

CITY OF AVALON, CALIFORNIA

Basic Financial Statements

Year ended June 30, 2012

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CITY OF AVALON, CALIFORNIA
Basic Financial Statements

Year ended June 30, 2012

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CITY OF AVALON, CALIFORNIA
Basic Financial Statements
and Supplemental Data

Year ended June 30, 2012

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City of Avalon
Avalon, California

Independent Auditor's Report

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, as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Avalon. 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 ("Hospital"), a discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Hospital, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial 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 the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Avalon, California, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2012, the City implemented GASB Statement Nos. 63 and 65 as described further in note 12.

Management has omitted *management's discussion and analysis* 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 part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context.

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information* for the General Fund and major Special Revenue Funds be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2014 on our consideration of the City of Avalon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Avalon's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Irvine, California
February 27, 2014

BASIC FINANCIAL STATEMENTS

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GOVERNMENT- WIDE FINANCIAL STATEMENTS

THE STATEMENT OF NET POSITION AND THE STATEMENT ACTIVITIES

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of this year's activities"? The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

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

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 (the Hospital). Although legally separate, this "discrete component unit" is important because the City is financially accountable for it.

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CITY OF AVALON
Statement of Net Position
June 30, 2012

	Primary Government			Discrete Component Unit
	Governmental Activities	Business-type Activities	Total	Avalon Medical Development Corporation
Assets:				
Current assets:				
Cash and investments (note 2)	\$ 5,662,152	5,353,397	11,015,549	935,786
Receivables net:				
Accounts	594,085	838,251	1,432,336	2,244,947
Taxes	877,595	24,546	902,141	-
Interest	4,510	4,327	8,837	-
Due from primary government	-	-	-	147,305
Due from other governments	1,000,000	-	1,000,000	-
Notes receivable	32,000	-	32,000	-
Internal balances	135,921	(135,921)	-	-
Inventories	-	-	-	60,273
Land held for resale	3,152,600	-	3,152,600	-
Prepaid items	-	-	-	70,037
Noncurrent assets (note 4):				
Capital assets, not being depreciated	1,304,576	477,751	1,782,327	1,368,771
Capital assets, net of accumulated depreciation	<u>3,810,674</u>	<u>11,226,619</u>	<u>15,037,293</u>	<u>1,170,245</u>
Total assets	<u>16,574,113</u>	<u>17,788,970</u>	<u>34,363,083</u>	<u>5,997,364</u>
Liabilities and Net Position:				
Current liabilities:				
Accounts payable	872,720	807,187	1,679,907	194,409
Interest payable	-	42,279	42,279	-
Accrued liabilities	40,635	29,788	70,423	271,400
Unearned revenue	-	125,394	125,394	603,135
Due to component unit	147,305	-	147,305	-
Noncurrent liabilities (note 5):				
Due within one year	45,267	668,727	713,994	-
Due in more than one year	<u>1,968,191</u>	<u>1,681,395</u>	<u>3,649,586</u>	<u>-</u>
Total liabilities	<u>3,074,118</u>	<u>3,354,770</u>	<u>6,428,888</u>	<u>1,068,944</u>
Net Position:				
Net investment in capital assets	5,115,250	11,704,370	16,819,620	1,170,245
Restricted for:				
Community development	4,359,749	-	4,359,749	-
Transportation	364,596	-	364,596	-
Unrestricted	<u>3,660,400</u>	<u>2,729,830</u>	<u>6,390,230</u>	<u>3,758,175</u>
Total net position	<u>\$ 13,499,995</u>	<u>14,434,200</u>	<u>27,934,195</u>	<u>4,928,420</u>

See accompanying notes to the basic financial statements

CITY OF AVALON
Statement of Activities
Year ended June 30, 2012

Functions/programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
Public safety	\$ 1,395,130	190,395	100,000	-
Fire and ambulance	2,192,235	214,531	47,454	-
Planning, building and engineering	524,207	154,723	-	-
Community services	417,143	227,917	7,388	1,800
Public works	1,196,187	30,924	110,013	163,261
General government	5,722,101	34,530	655,058	-
Interest on long term debt	831,113	-	-	-
Total governmental activities	<u>12,278,116</u>	<u>853,020</u>	<u>919,913</u>	<u>165,061</u>
Business-type activities:				
Harbor	6,737,132	6,635,867	-	-
Sewer	2,300,773	1,460,372	-	-
Saltwater	374,531	394,540	-	-
Solidwaste	1,892,048	1,875,406	10,000	-
Total business-type activities	<u>11,304,484</u>	<u>10,366,185</u>	<u>10,000</u>	<u>-</u>
Total primary government	<u>\$ 23,582,600</u>	<u>11,219,205</u>	<u>929,913</u>	<u>165,061</u>
Discrete Component Unit:				
Avalon Medical Development Corporation	<u>\$ 8,228,276</u>	<u>7,723,294</u>	<u>180,227</u>	<u>75,000</u>

