

CITY OF AVALON, CALIFORNIA
FINANCIAL STATEMENTS
WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2011

CITY OF AVALON
FINANCIAL STATEMENTS
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CITY OF AVALON
FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of City Council
City of Avalon
Avalon, California

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 aggregate remaining fund information of the City of Avalon, California (the City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Avalon's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Avalon Medical Development Corporation, which represent 100% of the assets, net assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Avalon Medical Development Corporation, 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 City of Avalon, California, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 14 to the basic financial statements, the City restated fund balances and net assets as of July 1, 2010.

As explained in Notes 1H, 9 and 14, the City has implemented the provisions of Governmental Accounting and Standards Board Statement Number 45 and 54, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions" and "Fund Balance Reporting and Governmental Fund Type Definitions", respectively, for the year ended June 30, 2011.

As explained further in Note 13 to the basic financial statements, the Avalon Community Improvement Agency, a blended component unit of the City, was dissolved effective February 1, 2012 as a result of legislation enacted by the State of California. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with Government Auditing Standards, we have also issued our report dated June 26, 2013 on our consideration of the City of Avalon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management has omitted the Management's Discussion and Analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

The budgetary comparison schedules, as listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. This information is an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. The budgetary comparison schedules and related note have 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

White Nelson Dick Evans LLP

Irvine, California
June 26, 2013

BASIC FINANCIAL STATEMENTS

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GOVERNMENT- WIDE FINANCIAL STATEMENTS

THE STATEMENT OF NET ASSETS AND THE STATEMENT OF ACTIVITIES

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of this year's activities"? The Statement of Net Assets 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 assets and changes in them. You can think of the City's net assets - 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 assets 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 Assets 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) solidwaste.

Blended Component Unit - The City's governmental activities include the blending of one separate legal entity - the Avalon Community Improvement Agency. Although legally separate, this "component unit" is important because the City is financially accountable for it.

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

See independent auditors' report and notes to basic financial statements.

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CITY OF AVALON

STATEMENT OF NET ASSETS

June 30, 2011

| | Primary Government | | | Discrete Component Unit |
|--|----------------------------|-----------------------------|----------------------|--|
| | Governmental Activities | Business-type Activities | Total | Avalon Medical Development Corporation |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and investments | \$ 10,413,456 | \$ 4,361,990 | \$ 14,775,446 | \$ 1,136,534 |
| Receivables, net: | | | | |
| Accounts | 680,201 | 760,706 | 1,440,907 | 1,299,754 |
| Taxes | 937,728 | 21,779 | 959,507 | - |
| Interest | 22,287 | 4,238 | 26,525 | - |
| Internal balances | 309,649 | (309,649) | - | - |
| Due from primary government | - | - | - | 71,874 |
| Inventories | - | - | - | 43,361 |
| Prepaid items | - | - | - | 66,086 |
| Notes receivable | 582,670 | - | 582,670 | - |
| Restricted assets: | | | | |
| Cash and investments | 11,365,881 | - | 11,365,881 | - |
| Noncurrent assets: | | | | |
| Capital assets, not being depreciated | 3,100,164 | 520,152 | 3,620,316 | 1,122,489 |
| Capital assets, being depreciated, net | 17,590,665 | 11,533,168 | 29,123,833 | 1,424,383 |
| TOTAL ASSETS | 45,002,701 | 16,892,384 | 61,895,085 | 5,164,481 |
| LIABILITIES AND NET ASSETS | | | | |
| Current liabilities: | | | | |
| Accounts payable | 1,466,859 | 259,394 | 1,726,253 | 137,644 |
| Interest payable | 471,438 | 46,364 | 517,802 | - |
| Accrued liabilities | 54,930 | 45,157 | 100,087 | 270,536 |
| Other liabilities | 5,544 | - | 5,544 | - |
| Unearned revenue | 1,482,670 | - | 1,482,670 | - |
| Due to component unit | 71,874 | - | 71,874 | - |
| Noncurrent liabilities: | | | | |
| Due within one year | 828,029 | 116,024 | 944,053 | - |
| Due in more than one year | 33,924,091 | 1,180,329 | 35,104,420 | - |
| TOTAL LIABILITIES | 38,305,435 | 1,647,268 | 39,952,703 | 408,180 |
| NET ASSETS: | | | | |
| Invested in capital assets, net of related debt | 20,690,829 | 11,028,897 | 31,719,726 | 2,546,872 |
| Restricted for: | | | | |
| Community development | 9,891,839 | - | 9,891,839 | - |
| Debt service | 6,046,657 | - | 6,046,657 | - |
| Transportation | 261,678 | - | 261,678 | - |
| Unrestricted (deficit) | (30,193,737) | 4,216,219 | (25,977,518) | 2,209,429 |
| TOTAL NET ASSETS | \$ 6,697,266 | \$ 15,245,116 | \$ 21,942,382 | \$ 4,756,301 |

See independent auditors' report and notes to basic financial statements.

CITY OF AVALON

STATEMENT OF ACTIVITIES

For the year ended June 30, 2011

| Functions/programs | Expenses | Program Revenue | | |
|--|----------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 1,317,461 | \$ 181,394 | \$ 100,000 | \$ - |
| Fire and ambulance | 2,099,081 | 250,934 | - | - |
| Planning, building and engineering | 428,793 | 265,145 | - | - |
| Community services | 341,412 | 162,704 | 23,824 | 29,170 |
| Public works | 1,311,764 | 30,298 | 89,840 | 430,498 |
| General government | 9,179,336 | 36,163 | 1,046,061 | - |
| Interest on long term debt | 1,473,047 | - | - | - |
| Total governmental activities | <u>16,150,894</u> | <u>926,638</u> | <u>1,259,725</u> | <u>459,668</u> |
| Business-type activities: | | | | |
| Harbor | 6,278,420 | 5,782,251 | - | - |
| Sewer | 1,617,522 | 1,440,487 | - | - |
| Saltwater | 346,196 | 384,929 | - | - |
| Solidwaste | 1,939,222 | 1,875,115 | 12,431 | - |
| Total business-type activities | <u>10,181,360</u> | <u>9,482,782</u> | <u>12,431</u> | <u>-</u> |
| Total primary government | <u>\$ 26,332,254</u> | <u>\$ 10,409,420</u> | <u>\$ 1,272,156</u> | <u>\$ 459,668</u> |
| Discrete Component Unit: | | | | |
| Avalon Medical Development Corporation | <u>\$ 7,372,352</u> | <u>\$ 6,857,225</u> | <u>\$ 149,662</u> | <u>\$ 38,175</u> |

General revenues:

Taxes:

Property taxes

Sales taxes

Transient taxes

Property taxes in lieu of sales taxes

Other taxes

Unrestricted grants and contributions

Investment earnings

Total general revenues and transfers

Net income (loss) before capital contributions

Capital contributions

Change in net assets

Net assets - beginning of year, as restated (Note 14)

Net assets - end of year

See independent auditors' report and notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

| Primary Government | | | Discrete Component Unit |
|----------------------------|-----------------------------|----------------------|--|
| Governmental Activities | Business-type Activities | Total | Avalon Medical Development Corporation |
| \$ (1,036,067) | \$ - | \$ (1,036,067) | \$ - |
| (1,848,147) | - | (1,848,147) | - |
| (163,648) | - | (163,648) | - |
| (125,714) | - | (125,714) | - |
| (761,128) | - | (761,128) | - |
| (8,097,112) | - | (8,097,112) | - |
| (1,473,047) | - | (1,473,047) | - |
| <u>(13,504,863)</u> | <u>-</u> | <u>(13,504,863)</u> | <u>-</u> |
| - | (496,169) | (496,169) | - |
| - | (177,035) | (177,035) | - |
| - | 38,733 | 38,733 | - |
| - | (51,676) | (51,676) | - |
| - | (686,147) | (686,147) | - |
| <u>(13,504,863)</u> | <u>(686,147)</u> | <u>(14,191,010)</u> | <u>-</u> |
| - | - | - | (327,290) |
| 5,954,248 | - | 5,954,248 | - |
| 911,550 | - | 911,550 | 415,852 |
| 3,488,670 | - | 3,488,670 | - |
| 166,366 | - | 166,366 | - |
| 914,281 | 128,496 | 1,042,777 | - |
| 221,400 | - | 221,400 | - |
| 89,663 | 18,419 | 108,082 | - |
| <u>11,746,178</u> | <u>146,915</u> | <u>11,893,093</u> | <u>415,852</u> |
| (1,758,685) | (539,232) | (2,297,917) | 88,562 |
| - | 329,540 | 329,540 | - |
| (1,758,685) | (209,692) | (1,968,377) | 88,562 |
| <u>8,455,951</u> | <u>15,454,808</u> | <u>23,910,759</u> | <u>4,667,739</u> |
| <u>\$ 6,697,266</u> | <u>\$ 15,245,116</u> | <u>\$ 21,942,382</u> | <u>\$ 4,756,301</u> |

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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 and the City's transportation system.

Low/Moderate Income Housing - This fund is used to account for monies set aside by the Avalon Community Improvement Agency (the Agency) for future low/moderate income housing needs.

DEBT SERVICE FUND

The Debt Service Fund is used to account for the accumulation of resources for and the payment of, principal and interest on the Agency's long-term debt obligations. The Debt Service Fund has been classified as a major fund in the accompanying financial statements.

CAPITAL PROJECTS FUND

The Capital Projects Fund is used to account for the Agency's acquisition and construction of major capital facilities. The Capital Projects Fund has been classified as a major fund in the accompanying financial statements.

OTHER GOVERNMENTAL FUNDS

Other Governmental Funds is the aggregate of all the other governmental funds.

See independent auditors' report and notes to basic financial statements.

CITY OF AVALON

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

| | General Fund | Local Transportation Special Revenue Fund |
|---------------------------------|---------------------|--|
| ASSETS | | |
| Cash and investments | \$ 2,575,030 | \$ - |
| Restricted cash and investments | - | 900,339 |
| Receivables, net: | | |
| Accounts | 68,029 | 602,176 |
| Taxes | 677,188 | - |
| Interest | 4,589 | - |
| Notes receivable | 251,750 | - |
| Due from other funds | 1,326,789 | - |
| Advances to other funds | - | - |
| | <u> </u> | <u> </u> |
| TOTAL ASSETS | <u>\$ 4,903,375</u> | <u>\$ 1,502,515</u> |
| LIABILITIES AND FUND BALANCES | | |
| LIABILITIES: | | |
| Accounts payable | \$ 573,063 | \$ 41,431 |
| Accrued liabilities | 40,665 | - |
| Due to component unit | 71,874 | - |
| Due to other funds | 566,803 | 558,892 |
| Advances from other funds | - | - |
| Deferred revenue | 330,118 | 924,653 |
| Other liabilities | 5,544 | - |
| | <u> </u> | <u> </u> |
| TOTAL LIABILITIES | <u>1,588,067</u> | <u>1,524,976</u> |
| FUND BALANCES (DEFICIT): | | |
| Restricted: | | |
| Low and moderate income housing | - | - |
| Debt service requirements | - | - |
| Capital projects | - | - |
| Street projects | - | - |
| Unassigned | 3,315,308 | (22,461) |
| | <u> </u> | <u> </u> |
| TOTAL FUND BALANCES (DEFICIT) | <u>3,315,308</u> | <u>(22,461)</u> |
| | <u>\$ 4,903,375</u> | <u>\$ 1,502,515</u> |

See independent auditors' report and notes to basic financial statements.

