30, 2014

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City Council
City of Avalon
Avalon, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Avalon, California as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Avalon Medical Development Corporation ("Hospital"), a discretely presented component unit, whose assets represent \$6,282,811 of the total assets of the reporting entity. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hospital, is based solely on the report of the other auditors. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Avalon, California, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements for the year ended June 30, 2014 reflect certain prior period adjustments as described further in note 12 to the financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the City of Avalon's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 8, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* and *budgetary comparison information* 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. Management has omitted the *management's discussion and analysis*. Our opinion on the basic financial statements is not affected by this missing information.

We have applied certain limited procedures to the *budgetary comparison 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Avalon's basic financial statements. The *combining and individual nonmajor fund financial statements and schedules* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The *combining and individual nonmajor fund financial statements and schedules* are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *combining and individual nonmajor fund financial statements and schedules* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2015 on our consideration of the City of Avalon'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 results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Avalon's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Irvine, California
May 28, 2015

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BASIC FINANCIAL STATEMENTS

GOVERNMENT- WIDE FINANCIAL STATEMENTS

THE STATEMENT OF NET POSITION AND THE STATEMENT ACTIVITIES

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of this year's activities"? The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities 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.

These two statements report the City's net position and changes in it. You can think of the City's net position - the difference between assets and liabilities - as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

The Statement of Net Position and the Statement of Activities, present information about the following:

Governmental Activities – The City's basic services are considered to be governmental activities, including (1) public safety, (2) fire and ambulance, (3) planning, building and engineering, (4) community services, (5) public works and (6) general government. Property taxes, sales taxes and transient occupancy taxes finance most of these activities.

Business-type Activities – The City's proprietary funds are considered to be business-type activities, including (1) harbor, (2) sewer, (3) saltwater and (4) solid waste.

Discrete Component Unit – The City's governmental activities include the presentation of one separate legal entity - the Avalon Medical Development Corporation (“the Hospital”). Although legally separate, this "discrete component unit" is important because the City is financially accountable for it.

CITY OF AVALON
Statement of Net Position
June 30, 2014
(With comparative information for the prior year)

	Primary Government				Discrete Component Unit
	Governmental Activities	Business-type Activities	Totals		Avalon Medical Development Corporation
			2014	2013	
Assets:					
Current assets:					
Cash and investments (note 2)	\$ 5,345,397	4,656,249	10,001,646	9,132,144	63,638
Receivables net:					
Accounts	774,175	892,893	1,667,068	1,537,289	2,868,950
Taxes	876,133	38,507	914,640	1,154,218	-
Interest	1,827	1,773	3,600	5,218	-
Due from primary government	-	-	-	-	72,286
Due from ACIA Successor Agency	1,116,361	-	1,116,361	503,166	-
Advances to ACIA Successor Agency	1,000,000	-	1,000,000	1,000,000	-
Notes receivable	3,323	-	3,323	21,000	-
Internal balances	274,253	(274,253)	-	-	-
Inventories	-	-	-	-	46,148
Land held for resale	2,852,600	-	2,852,600	3,160,663	-
Prepaid items	-	-	-	-	75,433
Noncurrent assets (note 4):					
Capital assets, not being depreciated	4,260	165,137	169,397	645,913	448,950
Capital assets, net of accumulated depreciation	5,250,506	10,349,205	15,599,711	16,124,890	2,707,406
Total assets	<u>\$ 17,498,835</u>	<u>15,829,511</u>	<u>33,328,346</u>	<u>33,284,501</u>	<u>6,282,811</u>
Liabilities and Net Position:					
Current liabilities:					
Accounts payable	\$ 747,075	498,089	1,245,164	1,220,607	113,562
Interest payable	-	29,972	29,972	34,079	-
Accrued liabilities	509,807	98,936	608,743	93,567	472,478
Unearned revenue	106,061	136,273	242,334	232,863	241,260
Due to ACIA Successor Agency	7,716	-	7,716	-	-
Due to component unit	72,286	-	72,286	155,932	-
Noncurrent liabilities (note 5):					
Due within one year	207,397	267,075	474,472	506,807	-
Due in more than one year	1,868,122	1,602,071	3,470,193	3,722,503	-
Total liabilities	<u>\$ 3,518,464</u>	<u>2,632,416</u>	<u>6,150,880</u>	<u>5,966,358</u>	<u>827,300</u>
Net Position:					
Net investment in capital assets	\$ 5,254,766	10,514,342	15,769,108	16,770,803	3,156,356
Restricted for:					
Housing	4,251,154	-	4,251,154	4,318,812	-
Transportation	546,005	-	546,005	528,855	-
Unrestricted	3,928,446	2,682,753	6,611,199	5,699,673	2,299,155
Total net position	<u>\$ 13,980,371</u>	<u>13,197,095</u>	<u>27,177,466</u>	<u>27,318,143</u>	<u>5,455,511</u>

See accompanying notes to the financial statements

CITY OF AVALON
Statement of Activities
Year ended June 30, 2014
(With comparative information for the prior year)

Functions/programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
Public safety	\$ 1,609,457	192,773	125,000	-
Fire and ambulance	2,816,506	264,920	-	-
Planning, building and engineering	662,705	345,627	-	-
Community services	488,556	39,813	-	-
Public works	1,341,087	44,430	-	39,523
General government	3,954,189	36,871	1,256,652	26,561
Total governmental activities	<u>10,872,500</u>	<u>924,434</u>	<u>1,381,652</u>	<u>66,084</u>
Business-type activities:				
Harbor	7,067,842	7,229,539	-	-
Sewer	2,379,554	1,553,636	-	-
Saltwater	589,882	422,273	-	-
Solidwaste	1,955,537	1,912,331	5,000	-
Total business-type activities	<u>11,992,815</u>	<u>11,117,779</u>	<u>5,000</u>	<u>-</u>
Total primary government	<u>\$ 22,865,315</u>	<u>12,042,213</u>	<u>1,386,652</u>	<u>66,084</u>
Discrete Component Unit:				
Avalon Medical Development Corporation	<u>\$ 7,505,301</u>	<u>6,784,291</u>	<u>215,125</u>	<u>118,454</u>

General revenues:

Taxes:

Property taxes

Sales taxes

Transient occupancy taxes

Other taxes

Investment earnings

Miscellaneous income

Gain on sale of property

Transfers from ACIA Successor Agency

 Total general revenues and transfers

Change in net position

Net position, beginning of year, as restated (note 12)

Net position, end of year

See accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Position

Primary Government		Discrete Component Unit		
		Totals		Avalon Medical Development Corporation
Governmental Activities	Business-type Activities	2014	2013	
(1,291,684)	-	(1,291,684)	(1,262,738)	-
(2,551,586)	-	(2,551,586)	(2,144,733)	-
(317,078)	-	(317,078)	(365,818)	-
(448,743)	-	(448,743)	(485,950)	-
(1,257,134)	-	(1,257,134)	(1,256,477)	-
<u>(2,634,105)</u>	<u>-</u>	<u>(2,634,105)</u>	<u>(2,997,088)</u>	<u>-</u>
<u>(8,500,330)</u>	<u>-</u>	<u>(8,500,330)</u>	<u>(8,512,804)</u>	<u>-</u>
-	161,697	161,697	161,550	-
-	(825,918)	(825,918)	(751,201)	-
-	(167,609)	(167,609)	(54,343)	-
-	<u>(38,206)</u>	<u>(38,206)</u>	<u>(86,549)</u>	<u>-</u>
-	<u>(870,036)</u>	<u>(870,036)</u>	<u>(730,543)</u>	<u>-</u>
<u>(8,500,330)</u>	<u>(870,036)</u>	<u>(9,370,366)</u>	<u>(9,243,347)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(387,431)</u>
756,254	-	756,254	1,251,248	-
1,319,878	-	1,319,878	1,297,640	576,765
4,466,672	-	4,466,672	4,042,219	-
1,188,703	258,978	1,447,681	1,285,989	-
11,406	10,886	22,292	29,386	-
398,270	-	398,270	140,879	-
765,819	-	765,819	-	-
<u>511,615</u>	<u>-</u>	<u>511,615</u>	<u>579,934</u>	<u>-</u>
<u>9,418,617</u>	<u>269,864</u>	<u>9,688,481</u>	<u>8,627,295</u>	<u>576,765</u>
918,287	(600,172)	318,115	(616,052)	189,334
<u>13,062,084</u>	<u>13,797,267</u>	<u>26,859,351</u>	<u>27,934,195</u>	<u>5,266,177</u>
<u>13,980,371</u>	<u>13,197,095</u>	<u>27,177,466</u>	<u>27,318,143</u>	<u>5,455,511</u>

See accompanying notes to the financial statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

GENERAL FUND

The General Fund has been classified as a major fund and is used to account for resources traditionally associated with governments which are not required legally or by sound financial management to be accounted for in another fund.

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for a particular purpose. The following funds have been classified as major funds:

Local Transportation – This fund is used to record allocations made by the Los Angeles County Transportation Commission for the construction of streets, roads, bikeways, pedestrian facilities as well as the City's transportation system as a whole.

Low/Moderate Income Housing Asset Fund – This fund is used to account for monies set aside for further low/moderate income housing needs. This fund was created effective February 1, 2012 as a result of legislation enacted by the State of California.

NONMAJOR FUNDS

Nonmajor Funds is the aggregate of all the other governmental funds.

CITY OF AVALON
Balance Sheet
Governmental Funds
June 30, 2014
(With comparative information for the prior year)

	General Fund	Special Revenue Funds			Totals	
		Local Transportation Fund	Low/Mod Income Housing Asset Fund	Nonmajor Governmental Funds	2014	2013
Assets:						
Cash and investments (note 2)	\$ 3,213,713	-	380,729	633,152	4,227,594	2,986,498
Receivables, net:						
Accounts	23,541	633,416	-	9,459	666,416	972,924
Taxes	876,133	-	-	-	876,133	1,128,365
Interest	1,445	-	-	223	1,668	2,334
Notes receivable	3,323	-	-	-	3,323	21,000
Due from ACIA Successor Agency (note 3)	1,042,629	-	-	73,732	1,116,361	503,166
Due from other funds (note 3)	524,160	-	-	-	524,160	730,881
Advances to ACIA Successor Agency (note 3)	-	-	1,000,000	-	1,000,000	1,000,000
Land held for resale and other assets	-	-	2,852,600	-	2,852,600	3,160,663
Total assets	<u>\$ 5,684,944</u>	<u>633,416</u>	<u>4,233,329</u>	<u>716,566</u>	<u>11,268,255</u>	<u>10,505,831</u>
Liabilities:						
Accounts payable	\$ 323,626	40,191	23,650	17,304	404,771	490,258
Accrued liabilities	412,240	-	-	1,637	413,877	51,469
Due to ACIA Successor Agency (note 3)	4,222	-	3,494	-	7,716	51,470
Due to other funds (note 3)	-	407,912	18,869	97,379	524,160	679,411
Due to component unit	72,286	-	-	-	72,286	155,932
Unearned revenue	106,061	-	-	-	106,061	106,061
Total liabilities	<u>918,435</u>	<u>448,103</u>	<u>46,013</u>	<u>116,320</u>	<u>1,528,871</u>	<u>1,534,601</u>
Deferred Inflows of Resources:						
Unavailable revenue	57,991	633,416	-	-	691,407	-
Total deferred inflows of resources	<u>57,991</u>	<u>633,416</u>	<u>-</u>	<u>-</u>	<u>691,407</u>	<u>-</u>
Fund Balances:						
Restricted:						
Low and moderate income housing	-	-	4,187,316	-	4,187,316	4,143,227
Community development	-	-	-	138	138	126
Capital projects	-	-	-	63,700	63,700	175,459
Street projects	-	-	-	546,005	546,005	528,855
Unassigned	4,708,518	(448,103)	-	(9,597)	4,250,818	4,123,563
Total fund balances	<u>4,708,518</u>	<u>(448,103)</u>	<u>4,187,316</u>	<u>600,246</u>	<u>9,047,977</u>	<u>8,971,230</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,684,944</u>	<u>633,416</u>	<u>4,233,329</u>	<u>716,566</u>	<u>11,268,255</u>	<u>10,505,831</u>