General revenues:

Taxes:

Property taxes

Sales taxes

Transient occupancy taxes

Other taxes

Unrestricted grants and contributions

Investment earnings

Miscellaneous income

Extraordinary gain (loss) (note 11)

 Total general revenues and transfers

Change in net position

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

Net position, end of year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position

<u>Primary Government</u>			<u>Discrete Component Unit</u>
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Avalon Medical Development Corporation</u>
(1,104,735)	-	(1,104,735)	-
(1,930,250)	-	(1,930,250)	-
(369,484)	-	(369,484)	-
(180,038)	-	(180,038)	-
(891,989)	-	(891,989)	-
(5,032,513)	-	(5,032,513)	-
(831,113)	-	(831,113)	-
<u>(10,340,122)</u>	<u>-</u>	<u>(10,340,122)</u>	<u>-</u>
-	(101,265)	(101,265)	-
-	(840,401)	(840,401)	-
-	20,009	20,009	-
-	(6,642)	(6,642)	-
-	(928,299)	(928,299)	-
<u>(10,340,122)</u>	<u>(928,299)</u>	<u>(11,268,421)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(249,755)</u>
2,091,600	-	2,091,600	-
1,192,911	-	1,192,911	421,874
3,835,023	-	3,835,023	-
1,042,417	171,041	1,213,458	-
79,621	-	79,621	-
43,771	17,301	61,072	-
373,818	-	373,818	-
8,866,378	-	8,866,378	-
<u>17,525,539</u>	<u>188,342</u>	<u>17,713,881</u>	<u>421,874</u>
7,185,417	(739,957)	6,445,460	172,119
<u>6,314,578</u>	<u>15,174,157</u>	<u>21,488,735</u>	<u>4,756,301</u>
<u>\$ 13,499,995</u>	<u>14,434,200</u>	<u>27,934,195</u>	<u>4,928,420</u>

See accompanying notes to the basic financial statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

GENERAL FUND

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

SPECIAL REVENUE FUNDS

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

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

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

Low/Moderate Income Housing Fund - 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.

NONMAJOR FUNDS

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

CITY OF AVALON
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	Special Revenue Funds		
		Local Transportation Fund	Low/Mod Income Housing Asset Fund	Low/Moderate Income Housing Fund
Assets:				
Cash and investments	\$ 3,357,307	526,497	8,977	-
Receivables, net:				
Accounts	142,726	433,276	-	-
Taxes	877,595	-	-	-
Interest	3,141	320	-	-
Notes receivable	32,000	-	-	-
Advances to other governments	-	-	1,000,000	-
Land held for resale	-	-	3,152,600	-
Total assets	<u>\$ 4,412,769</u>	<u>960,093</u>	<u>4,161,577</u>	<u>-</u>
Liabilities:				
Accounts payable	\$ 605,521	46,041	-	-
Accrued liabilities	31,817	-	-	-
Due to component unit	147,305	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	<u>784,643</u>	<u>46,041</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources:				
Unavailable revenue	25,831	424,833	-	-
Total deferred inflows of resources	<u>25,831</u>	<u>424,833</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted:				
Low and moderate income housing	-	-	4,161,577	-
Community development	-	-	-	-
Capital projects	-	-	-	-
Street protects	-	-	-	-
Unassigned	3,602,295	489,219	-	-
Total fund balances	<u>3,602,295</u>	<u>489,219</u>	<u>4,161,577</u>	<u>-</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,412,769</u>	<u>960,093</u>	<u>4,161,577</u>	<u>-</u>

See accompanying notes to the basic financial statements

ACIA Debt Service Fund	ACIA Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
-	-	586,456	4,479,237
-	-	16,970	592,972
-	-	-	877,595
-	-	339	3,800
-	-	-	32,000
-	-	-	1,000,000
-	-	-	3,152,600
-	-	603,765	10,138,204
-	-	37,227	688,789
-	-	3,770	35,587
-	-	-	147,305
-	-	-	-
-	-	40,997	871,681
-	-	-	450,664
-	-	-	450,664
-	-	-	4,161,577
-	-	23,977	23,977
-	-	174,195	174,195
-	-	364,596	364,596
-	-	-	4,091,514
-	-	562,768	8,815,859
-	-	603,765	10,138,204

See accompanying notes to the basic financial statements

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CITY OF AVALON
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2012

Fund balances of governmental funds	\$	8,815,859
Amounts reported for governmental activities in the statement of net position are different because:		
<p style="margin-left: 40px;">Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Capital assets		7,385,570
Accumulated depreciation		(3,152,281)
<p style="margin-left: 40px;">Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.</p>		
		450,664
<p style="margin-left: 40px;">Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Other post employment benefits		(315,316)
Compensated absences		(973,230)
<p style="margin-left: 40px;">Internal service funds are used by management to charge the costs of employee benefits, liability insurance and vehicle maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.</p>		
		<u>1,288,729</u>
Net position of governmental activities	\$	<u>13,499,995</u>