| Low/Moderate Income Housing Special Revenue Fund | Debt Service Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|---|-------------------------|-----------------------------|--------------------------------|--------------------------------|
| \$ 2,535,129 | \$ 3,772 | \$ 3,896,278 | \$ 267,233 | \$ 9,277,442 |
| 4,343,885 | - | 6,046,657 | - | 11,290,881 |
| - | - | - | 4,367 | 674,572 |
| 52,108 | - | 208,432 | - | 937,728 |
| 4,243 | - | 12,190 | 233 | 21,255 |
| 215,000 | - | - | 115,920 | 582,670 |
| - | - | 209,609 | - | 1,536,398 |
| 1,000,000 | - | - | - | 1,000,000 |
| <u>\$ 8,150,365</u> | <u>\$ 3,772</u> | <u>\$ 10,373,166</u> | <u>\$ 387,753</u> | <u>\$ 25,320,946</u> |
| | | | | |
| \$ 6,167 | \$ - | \$ 722,274 | \$ 31,905 | \$ 1,374,840 |
| - | - | - | 6,151 | 46,816 |
| - | - | - | - | 71,874 |
| 141,950 | - | 499,644 | 126,303 | 1,893,592 |
| - | - | 1,000,000 | - | 1,000,000 |
| 1,215,000 | - | - | 115,920 | 2,585,691 |
| - | - | - | - | 5,544 |
| <u>1,363,117</u> | <u>-</u> | <u>2,221,918</u> | <u>280,279</u> | <u>6,978,357</u> |
| | | | | |
| 6,787,248 | - | - | - | 6,787,248 |
| - | 3,772 | 6,046,657 | - | 6,050,429 |
| - | - | 2,104,591 | - | 2,104,591 |
| - | - | - | 261,678 | 261,678 |
| - | - | - | (154,204) | 3,138,643 |
| <u>6,787,248</u> | <u>3,772</u> | <u>8,151,248</u> | <u>107,474</u> | <u>18,342,589</u> |
| <u>\$ 8,150,365</u> | <u>\$ 3,772</u> | <u>\$ 10,373,166</u> | <u>\$ 387,753</u> | <u>\$ 25,320,946</u> |

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CITY OF AVALON

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2011

| | | |
|---|------------------|----------------------------|
| Fund balances for governmental funds | | \$ 18,342,589 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds: | | |
| Land | \$ 1,698,826 | |
| Construction in progress | 1,401,338 | |
| Buildings, net of \$2,081,809 accumulated depreciation | 10,362,492 | |
| Improvements other than building, net of \$4,274,636 accumulated depreciation | 6,031,561 | |
| Machinery and equipment, net of \$1,082,539 accumulated depreciation | <u>340,408</u> | |
| | | 19,834,625 |
| Certain receivables are not available to pay for current period expenditures, and therefore are deferred in the governmental funds. | | 103,021 |
| Long-term advances are not available to pay for current period expenditures, and therefore are deferred in the governmental funds. | | 1,000,000 |
| Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt and annual remarketing/line of credit fees associated with long-term debt are not accrued in governmental funds, but rather are recognized as expenditures when due. All liabilities, both current and long-term, are reported in the Statement of Net Assets. Balances at June 30, 2011 are: | | |
| Tax allocation bonds | \$ (29,560,000) | |
| County advances | (3,249,451) | |
| Compensated absences | (313,176) | |
| OPEB obligation | <u>(964,907)</u> | |
| | | (34,087,534) |
| Interest expenditures are recognized in the governmental funds when due. Interest expense is recorded on the accrual basis in the government-wide financial statements, and therefore, these statements reflect a liability for accrued interest payable. | | (471,438) |
| 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 Assets. | | <u>1,976,003</u> |
| Net assets of governmental activities | | <u><u>\$ 6,697,266</u></u> |

See independent auditors' report and notes to basic financial statements.

CITY OF AVALON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the year ended June 30, 2011

| | General Fund | Local Transportation Special Revenue Fund |
|---|---------------------|--|
| REVENUES: | | |
| Taxes | \$ 5,227,177 | \$ - |
| Licenses, permits and fees | 478,684 | - |
| Fines, forfeitures and penalties | 21,885 | - |
| Investment income | 24,959 | 339 |
| Intergovernmental revenue | 1,022,994 | 1,019,448 |
| Charges for services | 465,375 | - |
| Other revenue | 146,097 | - |
| TOTAL REVENUES | <u>7,387,171</u> | <u>1,019,787</u> |
| EXPENDITURES: | | |
| Current: | | |
| Public safety | 1,294,594 | - |
| Fire and ambulance | 1,981,287 | - |
| Planning, building and engineering | 428,793 | - |
| Community services | 309,625 | - |
| Public works | 786,367 | - |
| General government: | | |
| Human services | - | - |
| General office | - | - |
| Services and charges | 930,818 | - |
| Contract services | 462,050 | 1,026,390 |
| Special departmental | - | 9,533 |
| Other | 231,623 | - |
| SERAF | - | - |
| Capital outlay | 944,613 | - |
| Debt service: | | |
| Principal | - | - |
| Interest | - | - |
| TOTAL EXPENDITURES | <u>7,369,770</u> | <u>1,035,923</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>17,401</u> | <u>(16,136)</u> |
| OTHER FINANCING SOURCES (USES): | | |
| Proceeds from advances from LA County | - | - |
| Transfers in | - | - |
| Transfers out | (159,547) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(159,547)</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | (142,146) | (16,136) |
| FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR, AS RESTATED | <u>3,457,454</u> | <u>(6,325)</u> |
| FUND BALANCES (DEFICIT) AT END OF YEAR | <u>\$ 3,315,308</u> | <u>\$ (22,461)</u> |

See independent auditors' report and notes to basic financial statements.

| Low/Moderate Income Housing Special Revenue Fund | Debt Service Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|---|-------------------------|-----------------------------|--------------------------------|--------------------------------|
| \$ 1,136,420 | \$ - | \$ 4,545,680 | \$ 88,698 | \$ 10,997,975 |
| - | - | - | - | 478,684 |
| - | - | - | 74,832 | 96,717 |
| 15,798 | - | 45,519 | 1,437 | 88,052 |
| - | - | 747,831 | 29,170 | 2,819,443 |
| - | - | - | 122,141 | 587,516 |
| 450 | - | 27,766 | 23,241 | 197,554 |
| <u>1,152,668</u> | <u>-</u> | <u>5,366,796</u> | <u>339,519</u> | <u>15,265,941</u> |
| - | - | - | - | 1,294,594 |
| - | - | - | - | 1,981,287 |
| - | - | - | - | 428,793 |
| - | - | - | - | 309,625 |
| - | - | - | - | 786,367 |
| 179,725 | - | 807,989 | 540,930 | 1,528,644 |
| - | - | - | 1,176 | 1,176 |
| 215,350 | - | - | 3,017 | 1,149,185 |
| 41,578 | - | 183,289 | 253,716 | 1,967,023 |
| - | - | 2,878,797 | 22,803 | 2,911,133 |
| - | - | 140,085 | - | 371,708 |
| - | - | 303,993 | - | 303,993 |
| - | - | 355,430 | - | 1,300,043 |
| - | 790,000 | - | - | 790,000 |
| - | 1,446,725 | 34,825 | - | 1,481,550 |
| <u>436,653</u> | <u>2,236,725</u> | <u>4,704,408</u> | <u>821,642</u> | <u>16,605,121</u> |
| <u>716,015</u> | <u>(2,236,725)</u> | <u>662,388</u> | <u>(482,123)</u> | <u>(1,339,180)</u> |
| - | - | 337,309 | - | 337,309 |
| - | 2,236,725 | 519,966 | 217,973 | 2,974,664 |
| (519,966) | - | (2,236,725) | (58,426) | (2,974,664) |
| <u>(519,966)</u> | <u>2,236,725</u> | <u>(1,379,450)</u> | <u>159,547</u> | <u>337,309</u> |
| 196,049 | - | (717,062) | (322,576) | (1,001,871) |
| <u>6,591,199</u> | <u>3,772</u> | <u>8,868,310</u> | <u>430,050</u> | <u>19,344,460</u> |
| <u>\$ 6,787,248</u> | <u>\$ 3,772</u> | <u>\$ 8,151,248</u> | <u>\$ 107,474</u> | <u>\$ 18,342,589</u> |

CITY OF AVALON

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2011

Net change in fund balances - total governmental funds \$ (1,001,871)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as a depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

| | | |
|----------------------|------------------|---------|
| Capital outlay | \$ 1,093,725 | |
| Depreciation expense | <u>(833,983)</u> | |
| | | 259,742 |

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 affects the current financial resources of governmental funds. None of these transactions, however, has any effect on net assets:

| | | |
|--------------------------------|------------------|---------|
| Principal payments | \$ 790,000 | |
| Proceeds from advances | (337,319) | |
| Change in compensated absences | (34,178) | |
| Change in OPEB obligation | <u>(307,945)</u> | |
| | | 110,558 |

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:

| | | |
|----------------------------------|--------------|-----------|
| Property tax | \$ 20,166 | |
| Capital grants and contributions | (923,360) | |
| Other revenue | <u>3,852</u> | |
| | | (899,342) |

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.

(236,275)

Some expenses reported on the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

| | | |
|----------------------------|--|--------------|
| Change in accrued interest | | <u>8,503</u> |
|----------------------------|--|--------------|

Change in net assets of governmental activities \$ (1,758,685)

See independent auditors' report and notes to basic financial statements.

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. These funds are used for the operation and maintenance of sewer disposal facilities and the financing of construction outlet sewers.

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 or agencies to other departments or agencies of the City and to other government units, on a cost reimbursement basis.

See independent auditors' report and notes to basic financial statements.

CITY OF AVALON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2011

| | | Business-type Activities- Enterprise Funds | |
|---|--|---|--------------|
| | | Harbor | Sewer |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and investments | | \$ 826,059 | \$ 2,535,345 |
| Restricted cash and investments | | - | - |
| Receivables, net: | | | |
| Accounts | | 563,885 | 80,158 |
| Taxes | | 21,779 | - |
| Interest | | 1,025 | 2,408 |
| Due from other funds | | - | - |
| TOTAL CURRENT ASSETS | | 1,412,748 | 2,617,911 |
| CAPITAL ASSETS: | | | |
| Nondepreciable | | 458,792 | 61,360 |
| Depreciable | | 10,707,078 | 9,318,587 |
| Total capital assets | | 11,165,870 | 9,379,947 |
| Less accumulated depreciation | | (5,692,717) | (4,197,571) |
| CAPITAL ASSETS, NET | | 5,473,153 | 5,182,376 |
| TOTAL ASSETS | | 6,885,901 | 7,800,287 |
| LIABILITIES | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable | | 108,936 | 93,523 |
| Interest payable | | 46,364 | - |
| Accrued liabilities | | 44,006 | 478 |
| Due to other funds | | 226,981 | 61,567 |
| Current portion of noncurrent liabilities | | 116,024 | - |
| TOTAL CURRENT LIABILITIES | | 542,311 | 155,568 |
| NONCURRENT LIABILITIES: | | | |
| Compensated absences | | 247,866 | - |
| OPEB obligation | | - | 4,722 |
| Claims payable | | - | - |
| Loans payable | | 921,445 | - |
| TOTAL NONCURRENT LIABILITIES | | 1,169,311 | 4,722 |
| TOTAL LIABILITIES | | 1,711,622 | 160,290 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | | 4,448,730 | 5,182,376 |
| Restricted for insurance | | - | - |
| Unrestricted | | 725,549 | 2,457,621 |
| TOTAL NET ASSETS | | \$ 5,174,279 | \$ 7,639,997 |

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds

Net assets of business-type activities

See independent auditors' report and notes to basic financial statements.

| Business-type Activities- Enterprise Funds | | Total Enterprise Funds | Governmental Activities- Internal Service Funds |
|---|---------------------|------------------------------|--|
| Saltwater | Solidwaste | | |
| \$ 746,703 | \$ 253,883 | \$ 4,361,990 | \$ 1,136,014 |
| - | - | - | 75,000 |
| 16,654 | 100,009 | 760,706 | 5,629 |
| - | - | 21,779 | - |
| 485 | 320 | 4,238 | 1,032 |
| - | - | - | 660,310 |
| <u>763,842</u> | <u>354,212</u> | <u>5,148,713</u> | <u>1,877,985</u> |
| - | - | 520,152 | - |
| <u>1,065,546</u> | <u>1,032,725</u> | <u>22,123,936</u> | <u>2,304,884</u> |
| <u>1,065,546</u> | <u>1,032,725</u> | <u>22,644,088</u> | <u>2,304,884</u> |
| <u>(504,263)</u> | <u>(196,217)</u> | <u>(10,590,768)</u> | <u>(1,448,680)</u> |
| <u>561,283</u> | <u>836,508</u> | <u>12,053,320</u> | <u>856,204</u> |
| <u>1,325,125</u> | <u>1,190,720</u> | <u>17,202,033</u> | <u>2,734,189</u> |
| 16,520 | 40,415 | 259,394 | 92,019 |
| - | - | 46,364 | - |
| 478 | 195 | 45,157 | 8,114 |
| 14,568 | - | 303,116 | - |
| - | - | 116,024 | 2,370 |
| <u>31,566</u> | <u>40,610</u> | <u>770,055</u> | <u>102,503</u> |
| - | - | 247,866 | 45,037 |
| 4,722 | 1,574 | 11,018 | - |
| - | - | - | 617,179 |
| - | - | 921,445 | - |
| <u>4,722</u> | <u>1,574</u> | <u>1,180,329</u> | <u>662,216</u> |
| <u>36,288</u> | <u>42,184</u> | <u>1,950,384</u> | <u>764,719</u> |
| 561,283 | 836,508 | 11,028,897 | 856,204 |
| - | - | - | 75,000 |
| <u>727,554</u> | <u>312,028</u> | <u>4,222,752</u> | <u>1,038,266</u> |
| <u>\$ 1,288,837</u> | <u>\$ 1,148,536</u> | 15,251,649 | <u>\$ 1,969,470</u> |
| | | (6,533) | |
| | | <u>\$ 15,245,116</u> | |