See accompanying notes to the financial statements

CITY OF AVALON
 Governmental Funds
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Position
 June 30, 2014

Fund balances of governmental funds	\$ 9,047,977
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Capital assets	8,309,561
Accumulated depreciation	(3,841,957)
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	
	691,407
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	(315,324)
Other post employment benefits	(1,365,311)
Internal service funds are used by management to charge the costs of employee benefits, liability insurance and vehicle maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.	
	1,179,765
Internal service fund receivables/payables representing the cumulative crossover effect of involvement with business-type activities.	
	<u>274,253</u>
Net position of governmental activities	<u><u>\$ 13,980,371</u></u>

See accompanying notes to the financial statements

CITY OF AVALON
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year ended June 30, 2014
(With comparative information for the prior year)

	Special Revenue Funds			Nonmajor Governmental Funds	Totals	
	General Fund	Local Transportation Fund	Low/Mod Income Housing Asset Fund		2014	2013
Revenues:						
Taxes	\$ 7,608,560	-	-	122,947	7,731,507	7,711,615
Licenses, permits and fees	484,910	-	-	-	484,910	352,787
Fines, forfeitures and penalties	4,244	-	-	86,117	90,361	74,551
Investment income	9,077	-	-	1,362	10,439	13,597
Intergovernmental revenue	191,314	565,015	-	-	756,329	1,865,557
Charges for services	345,859	-	-	3,304	349,163	353,680
Other revenue	43,808	-	23,240	100	67,148	97,185
Total revenues	<u>8,687,772</u>	<u>565,015</u>	<u>23,240</u>	<u>213,830</u>	<u>9,489,857</u>	<u>10,468,972</u>
Expenditures:						
Current:						
Public safety	1,502,933	-	-	-	1,502,933	1,422,975
Fire and ambulance	2,706,838	-	-	-	2,706,838	2,275,158
Planning, building and engineering	638,283	-	-	-	638,283	570,127
Community services	389,763	-	-	28,140	417,903	592,062
Public works	931,365	-	-	102,863	1,034,228	1,046,490
General government:						
Services and charges	1,689,831	-	-	-	1,689,831	1,392,377
Contract services	817,366	1,093,499	53,282	-	1,964,147	2,308,578
Special departmental	16,795	9,534	-	6,969	33,298	14,832
Other	16,539	-	-	-	16,539	35,884
Capital expenditures	178,051	4,847	-	110,000	292,898	1,010,773
Total expenditures	<u>8,887,764</u>	<u>1,107,880</u>	<u>53,282</u>	<u>247,972</u>	<u>10,296,898</u>	<u>10,669,256</u>
Excess of revenues over (under) expenditures	<u>(199,992)</u>	<u>(542,865)</u>	<u>(30,042)</u>	<u>(34,142)</u>	<u>(807,041)</u>	<u>(200,284)</u>
Other Financing Sources (Uses):						
Gain on sale of property	691,688	-	74,131	-	765,819	-
Transfers from ACIA Successor Agency (note 3)	511,615	-	-	-	511,615	355,655
Transfers in (note 3)	-	-	-	24,710	24,710	156,312
Transfers out (note 3)	<u>(418,356)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(418,356)</u>	<u>(156,312)</u>
Total other financing sources (uses)	<u>784,947</u>	<u>-</u>	<u>74,131</u>	<u>24,710</u>	<u>883,788</u>	<u>355,655</u>
Net change in fund balance	584,955	(542,865)	44,089	(9,432)	76,747	155,371
Fund balance, beginning of year	4,123,563	94,762	4,143,227	609,678	8,971,230	8,815,859
Fund balance, end of year	<u>\$ 4,708,518</u>	<u>(448,103)</u>	<u>4,187,316</u>	<u>600,246</u>	<u>9,047,977</u>	<u>8,971,230</u>

See accompanying notes to the financial statements

CITY OF AVALON
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 Year ended June 30, 2014

Net changes in fund balances - total governmental funds \$ 76,747

Amounts reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	174,142
Depreciation expense	(333,303)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and changes in other long-term liabilities affect the current financial resources of governmental funds. None of these transactions, however, has any affect on net position:

Change in compensated absences	(7,850)
Change in OPEB obligation	(108,386)

Some revenues reported in the Statement of Activities are not considered to be available to finance current expenditures and therefore are not reported as revenues in the governmental funds.

691,407

Internal service funds are used by management to charge the costs of self-insurance, employee separation costs and vehicle maintenance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.

242,419

Internal service fund revenues/expenses representing the cumulative crossover effect of involvement with business-type activities.

183,111

Change in net position of governmental activities \$ 918,287

See accompanying notes to the financial statements

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PROPRIETARY FUND FINANCIAL STATEMENTS

Harbor – This fund was established to account for all harbor operations.

Sewer – This fund was established to receive and disburse funds collected through sewer service charge fees and sewer facilities charges. This fund is used for the operation and maintenance of sewer disposal facilities and the financing of construction for sewer outlets.

Saltwater – This fund was established to receive charges for operation of the City's saltwater pumping plants and systems.

Solidwaste – This fund was established to account for solid waste collection and disposal costs.

Internal Service Funds – These funds are used to account for the financing of goods and services provided by one or more departments to other departments of the City and to other government units, on a cost reimbursement basis.

CITY OF AVALON
Statement of Net Position
Proprietary Funds
June 30, 2014
(With comparative information for the prior year)

	Business-type Activities			
	Harbor	Sewer	Saltwater	Solidwaste
Assets:				
Current Assets:				
Cash and investments (note 2)	\$ 2,362,618	1,161,324	620,176	512,131
Receivables, net:				
Accounts	796,006	33,837	8,645	54,405
Taxes	38,507	-	-	-
Interest	833	562	228	150
Total current assets	<u>3,197,964</u>	<u>1,195,723</u>	<u>629,049</u>	<u>566,686</u>
Noncurrent assets (note 4):				
Capital assets, not being depreciated	146,137	19,000	-	-
Capital assets, net of accumulated depreciation	<u>4,512,082</u>	<u>4,501,279</u>	<u>695,171</u>	<u>640,673</u>
Total noncurrent assets	<u>4,658,219</u>	<u>4,520,279</u>	<u>695,171</u>	<u>640,673</u>
Total assets	<u>7,856,183</u>	<u>5,716,002</u>	<u>1,324,220</u>	<u>1,207,359</u>
Liabilities:				
Current liabilities:				
Accounts payable	197,228	139,701	21,752	139,408
Interest payable	29,972	-	-	-
Accrued liabilities	90,989	5,484	2,463	-
Unearned revenue	136,273	-	-	-
Current portion of noncurrent liabilities	252,188	11,199	3,687	-
Total current liabilities	<u>706,650</u>	<u>156,384</u>	<u>27,902</u>	<u>139,408</u>
Noncurrent liabilities (note 5):				
Compensated absences	179,029	5,890	4,507	-
OPEB obligation	533,405	99,499	35,966	-
Claims payable	72,519	44,257	-	-
Loans payable	626,999	-	-	-
Total noncurrent liabilities	<u>1,411,953</u>	<u>149,646</u>	<u>40,473</u>	<u>-</u>
Total liabilities	<u>2,118,603</u>	<u>306,030</u>	<u>68,375</u>	<u>139,408</u>
Net Position:				
Net investment in capital assets	4,658,219	4,520,279	695,171	640,673
Unrestricted	<u>1,079,361</u>	<u>889,693</u>	<u>560,674</u>	<u>427,278</u>
Total net position	<u>\$ 5,737,580</u>	<u>5,409,972</u>	<u>1,255,845</u>	<u>1,067,951</u>

Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service funds and the enterprise funds over time

Net position of business-type activities (page 7)

Total Enterprise Funds		Governmental Activities - Internal Service Funds	
2014	2013	2014	2013
4,656,249	5,146,379	1,117,803	999,267
892,893	564,014	107,759	351
38,507	25,853	-	-
1,773	2,458	159	426
<u>5,589,422</u>	<u>5,738,704</u>	<u>1,225,721</u>	<u>1,000,044</u>
165,137	502,064	-	-
<u>10,349,205</u>	<u>10,851,136</u>	<u>787,162</u>	<u>790,838</u>
<u>10,514,342</u>	<u>11,353,200</u>	<u>787,162</u>	<u>790,838</u>
<u>16,103,764</u>	<u>17,091,904</u>	<u>2,012,883</u>	<u>1,790,882</u>
498,089	575,690	342,304	154,659
29,972	34,079	-	-
98,936	36,070	95,930	6,028
136,273	126,802	-	-
267,075	476,059	40,934	-
<u>1,030,345</u>	<u>1,248,700</u>	<u>479,168</u>	<u>160,687</u>
189,426	197,289	-	-
668,870	404,319	-	-
116,776	167,819	353,950	692,849
626,999	726,576	-	-
<u>1,602,071</u>	<u>1,496,003</u>	<u>353,950</u>	<u>692,849</u>
<u>2,632,416</u>	<u>2,744,703</u>	<u>833,118</u>	<u>853,536</u>
10,514,342	11,353,200	787,162	790,838
<u>2,957,006</u>	<u>2,994,001</u>	<u>392,603</u>	<u>146,508</u>
13,471,348	14,347,201	<u>1,179,765</u>	<u>937,346</u>
<u>(274,253)</u>	<u>(91,142)</u>		
<u>13,197,095</u>	<u>14,256,059</u>		

See accompanying notes to the financial statements

CITY OF AVALON
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year ended June 30, 2014
(With comparative information for the prior year)

	Business-type Activities			
	Harbor	Sewer	Saltwater	Solidwaste
Operating revenues:				
Charges for services	\$ 7,229,539	1,553,636	422,273	1,912,331
Claims adjustments	-	-	-	-
Other revenue	60,684	1,000	-	-
Total operating revenues	<u>7,290,223</u>	<u>1,554,636</u>	<u>422,273</u>	<u>1,912,331</u>
Operating expenses:				
Salaries and benefits	4,025,330	526,136	195,420	256,259
Contractual services	854,605	1,130,184	209,359	1,529,306
Office supplies	4,035	-	-	-
Utilities and rent	356,986	147,844	-	-
Repairs and maintenance	343,063	60,528	97,417	46,308
Operating supplies	51,849	5,933	53	-
Other services and charges	1,015,741	31,878	46	13,155
Depreciation	260,741	448,402	82,621	76,707
Total operating expenses	<u>6,912,350</u>	<u>2,350,905</u>	<u>584,916</u>	<u>1,921,735</u>
Operating income (loss)	<u>377,873</u>	<u>(796,269)</u>	<u>(162,643)</u>	<u>(9,404)</u>
Nonoperating revenues (expenses):				
Admissions taxes	197,294	-	-	-
Loss on disposal of capital assets	-	(6,728)	-	-
Grants and other revenues	-	-	-	5,000
Interest income	5,161	3,419	1,390	916
Interest expense	(33,070)	-	-	-
Total nonoperating revenues (expenses)	<u>169,385</u>	<u>(3,309)</u>	<u>1,390</u>	<u>5,916</u>
Income before capital contributions and transfers	547,258	(799,578)	(161,253)	(3,488)
Other financing sources (uses)				
Transfers from ACIA Successor Agency (note 3)	-	-	-	-
Transfers in (note 3)	-	-	-	-
Transfers out (note 3)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net position	547,258	(799,578)	(161,253)	(3,488)
Net position, beginning of year, as restated	<u>5,190,322</u>	<u>6,209,550</u>	<u>1,417,098</u>	<u>1,071,439</u>
Net position, end of year	<u>\$ 5,737,580</u>	<u>5,409,972</u>	<u>1,255,845</u>	<u>1,067,951</u>

Adjustment for the net effect of current year activity between the internal service funds and the enterprise funds.