See accompanying notes to the basic financial statements

CITY OF AVALON
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year ended June 30, 2012

	Special Revenue Funds			
	General Fund	Local Transportation Fund	Low/Mod Income Housing Asset Fund	Low/Mod Income Housing Fund
Revenues:				
Taxes	\$ 6,339,213	-	-	-
Licenses, permits and fees	272,134	-	-	-
Fines, forfeitures and penalties	8,920	-	-	-
Investment income	14,175	1,512	-	7,461
Intergovernmental revenue	312,285	653,488	-	-
Charges for services	279,998	-	-	-
Other revenue	395,457	-	11,280	12,300
Total revenues	<u>7,622,182</u>	<u>655,000</u>	<u>11,280</u>	<u>19,761</u>
Expenditures:				
Current:				
Public safety	1,370,304	-	-	-
Fire and ambulance	2,092,103	-	-	-
Planning, building and engineering	510,765	-	-	-
Community services	352,568	-	-	-
Public works	798,699	-	-	-
General government:				
Human services	-	-	3,638	72,795
General office	-	-	-	-
Services and charges	1,232,679	-	-	-
Contract services	534,056	1,033,786	21,172	2,677
Special departmental	14,274	9,534	-	-
Other	-	-	499	1,149
Capital expenditures	331,508	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>7,236,956</u>	<u>1,043,320</u>	<u>25,309</u>	<u>76,621</u>
Excess of revenues over (under) expenditures	<u>385,226</u>	<u>(388,320)</u>	<u>(14,029)</u>	<u>(56,860)</u>
Other Financing Sources (Uses):				
Transfers in (note 3)	5,966	-	23,006	8,625
Transfers out (note 3)	(478,103)	-	-	(328,469)
Total other financing sources (uses)	<u>(472,137)</u>	<u>-</u>	<u>23,006</u>	<u>(319,844)</u>
Extraordinary gain (loss) (note 11)	-	-	4,152,600	(10,563,144)
Net change in fund balance	<u>(86,911)</u>	<u>(388,320)</u>	<u>4,161,577</u>	<u>(10,939,848)</u>
Fund balance (deficit), beginning of year as restated (note 12)	<u>3,689,206</u>	<u>877,539</u>	<u>-</u>	<u>10,939,848</u>
Fund balance (deficit), end of year	<u>\$ 3,602,295</u>	<u>489,219</u>	<u>4,161,577</u>	<u>-</u>

See accompanying notes to the basic financial statements

ACIA Debt Service Fund	ACIA Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
-	1,509,499	110,013	7,958,725
-	-	-	272,134
-	-	64,248	73,168
-	16,567	1,273	40,988
-	-	60,563	1,026,336
-	-	134,553	414,551
-	-	9,888	428,925
-	<u>1,526,066</u>	<u>380,538</u>	<u>10,214,827</u>
-	-	-	1,370,304
-	-	-	2,092,103
-	-	-	510,765
-	-	-	352,568
-	-	-	798,699
-	457,919	450,955	985,307
-	-	1,153	1,153
-	-	5,820	1,238,499
-	80,221	26,113	1,698,025
-	1,134,548	20,264	1,178,620
-	43,415	-	45,063
-	134,884	-	466,392
810,000	-	-	810,000
716,898	-	-	716,898
<u>1,526,898</u>	<u>1,850,987</u>	<u>504,305</u>	<u>12,264,396</u>
<u>(1,526,898)</u>	<u>(324,921)</u>	<u>(123,767)</u>	<u>(2,049,569)</u>
1,526,898	328,469	469,061	2,362,025
-	(1,535,523)	-	(2,342,095)
<u>1,526,898</u>	<u>(1,207,054)</u>	<u>469,061</u>	<u>19,930</u>
<u>(3,772)</u>	<u>(6,619,273)</u>	<u>110,000</u>	<u>(12,923,589)</u>
(3,772)	(8,151,248)	455,294	(14,953,228)
<u>3,772</u>	<u>8,151,248</u>	<u>107,474</u>	<u>23,769,087</u>
<u>-</u>	<u>-</u>	<u>562,768</u>	<u>8,815,859</u>

See accompanying notes to the basic financial statements

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CITY OF AVALON
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 Year ended June 30, 2012

Net changes in fund balances - total governmental funds \$ (14,953,228)

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

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

Capital outlay	140,980
Depreciation expense	(566,995)

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

Principal payments	810,000
Change in compensated absences	45,267
Change in OPEB obligation	(240,560)

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.

347,643

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.

(74,370)

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	(113,287)
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Extraordinary gain through the dissolution of the redevelopment agency.