CITY OF AVALON

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS

June 30, 2011

| | Business-type Activities- Enterprise Funds | |
|---|---|---------------------|
| | Harbor | Sewer |
| OPERATING REVENUES: | | |
| Charges for services | \$ 5,778,674 | \$ 1,440,487 |
| Other revenue | 3,577 | - |
| TOTAL OPERATING REVENUES | <u>5,782,251</u> | <u>1,440,487</u> |
| OPERATING EXPENSES: | | |
| Salaries and benefits | 3,426,239 | 174,622 |
| Contractual services | 826,170 | 853,421 |
| Office supplies | 3,358 | - |
| Utilities and rent | 232,464 | 54,370 |
| Repairs and maintenance | 345,899 | 37,266 |
| Operating supplies | 26,479 | - |
| Other services and charges | 905,464 | 31,906 |
| Depreciation | 250,424 | 417,037 |
| TOTAL OPERATING EXPENSES | <u>6,016,497</u> | <u>1,568,622</u> |
| OPERATING INCOME (LOSS) | <u>(234,246)</u> | <u>(128,135)</u> |
| NONOPERATING REVENUES (EXPENSES): | | |
| Admission taxes | 128,496 | - |
| Grants and other revenues | - | - |
| Interest income | 5,399 | 9,289 |
| Interest expense | (50,274) | - |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>83,621</u> | <u>9,289</u> |
| NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | (150,625) | (118,846) |
| CAPITAL CONTRIBUTIONS | - | 329,540 |
| CHANGE IN NET ASSETS | (150,625) | 210,694 |
| NET ASSETS - BEGINNING OF YEAR | <u>5,324,904</u> | <u>7,429,303</u> |
| NET ASSETS - END OF YEAR | <u>\$ 5,174,279</u> | <u>\$ 7,639,997</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | |
| Change in net assets of business-type activities | | |

See independent auditors' report and notes to basic financial statements.

| Business-type Activities- Enterprise Funds | | Total Enterprise Funds | Governmental Activities- Internal Service Funds |
|---|---------------------|------------------------------|--|
| Saltwater | Solidwaste | | |
| \$ 384,929 | \$ 1,875,115 | \$ 9,479,205 | \$ 1,949,894 |
| - | - | 3,577 | - |
| <u>384,929</u> | <u>1,875,115</u> | <u>9,482,782</u> | <u>1,949,894</u> |
| 89,978 | 220,120 | 3,910,959 | 722,954 |
| 190,882 | 1,532,439 | 3,402,912 | 392,996 |
| - | - | 3,358 | 61,648 |
| - | - | 286,834 | 58,198 |
| 2,105 | 49,322 | 434,592 | 264,419 |
| - | - | 26,479 | 63,887 |
| - | 9,398 | 946,768 | 766,267 |
| <u>54,710</u> | <u>71,232</u> | <u>793,403</u> | <u>185,471</u> |
| <u>337,675</u> | <u>1,882,511</u> | <u>9,805,305</u> | <u>2,515,840</u> |
| <u>47,254</u> | <u>(7,396)</u> | <u>(322,523)</u> | <u>(565,946)</u> |
| - | - | 128,496 | - |
| - | 12,431 | 12,431 | - |
| 2,818 | 913 | 18,419 | 3,890 |
| - | - | (50,274) | - |
| <u>2,818</u> | <u>13,344</u> | <u>109,072</u> | <u>3,890</u> |
| 50,072 | 5,948 | (213,451) | (562,056) |
| - | - | 329,540 | - |
| 50,072 | 5,948 | 116,089 | (562,056) |
| <u>1,238,765</u> | <u>1,142,588</u> | | <u>2,531,526</u> |
| <u>\$ 1,288,837</u> | <u>\$ 1,148,536</u> | | <u>\$ 1,969,470</u> |
| | | <u>(325,781)</u> | |
| | | <u>\$ (209,692)</u> | |

CITY OF AVALON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2011

| | Business-type Activities- Enterprise Funds | |
|--|---|--------------|
| | Harbor | Sewer |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | \$ 5,791,067 | \$ 1,394,793 |
| Cash received from interfund services provided | - | - |
| Cash payments to suppliers for goods and services | (2,505,407) | (907,576) |
| Cash payments to employees for services | (3,426,598) | (169,899) |
| | | |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | (140,938) | 317,318 |
| CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Admission taxes | 131,340 | - |
| Grants and other revenues | - | - |
| Cash received from other funds | 15,471 | 3,723 |
| Cash paid to other funds | - | - |
| | | |
| NET CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES | 146,811 | 3,723 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Capital assets purchased | (80,942) | - |
| Principal paid on long-term debt | (98,523) | - |
| Interest paid on long-term debt | (50,579) | - |
| | | |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | (230,044) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest on investments | 5,767 | 9,559 |
| | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (218,404) | 330,600 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 1,044,463 | 2,204,745 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 826,059 | \$ 2,535,345 |

See independent auditors' report and notes to basic financial statements.

| Business-type Activities- Enterprise Funds | | Total Enterprise Funds | Governmental Activities- Internal Service Funds |
|---|-------------------|------------------------------|--|
| Saltwater | Solidwaste | | |
| \$ 377,452 | \$ 1,833,572 | \$ 9,396,884 | \$ - |
| - | - | - | 1,996,412 |
| (333,149) | (1,669,988) | (5,416,120) | (1,069,173) |
| (85,254) | (218,546) | (3,900,297) | (714,410) |
| <u>(40,951)</u> | <u>(54,962)</u> | <u>80,467</u> | <u>212,829</u> |
| - | - | 131,340 | - |
| - | 12,431 | 12,431 | - |
| 925 | - | 20,119 | - |
| - | - | - | (38,863) |
| <u>925</u> | <u>12,431</u> | <u>163,890</u> | <u>(38,863)</u> |
| (225) | (8,000) | (89,167) | (47,997) |
| - | - | (98,523) | - |
| - | - | (50,579) | - |
| <u>(225)</u> | <u>(8,000)</u> | <u>(238,269)</u> | <u>(47,997)</u> |
| <u>3,235</u> | <u>933</u> | <u>19,494</u> | <u>4,012</u> |
| (37,016) | (49,598) | 25,582 | 129,981 |
| <u>783,719</u> | <u>303,481</u> | <u>4,336,408</u> | <u>1,081,033</u> |
| <u>\$ 746,703</u> | <u>\$ 253,883</u> | <u>\$ 4,361,990</u> | <u>\$ 1,211,014</u> |

(Continued)

CITY OF AVALON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(CONTINUED)

June 30, 2011

| | Business-type Activities- Enterprise Funds | |
|--|---|--------------|
| | Harbor | Sewer |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| Operating income (loss) | \$ (234,246) | \$ (128,135) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 250,424 | 417,037 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 6,530 | (45,694) |
| Increase (decrease) in accounts payable | (108,832) | 70,094 |
| Increase (decrease) in accrued liabilities | (56,741) | (706) |
| Increase (decrease) in deferred revenue | 2,286 | - |
| Increase (decrease) in compensated absences | (359) | - |
| Increase (decrease) in OPEB obligation | - | 4,722 |
| Increase (decrease) in claims payable | - | - |
| Total adjustments | 93,308 | 445,453 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ (140,938) | \$ 317,318 |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Contributions of capital assets from government | \$ - | \$ 329,540 |

See independent auditors' report and notes to basic financial statements.

| Business-type Activities- Enterprise Funds | | Total Enterprise Funds | Governmental |
|---|-------------|------------------------------|--|
| Saltwater | Solidwaste | | Activities- Internal Service Funds |
| \$ 47,254 | \$ (7,396) | \$ (322,523) | \$ (565,946) |
| 54,710 | 71,232 | 793,403 | 185,471 |
| (7,477) | (41,543) | (88,184) | 46,518 |
| (139,455) | (79,024) | (257,217) | (4,383) |
| (705) | 195 | (57,957) | (18,554) |
| - | - | 2,286 | - |
| - | - | (359) | 8,544 |
| 4,722 | 1,574 | 11,018 | - |
| - | - | - | 561,179 |
| (88,205) | (47,566) | 402,990 | 778,775 |
| \$ (40,951) | \$ (54,962) | \$ 80,467 | \$ 212,829 |
| \$ - | \$ - | \$ 329,540 | \$ - |

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FIDUCIARY FUND FINANCIAL STATEMENTS

Emergency Relief Agency Fund - This fund accepts charitable donations for food and other expenses for indigent Avalon residents.

See independent auditors' report and notes to basic financial statements.

CITY OF AVALON

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND

June 30, 2011

| | | Emergency Relief Agency Fund |
|----------------------|--------------|---------------------------------------|
| | ASSETS | |
| Cash and investments | | \$ 927 |
| Interest receivable | | <u>1</u> |
| | TOTAL ASSETS | <u>\$ 928</u> |
| | LIABILITIES | |
| Other liabilities | | <u>\$ 928</u> |

See independent auditors' report and notes to basic financial statements

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

I. 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 (the City), organization 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 units of the City, as described below, are legally separate entities 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 blended method. Despite being a legally separate entity, this component unit is so intertwined with the primary government that it is in substance the same as the primary government.

Blended Component Unit - The Avalon Community Improvement Agency (the Agency):

The Agency was established pursuant to the State of California Health and Safety Codes. Its purpose is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational and public facilities. The Agency is administered by the City Council, who maintains financial accountability for the Agency. The City Council, acting as the Agency's governing board, approves the budget, redevelopment plans, development agreements and debt assumed by the Agency. The Agency is therefore considered a component unit of the City and has been blended into the City's basic financial statements for reporting purposes. The Agency was dissolved effective February 1, 2012 as a result of legislation enacted by the State of California (see Note 13).

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

A. Description of the Reporting Entity (Continued):

**Blended Component Unit - The Avalon Community Improvement Agency (the Agency)
(Continued):**

The separate financial statements of the Agency can be obtained from the City's Finance Department located at the Avalon City Hall.

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.

B. Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Government-Wide and Fund Financial Statements (Continued):

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds, other governmental funds in the aggregate, and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Under the economic resources measurement focus, all assets and liabilities (current and long-term) are reported. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year, which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all the eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for services. Operating expenses for the proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, generally only current assets and liabilities are reported in the governmental funds. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, except for principal and interest on long-term liabilities, claims and judgments, and compensated absences which are recognized as expenditures only when payment is due.

Franchise taxes, property taxes, grant revenues, special assessments, certain intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the government.

The accounts of the City are organized and operated on the basis of funds, each of which is considered a separate set of self-balancing set of accounts, established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The City reports the following major governmental funds:

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.

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.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued):

Major Governmental Funds (Continued):

The Low/Moderate Income Housing Special Revenue Fund is used to account for monies set aside by the Avalon Community Improvement Agency (the Agency) for future low/moderate income housing needs. This fund was dissolved effective February 1, 2012 as a result of legislation enacted by the State of California (see Note 13).

The Debt Service Fund is used to account for the accumulation of resources for and the payment of, principal and interest on long-term liabilities. This fund was dissolved effective February 1, 2012 as a result of legislation enacted by the State of California (see Note 13).

The Capital Projects Fund is used to account for the financial resources to be used for the acquisition and construction of major facilities. This fund was dissolved effective February 1, 2012 as a result of legislation enacted by the State of California (see Note 13).

The City reports the following major enterprise funds:

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

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 outlet sewers.

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

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

Additionally, 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.

The Fiduciary Fund is used to account for funds received by the City as an agent for emergency relief for indigent Avalon residents.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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.