Change in net position of business-type activities (page 9)

Total Enterprise Funds		Governmental Activities - Internal Service Funds	
2014	2013	2014	2013
11,117,779	10,441,081	2,479,407	2,017,536
-	-	275,041	-
<u>61,684</u>	<u>1,967</u>	<u>56,081</u>	<u>43,694</u>
<u>11,179,463</u>	<u>10,443,048</u>	<u>2,810,529</u>	<u>2,061,230</u>
5,003,145	4,235,846	964,377	668,134
3,723,454	3,809,253	938,164	548,339
4,035	3,608	76,903	68,940
504,830	384,351	81,279	84,557
547,316	722,620	140,023	220,102
57,835	50,695	95,406	73,310
1,060,820	1,133,353	517,703	273,988
<u>868,471</u>	<u>849,792</u>	<u>148,868</u>	<u>192,469</u>
<u>11,769,906</u>	<u>11,189,518</u>	<u>2,962,723</u>	<u>2,129,839</u>
<u>(590,443)</u>	<u>(746,470)</u>	<u>(152,194)</u>	<u>(68,609)</u>
197,294	163,514	-	-
(6,728)	-	-	-
5,000	10,649	-	-
10,886	13,770	967	2,019
<u>(33,070)</u>	<u>(37,534)</u>	<u>-</u>	<u>-</u>
<u>173,382</u>	<u>150,399</u>	<u>967</u>	<u>2,019</u>
(417,061)	(596,071)	(151,227)	(66,590)
-	224,279	-	-
-	148,872	393,646	-
-	-	-	(148,872)
-	<u>373,151</u>	<u>393,646</u>	<u>(148,872)</u>
(417,061)	(222,920)	242,419	(215,462)
		<u>937,346</u>	<u>1,152,808</u>
		<u>1,179,765</u>	<u>937,346</u>
<u>(183,111)</u>	<u>44,779</u>		
<u>(600,172)</u>	<u>(178,141)</u>		

See accompanying notes to the financial statements

CITY OF AVALON
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2014
(With comparative information for the prior year)

	Harbor	Sewer	Saltwater	Solidwaste
Cash Flows from Operating Activities:				
Cash received from customers	\$ 6,913,350	1,556,656	416,686	1,862,281
Cash received from interfund services provided	-	-	-	-
Cash payments to suppliers for goods and services	(2,535,984)	(1,656,210)	(302,670)	(1,573,746)
Cash payments to employees for services	(3,893,067)	(434,805)	(168,339)	(256,259)
Net cash provided by operating activities	<u>484,299</u>	<u>(534,359)</u>	<u>(54,323)</u>	<u>32,276</u>
Cash Flows from Noncapital Financing Activities:				
Cash received from admissions taxes	197,294	-	-	-
Cash received from other funds	-	-	-	-
Cash paid to other funds	-	-	-	-
Net cash provided by noncapital financing activities	<u>197,294</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:				
Cash received for capital grants	-	-	-	5,000
Cash payments to acquire capital and other assets	(106,766)	(370,697)	(17,670)	-
Principal paid on capital-related debt	(99,578)	-	-	-
Interest paid on capital-related debt	(37,177)	-	-	-
Net cash provided by capital and related financing activities	<u>(243,521)</u>	<u>(370,697)</u>	<u>(17,670)</u>	<u>5,000</u>
Cash Flows from Investing Activities:				
Interest in investments	5,272	3,856	1,489	954
Net increase (decrease) in cash and cash equivalents	443,344	(901,200)	(70,504)	38,230
Cash and cash equivalents, beginning of year	1,919,274	2,062,524	690,680	473,901
Cash and cash equivalents, end of year	<u>\$ 2,362,618</u>	<u>1,161,324</u>	<u>620,176</u>	<u>512,131</u>
Reconciliation of Operating Income (loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ 377,873	(796,269)	(162,643)	(9,404)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	260,741	448,402	82,621	76,707
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	(275,262)	2,020	(5,587)	(50,050)
(Increase) decrease in taxes receivable	(12,654)	-	-	-
Increase (decrease) in accounts payable	2,858	(98,114)	2,632	15,023
Increase (decrease) in accrued liabilities	67,370	3,394	1,573	-
Increase (decrease) in compensated absences	(7,380)	(3,241)	(3,254)	-
Increase (decrease) in OPEB obligation	139,644	94,572	30,335	-
Increase (decrease) in claims payable	(68,891)	(185,123)	-	-
Net Cash Provided by Operating Activities	<u>\$ 484,299</u>	<u>(534,359)</u>	<u>(54,323)</u>	<u>32,276</u>

There were no noncash capital, investing or financing activities for the fiscal years ended June 30, 2014 or 2013.

Total Enterprise Funds		Governmental Activities - Internal Service Funds	
2014	2013	2014	2013
10,748,973	10,715,978	-	-
-	-	2,535,488	2,061,230
(6,068,610)	(6,747,655)	(1,702,263)	(1,328,829)
(4,752,470)	(4,098,647)	(964,377)	(668,134)
<u>(72,107)</u>	<u>(130,324)</u>	<u>(131,152)</u>	<u>64,267</u>
197,294	163,514	-	-
-	386,751	393,646	-
-	(13,600)	-	(148,872)
<u>197,294</u>	<u>536,665</u>	<u>393,646</u>	<u>(148,872)</u>
5,000	10,649	-	-
(495,133)	(498,622)	(145,192)	(101,346)
(99,578)	(95,291)	-	-
(37,177)	(45,734)	-	-
<u>(626,888)</u>	<u>(628,998)</u>	<u>(145,192)</u>	<u>(101,346)</u>
11,571	15,639	1,234	2,303
(490,130)	(207,018)	118,536	(183,648)
<u>5,146,379</u>	<u>5,353,397</u>	<u>999,267</u>	<u>1,182,915</u>
<u>4,656,249</u>	<u>5,146,379</u>	<u>1,117,803</u>	<u>999,267</u>
(590,443)	(746,470)	(152,194)	(68,609)
868,471	849,792	148,868	192,469
(328,879)	274,237	(107,408)	-
(12,654)	(1,307)	-	762
(77,601)	(231,497)	187,645	-
72,337	7,690	89,902	(28,292)
(13,875)	47,884	-	-
264,551	89,315	-	-
<u>(254,014)</u>	<u>(419,968)</u>	<u>(297,965)</u>	<u>(32,063)</u>
<u>(72,107)</u>	<u>(130,324)</u>	<u>(131,152)</u>	<u>64,267</u>

See accompanying notes to the financial statements

CITY OF AVALON
Statement of Fiduciary Net Position
Private Purpose Trust Fund
June 30, 2014
(With comparative information for the prior year)

	2014	2013
Assets:		
Current assets:		
Cash and investments (note 2)	\$ 7,659,287	9,190,988
Interest receivable	1,618	3,088
Due from City of Avalon (note 3)	7,716	-
Total current assets	7,668,621	9,194,076
Noncurrent assets (note 4):		
Capital assets, not being depreciated	27,882	-
Capital assets, net of accumulated depreciation	10,881,297	10,052,378
Total noncurrent assets	10,909,179	10,052,378
Total assets	18,577,800	19,246,454
Liabilities:		
Current liabilities:		
Accounts payable	183,941	1,122,785
Due to City of Avalon (note 3)	1,116,361	503,166
Interest payable	447,168	458,181
Current portion of long-term liabilities:		
Advances from City of Avalon (note 3)	1,000,000	-
Bonds payable (note 5)	905,000	870,000
Total current liabilities	3,652,470	2,954,132
Long-term liabilities:		
Advances from City of Avalon (note 3)	-	1,000,000
Bonds payable (note 5)	26,135,000	27,040,000
Total long-term liabilities	26,135,000	28,040,000
Total liabilities	29,787,470	30,994,132
Net Position:		
Held in trust for successor agency	(11,209,670)	(11,747,678)
Total net position (deficit)	\$ (11,209,670)	(11,747,678)

See accompanying notes to the financial statements

CITY OF AVALON
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
Year ended June 30, 2014
(With comparative information for the prior year)

	2014	2013
Additions:		
Taxes	\$ 3,006,524	2,578,067
Investment income	9,330	20,890
Total additions	3,015,854	2,598,957
Deductions:		
Community development	60,223	5,049,851
Depreciation expense	558,997	524,299
Interest	1,347,011	1,379,715
Transfers to City (note 3)	511,615	579,934
Total deductions	2,477,846	7,533,799
Change in net position	538,008	(4,934,842)
Net position, beginning of year	(11,747,678)	(6,812,836)
Net position, end of year	\$ (11,209,670)	(11,747,678)

See accompanying notes to the financial statements

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies

The basic financial statements of the City of Avalon, California, (“the City”) have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Description of the Reporting Entity:

The City of Avalon (the City) was incorporated in 1913 under the General Laws of the State of California. The City operates under a Council-Manager form of government and provides the following municipal services to its citizens: public safety (police and fire), harbor, streets, water sanitation, health and social services, public improvements, planning and zoning, and general administrative services.

The financial reporting entity presented in the accompanying basic financial statements consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The component unit of the City, as described below, is a legally separate entity for which the City is financially accountable. The primary government's officials appoint a voting majority of the component unit's governing board and either they are able to impose their will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific burdens on the primary government.

The following component unit is presented using the discrete presentation method. A discretely presented component unit is a legally separate, tax-exempt entity that operates with a greater or lesser degree of autonomy from the primary government. It is presented separately from the financial data of the primary government.

Discretely Presented Component Unit - The Avalon Medical Development Corporation dba Catalina Island Medical Center (the Hospital):

The Hospital provides medical services to the community. The Hospital is managed by the Avalon Medical Development Corporation, whose Board of Directors is appointed by the City Council. Although the Board of Directors approves the budget and expenditures incurred, the oversight responsibility lies with the City Council, as any debt issuance must be approved by the City Council. In addition, the City provides ongoing financial support to the Hospital. The Hospital's financial statements have been included within the reporting entity as a discretely presented component unit. Separate financial statements of the Hospital may be obtained from the Hospital.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies, (Continued)

B. Basis of Accounting and Measurement Focus:

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component unit. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program. Taxes and other items not included among program revenues are reported instead as *general revenues*.

As a general rule the effect of interfund activity has been eliminated from the amounts paid to acquire capital assets in the government-wide financial statements, rather than reporting them as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies, (Continued)

Fund Financial Statements

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

Net position is classified in the following categories:

In the government-wide financial statements, net position is reported in one of three categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of capital assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This amount is all net position that does not meet the definition of "Net Investment in Capital Assets" or "Restricted Net Position."

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses a sixty day availability period. The City accrues the following revenue types: taxes, licenses, fines and forfeitures, and other miscellaneous revenues.

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies, (Continued)

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Governmental Fund Balances

Fund balances are reported in the fund statements in the following classifications:

Nonspendable Fund Balance

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by legal requirements imposed by other governments, external resource providers, or creditors. City Council imposed restrictions do not create restricted fund balance unless the legal document that initially authorized the revenue (associated with that portion of fund balance) also included language that specified the limited use for which the authorized revenues were to be expended.

Committed Fund Balance – this includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (for example, resolution, ordinance, minutes action, etc.) that it employed to previously commit those amounts. If the Council action that limits the use of the funds was separate from the action that initially created the revenues that form the basis for the fund balance, then the resultant fund balance is considered to be committed, not restricted. The City considers a resolution to constitute a formal action of the City Council for the purposes of establishing committed fund balance.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies, (Continued)

Assigned Fund Balance – this includes amounts that are intended to be used for specific purposes as indicated either by the Council or by persons to whom authority has been delegated to assign amounts for specific purposes. The City Council has not delegated such authority as of the date of this report.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

Proprietary and Fiduciary Funds

The City's enterprise funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, taxes, and investment earnings result from non-exchange transactions or ancillary activities. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating expenses. Amounts paid to acquire capital assets are capitalized as assets in the proprietary fund financial statements, rather than reported as an expense. Proceeds of long-term debt are recorded as a liability in the proprietary fund financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the proprietary funds are reported as a reduction of the related liability, rather than as expenditure.