21,789,967

Change in net position of governmental activities

\$ 7,185,417

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.

Solid waste - 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.

CITY OF AVALON
Statement of Net Position
Proprietary Funds
June 30, 2012

	Business-type Activities				Total Enterprise Funds	Governmental Activities -
	Harbor	Sewer	Saltwater	Solidwaste		Internal Service Funds
Assets:						
Current Assets:						
Cash and investments	\$ 1,400,613	2,741,279	845,507	365,998	5,353,397	1,182,915
Receivables, net:						
Accounts	710,397	47,690	11,297	68,867	838,251	1,113
Taxes	24,546	-	-	-	24,546	-
Interest	1,204	2,196	611	316	4,327	710
Total current assets	<u>2,136,760</u>	<u>2,791,165</u>	<u>857,415</u>	<u>435,181</u>	<u>6,220,521</u>	<u>1,184,738</u>
Noncurrent assets:						
Capital assets, not being depreciated	477,751	-	-	-	477,751	-
Capital assets, net of accumulated depreciation	<u>4,875,977</u>	<u>4,870,533</u>	<u>691,297</u>	<u>788,812</u>	<u>11,226,619</u>	<u>881,961</u>
Total noncurrent assets	<u>5,353,728</u>	<u>4,870,533</u>	<u>691,297</u>	<u>788,812</u>	<u>11,704,370</u>	<u>881,961</u>
Total assets	<u>7,490,488</u>	<u>7,661,698</u>	<u>1,548,712</u>	<u>1,223,993</u>	<u>17,924,891</u>	<u>2,066,699</u>
Liabilities:						
Current liabilities:						
Accounts payable	414,503	118,975	213,538	60,171	807,187	183,931
Interest payable	42,279	-	-	-	42,279	-
Accrued liabilities	29,528	130	130	-	29,788	5,048
Unearned revenue	125,394	-	-	-	125,394	-
Due to other funds	-	-	-	-	-	-
Current portion of noncurrent liabilities	<u>218,727</u>	<u>450,000</u>	<u>-</u>	<u>-</u>	<u>668,727</u>	<u>-</u>
Total current liabilities	<u>830,431</u>	<u>569,105</u>	<u>213,668</u>	<u>60,171</u>	<u>1,673,375</u>	<u>188,979</u>
Noncurrent liabilities (note 5):						
Compensated absences	164,756	7,579	1,724	-	174,059	-
OPEB obligation	306,555	4,224	4,224	-	315,003	-
Claims payable	153,268	200,000	-	-	353,268	724,912
Loans payable	<u>839,065</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>839,065</u>	<u>-</u>
Total noncurrent liabilities	<u>1,463,644</u>	<u>211,803</u>	<u>5,948</u>	<u>-</u>	<u>1,681,395</u>	<u>724,912</u>
Total liabilities	<u>2,294,075</u>	<u>780,908</u>	<u>219,616</u>	<u>60,171</u>	<u>3,354,770</u>	<u>913,891</u>
Net Position:						
Net investment in capital assets	4,432,282	4,870,533	691,297	788,812	10,782,924	881,961
Unrestricted	<u>764,131</u>	<u>2,010,257</u>	<u>637,799</u>	<u>375,010</u>	<u>3,787,197</u>	<u>270,847</u>
Total net position	<u>\$ 5,196,413</u>	<u>6,880,790</u>	<u>1,329,096</u>	<u>1,163,822</u>	<u>14,570,121</u>	<u>1,152,808</u>
Adjustment to report the cumulative internal balance for the net effect of the activity between the internal service funds and the enterprise funds over time					<u>(135,921)</u>	
Net position of business-type activities (page 7)					<u>14,434,200</u>	

See accompanying notes to the basic financial statements

CITY OF AVALON
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year ended June 30, 2012