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 assets. 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 accrue.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

H. Classification of Net Assets and Governmental Fund Balances:

Classification of Net Assets:

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

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

Restricted Net Assets - 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 Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

Governmental Fund Balance Classifications:

The City has implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", for the year ended June 30, 2011. The fund balances reported on the fund statements now consist of the following categories:

Nonspendable Fund Balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed Fund Balance - This classification includes amounts that have been limited to specific purposes as defined through adoption of a resolution by the City Council, the highest level of decision making authority of the City. These commitments may be changed or lifted but only by the same formal action that was used to impose the constraint originally. City Council action to commit fund balance must occur within the fiscal reporting period while the amount committed may be subsequently determined.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

H. Classification of Net Assets and Governmental Fund Balances (Continued):

Governmental Fund Balance Classifications (Continued):

Assigned Fund Balance - This classification includes amounts that are intended to be used by the City for specific purposes through the City Council budgetary actions but do not meet the criteria to be classified as restricted or committed. Intent is expressed by (a) the City Council or (b) a body or official to which the City Council has delegated the authority to assign amounts to be used for specific purposes. The City Council has not delegated this authority to another body or official. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned Fund Balance - This classification includes the residual balance for the government's general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the City's policy is to apply restricted fund balance first.

When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

I. 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.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

I. Property Taxes (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 |

J. 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.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments at June 30, 2011 are classified in the accompanying financial statements as follows:

| | Government- Wide Statement of Net Assets | Fiduciary Fund Statement of Assets and Liabilities | Total | Discrete Component Unit <u>The Hospital</u> |
|----------------------|---|--|----------------------|--|
| Unrestricted assets: | | | | |
| Cash and investments | \$ 14,775,446 | \$ 927 | \$ 14,776,373 | \$ 1,136,534 |
| Restricted assets: | | | | |
| Cash and investments | <u>11,365,881</u> | <u>-</u> | <u>11,365,881</u> | <u>-</u> |
| Total | <u>\$ 26,141,327</u> | <u>\$ 927</u> | <u>\$ 26,142,254</u> | <u>\$ 1,136,534</u> |

Cash and investments at June 30, 2011 consisted of the following:

| | Primary Government | Discrete Component Unit <u>The Hospital</u> |
|-----------------|-----------------------|--|
| Petty cash | \$ 500 | \$ 850 |
| Demand deposits | 1,115,505 | 256,828 |
| Investments | <u>25,026,249</u> | <u>878,856</u> |
| Total | <u>\$ 26,142,254</u> | <u>\$ 1,136,534</u> |

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

2. CASH AND INVESTMENTS (CONTINUED):

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 Deposit | 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 discrete component unit's (the Hospital's) investment policy are time certificates of deposit and the Local Agency Investment Fund (LAIF).

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 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.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

2. CASH AND INVESTMENTS (CONTINUED):

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>Remaining Maturity (in Months) 12 Months or Less</u> |
|--|---|
| Primary Government: | |
| Local Agency Investment Fund | <u>\$ 14,635,707</u> |
| Investments held by bond trustee: | |
| Local Agency Investment Fund | 7,536,911 |
| Money market mutual funds | <u>2,853,631</u> |
| Total investments held by bond trustee | <u>10,390,542</u> |
| Total Primary Government | <u>\$ 25,026,249</u> |
| Discrete Component Unit: | |
| Local Agency Investment Fund | <u>\$ 878,856</u> |

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

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:

| Investment Type | Total as of June 30, 2011 | Minimum Legal Rating | AAA | Unrated |
|--|---------------------------------|----------------------------|-------------------------|--------------------------|
| Primary Government: | | | | |
| Local Agency Investment Fund | \$ 14,635,707 | N/A | \$ - | \$ 14,635,707 |
| Investments held by bond trustee: | | | | |
| Local Agency Investment Fund | 7,536,911 | N/A | - | 7,536,911 |
| Money market mutual funds | <u>2,853,631</u> | A | <u>2,853,631</u> | <u>-</u> |
| Total investments held by bond trustee | <u>10,390,542</u> | | <u>2,853,631</u> | <u>7,536,911</u> |
| Total Primary Government | <u>\$ 25,026,249</u> | | <u>\$ 2,853,631</u> | <u>\$ 22,172,618</u> |
| Discrete Component Unit: | | | | |
| Local Agency Investment Fund | <u>\$ 878,856</u> | N/A | <u>\$ -</u> | <u>\$ 878,856</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. The City did not have investments in any one issuer that represented 5% or more of their investments as of June 30, 2011.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

2. CASH AND INVESTMENTS (CONTINUED):

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 counterparty (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). 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, 2011, 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.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

3. INTERFUND BALANCES AND TRANSFERS:

Interfund receivables and payables at June 30, 2011 were as follows:

| | <u>Due From Other Funds</u> | <u>Due To Other Funds</u> |
|---|---------------------------------|-------------------------------|
| Governmental Funds: | | |
| General Fund | \$ 1,326,789 | \$ 566,803 |
| Local Transportation Special Revenue Fund | - | 558,892 |
| Low/Moderate Income Housing Special Revenue Fund | - | 141,950 |
| Capital Projects | 209,609 | 499,644 |
| Other Governmental Funds | - | 126,303 |
| Enterprise Funds: | | |
| Harbor | - | 226,981 |
| Sewer | - | 61,567 |
| Saltwater | - | 14,568 |
| Internal Service Funds | <u>660,310</u> | <u>-</u> |
| | <u>\$ 2,196,708</u> | <u>\$ 2,196,708</u> |

The interfund balances between the General Fund and the Local Transportation Special Revenue Fund and Other Governmental Funds are from interfund borrowings to cover short-term operating cash deficits. The interfund balances between the General Fund and the Low/Moderate Income Housing Special Revenue Fund and Capital Projects Fund are for unreimbursed costs between the City and Agency pursuant to various agreements.

The outstanding balances between the Internal Service Funds and the Enterprise Funds and the General Fund represent amounts owed to the Internal Services Funds to cover operations.

Interfund transfers at June 30, 2011 were as follows:

| <u>Transfers In to Funds</u> | <u>Transfers Out of Funds</u> | <u>Amount</u> |
|------------------------------|---|---------------------|
| Debt Service Fund | Capital Projects Fund | \$ 2,236,725 |
| Capital Projects Fund | Low/Moderate Income Housing Special Revenue Fund | 519,966 |
| Other Governmental Funds | General Fund | 159,547 |
| | Other Governmental Funds | 58,426 |
| | | <u>\$ 2,974,664</u> |

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

3. INTERFUND BALANCES AND TRANSFERS:

Interfund Transfers (Continued):

Transfers from the General Fund to Other Governmental Funds totaling \$159,547 provide funding for operating deficiencies in the Child Care Special Revenue Fund.

Transfers to the Debt Service Fund and Capital Projects Fund provide funding for the payment of principal and interest on debt.

Transfers between the Other Governmental Funds totaling \$58,426 provided funding to pay for expenditures in excess of revenues received in the Child Care Special Revenue Fund.

4. ADVANCES BETWEEN FUNDS:

Advances receivable and payable between funds at June 30, 2011 were as follows:

| | Advances To <u>Other Funds</u> | Advances From <u>Other Funds</u> |
|---|--------------------------------------|--|
| Low/Moderate Income Housing Special Revenue Fund | \$ 1,000,000 | \$ - |
| Capital Projects Fund | <u>-</u> | <u>1,000,000</u> |
| | <u>\$ 1,000,000</u> | <u>\$ 1,000,000</u> |

The advances from the Low/Moderate Income Housing Special Revenue Fund to the Capital Projects Fund were to defer tax increment deposits in the Low/Moderate Income Housing Special Revenue Fund to make the SERAF payment. The advance bears no interest and must be repaid to the Low/Moderate Income Housing Special Revenue Fund by June 30, 2015.

5. NOTES RECEIVABLE:

The City provides first-time homebuyer loans to eligible applicants. Such loans are made to low and moderate income persons to replace residences. The City accounts for these loans as both notes receivable and deferred revenue in the General Fund, Low/Moderate Income Housing Special Revenue Fund, and Community Development Block Grant Special Revenue Fund due to the fact that they are not expected to be collected in the current period. The balance of the notes receivable and related deferred revenues at June 30, 2011 amounted to \$582,670.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

6. CAPITAL ASSETS:

A summary of changes in the Governmental Activities capital assets at June 30, 2011 is as follows:

| | Balances at <u>July 1, 2010</u> | <u>Additions</u> | <u>Deletions</u> | Balances at <u>June 30, 2011</u> |
|--|------------------------------------|--------------------|--------------------|-------------------------------------|
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,698,826 | \$ - | \$ - | \$ 1,698,826 |
| Construction in progress | <u>358,481</u> | <u>1,126,924</u> | <u>(84,067)</u> | <u>1,401,338</u> |
| Total capital assets, not being depreciated | <u>2,057,307</u> | <u>1,126,924</u> | <u>(84,067)</u> | <u>3,100,164</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 12,444,301 | - | - | 12,444,301 |
| Improvements other than buildings | 10,306,197 | - | - | 10,306,197 |
| Machinery and equipment | <u>3,628,966</u> | <u>98,865</u> | <u>-</u> | <u>3,727,831</u> |
| Total capital assets, being depreciated | <u>26,379,464</u> | <u>98,865</u> | <u>-</u> | <u>26,478,329</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (1,781,605) | (300,204) | - | (2,081,809) |
| Improvements other than buildings | (3,785,325) | (489,311) | - | (4,274,636) |
| Machinery and equipment | <u>(2,301,280)</u> | <u>(229,939)</u> | <u>-</u> | <u>(2,531,219)</u> |
| Total accumulated depreciation | <u>(7,868,210)</u> | <u>(1,019,454)</u> | <u>-</u> | <u>(8,887,664)</u> |
| Total capital assets being depreciated, net | <u>18,511,254</u> | <u>(920,589)</u> | <u>-</u> | <u>17,590,665</u> |
| Governmental activities capital assets, net | <u>\$ 20,568,561</u> | <u>\$ 206,335</u> | <u>\$ (84,067)</u> | <u>\$ 20,690,829</u> |

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

6. CAPITAL ASSETS (CONTINUED):

A summary of changes in the Business-Type Activities capital assets at June 30, 2011 is as follows:

| Business-Type Activities: | <u>Balances at July 1, 2010</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balances at June 30, 2011</u> |
|---|-------------------------------------|--------------------|---------------------|--------------------------------------|
| Capital assets, not being depreciated: | | | | |
| Construction in progress | \$ 690,349 | \$ 126,057 | \$ (296,254) | \$ 520,152 |
| Capital assets, being depreciated: | | | | |
| Buildings | 5,584,929 | 226 | - | 5,585,155 |
| Improvements other than buildings | 10,710,839 | 524,759 | - | 11,235,598 |
| Machinery and equipment | 2,435,517 | 55,919 | - | 2,491,436 |
| Infrastructure | <u>2,803,747</u> | <u>8,000</u> | <u>-</u> | <u>2,811,747</u> |
| Total capital assets, being depreciated | <u>21,535,032</u> | <u>588,904</u> | <u>-</u> | <u>22,123,936</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (2,007,568) | (111,745) | - | (2,119,313) |
| Improvements other than buildings | (5,046,206) | (500,180) | - | (5,546,386) |
| Machinery and equipment | (1,874,062) | (81,079) | - | (1,955,141) |
| Infrastructure | <u>(869,529)</u> | <u>(100,399)</u> | <u>-</u> | <u>(969,928)</u> |
| Total accumulated depreciation | <u>(9,797,365)</u> | <u>(793,403)</u> | <u>-</u> | <u>(10,590,768)</u> |
| Total capital assets being depreciated, net | <u>11,737,667</u> | <u>(204,499)</u> | <u>-</u> | <u>11,533,168</u> |
| Business-type activities capital assets, net | <u>\$ 12,428,016</u> | <u>\$ (78,442)</u> | <u>\$ (296,254)</u> | <u>\$ 12,053,320</u> |