Agency funds are custodial in nature (assets equal liabilities) and do not involve the recording of City revenue and expenses. Agency funds are accounted for on the accrual basis of accounting. The private-purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies, (Continued)

C. Major Funds and Fiduciary Fund Types:

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. All general tax revenues and other receipts not allocated by law or contractual agreement to other funds are accounted for in this fund. Expenditures of this fund include general operating costs not paid through other funds.

Local Transportation Fund – The Local Transportation Special Revenue Fund is used to record Measure R funds, Prop 1B funds, and allocations made by the Los Angeles County Transportation Commission for the construction of streets, roads, bikeways, pedestrian facilities and the City's transportation system.

Low and Moderate Income Housing Asset Fund – The Low and Moderate Income Housing Asset Fund is used to account for monies set aside for low/moderate income housing needs. This fund was created effective February 1, 2013 in response to legislation enacted by the State of California to dissolve California Redevelopment Agencies.

The City reports the following major enterprise funds:

Harbor Fund – The Harbor Fund is used to account for all harbor operations.

Sewer Fund – The Sewer Fund is used to receive and disburse funds collected through sewer service charge fees and sewer facilities charges. These funds are used for the operation and maintenance of sewer disposal facilities and the financing of construction of outlet sewers.

Saltwater Fund – The Saltwater Fund is used to receive charges for operation of the City's saltwater pumping plants and systems.

Solidwaste Fund – The Solidwaste Fund is used to account for solid waste collection and disposal costs.

The City reports the following fund types:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted or otherwise designated for specific purposes.

The Internal Service Funds are used to account for the financing of goods and services provided by one or more departments or agencies to other departments or agencies of the City and to other government units, on a cost reimbursement basis.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies, (Continued)

Additionally, the City reports the following fiduciary fund type:

Private Purpose Trust Fund – Used to account for the activities of the Redevelopment Obligation Retirement Funds, which accumulates resources for obligations previously incurred by the former ACIA.

D. Cash and Investments:

The City pools cash and investments of all funds, except for assets held by fiscal agents and the Avalon Medical Development Corporation. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

For purposes of the statement of cash flow, cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

E. Interfund Transactions:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Quasi-external transactions are accounted for as revenue, expenditures or expenses, as appropriate. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursed fund. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

F. Capital Assets and Depreciation:

Capital assets, which consist of land, buildings and improvements, improvements other than buildings, machinery and equipment, vehicles, infrastructure and construction in progress, are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 and an estimated life in excess of 1 year; and infrastructure assets of more than \$50,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies, (Continued)

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide statements. Depreciation is charged as an expense against operations, and accumulated depreciation is reported in the respective statement of net position. The ranges of estimated useful lives used for depreciation purposes for each capital asset class are as follows:

Buildings and improvements	20 - 50 years
Improvements other than buildings	5 - 20 years
Machinery and equipment	5 - 20 years
Vehicles	5 - 20 years
Infrastructure	10 - 50 years

G. Compensated Absences:

The City is obligated to compensate employees for all earned but unused vacation days accumulated. Liabilities for vacation, holiday benefits, sick pay and compensatory time are recorded as earned by employees. City employees earn from 10 to 20 vacation days each year, depending upon length of service.

In governmental funds, compensated absences (accumulated vacation, holiday benefits, sick pay and compensatory time) are recorded as an expenditure and a fund liability of the governmental fund that will pay them (primarily the General Fund), if they are expected to be liquidated with currently expendable available resources. The balance of unpaid compensated absences is recorded as a long-term liability, as these amounts will be liquidated from future resources rather than currently expendable available resources upon retirement or separation of employment. The expenses for accumulated compensated absences are recorded in the General Administration Internal Service Fund. Unpaid compensated absences in proprietary funds are recorded as liabilities in those funds as vested benefits to the employees.

H. Property Taxes:

Property taxes are levied annually in July by the Los Angeles County Assessor for the succeeding fiscal year. Taxes are billed in August and are due and collectible in first and second installments on November 1 and March 1, respectively. The first installment is considered delinquent if not paid by December 10, and the second installment is considered delinquent if not paid by April 10 of each year. All unpaid taxes as of January 1 of the following year are considered delinquent and attach as an enforceable lien on the related property on that date.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies, (Continued)

Distributions of collected property taxes to the City are made by the County in accordance with the following schedule:

Secured:

35% of tax levy	December
5% of tax levy	January
Balance of first installment collections	February
75% of adjusted tax, less previous remittance	April
Balance of second installment collections	May
Balance of collections for fiscal year	July/August

Unsecured:

80% of tax levy	August
Balance of March - August collections	October
September - December collections	March
January - June collections	August

I. Use of Estimates:

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

J. Deferred Outflows/Inflows of Resources:

When applicable, the statement of net position and balance sheet will report a separate section for deferred outflows of resources. *Deferred outflows of resources* represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, are not recognized as an expense or expenditure until that time.

When applicable, the statement of net position and the balance sheet will report a separate section for deferred inflows of resources. *Deferred inflows of resources* represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as an inflow of resources (revenue) until that time. Additionally, included are revenues earned in the current year but were not received within the City's 60 day availability period.

K. Prior Year Data:

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived. In addition, certain minor reclassifications of the prior year data have been made to enhance their comparability to the current year.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

2. Cash and investments

Cash and investments at June 30, 2014 are classified in the accompanying financial statements as follows:

	Primary <u>Government</u>	Discrete <u>Component Unit</u>
Statement of net position	\$ 10,001,646	63,638
Statement of fiduciary net position	7,659,287	-
Total cash and investments	<u>\$ 17,660,933</u>	<u>63,638</u>

Cash and investments at June 30, 2014 consisted of the following:

	Primary <u>Government</u>	Discrete <u>Component Unit</u>
Petty cash	\$ 500	850
Demand deposits	6,109,245	23,747
Investments	<u>11,551,188</u>	<u>39,041</u>
Total	<u>\$ 17,660,933</u>	<u>63,638</u>

Investments Authorized by the California Government Code and the City's Investment Policy:

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage or Amount of Portfolio *</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	5 years	None	None
Time Certificates of Deposits	5 years	None	\$100,000
Local Agency Investment Fund (LAIF)	N/A	\$60,000,000	\$60,000,000
Los Angeles County Investment Fund (LACIP)	N/A	None	None
Money Market Mutual Funds	N/A	15%	None

*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

N/A - Not Applicable

The authorized investment types pursuant to the Hospital's investment policy are time certificates of deposit and the Local Agency Investment Fund (LAIF).

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

2. Cash and investments, (Continued)

Investments Authorized by Debt Agreements:

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. Investments authorized for funds held by the bond trustee include, United States Treasury Obligations or any other federal agency obligations for which the full faith and credit of the United States are pledged for payment of principal and interest, United States Government Sponsored Agency Securities, Commercial Paper, Local Agency Bonds, Banker's Acceptance, Money Market Mutual Funds and Investment Contracts. There were no limitations on the maximum amount that can be invested in one issuer, maximum percentage allowed or the maximum maturity of an investment, except for the maturity of Banker's Acceptance which are limited to one year.

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City and the Hospital manage their exposure to interest rate risk is by purchasing, a combination of shorter term and longer term investments and by timing, cash flows from maturities so that a portion of the portfolio is maturing or coming, close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the investments by maturity:

<u>Investment Type:</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>	
		<u>Within 12</u>	<u>Beyond 12</u>
Primary government:			
State investment pool	\$ 5,982,635	5,982,635	-
Held by bond trustee:			
State investment pool	2,714,382	2,714,382	-
Money market mutual funds	2,854,171	2,854,171	-
Total primary government	<u>\$ 11,551,188</u>	<u>11,551,188</u>	<u>-</u>
Discrete Component Unit:			
State Investment Pool	<u>\$ 39,041</u>	<u>39,041</u>	<u>-</u>

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

2. Cash and investments, (Continued)

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating as required by (where applicable) the California Government Code, the City's investment policy, the Hospital's investment policy or debt agreements, and the actual rating, as reported by Standards and Poor's, as of year end for each investment type:

<u>Investment Type:</u>	<u>Total</u>	Minimum Legal <u>Rating</u>	<u>Rating</u>	
			<u>AAA</u>	<u>Unrated</u>
Primary government:				
State investment pool	\$ 5,982,635	N/A	-	5,982,635
Held by bond trustee:				
State investment pool	2,714,382	N/A	-	2,714,382
Money market mutual funds	<u>2,854,171</u>	A	<u>2,854,171</u>	<u>-</u>
Total primary government	<u>\$ 11,551,188</u>		<u>2,854,171</u>	<u>8,697,017</u>
Discrete Component Unit:				
State Investment Pool	<u>\$ 39,041</u>	N/A	<u>-</u>	<u>39,041</u>

N/A - Not Applicable

Concentration of Credit Risk:

The investment policies of the City and the Hospital contain no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Custodial Credit Risk:

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterpart (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code, the City's investment policy and the Hospital's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following, provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

2. Cash and investments, (Continued)

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the City's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2014, the City's and Hospital's deposits (bank balances) were insured by the Federal Deposit Insurance Corporation or collateralized as required under California Law.

Investment in State Investment Pool:

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3. Interfund Balances and Transfers

The composition of interfund balances as of June 30, 2014 is as follows:

Advances to other funds	Advances from other funds	Amount
Low/Mod Housing Asset Fund	ACIA Successor Agency	<u>\$ 1,000,000</u> a

- a) The advances from the Low/Mod Income Housing Asset Fund to the ACIA Successor Agency were to defer tax increment deposits in the former Low and Moderate Housing Income Fund to make the Supplemental Educational Revenue Augmentation Fund payment required of all Redevelopment Agencies in previous years. The advance bears no interest and must be repaid to the Low/Mod Income Housing Asset Fund by June 30, 2015.

Fund Reporting Payable	Fund Reporting Receivable	Amount
ACIA Successor Agency	General Fund	\$ 1,042,629 a
Low/Mod Housing Asset Fund	General Fund	18,869 a
Local Transportation Fund	General Fund	407,912 b
Non-Major Gov't Funds	General Fund	97,379 b
General Fund	ACIA Successor Agency	4,222 c
Low/Mod Housing Asset Fund	ACIA Successor Agency	3,494 c
ACIA Successor Agency	Non-Major Gov't Funds	73,732 d
		<u>\$ 1,648,237</u>

- a) The \$1,042,629 and the \$18,869 due to the General Fund are short term borrowings to cover administrative expenses.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

3. Interfund Balances and Transfers, (Continued)

- b) The \$407,912 and the \$97,379 due to the General Fund are short term borrowings to cover negative cash balances and project costs.
- c) The \$4,222 and the \$3,494 due to the General Fund and Low/Mod Housing Asset Fund, respectively, are short term borrowings to cover administrative expenses.
- d) The \$73,732 due to the Offfield Contribution – Non-Major Fund is a short term borrowing to account for funds deposited into the ACIA Successor Agency that should have been deposited into the City’s general checking account.

Transfers in	Transfers out	Amount	
General Fund	ACIA Successor Agency	\$ 511,615	a
Non-Major Gov’t Fund	General Fund	24,710	b
Internal Service Fund	General Fund	393,646	c
		\$ 929,971	

- a) To transfer funds from the ACIA Successor Agency to the General Fund to cover administrative expenses
- b) To transfer funds from the General Fund to the Non-Major Governmental Funds to cover operating expenses.
- c) To transfer funds from the General Fund to the Internal Service Fund to cover operating expenses.