	Business-type Activities				Total	Governmental
	Harbor	Sewer	Saltwater	Solidwaste	Enterprise Funds	Activities - Internal Service Funds
Operating revenues:						
Charges for services	\$ 6,635,867	1,460,372	394,540	1,875,406	10,366,185	2,009,129
Other revenue	3,561	-	-	-	3,561	30,974
Total operating revenues	<u>6,639,428</u>	<u>1,460,372</u>	<u>394,540</u>	<u>1,875,406</u>	<u>10,369,746</u>	<u>2,040,103</u>
Operating expenses:						
Salaries and benefits	3,765,986	148,319	66,362	192,629	4,173,296	709,520
Contractual services	898,414	1,433,316	159,322	1,570,116	4,061,168	493,844
Office supplies	4,991	-	-	-	4,991	56,233
Utilities and rent	266,394	117,729	-	-	384,123	74,312
Repairs and maintenance	347,244	95,266	77,145	22,022	541,677	231,559
Operating supplies	32,853	-	-	-	32,853	77,822
Other services and charges	1,045,114	52,335	-	12,185	1,109,634	399,194
Depreciation	245,852	437,994	67,398	74,069	825,313	204,160
Total operating expenses	<u>6,606,848</u>	<u>2,284,959</u>	<u>370,227</u>	<u>1,871,021</u>	<u>11,133,055</u>	<u>2,246,644</u>
Operating income (loss)	<u>32,580</u>	<u>(824,587)</u>	<u>24,313</u>	<u>4,385</u>	<u>(763,309)</u>	<u>(206,541)</u>
Nonoperating revenues (expenses):						
Admissions taxes	167,480	-	-	-	167,480	-
Grants and other revenues	-	-	-	10,000	10,000	-
Interest income	5,459	8,467	2,474	901	17,301	2,783
Interest expense	(42,038)	-	-	-	(42,038)	-
Total nonoperating revenues (expenses)	<u>130,901</u>	<u>8,467</u>	<u>2,474</u>	<u>10,901</u>	<u>152,743</u>	<u>2,783</u>
Changes in net position	163,481	(816,120)	26,787	15,286	(610,566)	(203,758)
Net position, beginning of year	<u>5,032,932</u>	<u>7,696,910</u>	<u>1,302,309</u>	<u>1,148,536</u>		<u>1,356,566</u>
Net position, end of year	<u>\$ 5,196,413</u>	<u>6,880,790</u>	<u>1,329,096</u>	<u>1,163,822</u>		<u>1,152,808</u>
Adjustment for the net effect of current year activity between the internal service funds and the enterprise funds.					<u>(129,391)</u>	
Change in net position of business-type activities (page 8)					<u>(739,957)</u>	

CITY OF AVALON
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2012

	Harbor	Sewer	Saltwater	Solidwaste	Total Enterprise Funds	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities:						
Cash received from customers	\$ 6,496,809	1,492,840	399,897	1,916,548	10,306,094	-
Cash received from interfund services provided	-	-	-	-	-	2,040,103
Cash payments to suppliers for goods and services	(2,150,653)	(1,023,542)	(39,797)	(1,586,336)	(4,800,328)	(1,179,276)
Cash payments to employees for services	(3,441,853)	(141,238)	(65,136)	(192,629)	(3,840,856)	(709,442)
Net cash provided by operating activities	<u>904,303</u>	<u>328,060</u>	<u>294,964</u>	<u>137,583</u>	<u>1,664,910</u>	<u>151,385</u>
Cash Flows from Noncapital Financing Activities:						
Cash received for admissions taxes	167,480	-	-	-	167,480	-
Cash received from other funds	-	-	-	-	-	47,406
Cash paid to other funds	(226,981)	(4,654)	(1,096)	-	(232,731)	-
Net cash provided by noncapital financing activities	<u>(59,501)</u>	<u>(4,654)</u>	<u>(1,096)</u>	<u>-</u>	<u>(65,251)</u>	<u>47,406</u>
Cash Flows from Capital and Related Financing Activities:						
Cash payments to acquire capital and other assets	(126,427)	(126,151)	(197,637)	(26,373)	(476,588)	(229,917)
Principal paid on capital-related debt	(102,978)	-	-	-	(102,978)	-
Interest paid on capital-related debt	(46,123)	-	-	-	(46,123)	-
Net cash provided by capital and related financing activities	<u>(275,528)</u>	<u>(126,151)</u>	<u>(197,637)</u>	<u>(26,373)</u>	<u>(625,689)</u>	<u>(229,917)</u>
Cash Flows from Investing Activities:						
Interest in investments	<u>5,280</u>	<u>8,679</u>	<u>2,573</u>	<u>905</u>	<u>17,437</u>	<u>3,027</u>
Net increase (decrease) in cash and cash equivalents	574,554	205,934	98,804	112,115	991,407	(28,099)
Cash and cash equivalents, beginning of year	<u>826,059</u>	<u>2,535,345</u>	<u>746,703</u>	<u>253,883</u>	<u>4,361,990</u>	<u>1,211,014</u>
Cash and cash equivalents, end of year	<u>\$ 1,400,613</u>	<u>2,741,279</u>	<u>845,507</u>	<u>365,998</u>	<u>5,353,397</u>	<u>1,182,915</u>
Reconciliation of Operating Income (loss) to Net Cash						
Provided by Operating Activities:						
Operating income (loss)	\$ 32,580	\$ (824,587)	\$ 24,313	\$ 4,385	(763,309)	(206,541)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities						
Depreciation	245,852	437,994	67,398	74,069	825,313	204,160
Nonoperating miscellaneous revenue	-	-	-	10,000	10,000	-
(Increase) decrease in accounts receivable	(146,512)	32,468	5,357	31,142	(77,545)	4,516
(Increase) decrease in taxes receivable	(2,767)	-	-	-	(2,767)	-
Increase (decrease) in accounts payable	305,567	25,452	197,018	19,756	547,793	91,990
Increase (decrease) in accrued liabilities	(14,478)	(348)	(348)	(195)	(15,369)	(3,066)
Increase (decrease) in unearned revenue	6,660	-	-	-	6,660	-
Increase (decrease) in compensated absences	17,577	7,579	1,724	-	26,880	(47,407)
Increase (decrease) in OPEB obligation	306,556	(498)	(498)	(1,574)	303,986	-
Increase (decrease) in claims payable	<u>153,268</u>	<u>650,000</u>	<u>-</u>	<u>-</u>	<u>803,268</u>	<u>107,733</u>
Net Cash Provided by Operating Activities	<u>\$ 904,303</u>	<u>328,060</u>	<u>294,964</u>	<u>137,583</u>	<u>1,664,910</u>	<u>151,385</u>