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

6. CAPITAL ASSETS (CONTINUED):

A summary of changes in the Discrete Component Unit - The Hospital capital assets at June 30, 2011 is as follows:

| | <u>Balances at</u> <u>July 1, 2010</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balances at</u> <u>June 30, 2011</u> |
|--|---|-------------------|------------------|--|
| Discrete Component Unit: | | | | |
| Capital assets, not being depreciated: | | | | |
| Construction in progress | \$ 807,969 | \$ 314,520 | \$ - | \$ 1,122,489 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 1,760,484 | 35,978 | - | 1,796,462 |
| Machinery and equipment | 1,645,924 | 122,097 | - | 1,768,021 |
| Vehicles | <u>35,708</u> | <u>-</u> | <u>-</u> | <u>35,708</u> |
| Total capital assets, being depreciated | <u>3,442,116</u> | <u>158,075</u> | <u>-</u> | <u>3,600,191</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (629,488) | (141,846) | - | (771,334) |
| Machinery and equipment | (1,182,589) | (186,177) | - | (1,368,766) |
| Vehicles | <u>(30,615)</u> | <u>(5,093)</u> | <u>-</u> | <u>(35,708)</u> |
| Total accumulated depreciation | <u>(1,842,692)</u> | <u>(333,116)</u> | <u>-</u> | <u>(2,175,808)</u> |
| Total capital assets being depreciated, net | <u>1,599,424</u> | <u>(175,041)</u> | <u>-</u> | <u>1,424,383</u> |
| Discrete Component Unit capital Assets, net | <u>\$ 2,407,393</u> | <u>\$ 139,479</u> | <u>\$ -</u> | <u>\$ 2,546,872</u> |

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

6. CAPITAL ASSETS (CONTINUED):

Depreciation expense was charged to functions / programs of the primary government as follows:

Governmental Activities:

| | | |
|---|----|----------------|
| Public safety | \$ | 22,867 |
| Community services | | 24,137 |
| Public works | | 463,220 |
| General government | | 323,759 |
| Internal service funds depreciation charged to programs | | <u>185,471</u> |

Total depreciation expense - governmental activities \$ 1,019,454

Business-Type Activities:

| | | |
|------------|----|---------------|
| Harbor | \$ | 250,424 |
| Sewer | | 417,037 |
| Saltwater | | 54,710 |
| Solidwaste | | <u>71,232</u> |

Total depreciation expense - business-type activities \$ 793,403

Discrete Component Unit:

| | | |
|--------------|----|----------------|
| The Hospital | \$ | <u>333,116</u> |
|--------------|----|----------------|

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

7. LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

| | Balance at July 1, 2010 | Additions | Deletions | Balance at June 30, 2011 | Due Within One Year |
|--|-------------------------------|---------------------|-----------------------|--------------------------------|---------------------------|
| Governmental Activities: | | | | | |
| 2003 Tax Allocation Bonds, Series A | \$ 23,690,000 | \$ - | \$ (660,000) | \$ 23,030,000 | \$ 675,000 |
| 2003 Taxable Housing Tax Allocation Bonds, Series B | <u>6,660,000</u> | <u>-</u> | <u>(130,000)</u> | <u>6,530,000</u> | <u>135,000</u> |
| Total Tax Allocation Bonds | 30,350,000 | - | (790,000) | 29,560,000 | 810,000 |
| Advances from the County of Los Angeles | 2,912,142 | 337,309 | - | 3,249,451 | - |
| Compensated absences | 317,861 | 468,795 | (426,073) | 360,583 | 18,029 |
| Claims payable (see Note 10) | 56,000 | 562,611 | (1,432) | 617,179 | - |
| OPEB, as restated (see Note 9) | <u>656,962</u> | <u>339,869</u> | <u>(31,924)</u> | <u>964,907</u> | <u>-</u> |
| Total Governmental Activities | <u>\$ 34,292,965</u> | <u>\$ 1,708,584</u> | <u>\$ (1,249,429)</u> | <u>\$ 34,752,120</u> | <u>\$ 828,029</u> |
| Business-type Activities: | | | | | |
| Loans payable from the State Department of Boating and Waterways | \$ 1,122,946 | \$ - | \$ (98,523) | \$ 1,024,423 | \$ 102,978 |
| Compensated absences | 261,272 | 476,483 | (476,843) | 260,912 | 13,046 |
| OPEB (see Note 9) | <u>-</u> | <u>11,018</u> | <u>-</u> | <u>11,018</u> | <u>-</u> |
| Total Business-type Activities | <u>\$ 1,384,218</u> | <u>\$ 487,501</u> | <u>\$ (575,366)</u> | <u>\$ 1,296,353</u> | <u>\$ 116,024</u> |
| Discrete Component Unit: | | | | | |
| Total Discrete Component Unit | <u>\$ 218,000</u> | <u>\$ -</u> | <u>\$ (218,000)</u> | <u>\$ -</u> | <u>\$ -</u> |

OPEB obligation liabilities have typically been paid from the City's general fund.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

7. LONG-TERM LIABILITIES (CONTINUED):

Governmental 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.

The annual debt service requirements on these bonds at June 30, 2011, were as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|----------------------|----------------------|----------------------|
| 2012 | \$ 675,000 | \$ 1,035,890 | \$ 1,710,890 |
| 2013 | 700,000 | 1,012,671 | 1,712,671 |
| 2014 | 725,000 | 987,281 | 1,712,281 |
| 2015 | 750,000 | 959,609 | 1,709,609 |
| 2016 | 780,000 | 929,478 | 1,709,478 |
| 2017 - 2021 | 4,405,000 | 4,127,377 | 8,532,377 |
| 2022 - 2026 | 4,830,000 | 3,076,301 | 7,906,301 |
| 2027 - 2031 | 5,100,000 | 1,904,623 | 7,004,623 |
| 2032 - 2035 | <u>5,065,000</u> | <u>516,656</u> | <u>5,581,656</u> |
| Total | <u>\$ 23,030,000</u> | <u>\$ 14,549,886</u> | <u>\$ 37,579,886</u> |

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

7. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

B. 2003 Taxable 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, 2013, 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, 2011, were as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|---------------------|---------------------|----------------------|
| 2012 | \$ 135,000 | \$ 383,792 | \$ 518,792 |
| 2013 | 140,000 | 377,384 | 517,384 |
| 2014 | 145,000 | 370,744 | 515,744 |
| 2015 | 155,000 | 362,754 | 517,754 |
| 2016 | 160,000 | 353,383 | 513,383 |
| 2017 - 2021 | 965,000 | 1,606,411 | 2,571,411 |
| 2022 - 2026 | 1,300,000 | 1,271,430 | 2,571,430 |
| 2027 - 2031 | 1,730,000 | 818,868 | 2,548,868 |
| 2032 - 2035 | <u>1,800,000</u> | <u>225,968</u> | <u>2,025,968</u> |
| Total | <u>\$ 6,530,000</u> | <u>\$ 5,770,734</u> | <u>\$ 12,300,734</u> |

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

7. LONG-TERM LIABILITIES (CONTINUED):

Governmental Activities (Continued):

C. Advances from the County of Los Angeles:

The Agency and Los Angeles County entered into an agreement whereby the County will 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. The County Deferrals are determined annually and tracked separately. The County Deferrals accrue simple interest of 5% for the year following the origination of the deferral amount. After that, no further interest accrues. The County Deferrals are to be paid from property tax increment revenues received by the Agency in excess of its debt service requirements. At June 30, 2011, the cumulative balance of the County Deferrals including accrued unpaid interest was \$3,249,451. There is no fixed payment schedule for the repayment of the County Deferrals.

D. Compensated Absences:

This liability represents the governmental activities portion of total unpaid vacation and compensation time earned by employees of the City. There is no fixed payment schedule for earned but unpaid compensated absences.

Business-type Activities:

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

A summary of changes in loans payable from the State Department of Boating and Waterways at June 30, 2011 is as follows:

| | <u>Amount Outstanding</u> |
|---|-------------------------------|
| Original Issue \$500,000, due in annual installments of \$24,710 through August 1, 2016, including interest of 4.5% per annum | \$ 127,452 |
| Original Issue \$900,000, due in annual installments of \$55,890 through August 1, 2019, including interest of 4.5% per annum | 406,237 |

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

7. LONG-TERM LIABILITIES (CONTINUED):

Business-type Activities (Continued):

E. Loans Payable from the State Department of Boating and Waterways (Continued):

| | <u>Amount Outstanding</u> |
|---|-------------------------------|
| Original Issue \$859,101, due in annual installments of \$56,155 through August 1, 2021, including interest of 4.5% per annum | \$ 478,942 |
| Original Issue \$170,000, due in annual installments of \$12,346 through August 1, 2011, including interest of 4.7% per annum | <u>11,792</u> |
| | <u>\$ 1,024,423</u> |

The annual debt service requirements on these loans payable at June 30, 2011, were as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|---------------------|-------------------|---------------------|
| 2012 | \$ 102,978 | \$ 46,123 | \$ 149,101 |
| 2013 | 95,290 | 41,465 | 136,755 |
| 2014 | 99,578 | 37,177 | 136,755 |
| 2015 | 104,059 | 32,696 | 136,755 |
| 2016 | 108,742 | 28,013 | 136,755 |
| 2017 - 2021 | 460,039 | 68,985 | 529,024 |
| 2022 | <u>53,737</u> | <u>2,418</u> | <u>56,155</u> |
| Total | <u>\$ 1,024,423</u> | <u>\$ 256,877</u> | <u>\$ 1,281,300</u> |

F. Compensated Absences:

This liability represents the business-type activities portion of total unpaid vacation and compensation time earned by employees of the City. There is no fixed payment schedule for earned but unpaid compensated absences.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

7. LONG-TERM LIABILITIES (CONTINUED):

Discrete Component Unit - The Hospital:

G. 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, 2011, the prime rate was 2.00%. The outstanding balance on the Line as of June 30, 2011 was \$0.

H. City of Avalon:

In June 2007, the Medical Center entered into an uncollateralized Term Loan agreement (the Loan) with the City of Avalon in the amount of \$418,000 for the purchase of equipment. The Loan was funded in July 2007 and is due in full by September 1, 2012.

Principal and interest are due annually on June 30. Principal payments are \$100,000. Interest is determined "at the rate payable upon funds held in the Local Agency Investment Fund (LAIF) until repayment". This loan was paid in full at June 30, 2011.

8. 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.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

8. RETIREMENT PLANS (CONTINUED):

Funding Policy:

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. The local miscellaneous members rate as a percentage of wages is 7% and the local safety members rate as a percentage of wages is 9%. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The current rate is 22.291% of covered payroll for the Safety Plan and 14.092% for the Miscellaneous Plan. The City's contributions to PERS for the years ended June 30, 2011, 2010 and 2009 were \$627,383, \$376,973 and \$452,686, respectively and were equal to the required contribution for each year for the Safety Plan. The City's contributions to PERS for the years ended June 30, 2011, 2010 and 2009 were \$306,410, \$294,921 and \$351,603, respectively and were equal to the required contribution for each year for the Miscellaneous Plan.

9. OTHER POST-EMPLOYMENT BENEFITS (OPEB):

Plan Description:

In connection with the retirement benefits for employees described in Note 8, the City provides post-retirement medical and dental benefits to retirees and spouses. The plan is a single employer plan. These 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. As of June 30, 2011, 15 retired employees were eligible to receive medical and dental benefits. The Plan does not issue a publicly available financial report.

Funding Policy:

The contribution requirements of plan members and the City are established and may be amended by the City, the City's City Council, and/or the employee associations. The City is currently funding this OPEB obligation on a pay-as-you-go basis. For the year ended June 30, 2011, the City paid \$31,924 in health care and dental costs for its retirees and their covered dependents. The plan does not require employee contributions.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

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 normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Retiree Health and Dental Plan:

| | |
|---|-------------------|
| Annual required contribution | \$ 361,656 |
| Interest on net OPEB obligation | 29,563 |
| Adjustment to annual required contribution | <u>(40,332)</u> |
| Annual OPEB cost (expense) | 350,887 |
| Actual contributions made | <u>(31,924)</u> |
| Increase in net OPEB obligation | 318,963 |
| Net OPEB Obligation - beginning of year, as restated (see Note 14) * | <u>656,962</u> |
| Net OPEB Obligation - end of year | <u>\$ 975,925</u> |

* - For purposes of determining the balance of Net OPEB obligation as of the beginning of the year, the March 19, 2013 actuarial valuation results were rolled back to July 1, 2009 to coincide with the year in which the City should have adopted GASB 45.