4. Capital Assets

A summary of changes in the capital assets at June 30, 2014 is as follows:

<u>Governmental Activities</u>	<u>Balance at</u> <u>7/1/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>6/30/2014</u>
Non-depreciable assets:				
Construction in progress	\$ 143,849	129,196	(268,785)	4,260
Total non-depreciable assets	143,849	129,196	(268,785)	4,260
Depreciable assets:				
Building and improvements	599,843	-	(43,800)	556,043
Improvements other than buildings	5,885,150	281,370	-	6,166,520
Machinery and equipment	4,119,310	221,353	-	4,340,663
Total depreciable assets	10,604,303	502,723	(43,800)	11,063,226
Less accumulated depreciation:				
Buildings and improvements	(216,809)	(14,535)	43,800	(187,544)
Improvements other than buildings	(2,095,936)	(299,183)	-	(2,395,119)
Machinery and equipment	(3,017,804)	(212,253)	-	(3,230,057)
Total accumulated depreciation	(5,330,549)	(525,971)	43,800	(5,812,720)
Total depreciable assets	5,273,754	(23,248)	-	5,250,506
Total capital assets	\$ 5,417,603	105,948	(268,785)	5,254,766

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

4. Capital Assets, (Continued)

<u>Business-Type Activities</u>	<u>Balance at 7/1/2013*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/2014</u>
Non-depreciable assets:				
Construction in progress	\$ 43,272	121,865	-	165,137
Depreciable assets:				
Building and improvements	5,595,375	-	-	5,595,375
Improvements other than buildings	11,382,952	349,655	-	11,732,607
Machinery and equipment	3,102,263	23,618	-	3,125,881
Infrastructure	3,028,253	-	(16,575)	3,011,678
Total depreciable assets	<u>23,108,843</u>	<u>373,273</u>	<u>(16,575)</u>	<u>23,465,541</u>
Less accumulated depreciation:				
Buildings and improvements	(2,343,825)	(113,789)	-	(2,457,614)
Improvements other than buildings	(6,515,091)	(455,583)	-	(6,970,674)
Machinery and equipment	(2,199,283)	(184,309)	-	(2,383,592)
Infrastructure	(1,199,508)	(114,790)	9,842	(1,304,456)
Total accumulated depreciation	<u>(12,257,707)</u>	<u>(868,471)</u>	<u>9,842</u>	<u>(13,116,336)</u>
Total depreciable assets	<u>10,851,136</u>	<u>(495,198)</u>	<u>(6,733)</u>	<u>10,349,205</u>
Total capital assets	<u>\$ 10,894,408</u>	<u>(373,333)</u>	<u>(6,733)</u>	<u>10,514,342</u>
 <u>ACIA Successor Agency</u>				
Non-depreciable assets:				
Construction in progress	\$ -	27,882	-	27,882
Depreciable assets:				
Building and improvements	8,991,858	-	-	8,991,858
Improvements other than buildings	6,485,736	1,387,916	-	7,873,652
Total depreciable assets	<u>15,477,594</u>	<u>1,387,916</u>	<u>-</u>	<u>16,865,510</u>
Less accumulated depreciation:				
Buildings and improvements	(2,180,064)	(228,617)	-	(2,408,681)
Improvements other than buildings	(3,245,152)	(330,380)	-	(3,575,532)
Total accumulated depreciation	<u>(5,425,216)</u>	<u>(558,997)</u>	<u>-</u>	<u>(5,984,213)</u>
Total depreciable assets	<u>10,052,378</u>	<u>828,919</u>	<u>-</u>	<u>10,881,297</u>
Total capital assets	<u>\$ 10,052,378</u>	<u>856,801</u>	<u>-</u>	<u>10,909,179</u>

* Balance at 7/1/13, as restated. See footnote 12 for additional information.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

4. Capital Assets, (Continued)

<u>Discrete Component Unit –</u> <u>Hospital</u>	<u>Balance at</u> <u>7/1/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>6/30/2014</u>
Non-depreciable assets:				
Construction in progress	\$ 1,762,719	378,796	(1,692,565)	448,950
Depreciable assets:				
Building and improvements	1,818,623	83,422	-	1,902,045
Machinery and equipment	2,025,057	1,957,251	-	3,982,308
Vehicles	35,708	-	-	35,708
Total depreciable assets	<u>3,879,388</u>	<u>2,040,673</u>	<u>-</u>	<u>5,920,061</u>
Less accumulated depreciation:				
Buildings and improvements	(1,051,465)	(139,347)	-	(1,190,812)
Machinery and equipment	(1,762,292)	(223,843)	-	(1,986,135)
Vehicles	(35,708)	-	-	(35,708)
Total accumulated depreciation	<u>(2,849,465)</u>	<u>(363,190)</u>	<u>-</u>	<u>(3,212,655)</u>
Total depreciable assets	<u>1,029,923</u>	<u>1,677,483</u>	<u>-</u>	<u>2,707,406</u>
Total capital assets	<u>\$ 2,792,642</u>	<u>2,056,279</u>	<u>(1,692,565)</u>	<u>3,156,356</u>

Depreciation expense was charged to functions / programs as follows:

Governmental Activities

Public safety	\$ 30,410
Community services	73,425
Public works	248,018
General government	25,250
Internal service funds depreciation charged to programs	<u>148,868</u>
Total depreciation expense - governmental activities	<u>\$ 525,971</u>

Business-Type Activities

Harbor	\$ 260,741
Sewer	448,402
Saltwater	82,621
Solidwaste	<u>76,707</u>
Total depreciation expense - business-type activities	<u>\$ 868,471</u>

ACIA Successor Agency

General government	\$ 246,377
Public works	<u>312,620</u>
	<u>\$ 558,997</u>

Discrete Component Unit - Hospital

Hospital	<u>\$ 363,190</u>
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CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

5. Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	<u>Balance at</u> <u>7/1/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>6/30/2014</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities</u>					
Compensated absences	\$ 307,475	386,879	(379,030)	315,324	141,897
Claims payable	692,849	65,500	(363,465)	394,884	65,500
OPEB	1,256,925	120,571	(12,185)	1,365,311	-
Total Governmental	<u>\$ 2,257,249</u>	<u>572,950</u>	<u>(754,680)</u>	<u>2,075,519</u>	<u>207,397</u>
<u>Business-type Activities</u>					
State Department of					
Boating & Waterways Loan	\$ 826,154	-	(99,578)	726,576	104,058
Compensated absences	358,289	166,614	(180,489)	344,414	154,987
Claims payable	383,300	83,444	(337,458)	129,286	12,510
OPEB	404,319	294,312	(29,761)	668,870	-
Total Business-type	<u>\$ 1,972,062</u>	<u>544,370</u>	<u>(647,286)</u>	<u>1,869,146</u>	<u>271,555</u>
<u>ACIA Successor Agency</u>					
Bonds Payable:					
2003A TAB	\$ 21,655,000	-	(725,000)	20,930,000	750,000
2003B Housing TAB	6,255,000	-	(145,000)	6,110,000	155,000
Total Bonds Payable	<u>\$ 27,910,000</u>	<u>-</u>	<u>(870,000)</u>	<u>27,040,000</u>	<u>905,000</u>

Compensated absences and OPEB obligation liabilities have typically been paid from the City's General Fund and the Enterprise Funds.

ACIA Successor Agency Activities

A. 2003 Tax Allocation Bonds, Series A

On December 3, 2003, the Agency issued \$27,350,000 in Tax Allocation Refunding Bonds, Series A, to refund the 1998 Refunding Tax Allocation Bonds and to finance redevelopment activities.

Serial bonds mature annually each September 1 through 2023. In addition, term bonds in the amount of \$5,890,000 and \$6,185,000 mature September 1, 2029 and September 1, 2034, respectively. The term bonds are subject to mandatory sinking fund requirements that commence September 1, 2024 and September 1, 2030, respectively. The bonds bear interest at rates ranging from 2.00% to 4.95%. Interest is payable semiannually, on March 1 and September 1.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

5. Long-term Liabilities, (Continued)

The annual debt service requirements on these bonds at June 30, 2014, were as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 750,000	974,140	1,724,140
2016	780,000	945,078	1,725,078
2017	810,000	913,878	1,723,878
2018	845,000	881,478	1,726,478
2019	880,000	846,621	1,726,621
2020-2024	4,790,000	3,628,987	8,418,987
2025-2029	4,825,000	2,504,420	7,329,420
2030-2034	5,890,000	1,240,197	7,130,197
2035	<u>1,360,000</u>	<u>67,315</u>	<u>1,427,315</u>
Total	<u>\$ 20,930,000</u>	<u>12,002,114</u>	<u>32,932,114</u>

B. 2003 Housing Tax Allocation Bonds, Series B

On December 3, 2003, the Agency issued \$7,430,000 Tax Allocation Refunding Bonds, Series B, to refund the 1991 Tax Allocation Bonds and to finance redevelopment activities.

Term bonds in the amount of \$1,320,000, \$2,290,000 and \$3,820,000 mature September 1, 2014, September 1, 2024 and September 1, 2034, respectively. The term bonds are subject to mandatory sinking fund requirements that commence September 1, 2004, September 1, 2014 and September 1, 2025, respectively. The term bonds bear interest at rates of 4.66%, 5.95% and 6.05%, respectively. Interest is payable semiannually on March 1 and September 1.

The annual debt service requirements on these bonds at June 30, 2014, were as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 155,000	367,365	522,365
2016	160,000	358,143	518,143
2017	170,000	348,623	518,623
2018	180,000	338,508	518,508
2019	195,000	327,798	522,798
2020-2025	1,155,000	1,451,861	2,606,861
2025-2029	1,540,000	1,062,711	2,602,711
2030-2034	2,065,000	537,846	2,602,846
2035	<u>490,000</u>	<u>29,640</u>	<u>519,640</u>
Total	<u>\$ 6,110,000</u>	<u>4,822,495</u>	<u>10,932,495</u>

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

5. Long-term Liabilities, (Continued)

C. Pledged Revenues

The ACIA Successor Agency debt issues are collateralized by the pledging of tax interment revenue. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purpose for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes.

As a result of the state's action to dissolve all redevelopment agencies in the State of California, the Successor Agency to the dissolved Avalon Community Improvement Agency no longer receives the full amount of tax increment previously pledged by the dissolved redevelopment agency to its bondholders. In its place is a new revenue stream (RPTTF distributions) provided to the Successor Agency that represents only that portion of tax increment that is necessary to pay for the approved enforceable obligations that come due for that fiscal year.

For the current year annual pledged revenues equaled annual debt service requirements of \$2,244,543.

D. Advances from the County of Los Angeles

The former Avalon Community Improvement Agency (ACIA) and the County of Los Angeles entered into an agreement dated December 13, 1983 whereby the County agreed to defer its share of tax increment (County Deferrals) generated within the project area and remit it to the Agency to meet the Agency's debt service obligations. Per the agreement the County Deferrals accrued simple interest of 5% for the year following the origination of the deferral amount. After that, no further interest accrues. The County Deferrals were payable from property tax increment revenues received by the Agency in excess of its debt service requirements.