There were no noncash capital, investing or financing activities

See accompanying notes to the basic financial statements

CITY OF AVALON
Statement of Fiduciary Net Position
Private Purpose Trust Fund
June 30, 2013

Assets:

Current assets:

Cash and investments (note 2)	\$ 14,291,344
Interest receivable	<u>10,278</u>
Total current assets	<u>14,301,622</u>

Noncurrent assets:

Capital assets, net of accumulated depreciation (note 4)	<u>10,576,677</u>
Total assets	<u>24,878,299</u>

Liabilities:

Current liabilities:

Accounts payable	1,472,884
Interest payable	468,522

Current portion of long-term liabilities:

Bonds payable (note 9)	<u>840,000</u>
Total current liabilities	<u>2,781,406</u>

Long-term liabilities:

Advances from other governments (note 3)	1,000,000
Bonds payable (note 9)	<u>27,910,000</u>
Total long-term liabilities	<u>28,910,000</u>
Total liabilities	<u>31,691,406</u>

Net Position:

Held in trust for successor agency	<u>(6,813,107)</u>
Total net position (deficit)	<u><u>\$ (6,813,107)</u></u>

See accompanying notes to the basic financial statements

CITY OF AVALON
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
Year ended June 30, 2012

Additions:	
Taxes	\$ 1,630,145
Investment income	<u>22,078</u>
Total additions	<u>1,652,223</u>
Deductions:	
Community development	2,024,363
Depreciation expense	218,457
Interest	585,653
Transfers out (note 3)	19,930
Extraordinary loss (note 11)	<u>5,616,927</u>
Total deductions	<u>8,465,330</u>
Change in net position	(6,813,107)
Net position, beginning of year	<u>-</u>
Net position, end of year	<u><u>\$ (6,813,107)</u></u>

See accompanying notes to the basic financial statements

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies

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

A. Description of the Reporting Entity

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

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

The component 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. City Council members, in separate session, served as the governing board of the Agency, and all accounting and administrative functions were performed by the City. The financial activity of the Agency, through January 31, 2012, has been blended into the City's financial statements within the Governmental Activities in the financial statements.

Subsequent to February 1, 2012, the assets and liabilities of the former redevelopment agency have been recorded in a private-purpose trust fund pending the liquidation and distribution of net position to other taxing entities. Separate financial statements for the Agency are not available (see Note 11).

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies, (Continued)

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.

Government-wide Financial Statements

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

B. Basis of Accounting and Measurement Focus

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

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

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies, (Continued)

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

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

Fund Financial Statements

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

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

Net position is classified in the following categories:

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

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

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

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies, (Continued)

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

Governmental Funds

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

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

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

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

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

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies, (Continued)

Governmental Fund Balances

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

Nonspendable Fund Balance

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

Spendable Fund Balance

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

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

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

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

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

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies, (Continued)

Proprietary and Fiduciary Funds

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

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

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

C. Major Funds and Fiduciary Fund Types:

The City reports the following major governmental funds:

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

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

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies, (Continued)

Low and Moderate Income Housing Asset Fund – The Low and Moderate Income Housing Asset Fund is used account for monies set aside for low/moderate income housing needs. This fund was created effective February 1, 2012 in response to of legislation enacted by the State of California to dissolve California Redevelopment Agencies.

Low and Moderate Income Housing Fund – 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 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 11).

ACIA Debt Service Fund – The ACIA 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 11).

ACIA Capital Projects Fund – The ACIA 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 11).

The City reports the following major enterprise funds:

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

Sewer Fund – The Sewer Fund is used to receive and disburse funds collected through sewer service charge lees 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 Fund – The Saltwater Fund is used to receive charges for operation of the City's saltwater pumping plants and systems.