At June 30, 2011, the City's annual OPEB cost of \$350,887 was equal to the ARC and adjustments. 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, 2011 and the two preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Actual Contributions | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------------|------------------------|-------------------------|---|---------------------------|
| 06/30/09 | \$ 346,128 | \$ 13,355 | 3.9 % | \$ 332,773 |
| 06/30/10 | 348,267 | 24,078 | 6.9 % | 656,962 |
| 06/30/11 | 350,887 | 31,924 | 9.1 % | 975,925 |

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

9. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

Funded Status and Funding Progress

As of March 19, 2013, the first actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$2,889,519, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,889,519. The funded ratio (actuarial value of assets as a percentage of actuarial accrued liability) was 0%. The covered payroll (annual payroll of active employees covered by the plan) was \$4,331,077 and the ratio of the UAAL to the covered payroll was 66.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the March 19, 2013 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included an investment interest rate of 4.5% per annum (net of administrative expenses), and a general inflation rate of 3% per annum. Medical premiums were assumed to increase annually starting at 7.0% and decreasing to an ultimate rate of 5.0% by 2018. Dental premiums were assumed to increase annually at a rate of 5%. The UAAL is being amortized as a level percentage of projected payroll over 30 years on a closed basis commencing in fiscal year 2009.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

10. 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>June 30, 2010</u> | <u>June 30, 2011</u> |
|---|----------------------|----------------------|
| Liability as of beginning of year | \$ 56,000 | \$ 56,000 |
| Incurred claims and changes in estimates during the year | 21,810 | 562,611 |
| Claim payments during the year | <u>(21,810)</u> | <u>(1,432)</u> |
| Liability as of end of year | <u>\$ 56,000</u> | <u>\$ 617,179</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, 2011.

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, 2011 totaled \$41,648.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

11. INDIVIDUAL FUND DISCLOSURES:

Deficit Fund Balance:

The following funds reported a deficit fund balance:

| | <u>Deficit</u> |
|--|----------------|
| Major Fund: | |
| Local Transportation Special Revenue Fund | \$ 22,461 |
| Other Governmental Fund: | |
| Traffic Control and Safety Special Revenue Fund | 126,303 |
| Community Development Block Grant Special Revenue Fund | 27,901 |

The deficits in the Local Transportation Special Revenue Fund, Traffic Control and Safety Special Revenue Fund and Community Development Block Grant Special Revenue Fund will be eliminated by future revenues and cost cutting measures.

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 | \$ 6,519,489 | \$ 7,369,770 | \$ (850,281) |
| Debt Service Fund | 1,846,759 | 2,236,725 | (389,996) |
| Other Governmental Funds: | | | |
| Traffic Control and Safety Special Revenue Fund | 109,290 | 179,021 | (69,731) |
| Community Development Block Grant Special Revenue Fund | 151,000 | 252,385 | (101,385) |

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

12. 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 (see Note 13) 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 until April 1, 2013. Avalon's liability is expected to be approximately \$250,000. This amount is included in the claims liability as of June 30, 2011 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 Order 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. The Remedial Investigation, namely the soil sampling and excavation activities on-site are underway. Following completion of the investigation, 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 are not known 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.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

12. COMMITMENTS AND CONTINGENCIES (CONTINUED):

A. Lawsuits (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 Envisions Strategies to operate and maintain the system. The probability of such litigation or amount of 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 we do not anticipate any fines being levied. A hearing on the Cease and Desist Order is scheduled for Spring 2013.

There are various claims and legal actions pending against the City. In the opinion of the City Attorney and City management, other than the Long Beach Unified School District v. County of Los Angeles claim 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.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

13. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES:

On June 29, 2011, Assembly Bills 1x 26 (the "Dissolution Act") and 1x 27 were enacted as part of the fiscal year 2011-12 state budget package. The Dissolution Act required each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for impending dissolution. Assembly Bill 1x 27 provided a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn the Dissolution Act and Assembly Bill 1x 27 on the grounds that these bills violate the California Constitution.

On December 29, 2011, the California Supreme Court upheld the Dissolution Act and struck down Assembly Bill 1x 27.

On June 27, 2012, as part of the fiscal year 2012-13 state budget package, the Legislature passed and the Governor signed AB 1484, which made technical and substantive amendments to the Dissolution Act based on experience to-date at the state and local level in implementing the Dissolution Act.

Under the Dissolution Act, each California redevelopment agency (each a "Dissolved RDA") was dissolved as of February 1, 2012, and the sponsoring community that formed the Dissolved RDA, together with other designated entities, have initiated the process under the Dissolution Act to unwind the affairs of the Dissolved RDA. A Successor Agency was created for each Dissolved RDA which is the sponsoring community of the Dissolved RDA unless it elected not to serve as the Successor Agency. On January 9, 2012, the City elected to serve as the Successor Agency of the Avalon Community Improvement Agency.

The Dissolution Act also created oversight boards which monitor the activities of the successor agencies. The roles of the successor agencies and oversight boards is to administer the wind down of each Dissolved RDA which includes making payments due on enforceable obligations, disposing of the assets (other than housing assets) and remitting the unencumbered balances of the Dissolved RDAs to the County Auditor-Controller for distribution to the affected taxing entities.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

13. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (CONTINUED):

The Dissolution Act allowed the sponsoring community that formed the Dissolved RDA to elect to assume the housing functions and take over the certain housing assets of the Dissolved RDA. If the sponsoring community does not elect to become the Successor Housing Agency and assume the Dissolved RDA's housing functions, such housing functions and all related housing assets will be transferred to the local housing authority in the jurisdiction. AB 1484 modified and provided some clarifications on the treatment of housing assets under the Dissolution Act. The Housing Authority of the City of Avalon (Housing Authority) elected on January 30, 2012 to serve as the Housing Successor Agency.

The Dissolution Act and AB 1484 also establish roles for the County Auditor-Controller, the California Department of Finance (the "DOF") and the California State Controller's office in the dissolution process and the satisfaction of enforceable obligations of the Dissolved RDAs.

The County Auditor-Controller is charged with establishing a Redevelopment Property Tax Trust Fund (the "RPTTF") for each Successor Agency and depositing into the RPTTF for each six-month period the amount of property taxes that would have been redevelopment property tax increment had the Dissolved RDA not been dissolved. The deposit in the RPTTF fund is to be used to pay to the Successor Agency the amounts due on the Successor Agency's enforceable obligations for the upcoming six-month period.

The Successor Agency is required to prepare a recognized obligation payment schedule (the "ROPS") approved by the oversight board setting forth the amounts due for each enforceable obligation during each six month period. The ROPS is submitted to the DOF for approval. The County Auditor-Controller will make payments to the Successor Agency from the RPTTF fund based on the ROPS amount approved by the DOF. The ROPS is prepared in advance for the enforceable obligations due over the next six months.

The process of making RPTTF deposits to be used to pay enforceable obligations of the Dissolved RDA will continue until all enforceable obligations have been paid in full and all non-housing assets of the Dissolved RDA have been liquidated.

On January 30, 2012, the City of Avalon established the Avalon Housing Authority to provide the City with the ability to provide housing programs. The Housing Authority has contracted with the Avalon Community Improvement Agency to provide funding from the Redevelopment Agency's Low and Moderate Income Housing for the purposes of creating affordable housing. The Redevelopment Agency's Low and Moderate Income housing fund transferred loans and notes receivables in the amount of \$1,215,000 to the Housing Authority during fiscal year 2011-2012.

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

13. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (CONTINUED):

Upon dissolution of the Redevelopment Agency, the Board of Directors of the Redevelopment Agency approved the transfer of low and moderate income housing residential real estate to the Housing Authority. The cost basis of the land transferred in fiscal year 2011-2012 amounted to \$4,551,426.

The State Controller of the State of California has been directed to review the propriety of any transfers of assets between Dissolved RDA 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.

Management believes, in consultation with legal counsel, that the obligations of the Dissolved RDA due to the City are valid enforceable obligations payable by the Successor Agency under the requirements of the Dissolution Act and AB 1484. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

AB 1484 required each Successor Agency to perform due diligence reviews to compute the amount of funds held by the Successor Agency which were not needed to pay for enforceable obligations and remit the amounts to the County of Los Angeles. The due diligence reviews were performed separately for Low Income Housing Fund and for All Other Funds. The Low Income Housing Fund due diligence review resulted in \$1,796,527 due to the County, which was remitted to the County on December 27, 2012.

The Successor Agency's due diligence review for All Other Funds resulted in \$605,720 due to the County by All Other Funds. This amount is subject to change based on a review by the California Department of Finance.

14. RESTATEMENT OF BEGINNING NET ASSETS AND FUND BALANCE:

Net Assets:

Net assets of the Governmental Activities at July 1, 2010 were decreased by \$656,962 (from \$9,112,913 to \$8,455,951) to accrue an other post-employment benefits liability as of the beginning of the year in connection with the adoption of GASB No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions".

See independent auditors' report.

CITY OF AVALON

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2011

14. RESTATEMENT OF BEGINNING NET ASSETS AND FUND BALANCE (CONTINUED):

Fund Balance:

The Capital Project Fund's fund balance at July 1, 2010 was increased by \$209,609 from \$8,658,701 to \$8,868,310 to recognize revenue totaling \$209,609 that had been deferred in the prior year. This adjustment did not impact government-wide financial statements since the amount had been properly recognized as revenue under the accrual basis of accounting as of June 30, 2010.

15. SUBSEQUENT EVENTS:

All events subsequent to the balance sheet date of June 30, 2011 through June 26, 2013, which is the date these financial statements were available to be issued, have been evaluated by management.

See independent auditors' report.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AVALON

REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2011

OTHER POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

Retiree Health and Dental Plan

| Actuarial Valuation Date | Actuarial Accrued Liability (a) | Actuarial Value of Assets (AVA) (b) | Unfunded Actuarial Accrued Liability (UAAL) (a) - (b) | Funded Ratio (b)/(a) | Estimated Annual Covered Payroll (c) | UAAL as a % of Covered Payroll [(a)-(b)]/(c) |
|--------------------------------|--|--|--|----------------------------|--|---|
| 3/19/2013 | \$ 2,889,519 | \$ - | \$ 2,889,519 | 0.00% | \$ 4,331,077 | 66.72% |

See independent auditors' report.

CITY OF AVALON
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND

For the year ended June 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Taxes | \$ 4,220,500 | \$ 4,220,500 | \$ 5,227,177 | \$ 1,006,677 |
| Licenses, permits and fees | 437,650 | 437,650 | 478,684 | 41,034 |
| Fines, forfeitures and penalties | 15,300 | 15,300 | 21,885 | 6,585 |
| Investment income | 127,445 | 127,445 | 24,959 | (102,486) |
| Intergovernmental revenue | 1,130,500 | 1,130,500 | 1,022,994 | (107,506) |
| Charges for services | 438,500 | 438,500 | 465,375 | 26,875 |
| Other revenue | 23,000 | 23,000 | 146,097 | 123,097 |
| TOTAL REVENUES | 6,392,895 | 6,392,895 | 7,387,171 | 994,276 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Public safety | 1,335,095 | 1,335,095 | 1,294,594 | 40,501 |
| Fire and ambulance | 1,874,148 | 1,874,148 | 1,981,287 | (107,139) |
| Planning, building and engineering | 448,234 | 448,234 | 428,793 | 19,441 |
| Community services | 290,392 | 290,392 | 309,625 | (19,233) |
| Public works | 756,078 | 756,078 | 786,367 | (30,289) |
| General government: | | | | |
| Services and charges | 658,847 | 658,847 | 930,818 | (271,971) |
| Contract services | 386,845 | 386,845 | 462,050 | (75,205) |
| Other | - | - | 231,623 | (231,623) |
| Capital outlay | 769,850 | 769,850 | 944,613 | (174,763) |
| TOTAL EXPENDITURES | 6,519,489 | 6,519,489 | 7,369,770 | (850,281) |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (126,594) | (126,594) | 17,401 | 143,995 |
| OTHER FINANCING USES: | | | | |
| Transfers out | - | - | (159,547) | (159,547) |
| NET CHANGE IN FUND BALANCE | (126,594) | (126,594) | (142,146) | (15,552) |
| FUND BALANCE AT BEGINNING OF YEAR | 3,457,454 | 3,457,454 | 3,457,454 | - |
| FUND BALANCE AT END OF YEAR | \$ 3,330,860 | \$ 3,330,860 | \$ 3,315,308 | \$ (15,552) |

See independent auditors' report.