In light of the state mandated dissolution of all redevelopment agencies and the associated restructuring of tax increment revenue, the enforceability of this obligation is uncertain. The City believes that under the new revenue structure it will never receive tax increment in excess of its debt service requirements, rather it would only receive up to the debt service requirements until the debt is extinguished at which point the ACIA will be completely dissolved. Accordingly, the ACIA Successor Agency is still receiving the "Available Tax Increment" funds under the agreement. \$461,281 was received from the County for the fiscal year ending June 30, 2014. The accompanying financial statements do not reflect a liability to the City for this matter.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

5. Long-term Liabilities, (Continued)

Business-type Activities

E. Loans Payable from the State Department of Boating and Waterways

A summary of loans payable from the State Department of Boating and Waterways at June 30, 2014 is as follows:

	Amount Outstanding
Original Issue \$500,000, due in annual installments of \$24,710 through August 1, 2016, including interest of 4.5% per annum	\$ 67,927
Original Issue \$900,000, due in annual installments of \$55,890 through August 1, 2019, including interest of 4.5% per annum	288,256
Original Issue \$859,101, due in annual installments of \$56,155 through August 1, 2021, including interest of 4.5% per annum	370,393
	\$ 726,576

The annual debt service requirements on these loans payable at June 30, 2014, were as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 104,058	32,697	136,755
2016	108,742	28,013	136,755
2017	113,635	23,120	136,755
2018	94,039	18,006	112,045
2019	98,270	13,775	112,045
2020 – 2022	207,832	18,816	226,648
Total	\$ 726,576	134,427	861,003

Discrete Component Unit - The Hospital

F. U.S. Bank, N.A.

A Line of Credit in the amount of \$250,000 is secured by the Hospital's various tangible and intangible assets, including patient receivable accounts, investment accounts, inventories and equipment. The unpaid principal balance will bear interest at an annual rate equal to 2.00% plus the prime rate announced by the Bank. The interest rate will be adjusted each time the prime rate changes. Principal is payable on demand by the Bank. As of June 30, 2014, the prime rate was 2.00%. The outstanding balance on the Line as of June 30, 2014 was \$0.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

6. Retirement Plans

Plan Description. The City participates in the Safety 2% at 50 Risk Pool and the Miscellaneous 2% at 55 Risk Pool of the California Employees' Retirement System (PERS). These plans are both a cost-sharing, multiple-employer defined benefit pension plans administered by PERS. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of the PERS' annual financial report may be obtained from the PERS Executive Office - 400 P Street, Sacramento, California 95814.

Funding Policy. The miscellaneous and safety members are required to contribute 7% and 9%, respectively, of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS.

Annual Pension Cost. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2013 to June 30, 2014 has been determined by an actuarial valuation of the plan as of June 30, 2011. The contribution rate indicated for the period is 17.286% of payroll for the Miscellaneous Plan and 30.812% of payroll for the Safety Plan.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling 30 year period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. The schedule of funding progress, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Schedules of Funding Progress' for the 2% at 55 Miscellaneous Plan and the 2% at 50 Safety Plan risk pools can be found on the CalPERS website (www.calpers.ca.gov).

For each of the fiscal years shown below, the City has contributed at the actuarial determined rate provided by PERS' actuaries:

<u>Fiscal Year</u>	<u>Annual Pension Cost (Employer Contribution)</u>		<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
	<u>Safety</u>	<u>Miscellaneous</u>		
6/30/12	\$ 500,228	300,960	100%	-
6/30/13	593,853	358,591	100%	-
6/30/14	570,208	377,085	100%	-

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

7. Other Post Employment Benefits (OPEB)

Plan Description. The City provides medical and dental benefits for retired employees and their spouses through a single employer plan. The City contributes to the CalPERS Health Plan single-employer defined benefit healthcare plan. The benefits are available to employees who retire from the City and commence pension benefits under PERS (on or after age 50) with at least 5 years of service. Employees retiring with at least 20 years of service receive a City contribution for the full cost of coverage for medical and dental coverage. As of June 30, 2014, 21 retired employees were eligible to receive medical and dental benefits. The Plan does not issue a publicly available financial report.

Funding Policy. The City pays the cost of the postemployment healthcare and dental benefits for retirees and their spouses during the life of the retiree. The surviving spouse of an eligible retiree who elected spouse coverage under CalPERS is eligible for the contribution upon the death of the retiree. Substantially all of the government's employees may become eligible for these benefits if they reach normal retirement age while working for the City.

The contribution requirements of the City are established and may be amended by the City, the City's City Council, and/or the employee associations. Plan members are not currently required to contribute. The City is currently funding this OPEB obligation on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the value of employer promised benefits expected to be earned or allocated for each fiscal year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The end of the year net OPEB obligation is determined as follows:

Annual required contribution	\$ 442,113
Interest on net OPEB obligation	74,738
Adjustment to annual required contribution	<u>(101,986)</u>
Annual OPEB cost (expense)	414,865
Actual contributions made	<u>(41,927)</u>
Increase in net OPEB obligation	372,938
Net OPEB Obligation - beginning of year	<u>1,661,243</u>
Net OPEB Obligation - end of year	<u><u>\$ 2,034,181</u></u>

The City's annual OPEB cost, annual contribution, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2014 and the two preceding years were as follows:

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

7. Other Post Employment Benefits, (Continued)

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/12	\$ 353,951	41,643	11.8%	\$ 1,288,233
6/30/13	412,628	39,618	9.6%	1,661,243
6/30/14	414,865	41,927	10.11%	2,034,181

Funded Status and Funding Progress. As of June 30, 2014, the most recent actuarial valuation date, the funded status of the plan was as follows:

<u>Actuarial Date</u>	<u>Actuarial Assets</u>	<u>Actuarial Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Ratio</u>	<u>Covered Payroll</u>	<u>UALL as a % of Covered Payroll</u>
6/30/09	\$ -	\$ 2,889,519	\$ 2,889,519	0%	NA	NA
6/30/12	-	3,828,622	3,828,622	0%	NA	NA

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Actuarial methods and assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial calculations of the OPEB plan reflect a long-term perspective. Consistent with this perspective, actuarial valuations, after this initial year, will use actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The ARC was determined as part of the June 30, 2012 actuarial valuation using the following methods and assumptions:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level-Dollar
Average Remaining Period (Misc.)	27 Years as of the Valuation Date
Discount Rate	4.5%
Inflation Rate	3%
Healthcare Cost Trend Rate	5.0% to 7.0% for Medical and 5.0% for Dental

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

8. Risk Management and Self-Insurance

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, error and omissions, injuries to employees and natural disaster. The City retains the risk of loss for general liability, property damage and automobile related claims of up to \$25,000 per occurrence. All risk management activities are accounted for in an internal service fund.

Changes in the aggregate estimated claims payable resulted from the following:

	<u>Claims Liability</u>	
	<u>Gov't Funds</u>	<u>Enterprise Funds</u>
Liability as of June 30, 2012	\$ 724,912	803,268
Claims incurred and changes in estimates	99,377	53,364
Claim payments	<u>(131,440)</u>	<u>(473,332)</u>
Liability as of June 30, 2013	<u>692,849</u>	<u>383,300</u>
Claims incurred and changes in estimates	65,500	83,444
Claim payments	<u>(363,465)</u>	<u>(337,458)</u>
Liability as of June 30, 2014	<u><u>\$ 394,884</u></u>	<u><u>129,286</u></u>

The City is a member of the Public Agency Risk Sharing Authority of California (PARSAC). The PARSAC is made up of 37 California municipalities and provides joint protection wherein cities pool their losses and claims, jointly purchase excess insurance, and share administrative and related costs. Under the pooling arrangement, the City is to contribute a premium based upon its assessed risk factor for general liability and yearly payroll expenses for workers' compensation and employer's liability.

The annual deposits made with the PARSAC include estimates of amounts to be paid for reported claims and incurred but not yet reported claims based upon past experience and modified for current trends and information. Such claims are paid by the PARSAC and, in effect charged back to the City via future insurance deposits, no accruals have been made for outstanding claims.

Settlement claims have not exceed any of the coverage amounts in any of the last three fiscal years, and there were no reductions in the City's insurance coverage during the year ended June 30, 2014.

The City carries commercial insurance on all significant property and equipment owned by the City, as well as fidelity bonds for all applicable public officials and employees.

The City does not participate in the California State Unemployment Insurance Program. The City funds all claims for unemployment benefits from current resources on an as-incurred basis. Unemployment benefits paid for the year ended June 30, 2014 totaled \$22,400.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

9. Individual Fund Disclosures

Deficit Fund Balance:

The following funds reported a deficit fund balance:

Major Funds:

Local Transportation Fund	\$ 448,103	(a)
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Non-major Special Revenue Funds:

Traffic Control and Safety	9,597	(b)
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Internal Service Funds:

General Administration	\$ 47,581	(c)
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- a.) The deficit fund balance resulted from the billing and subsequent collection of MTA receipts falling outside of the city's revenue recognition period of sixty days after year end. The monies were subsequently collected FY2014-15 thereby eliminating this deficit.
- b.) Expenditures exceeded revenues due to increased traffic safety supplies purchased during the year. The deficit fund balance is to be eliminated in FY2014-15.
- c.) In FY2014-15 the city evaluated its allocations to properly cost services to other departments. This deficit fund balance is to be eliminated in FY2014-15.

Excess of Expenditures over Appropriations:

The following funds reported an excess of expenditures over appropriations:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Major Funds:			
General Fund	\$ 8,495,214	8,887,764	(392,550)
Low / Mod Income Housing Asset Fund	-	53,282	(53,282)
Non-major Special Revenue Funds:			
Traffic Control and Safety	93,723	95,722	(1,999)
Community Development Block Grant	13,350	28,140	(14,790)
Offield Contribution	-	110,000	(110,000)

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

10. Commitments and Contingencies

A. Lawsuits

Long Beach Unified School District v. County of Los Angeles

In July 2012, the Long Beach Unified School District filed a Writ of Mandate in the California Superior Court, Los Angeles County, naming multiple public agencies including the Successor Agency to the Avalon Community Improvement Agency and the City of Avalon. This petition is an attempt by the plaintiff to recover past due statutory pass-through payment amounts under Community Redevelopment Law. The City of Avalon expects a judicial finding that it is obligated to return overpayments it has received. The proper calculation to decide how much Avalon has received however is still being determined. Thus, the parties have agreed to continue the time for the defendants to file responsive pleadings. Avalon's liability is expected to be approximately \$250,000. This amount is included in the claims liability as of June 30, 2014 in the Insurance Internal Service Fund.

Avalon K-12 School/California Department of Toxic Substance Control Matter

In March of 2012, the California Environmental Protection Agency's Department of Toxic Substances Control (DTSC) issued an Imminent and Substantial Endangerment Determination and Remedial Action Order (Order) to the City, the Santa Catalina Island Company, and the Long Beach Unified School District regarding three parcels of property totaling approximately 14 acres, which include the Avalon K-12 School and the adjacent City warehouse property. The Order states that "there may be an imminent and/or substantial endangerment to the public health or welfare or to the environment because of a release and/or the threatened release of hazardous substances at "the site" and requires the named parties to undertake certain response actions to address the contamination. Each of the parties is jointly and severally liable to DTSC for the required response actions.

Since issuance of the Order, the City and the other two parties have entered into a cooperating agreement, whereby they have jointly retained a consultant and are sharing the cost to prepare and implement the Remedial Investigation/Feasibility Study (RI/FI). The Remedial Investigation, namely the soil sampling and excavation activities on-site was performed in September of 2013, the report on which was approved by the DTSC on February 12, 2014. Feedback from the DTSC called for a Human Health Risk Assessment (HHRA), preparation of a Feasibility Study workplan, and further investigations. Following completion and approval of the Feasibility Study, the parties will confer with the DTSC on the appropriate actions to address any contamination identified in the investigation, which will be implemented in the Remedial Action Plan. The nature and costs of any required remedial actions cannot be estimated at this time. Once the costs are known, the parties will attempt to negotiate a cost sharing agreement for that portion of the work, to avoid litigation.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

10. Commitments and Contingencies, (Continued)

EPA/State/Regional Water Board Investigations

The United States Environmental Protection Agency, the State Water Resources Control Board and the Los Angeles Regional Water Quality Control Board have conducted a review of the City's sanitary sewer system operations. The City owns a sewage treatment plant and related conveyance system, and the City has a contract with Environ Strategies to operate and maintain the system. The probability of such litigation or amount or monetary exposure is unknown at this time. A draft Cease and Desist Order has been issued by the Los Angeles Regional Water Quality Board that requires the City to initiate many programs and updates to its sewer system. No fines are proposed and the City does not anticipate any fines being levied. The City has estimated costs of remediation to be \$50,636, in addition to routine maintenance or improvement costs typically incurred by the City each fiscal year. This amount is included as a liability in the Sewer Enterprise Fund.