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

The City reports the following fund types:

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

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

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies, (Continued)

Additionally, the City reports the following fiduciary fund type:

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

D. Cash and Investments:

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

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

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

E. Interfund Transactions:

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

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

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

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 position. The ranges of estimated useful lives used for depreciation purposes for each capital asset class are as follows:

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

G. Compensated Absences:

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

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

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies, (Continued)

H. Property Taxes:

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

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

Secured:

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

Unsecured:

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

I. Use of Estimates:

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

J. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time.

The City does not have any items that qualify for reporting in this category.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

2. Cash and investments

Cash and investments at June 30, 2012 are classified in the accompanying financial statements as follows:

	<u>Primary Government</u>	<u>Discrete Component Unit</u>
Statement of net position	\$ 11,015,549	935,786
Statement of fiduciary net position	<u>14,291,344</u>	<u>-</u>
Total cash and investments	<u>\$ 25,306,893</u>	<u>935,786</u>

Cash and investments at June 30, 2012 consisted of the following:

	<u>Primary Government</u>	<u>Discrete Component Unit</u>
Petty cash	\$ 500	850
Demand deposits	1,922,268	18,753
Investments	<u>23,384,125</u>	<u>916,183</u>
Total	<u>\$ 25,306,893</u>	<u>935,786</u>

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

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

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

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

N/A - Not Applicable

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

2. Cash and investments, (Continued)

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.

Disclosures Relating to Interest Rate Risk:

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

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

<u>Investment Type:</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>	
		<u>Within 12</u>	<u>Beyon 12</u>
Primary government:			
State investment pool	\$ 12,963,047	12,963,047	-
Held by bond trustee:			
State investment pool	2,853,631	2,853,631	-
Money market mutual funds	<u>7,567,447</u>	<u>7,567,447</u>	-
Total primary government	<u>\$ 23,384,125</u>	<u>23,384,125</u>	<u>-</u>
Discrete Component Unit:			
State Investment Pool	<u>\$ 916,183</u>	<u>916,183</u>	<u>-</u>

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

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 yearend for each investment type:

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating</u>	
			<u>AAA</u>	<u>Unrated</u>
Primary government:				
State investment pool	\$ 12,963,047	N/A	-	12,963,047
Held by bond trustee:				
State investment pool	2,853,631	N/A	-	2,853,631
Money market mutual funds	<u>7,567,447</u>	A	<u>7,567,447</u>	<u>-</u>
Total primary government	<u>\$ 23,384,125</u>		<u>7,567,447</u>	<u>15,816,678</u>
Discrete Component Unit:				
State Investment Pool	\$ 916,183	N/A	-	916,183

N/A - Not Applicable

Concentration of Credit Risk:

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

Custodial Credit Risk:

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

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

2. Cash and investments, (Continued)

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the City's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2012, the City's and Hospital's deposits (bank balances) were insured by the Federal Deposit Insurance Corporation or collateralized as required under California Law.

Investment in State Investment Pool:

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

3. Interfund Balances and Transfers

The composition of interfund balances as of June 30, 2012 are as follows:

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

* - Advances to/from the Successor Agency for the ACIA have been reclassified as Advances to/from Other Governments in the Government-wide financial statements.

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

<u>Transfers in</u>	<u>Transfers out</u>	<u>Amount</u>	
General Fund	Private Purpose Trust Fund	\$ 5,966	a
Low / Mod Housing Fund	ACIA Capital Projects Fund	8,625	b
Low / Mod Housing Asset Fund	General Fund	9,042	c
Low / Mod Housing Asset Fund	Private Purpose Trust Fund	13,964	c
ACIA Debt Service Fund	ACIA Capital Projects Fund	1,526,898	d
ACIA Capital Projects Fund	Low / Mod Housing Fund	328,469	e
Non-Major Governmental Funds	General Fund	<u>469,061</u>	f
		<u>\$ 2,362,025</u>	

To reimburse the General Fund for expenditures incurred to cover ACIA Successor Agency Debt Service costs.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

3. Interfund Balances and Transfers, (Continued)

- a) The transfer to the Low / Mod Housing Fund from the ACIA Capital Projects Fund was to provide funding for the payment of principal and interest on debt.
- b) To reimburse the Low / Mod Housing Asset Fund for non-admin expenditures incurred.
- c) The transfer to the ACIA Debt Service Fund from the ACIA Capital Projects Fund was to provide funding for the payment of principal and interest on debt.
- d) The transfer to the ACIA Capital Project Fund from the Low / Mod Housing Fund was to provide funding for Housing specific capital projects during the year.
- e) The transfer from the General Fund to the Traffic Safety Fund of \$259,377 was to cover negative cash balance. The transfer from the General Fund to the Child Care Fund of \$148,196 was to provide funding for expenditures in excess of revenues received in the Child Care fund. The transfer from the General Fund to the Mclean / Hall / Putnam fund was to establish a new, separate fund specifically for activities associated with this contribution.