CITY OF AVALON

BUDGETARY COMPARISON SCHEDULE

LOCAL TRANSPORTATION SPECIAL REVENUE FUND

For the year ended June 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|---------------------------|---------------------------|---------------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Intergovernmental revenue | \$ 1,060,190 | \$ 1,060,190 | \$ 1,019,448 | \$ (40,742) |
| Investment income | - | - | 339 | 339 |
| TOTAL REVENUES | <u>1,060,190</u> | <u>1,060,190</u> | <u>1,019,787</u> | <u>(40,403)</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government: | | | | |
| Contract services | 1,079,730 | 1,079,730 | 1,026,390 | 53,340 |
| Special departmental | 17,400 | 17,400 | 9,533 | 7,867 |
| Capital outlay | 5,000 | 5,000 | - | 5,000 |
| TOTAL EXPENDITURES | <u>1,102,130</u> | <u>1,102,130</u> | <u>1,035,923</u> | <u>66,207</u> |
| EXCESS OF REVENUES UNDER EXPENDITURES | (41,940) | (41,940) | (16,136) | 25,804 |
| FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR | <u>(6,325)</u> | <u>(6,325)</u> | <u>(6,325)</u> | <u>-</u> |
| FUND BALANCE (DEFICIT) AT END OF YEAR | <u><u>\$ (48,265)</u></u> | <u><u>\$ (48,265)</u></u> | <u><u>\$ (22,461)</u></u> | <u><u>\$ 25,804</u></u> |

See independent auditors' report.

CITY OF AVALON

BUDGETARY COMPARISON SCHEDULE

LOW/MODERATE INCOME HOUSING SPECIAL REVENUE FUND

For the year ended June 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Taxes | \$ 1,007,000 | \$ 1,007,000 | \$ 1,136,420 | \$ 129,420 |
| Investment income | 10,000 | 10,000 | 15,798 | 5,798 |
| Other revenue | 600 | 600 | 450 | (150) |
| TOTAL REVENUES | 1,017,600 | 1,017,600 | 1,152,668 | 135,068 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government: | | | | |
| Human services | 215,699 | 215,699 | 179,725 | 35,974 |
| Services and charges | 650,000 | 650,000 | 215,350 | 434,650 |
| Contract services | 80,000 | 80,000 | 41,578 | 38,422 |
| Other | 1,200 | 1,200 | - | 1,200 |
| TOTAL EXPENDITURES | 946,899 | 946,899 | 436,653 | 510,246 |
| EXCESS OF REVENUES OVER EXPENDITURES | 70,701 | 70,701 | 716,015 | 645,314 |
| OTHER FINANCING USES: | | | | |
| Transfers out | - | - | (519,966) | (519,966) |
| NET CHANGE IN FUND BALANCE | 70,701 | 70,701 | 196,049 | 125,348 |
| FUND BALANCE AT BEGINNING OF YEAR | 6,591,199 | 6,591,199 | 6,591,199 | - |
| FUND BALANCE AT END OF YEAR | \$ 6,661,900 | \$ 6,661,900 | \$ 6,787,248 | \$ 125,348 |

See independent auditors' report.

CITY OF AVALON

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

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, Special Revenue, Debt Service and Capital Projects Funds. A public hearing is held to afford taxpayers and 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. For the fiscal year 2010-2011, such amendments to the budget were not material in relation to the original budget. Budgeted amounts, as shown, include the originally adopted budget as well as any amendments authorized by the City Council.

Encumbrances represent commitments related to unperformed contracts for goods and services. The City does not use encumbrance accounting, and thus, reservations of fund balances for encumbrances have not been made in the accompanying basic financial statements.

See independent auditors' report.

SUPPLEMENTARY SCHEDULES

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OTHER 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 of City residents.

CITY OF AVALON
 COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS

June 30, 2011

| | | Special Revenue Funds | |
|-------------------------------------|--|-----------------------|-------------------------------------|
| | | Street | Traffic Control and Safety |
| ASSETS | | | |
| Cash and investments | | \$ 261,643 | \$ 3,214 |
| Receivables, net: | | | |
| Accounts | | - | 1,073 |
| Interest | | 232 | - |
| Notes receivable | | - | - |
| | | - | - |
| TOTAL ASSETS | | \$ 261,875 | \$ 4,287 |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES: | | | |
| Accounts payable | | \$ 197 | \$ 2,183 |
| Accrued liabilities | | - | 2,104 |
| Due to other funds | | - | 126,303 |
| Deferred revenue | | - | - |
| | | - | - |
| TOTAL LIABILITIES | | 197 | 130,590 |
| FUND BALANCES (DEFICITS): | | | |
| Restricted | | 261,678 | - |
| Unassigned | | - | (126,303) |
| | | - | (126,303) |
| TOTAL FUND BALANCES (DEFICITS) | | 261,678 | (126,303) |
| TOTAL LIABILITIES AND FUND BALANCES | | \$ 261,875 | \$ 4,287 |

See independent auditors' report.

| Special Revenue Funds (Continued) | | |
|--|-----------------|---|
| Community Development Block Grant | Child Care | Total Other Governmental Funds |
| \$ - | \$ 2,376 | \$ 267,233 |
| 847 | 2,447 | 4,367 |
| 1 | - | 233 |
| 115,920 | - | 115,920 |
| <u>\$ 116,768</u> | <u>\$ 4,823</u> | <u>\$ 387,753</u> |
| | | |
| \$ 28,749 | \$ 776 | \$ 31,905 |
| - | 4,047 | 6,151 |
| - | - | 126,303 |
| 115,920 | - | 115,920 |
| <u>144,669</u> | <u>4,823</u> | <u>280,279</u> |
| | | |
| - | - | 261,678 |
| (27,901) | - | (154,204) |
| <u>(27,901)</u> | <u>-</u> | <u>107,474</u> |
| | | |
| <u>\$ 116,768</u> | <u>\$ 4,823</u> | <u>\$ 387,753</u> |

CITY OF AVALON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS

For the year ended June 30, 2011

| | Special Revenue Funds | |
|---|-----------------------|----------------------------|
| | Street | Traffic Control and Safety |
| REVENUES: | | |
| Taxes | \$ 88,698 | \$ - |
| Fines, forfeitures and penalties | - | 74,832 |
| Investment income | 854 | - |
| Intergovernmental revenue | - | - |
| Charges for services | - | - |
| Other revenue | - | - |
| TOTAL REVENUES | <u>89,552</u> | <u>74,832</u> |
| EXPENDITURES: | | |
| Current: | | |
| General government: | | |
| Human services | - | 168,870 |
| General office | - | - |
| Services and charges | - | 2,797 |
| Contract services | 1,331 | - |
| Special departmental | 10,879 | 7,354 |
| TOTAL EXPENDITURES | <u>12,210</u> | <u>179,021</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>77,342</u> | <u>(104,189)</u> |
| OTHER FINANCING SOURCES (USES): | | |
| Transfers in | - | - |
| Transfers out | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>-</u> | <u>-</u> |
| NET CHANGE IN FUND BALANCES | 77,342 | (104,189) |
| FUND BALANCES (DEFICIT) AT BEGINNING OF YEAR | <u>184,336</u> | <u>(22,114)</u> |
| FUND BALANCES (DEFICITS) AT END OF YEAR | <u>\$ 261,678</u> | <u>\$ (126,303)</u> |

See independent auditors' report.

| Special Revenue Funds (Continued) | | |
|--|------------------|---|
| Community Development Block Grant | Child Care | Total Other Governmental Funds |
| \$ - | \$ - | \$ 88,698 |
| - | - | 74,832 |
| 583 | - | 1,437 |
| 29,170 | - | 29,170 |
| - | 122,141 | 122,141 |
| 3,315 | 19,926 | 23,241 |
| <u>33,068</u> | <u>142,067</u> | <u>339,519</u> |
| - | 372,060 | 540,930 |
| - | 1,176 | 1,176 |
| - | 220 | 3,017 |
| 252,385 | - | 253,716 |
| - | 4,570 | 22,803 |
| <u>252,385</u> | <u>378,026</u> | <u>821,642</u> |
| <u>(219,317)</u> | <u>(235,959)</u> | <u>(482,123)</u> |
| - | 217,973 | 217,973 |
| <u>(58,426)</u> | <u>-</u> | <u>(58,426)</u> |
| <u>(58,426)</u> | <u>217,973</u> | <u>159,547</u> |
| <u>(277,743)</u> | <u>(17,986)</u> | <u>(322,576)</u> |
| <u>249,842</u> | <u>17,986</u> | <u>430,050</u> |
| <u>\$ (27,901)</u> | <u>\$ -</u> | <u>\$ 107,474</u> |

CITY OF AVALON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL

STREET SPECIAL REVENUE FUND

For the year ended June 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Taxes | \$ 27,200 | \$ 27,200 | \$ 88,698 | \$ 61,498 |
| Investment income | 450 | 450 | 854 | 404 |
| TOTAL REVENUES | <u>27,650</u> | <u>27,650</u> | <u>89,552</u> | <u>61,902</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government: | | | | |
| Contract services | 10,000 | 10,000 | 1,331 | 8,669 |
| Special departmental | 7,500 | 7,500 | 10,879 | (3,379) |
| TOTAL EXPENDITURES | <u>17,500</u> | <u>17,500</u> | <u>12,210</u> | <u>5,290</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | 10,150 | 10,150 | 77,342 | 67,192 |
| FUND BALANCE AT BEGINNING OF YEAR | <u>184,336</u> | <u>184,336</u> | <u>184,336</u> | <u>-</u> |
| FUND BALANCE AT END OF YEAR | <u>\$ 194,486</u> | <u>\$ 194,486</u> | <u>\$ 261,678</u> | <u>\$ 67,192</u> |

See independent auditors' report.

CITY OF AVALON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL

TRAFFIC CONTROL AND SAFETY SPECIAL REVENUE FUND

For the year ended June 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------------|---------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Fines, forfeitures and penalties | \$ 114,000 | \$ 114,000 | \$ 74,832 | \$ (39,168) |
| Intergovernmental revenue | 5,000 | 5,000 | - | (5,000) |
| TOTAL REVENUES | <u>119,000</u> | <u>119,000</u> | <u>74,832</u> | <u>(44,168)</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government: | | | | |
| Human services | 98,290 | 98,290 | 168,870 | (70,580) |
| Services and charges | 10,000 | 10,000 | 2,797 | 7,203 |
| Special departmental | 1,000 | 1,000 | 7,354 | (6,354) |
| TOTAL EXPENDITURES | <u>109,290</u> | <u>109,290</u> | <u>179,021</u> | <u>(69,731)</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 9,710 | 9,710 | (104,189) | (113,899) |
| FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR | <u>(22,114)</u> | <u>(22,114)</u> | <u>(22,114)</u> | <u>-</u> |
| FUND BALANCE (DEFICIT) AT END OF YEAR | <u>\$ (12,404)</u> | <u>\$ (12,404)</u> | <u>\$ (126,303)</u> | <u>\$ (113,899)</u> |

See independent auditors' report.

CITY OF AVALON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL

COMMUNITY DEVELOPMENT BLOCK GRANT SPECIAL REVENUE FUND

For the year ended June 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|-------------------|-------------------|--------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Investment income | \$ 800 | \$ 800 | \$ 583 | \$ (217) |
| Intergovernmental revenue | 190,000 | 190,000 | 29,170 | (160,830) |
| Other revenue | 3,300 | 3,300 | 3,315 | 15 |
| TOTAL REVENUES | 194,100 | 194,100 | 33,068 | (161,032) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government: | | | | |
| Contract services | 151,000 | 151,000 | 252,385 | (101,385) |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 43,100 | 43,100 | (219,317) | (262,417) |
| OTHER FINANCING USES: | | | | |
| Transfers out | (103,000) | (103,000) | (58,426) | 44,574 |
| NET CHANGE IN FUND BALANCE | (59,900) | (59,900) | (277,743) | (217,843) |
| FUND BALANCE AT BEGINNING OF YEAR | 249,842 | 249,842 | 249,842 | - |
| FUND BALANCE (DEFICIT) AT END OF YEAR | \$ 189,942 | \$ 189,942 | \$ (27,901) | \$ (217,843) |

See independent auditors' report.