There are various other claims and legal actions pending against the City. In the opinion of the City Attorney and City management, other than the claims noted above, liabilities arising from these claims and legal actions, if any, will not have an adverse material effect on the financial position of the City.

B. Federal and State Grants

The City has received State and Federal funds for specific purposes that are subject to review by the grantor agencies. Although, such audits could generate expenditure disallowances under the terms of the grants, it is believed that required reimbursements, if any, will not be material.

11. Lease and Operating Agreement with Avalon Medical Development Corporation

On September 16, 2003 the City entered into a lease and operating agreement with the Avalon Medical Development Corporation (AMDC) whereby AMDC will lease the Avalon Municipal Hospital facility and perform all maintenance and operation of the facility. The agreement term calls for automatic extensions through September 15, 2033 with annual rental payments of due from AMDC.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

12. Prior Period Adjustment

The accompanying financial statements reflect certain prior period adjustments, as set forth below:

	Business-Type <u>Activities</u>	<u>Harbor Fund</u>
As previously reported	\$ 14,256,059	5,649,114
Construction in progress	<u>(458,792)</u>	<u>(458,792)</u>
As restated	<u>\$ 13,797,267</u>	<u>5,190,322</u>

During the year ended June 30, 2014, the City identified a project in construction in progress that had been abandoned in a prior year and should have been expensed at that time. The beginning construction in progress balance has been adjusted to remove this project.

13. Successor Agency Trust for the Assets of the Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill IX 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Avalon that previously had reported a redevelopment agency, the Avalon Community Improvement Agency (ACIA), within the reporting entity of the City as a blended component unit.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 9, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill.

The Bill also allows the sponsoring community that formed the Successor Agency to assume the housing functions and take over the certain housing assets of the dissolved redevelopment agency. On May 3, 2012 the Oversight Board of the Successor Agency to the ACIA elected to assume these responsibilities and created the Avalon Housing Authority in accordance with the Bill.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2014

13. Successor Agency Trust for the Assets of the Former Redevelopment Agency,
(Continued)

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

After February 1, 2012, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City, pending the liquidation and distribution of the assets and liabilities of the former redevelopment agency to other taxing entities in accordance with state law.

On August 30, 2012 the State Controller's Office (SCO) issued its report regarding the review of Housing Asset Transfer (HAT) form which included asset transfers made by the ACIA Successor Agency after January 1, 2011 to other public agencies, including the City.

The report indicated that there were no unallowable transfers that occurred during the review period between the ACIA, the City, and/or any other public agency. On September 17, 2014 the Successor Agency Board approved resolution number 14-07 approving a revised HAT form to be submitted to the Department of Finance (DOF) to add an additional property which was inadvertently excluded from the original HAT. On December 15, 2014 the DOF approved the property as eligible to be transferred to the Avalon Housing Authority.

On April 1, 2014 the Successor Agency Board approved resolution number 14-04 approving submission of the Long Range Property Management Plan (LRPMP) for the ACIA Successor Agency to the DOF. On December 23, 2014 the DOF approved the Successor Agency's LRPMP that reported zero properties.

14. Subsequent Events

In July 2014 the City entered into a Capital Lease with Wells Fargo Equipment Finance Inc., for a 2013 Vactor Truck. The term of the lease is five years, and total payments over this period amount to \$327,000.

CITY OF AVALON
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Taxes	\$ 6,916,506	6,916,506	7,608,560	692,054
Licenses, permits and fees	352,860	352,860	484,910	132,050
Fines, forfeitures and penalties	9,100	9,100	4,244	(4,856)
Investment income	10,150	10,150	9,077	(1,073)
Intergovernmental revenue	198,800	198,800	191,314	(7,486)
Charges for services	299,800	299,800	345,859	46,059
Other revenue	12,200	12,200	43,808	31,608
Total revenues	<u>7,799,416</u>	<u>7,799,416</u>	<u>8,687,772</u>	<u>888,356</u>
Expenditures:				
Current:				
Public safety	1,531,257	1,531,257	1,502,933	28,324
Fire and ambulance	2,325,959	2,325,959	2,706,838	(380,879)
Planning, building and engineering	626,134	626,134	638,283	(12,149)
Community Services	472,132	472,132	389,763	82,369
Public works	928,968	928,968	931,365	(2,397)
General government:	-			
Services and charges	1,470,393	1,470,393	1,689,831	(219,438)
Contract services	790,304	790,304	817,366	(27,062)
Special departmental	12,000	12,000	16,795	(4,795)
Other	83,567	83,567	16,539	67,028
Capital expenditures	254,500	254,500	178,051	76,449
Total expenditures	<u>8,495,214</u>	<u>8,495,214</u>	<u>8,887,764</u>	<u>(392,550)</u>
Excess of revenues over (under) expenditures	(695,798)	(695,798)	(199,992)	495,806
Other Financing Sources (Uses):				
Sale of property	-	691,688	691,688	-
Transfers from ACIA Successor Agency	-	-	511,615	511,615
Transfers in	425,000	425,000	-	(425,000)
Transfers out	(568,646)	(568,646)	(418,356)	150,290
Total other financing sources (uses)	<u>(143,646)</u>	<u>548,042</u>	<u>784,947</u>	<u>236,905</u>
Net change in fund balance	(839,444)	(147,756)	584,955	732,711
Fund balance, beginning of year	<u>4,123,563</u>	<u>4,123,563</u>	<u>4,123,563</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,284,119</u>	<u>3,975,807</u>	<u>4,708,518</u>	<u>732,711</u>

CITY OF AVALON
Local Transportation Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues:				
Investment income	\$ 100	100	-	(100)
Intergovernmental revenue	<u>1,203,365</u>	<u>1,203,365</u>	<u>565,015</u>	<u>(638,350)</u>
Total revenues	<u>1,203,465</u>	<u>1,203,465</u>	<u>565,015</u>	<u>(638,450)</u>
Expenditures:				
Current:				
General government:				
Contract services	1,093,131	1,093,131	1,093,499	(368)
Special departmental	10,000	10,000	9,534	466
Capital expenditures	<u>-</u>	<u>108,590</u>	<u>4,847</u>	<u>103,743</u>
Total expenditures	<u>1,103,131</u>	<u>1,211,721</u>	<u>1,107,880</u>	<u>103,841</u>
Net change in fund balance	100,334	(8,256)	(542,865)	(534,609)
Fund balance, beginning of year	<u>94,762</u>	<u>94,762</u>	<u>94,762</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ 195,096</u>	<u>86,506</u>	<u>(448,103)</u>	<u>(534,609)</u>

CITY OF AVALON
 Low/Mod Income Housing Asset Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
 Year ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Other revenue	\$ -	-	23,240	23,240
Total revenues	-	-	23,240	23,240
Expenditures:				
Current:				
General government:				
Contract services	-	-	53,282	(53,282)
Total expenditures	-	-	53,282	(53,282)
Excess of revenues over (under) expenditures	-	-	(30,042)	(30,042)
OTHER FINANCING SOURCES (USES):				
Sale of land	-	-	74,131	(74,131)
Total other financing sources (uses)	-	-	74,131	(74,131)
Net change in fund balance	-	-	44,089	(104,173)
Fund balance, beginning of year	4,143,227	4,143,227	4,143,227	-
Fund balance, end of year	\$ 4,143,227	4,143,227	4,187,316	(104,173)

CITY OF AVALON
Notes to Required Supplementary Information
June 30, 2014

1. Budgetary Information

The City follows the procedures, outlined below, in establishing the budgetary data reflected in the basic financial statements:

- On or before June 30 of the current fiscal year, the City is required to adopt an annual operating budget for the ensuing fiscal year for the General and Special Revenue Funds. A public hearing is held to afford taxpayers an opportunity to be heard on the proposed budget.
- The operating budgets are reported on the modified accrual basis of accounting and are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The operating budget includes proposed expenditures and appropriations. Expenditures may not legally exceed appropriations at the fund level. Any unexpended budgeted appropriations lapse at year-end.
- Once the budget is approved, the City Council must authorize any transfer amounts between individual funds and any revisions that alter the total appropriations of a fund. Management may amend the budget for intrafund “line-item” transfers.

CITY OF AVALON
Nonmajor Governmental Funds
Special Revenue Funds

The following Special Revenue Funds have been classified as other governmental funds in the accompanying schedules:

Street – This fund receives and disburses the City's share of the State Gasoline Taxes in accordance with the provisions of the State of California Streets and Highway Code.

Traffic Control and Safety – This fund is used to record traffic fines resulting from violations of the California Vehicle Code. The fines are deposited in this fund and are restricted by law for expenditures on traffic signs, signals, and other traffic control devices and the maintenance or construction of streets, bridges and culverts.

Community Development Block Grant – This fund receives and disburses Community Development Block Grant monies from the United States Department of Housing and Urban Development. These funds are used for the redevelopment or initial construction of City streets and designated housing projects.

Child Care – This fund is used to account for monies received from tuition and donations which are used to provide child care services to City residents.

Mclean / Hall / Putnam Trust – This fund is used to account for contributions received which have been restricted in use to fund the purchase of fire equipment.

Offield Contribution – This fund is a donation from the Offield Trust original to construct a skateboard park and performing arts building. The purpose of the donation was later allowed to fund upgrades and concessions at Joe Machado Park.

CITY OF AVALON
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue Funds			
	Street	Traffic Control and Safety	Community Development Block Grant	Child Care
Assets:				
Cash and investments	\$ 544,655	-	24,710	115
Receivables, net:				
Accounts	3,887	3,845	1,727	-
Interest	172	-	-	23
Due from ACIA Successor Agency	-	-	-	-
Total assets	<u>\$ 548,714</u>	<u>3,845</u>	<u>26,437</u>	<u>138</u>
Liabilities:				
Accounts payable	\$ 2,709	2,504	2,904	-
Accrued liabilities	-	1,637	-	-
Due to other funds	-	9,301	23,533	-
Total liabilities	<u>2,709</u>	<u>13,442</u>	<u>26,437</u>	<u>-</u>
Fund Balances:				
Restricted:				
Community development	-	-	-	138
Capital projects	-	-	-	-
Street projects	546,005	-	-	-
Unassigned	-	(9,597)	-	-
Total fund balances	<u>546,005</u>	<u>(9,597)</u>	<u>-</u>	<u>138</u>
Total liabilities and fund balances	<u>\$ 548,714</u>	<u>3,845</u>	<u>26,437</u>	<u>138</u>

Special Revenue Funds

<u>Mclean / Hall / Putnam Trust</u>	<u>Offfield Contribution</u>	<u>Total</u>
63,672	-	633,152
-	-	9,459
28	-	223
-	73,732	73,732
<u>63,700</u>	<u>73,732</u>	<u>716,566</u>
-	9,187	17,304
-	-	1,637
-	64,545	97,379
<u>-</u>	<u>73,732</u>	<u>116,320</u>
-	-	138
63,700	-	63,700
-	-	546,005
-	-	(9,597)
<u>63,700</u>	<u>-</u>	<u>600,246</u>
<u>63,700</u>	<u>73,732</u>	<u>716,566</u>

CITY OF AVALON
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2014

	Special Revenue Funds			
	Street	Traffic Control and Safety	Community Development	
			Block Grant	Child Care
Revenues:				
Taxes	\$ 122,947	-	-	-
Fines, forfeitures and penalties	-	86,117	-	-
Investment income	1,048	8	-	138
Charges for services	-	-	3,304	-
Other revenue	-	-	-	-
Total revenues	123,995	86,125	3,304	138
Expenditures:				
Current:				
Community services	-	-	28,140	-
Public works	12,083	90,780	-	-
General government:				
Special departmental	-	4,942	-	-
Capital expenditures	-	-	-	-
Total expenditures	12,083	95,722	28,140	-
Excess of revenues over (under) expenditures	111,912	(9,597)	(24,836)	138
Other Financing Sources (Uses):				
Transfers in	-	-	24,710	-
Total other financing sources (uses)	-	-	24,710	-
Net change in fund balance	111,912	(9,597)	(126)	138
Fund balance, beginning of year	434,093	-	126	-
Fund balance, end of year	\$ 546,005	(9,597)	-	138

Special Revenue Funds

Mclean / Hall / Putnam Trust	Offfield Contribution	Total
-	-	122,947
-	-	86,117
168	-	1,362
-	-	3,304
<u>100</u>	<u>-</u>	<u>100</u>
<u>268</u>	<u>-</u>	<u>213,830</u>
-	-	28,140
-	-	102,863
2,027	-	6,969
<u>-</u>	<u>110,000</u>	<u>110,000</u>
<u>2,027</u>	<u>110,000</u>	<u>247,972</u>
<u>(1,759)</u>	<u>(110,000)</u>	<u>(34,142)</u>
<u>-</u>	<u>-</u>	<u>24,710</u>
<u>-</u>	<u>-</u>	<u>24,710</u>
(1,759)	(110,000)	(9,432)
<u>65,459</u>	<u>110,000</u>	<u>609,678</u>
<u>63,700</u>	<u>-</u>	<u>600,246</u>

CITY OF AVALON

Street

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual

Year ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes	\$ 114,956	122,947	7,991
Fines, forfeitures and penalties	10,000	-	(10,000)
Investment income	50	1,048	998
Total revenues	<u>125,006</u>	<u>123,995</u>	<u>(1,011)</u>
Expenditures:			
Current:			
Public works	<u>125,006</u>	<u>12,083</u>	<u>112,923</u>
Total expenditures	<u>125,006</u>	<u>12,083</u>	<u>112,923</u>
Net change in fund balance	-	111,912	111,912
Fund balance, beginning of year	<u>434,093</u>	<u>434,093</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 434,093</u></u>	<u><u>546,005</u></u>	<u><u>111,912</u></u>

CITY OF AVALON
Traffic Control and Safety
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2014

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Fines, forfeitures and penalties	\$ 75,000	86,117	11,117
Investment income	-	8	8
Total revenues	75,000	86,125	11,125
Expenditures:			
Current:			
Public works	92,723	90,780	1,943
General government:			
Special departmental	1,000	4,942	(3,942)
Total expenditures	93,723	95,722	(1,999)
Net change in fund balance	(18,723)	(9,597)	9,126
Fund balance, beginning of year	-	-	-
Fund balance (deficit), end of year	\$ (18,723)	(9,597)	9,126

CITY OF AVALON
Community Development Block Grant
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Charges for services	\$ 3,300	3,304	4
Total revenues	<u>3,300</u>	<u>3,304</u>	<u>4</u>
Expenditures:			
Current:			
Community services	13,350	28,140	(14,790)
Capital expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>13,350</u>	<u>28,140</u>	<u>(14,790)</u>
Excess of revenues over (under) expenditures	(10,050)	(24,836)	(14,786)
OTHER FINANCING SOURCES (USES):			
Transfers in	<u>-</u>	<u>24,710</u>	<u>24,710</u>
Total other financing sources (uses)	<u>-</u>	<u>24,710</u>	<u>24,710</u>
Extraordinary gain (loss)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(10,050)	(126)	9,924
Fund balance, beginning of year	<u>126</u>	<u>126</u>	<u>-</u>
Fund balance, end of year	<u>\$ (9,924)</u>	<u>-</u>	<u>9,924</u>

CITY OF AVALON
 Child Care
 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
 Year ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Investment income	\$ -	138	138
Total revenues	<u>-</u>	<u>138</u>	<u>138</u>
Net change in fund balance	-	138	138
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>138</u>	<u>138</u>

CITY OF AVALON
Mclean / Hall / Putnam Trust
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:			
Investment income	\$ 100	168	68
Other revenue	<u>2,400</u>	<u>100</u>	<u>(2,300)</u>
Total revenues	<u>2,500</u>	<u>268</u>	<u>(2,232)</u>
 EXPENDITURES:			
Current:			
Special departmental	<u>2,500</u>	<u>2,027</u>	<u>473</u>
Total expenditures	<u>2,500</u>	<u>2,027</u>	<u>473</u>
Net Change in fund balance	-	(1,759)	(1,759)
Fund balance, beginning of year	<u>65,459</u>	<u>65,459</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 65,459</u></u>	<u><u>63,700</u></u>	<u><u>(1,759)</u></u>

CITY OF AVALON
Offfield Contribution
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
EXPENDITURES:			
Current:			
Capital expenditures	\$ -	110,000	(110,000)
Total expenditures	-	110,000	(110,000)
Net change in fund balance	-	(110,000)	(110,000)
Fund balance, beginning of year	110,000	110,000	-
Fund balance, end of year	\$ 110,000	-	(110,000)

CITY OF AVALON
Nonmajor Governmental Funds
Internal Service Funds

General Administration – This fund functions as the overhead fund for the City and all administrative costs are to be allocated to user departments.

Insurance – This fund is used to account for the City's general liability insurance, including claims, legal and other expenses, and the City's workers' compensation insurance, including claims, legal and other expenses.

Vehicle Maintenance – This fund is used to account for the maintenance of the vehicular fleet and equipment utilized by the other departments within the City.

CITY OF AVALON
Internal Service Funds
Combining Statement of Net Position
Year ended June 30, 2014

	<u>General</u>		<u>Vehicle</u>	
	<u>Administration</u>	<u>Insurance</u>	<u>Maintenance</u>	<u>Total</u>
Assets:				
Current Assets:				
Cash and investments	\$ 167,172	625,828	324,803	1,117,803
Receivables, net:				
Accounts	-	106,780	979	107,759
Interest	49	110	-	159
Total current assets	<u>167,221</u>	<u>732,718</u>	<u>325,782</u>	<u>1,225,721</u>
Noncurrent assets:				
Capital assets, net	<u>51,048</u>	-	736,114	787,162
Total noncurrent assets	<u>51,048</u>	<u>-</u>	<u>736,114</u>	<u>787,162</u>
Total assets	<u>218,269</u>	<u>732,718</u>	<u>1,061,896</u>	<u>2,012,883</u>
Liabilities:				
Current liabilities:				
Accounts payable	171,416	139,369	31,519	342,304
Accrued liabilities	94,434	-	1,496	95,930
Current portion of noncurrent liabilities	<u>-</u>	<u>40,934</u>	<u>-</u>	<u>40,934</u>
Total current liabilities	<u>265,850</u>	<u>180,303</u>	<u>33,015</u>	<u>479,168</u>
Noncurrent liabilities:				
Claims payable	<u>-</u>	<u>353,950</u>	<u>-</u>	<u>353,950</u>
Total noncurrent liabilities	<u>-</u>	<u>353,950</u>	<u>-</u>	<u>353,950</u>
Total liabilities	<u>265,850</u>	<u>534,253</u>	<u>33,015</u>	<u>833,118</u>
Net Position:				
Net investment in capital assets	51,048	-	736,114	787,162
Unrestricted	<u>(98,629)</u>	<u>198,465</u>	<u>292,767</u>	<u>392,603</u>
Total net position	<u>\$ (47,581)</u>	<u>198,465</u>	<u>1,028,881</u>	<u>1,179,765</u>

CITY OF AVALON
Internal Service Funds
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2014

	General Administration	Insurance	Vehicle Maintenance	Total
Operating revenues:				
Charges for services	\$ 1,812,180	292,518	374,709	2,479,407
Claims adjustments	-	275,041	-	275,041
Other revenue	<u>45,753</u>	<u>9,883</u>	<u>445</u>	<u>56,081</u>
Total operating revenues	<u>1,857,933</u>	<u>577,442</u>	<u>375,154</u>	<u>2,810,529</u>
Operating expenses:				
Salaries and benefits	841,762	22,400	100,215	964,377
Contractual services	784,546	153,618	-	938,164
Office supplies	76,903	-	-	76,903
Utilities and rent	77,896	-	3,383	81,279
Repairs and maintenance	-	-	140,023	140,023
Operating supplies	70,273	-	25,133	95,406
Other services and charges	44,983	472,580	140	517,703
Depreciation	<u>5,199</u>	<u>-</u>	<u>143,669</u>	<u>148,868</u>
Total operating expenses	<u>1,901,562</u>	<u>648,598</u>	<u>412,563</u>	<u>2,962,723</u>
Operating income (loss)	<u>(43,629)</u>	<u>(71,156)</u>	<u>(37,409)</u>	<u>(152,194)</u>
Nonoperating revenues (expenses):				
Interest income	<u>297</u>	<u>670</u>	<u>-</u>	<u>967</u>
Total nonoperating revenues (expenses)	<u>297</u>	<u>670</u>	<u>-</u>	<u>967</u>
Income before capital contributions and transfers				
	<u>(43,332)</u>	<u>(70,486)</u>	<u>(37,409)</u>	<u>(151,227)</u>
Other financing sources (uses)				
Transfers in	<u>-</u>	<u>393,646</u>	<u>-</u>	<u>393,646</u>
Total other financing sources (uses)	<u>-</u>	<u>393,646</u>	<u>-</u>	<u>393,646</u>
Changes in net position	(43,332)	323,160	(37,409)	242,419
Net position, beginning of year	<u>(4,249)</u>	<u>(124,695)</u>	<u>1,066,290</u>	<u>937,346</u>
Net position, end of year	<u>\$ (47,581)</u>	<u>198,465</u>	<u>1,028,881</u>	<u>1,179,765</u>

CITY OF AVALON
Combining Statement of Cash Flows
Internal Service Funds
Year ended June 30, 2014

	<u>General Administration</u>	<u>Insurance</u>	<u>Vehicle Maintenance</u>	<u>Totals</u>
Cash Flows from Operating Activities:				
Cash received from interfund services provided	\$ 1,857,933	302,401	375,154	2,535,488
Cash payments to suppliers for goods and services	(906,582)	(636,065)	(159,616)	(1,702,263)
Cash payments to employees for services	(841,762)	(22,400)	(100,215)	(964,377)
Net cash provided by operating activities	<u>109,589</u>	<u>(356,064)</u>	<u>115,323</u>	<u>(131,152)</u>
Cash Flows from Noncapital Financing Activities:				
Cash received from other funds	-	393,646	-	393,646
Net cash provided by noncapital financing activities	<u>-</u>	<u>393,646</u>	<u>-</u>	<u>393,646</u>
Cash Flows from Capital and Related Financing Activities:				
Cash payments to acquire capital and other assets	(56,247)	-	(88,945)	(145,192)
Net cash provided by capital and related financing activities	<u>(56,247)</u>	<u>-</u>	<u>(88,945)</u>	<u>(145,192)</u>
Cash Flows from Investing Activities:				
Interest in investments	248	818	168	1,234
Net increase (decrease) in cash and cash equivalents	53,590	38,400	26,546	118,536
Cash and cash equivalents, beginning of year	<u>113,582</u>	<u>587,428</u>	<u>298,257</u>	<u>999,267</u>
Cash and cash equivalents, end of year	<u><u>167,172</u></u>	<u><u>625,828</u></u>	<u><u>324,803</u></u>	<u><u>1,117,803</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	(43,629)	(71,156)	(37,409)	(152,194)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	5,199	-	143,669	148,868
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	-	(106,665)	(743)	(107,408)
Increase (decrease) in accounts payable	58,334	119,722	9,589	187,645
Increase (decrease) in accrued liabilities	89,685	-	217	89,902
Increase (decrease) in claims payable	-	(297,965)	-	(297,965)
Net Cash Provided by Operating Activities:	<u><u>\$ 109,589</u></u>	<u><u>(356,064)</u></u>	<u><u>115,323</u></u>	<u><u>(131,152)</u></u>

There were no noncash capital, investing or financing activities for the year ended June 30, 2014.