CITY OF AVALON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL

CHILD CARE SPECIAL REVENUE FUND

For the year ended June 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|--------------------|--------------------|------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Investment income | \$ 500 | \$ 500 | \$ - | \$ (500) |
| Charges for services | 155,000 | 155,000 | 122,141 | (32,859) |
| Other revenue | 30,000 | 30,000 | 19,926 | (10,074) |
| TOTAL REVENUES | 185,500 | 185,500 | 142,067 | (43,433) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government: | | | | |
| Human services | 381,470 | 381,470 | 372,060 | 9,410 |
| General office | 650 | 650 | 1,176 | (526) |
| Services and charges | 700 | 700 | 220 | 480 |
| Special departmental | 9,000 | 9,000 | 4,570 | 4,430 |
| TOTAL EXPENDITURES | 391,820 | 391,820 | 378,026 | 13,794 |
| EXCESS OF REVENUES UNDER EXPENDITURES | (206,320) | (206,320) | (235,959) | (29,639) |
| OTHER FINANCING SOURCES: | | | | |
| Transfers in | 103,000 | 103,000 | 217,973 | 114,973 |
| NET CHANGE IN FUND BALANCE | (103,320) | (103,320) | (17,986) | 85,334 |
| FUND BALANCE AT BEGINNING OF YEAR | 17,986 | 17,986 | 17,986 | - |
| FUND BALANCE AT END OF YEAR | <u>\$ (85,334)</u> | <u>\$ (85,334)</u> | <u>\$ -</u> | <u>\$ 85,334</u> |

See independent auditors' report.

CITY OF AVALON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL

DEBT SERVICE FUND - MAJOR FUND

For the year ended June 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|-------------|-------------|---|
| | Original | Final | | |
| REVENUES | \$ - | \$ - | \$ - | \$ - |
| EXPENDITURES: | | | | |
| Debt service: | | | | |
| Principal | 790,000 | 790,000 | 790,000 | - |
| Interest | 1,056,759 | 1,056,759 | 1,446,725 | (389,966) |
| TOTAL EXPENDITURES | 1,846,759 | 1,846,759 | 2,236,725 | (389,966) |
| EXCESS OF REVENUES UNDER EXPENDITURES | (1,846,759) | (1,846,759) | (2,236,725) | (389,966) |
| OTHER FINANCING SOURCES: | | | | |
| Transfers in | 2,230,851 | 2,230,851 | 2,236,725 | 5,874 |
| NET CHANGE IN FUND BALANCE | 384,092 | 384,092 | - | (384,092) |
| FUND BALANCE AT BEGINNING OF YEAR | 3,772 | 3,772 | 3,772 | - |
| FUND BALANCE AT END OF YEAR | \$ 387,864 | \$ 387,864 | \$ 3,772 | \$ (384,092) |

See independent auditors' report.

CITY OF AVALON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL

CAPITAL PROJECTS FUND - MAJOR FUND

For the year ended June 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|---|------------------|--------------|--------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| REVENUES: | | | | |
| Taxes | \$ 4,028,000 | \$ 4,028,000 | \$ 4,545,680 | \$ 517,680 |
| Investment income | 115,100 | 115,100 | 45,519 | (69,581) |
| Intergovernmental revenue | 38,400 | 38,400 | 747,831 | 709,431 |
| Other | 1,440,000 | 1,440,000 | 27,766 | (1,412,234) |
| TOTAL REVENUES | 5,621,500 | 5,621,500 | 5,366,796 | (254,704) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government: | | | | |
| Human services | 304,050 | 304,050 | 807,989 | (503,939) |
| Contract services | 103,000 | 103,000 | 183,289 | (80,289) |
| Special departmental | 2,250,000 | 2,250,000 | 2,878,797 | (628,797) |
| Other | - | - | 140,085 | (140,085) |
| SERAF | 303,710 | 303,710 | 303,993 | (283) |
| Capital outlay | 4,225,000 | 4,225,000 | 355,430 | 3,869,570 |
| Debt service: | | | | |
| Interest | 17,500 | 17,500 | 34,825 | (17,325) |
| TOTAL EXPENDITURES | 7,203,260 | 7,203,260 | 4,704,408 | 2,498,852 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (1,581,760) | (1,581,760) | 662,388 | 2,244,148 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Proceeds of advances from LA County | 600,000 | 600,000 | 337,309 | (262,691) |
| Transfers in | - | - | 519,966 | 519,966 |
| Transfers out | - | - | (2,236,725) | (2,236,725) |
| TOTAL OTHER FINANCING SOURCES (USES) | 600,000 | 600,000 | (1,379,450) | (1,979,450) |
| NET CHANGE IN FUND BALANCE | (981,760) | (981,760) | (717,062) | 264,698 |
| FUND BALANCE AT BEGINNING OF YEAR, AS RESTATED | 8,868,310 | 8,868,310 | 8,868,310 | - |
| FUND BALANCE AT END OF YEAR | \$ 7,886,550 | \$ 7,886,550 | \$ 8,151,248 | \$ 264,698 |

See independent auditors' report.

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INTERNAL SERVICE FUNDS

General Administration - This fund is used to account for employee separation costs (vacation, sick and holiday hours).

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

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

June 30, 2011

| | General Administration | Insurance | Vehicle Maintenance | Totals |
|---|---------------------------|----------------------|-------------------------|-------------------------|
| ASSETS | | | | |
| CURRENT ASSETS: | | | | |
| Cash and investments | \$ 62,297 | \$ 604,971 | \$ 468,746 | \$ 1,136,014 |
| Restricted cash and investments | - | 75,000 | - | 75,000 |
| Receivables: | | | | |
| Accounts | 539 | 5,040 | 50 | 5,629 |
| Interest | - | 574 | 458 | 1,032 |
| Due from other funds | 656,598 | 3,712 | - | 660,310 |
| TOTAL CURRENT ASSETS | <u>719,434</u> | <u>689,297</u> | <u>469,254</u> | <u>1,877,985</u> |
| NONCURRENT ASSETS: | | | | |
| Capital assets: | | | | |
| Depreciable | - | - | 2,304,884 | 2,304,884 |
| Less: accumulated depreciation | - | - | (1,448,680) | (1,448,680) |
| Capital assets, net | <u>-</u> | <u>-</u> | <u>856,204</u> | <u>856,204</u> |
| TOTAL ASSETS | <u>719,434</u> | <u>689,297</u> | <u>1,325,458</u> | <u>2,734,189</u> |
| LIABILITIES | | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable | 72,655 | 2,729 | 16,635 | 92,019 |
| Accrued liabilities | 6,935 | - | 1,179 | 8,114 |
| Current portion of noncurrent liabilities | 2,370 | - | - | 2,370 |
| TOTAL CURRENT LIABILITIES | <u>81,960</u> | <u>2,729</u> | <u>17,814</u> | <u>102,503</u> |
| NONCURRENT LIABILITIES: | | | | |
| Compensated absences | 45,037 | - | - | 45,037 |
| Claims payable | - | 617,179 | - | 617,179 |
| TOTAL NONCURRENT LIABILITIES | <u>45,037</u> | <u>617,179</u> | <u>-</u> | <u>662,216</u> |
| TOTAL LIABILITIES | <u>126,997</u> | <u>619,908</u> | <u>17,814</u> | <u>764,719</u> |
| NET ASSETS | | | | |
| Invested in capital assets | - | - | 856,204 | 856,204 |
| Restricted for insurance | - | 75,000 | - | 75,000 |
| Unrestricted | 592,437 | (5,611) | 451,440 | 1,038,266 |
| TOTAL NET ASSETS | <u>\$ 592,437</u> | <u>\$ 69,389</u> | <u>\$ 1,307,644</u> | <u>\$ 1,969,470</u> |

See independent auditors' report.

CITY OF AVALON

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS - INTERNAL SERVICE FUNDS

For the year ended June 30, 2011

| | General Administration | Insurance | Vehicle Maintenance | Totals |
|---------------------------------|---------------------------|--------------------|------------------------|----------------------|
| OPERATING REVENUES: | | | | |
| Charges for services | \$ 1,312,390 | \$ 347,250 | \$ 290,254 | \$ 1,949,894 |
| TOTAL OPERATING REVENUES | <u>1,312,390</u> | <u>347,250</u> | <u>290,254</u> | <u>1,949,894</u> |
| OPERATING EXPENSES: | | | | |
| Salaries and benefits | 632,168 | 6,826 | 83,960 | 722,954 |
| Contractual services | 385,085 | 7,911 | - | 392,996 |
| Office supplies | 61,648 | - | - | 61,648 |
| Utilities and rent | 56,987 | - | 1,211 | 58,198 |
| Repairs and maintenance | 83,359 | - | 181,060 | 264,419 |
| Operating supplies | 63,350 | - | 537 | 63,887 |
| Other services and charges | 18,409 | 747,858 | - | 766,267 |
| Depreciation | - | - | 185,471 | 185,471 |
| TOTAL OPERATING EXPENSES | <u>1,301,006</u> | <u>762,595</u> | <u>452,239</u> | <u>2,515,840</u> |
| OPERATING INCOME (LOSS) | 11,384 | (415,345) | (161,985) | (565,946) |
| NONOPERATING REVENUES: | | | | |
| Interest income | - | 1,862 | 2,028 | 3,890 |
| CHANGE IN NET ASSETS | 11,384 | (413,483) | (159,957) | (562,056) |
| NET ASSETS AT BEGINNING OF YEAR | <u>581,053</u> | <u>482,872</u> | <u>1,467,601</u> | <u>2,531,526</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 592,437</u> | <u>\$ 69,389</u> | <u>\$ 1,307,644</u> | <u>\$ 1,969,470</u> |

See independent auditors' report.

CITY OF AVALON

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

For the year ended June 30, 2011

| | General Administration | Insurance | Vehicle Maintenance | Totals |
|--|---------------------------|-------------------|------------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Cash received from interfund services provided | \$ 1,334,336 | \$ 371,872 | \$ 290,204 | \$ 1,996,412 |
| Cash payments to suppliers for goods and services | (698,811) | (194,456) | (175,906) | (1,069,173) |
| Cash payments to employees for services | (623,624) | (6,826) | (83,960) | (714,410) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>11,901</u> | <u>170,590</u> | <u>30,338</u> | <u>212,829</u> |
| CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Cash paid to other funds | (38,863) | - | - | (38,863) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Capital assets purchased | - | - | (47,997) | (47,997) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Interest on investments | - | 1,844 | 2,168 | 4,012 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (26,962) | 172,434 | (15,491) | 129,981 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>89,259</u> | <u>507,537</u> | <u>484,237</u> | <u>1,081,033</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 62,297</u> | <u>\$ 679,971</u> | <u>\$ 468,746</u> | <u>\$ 1,211,014</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | | |
| Operating income (loss) | \$ 11,384 | \$ (415,345) | \$ (161,985) | \$ (565,946) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | |
| Depreciation | - | - | 185,471 | 185,471 |
| Changes in operating assets and liabilities: | | | | |
| (Increase) decrease in accounts receivable | 21,946 | 24,622 | (50) | 46,518 |
| Increase (decrease) in accounts payable | (13,054) | 134 | 8,537 | (4,383) |
| Increase (decrease) in accrued liabilities | (16,919) | - | (1,635) | (18,554) |
| Increase (decrease) in compensated absences | 8,544 | - | - | 8,544 |
| Increase (decrease) in claims payable | - | 561,179 | - | 561,179 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 11,901</u> | <u>\$ 170,590</u> | <u>\$ 30,338</u> | <u>\$ 212,829</u> |

See independent auditors' report.

FIDUCIARY FUND

Emergency Relief Agency Fund - This fund accepts charitable donations for food and other expenses for indigent Avalon residents.

CITY OF AVALON

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND

For the year ended June 30, 2011

| | Balance July 1, 2010 | Additions | Deletions | Balance June 30, 2011 |
|-------------------------|----------------------------|-------------|-------------|-----------------------------|
| EMERGENCY RELIEF | | | | |
| ASSETS: | | | | |
| Cash and investments | \$ 923 | \$ 4 | \$ - | \$ 927 |
| Interest receivable | 1 | 4 | 4 | 1 |
| TOTAL ASSETS | <u>\$ 924</u> | <u>\$ 8</u> | <u>\$ 4</u> | <u>\$ 928</u> |
| LIABILITIES: | | | | |
| Other liabilities | <u>\$ 924</u> | <u>\$ 4</u> | <u>\$ -</u> | <u>\$ 928</u> |

See independent auditors' report.