4. Capital Assets

A summary of changes in the capital assets at June 30, 2012 is as follows:

<u>Governmental Activities</u>	<u>Balance at</u> <u>7/1/2011 *</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers to</u> <u>Successor</u> <u>Agency</u>	<u>Balance at</u> <u>6/30/2012</u>
Non-depreciable assets:					
Land	\$ 300,000	-	-	(300,000)	-
Construction in progress	<u>1,401,338</u>	<u>57,350</u>	<u>(154,112)</u>	<u>-</u>	<u>1,304,576</u>
Total non-depreciable assets	<u>1,701,338</u>	<u>57,350</u>	<u>(154,112)</u>	<u>(300,000)</u>	<u>1,304,576</u>
Depreciable assets:					
Building and improvements	12,444,301	-	-	(11,844,458)	599,843
Improvements other than buildings	10,306,197	154,112	-	(6,485,736)	3,974,573
Machinery and equipment	<u>3,727,831</u>	<u>313,547</u>	<u>-</u>	<u>-</u>	<u>4,041,378</u>
Total depreciable assets	<u>26,478,329</u>	<u>467,659</u>	<u>-</u>	<u>(18,330,194)</u>	<u>8,615,794</u>
Less accumulated depreciation:					
Buildings and improvements	(1,910,570)	(147,895)	-	1,856,191	(202,274)
Improvements other than buildings	(4,274,636)	(364,063)	-	2,826,269	(1,812,430)
Machinery and equipment	<u>(2,531,219)</u>	<u>(259,197)</u>	<u>-</u>	<u>-</u>	<u>(2,790,416)</u>
Total accumulated depreciation	<u>(8,716,425)</u>	<u>(771,155)</u>	<u>-</u>	<u>4,682,460</u>	<u>(4,805,120)</u>
Total depreciable assets	<u>17,761,904</u>	<u>(303,496)</u>	<u>-</u>	<u>(13,647,734)</u>	<u>3,810,674</u>
Total capital assets	<u>\$19,463,242</u>	<u>(246,146)</u>	<u>(154,112)</u>	<u>(13,947,734)</u>	<u>5,115,250</u>

* - Balance at 7/1/2011 has been restated. See note 12 for additional information.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

4. Capital Assets, (Continued)

A summary of changes in the capital assets at June 30, 2012 is as follows:

<u>Business-Type Activities</u>	<u>Balance at</u> <u>7/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers to</u> <u>Successor</u> <u>Agency *</u>	<u>Balance at</u> <u>6/30/2012</u>
Non-depreciable assets:					
Land	\$ 520,152	18,959	(61,360)	-	477,751
Depreciable assets:					
Building and improvements	5,585,155	10,220	-	-	5,595,375
Improvements other than buildings	11,235,598	147,354	-	-	11,382,952
Machinery and equipment	2,491,436	144,682	-	-	2,636,118
Infrastructure	<u>2,811,747</u>	<u>216,506</u>	<u>-</u>	<u>-</u>	<u>3,028,253</u>
Total depreciable assets	<u>22,123,936</u>	<u>518,762</u>	<u>-</u>	<u>-</u>	<u>22,642,698</u>
Less accumulated depreciation:					
Buildings and improvements	(2,119,311)	(112,769)	-	-	(2,232,080)
Improvements other than buildings	(5,546,386)	(496,161)	-	-	(6,042,547)
Machinery and equipment	(1,955,141)	(101,593)	-	-	(2,056,734)
Infrastructure	<u>(969,928)</u>	<u>(114,790)</u>	<u>-</u>	<u>-</u>	<u>(1,084,718)</u>
Total accumulated depreciation	<u>(10,590,766)</u>	<u>(825,313)</u>	<u>-</u>	<u>-</u>	<u>(11,416,079)</u>
Total depreciable assets	<u>11,533,170</u>	<u>(306,551)</u>	<u>-</u>	<u>-</u>	<u>11,226,619</u>
Total capital assets	<u>\$ 12,053,322</u>	<u>(287,592)</u>	<u>(61,360)</u>	<u>-</u>	<u>11,704,370</u>
<u>ACIA Successor Agency</u>					
Depreciable assets:					
Building and improvements	\$ -	-	-	8,991,858	8,991,858
Improvements other than buildings	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,485,736</u>	<u>6,485,736</u>
Total depreciable assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,477,594</u>	<u>15,477,594</u>
Less accumulated depreciation:					
Buildings and improvements	-	(95,256)	-	(1,856,191)	(1,951,447)
Improvements other than buildings	<u>-</u>	<u>(123,201)</u>	<u>-</u>	<u>(2,826,269)</u>	<u>(2,949,470)</u>
Total accumulated depreciation	<u>-</u>	<u>(218,457)</u>	<u>-</u>	<u>(4,682,460)</u>	<u>(4,900,917)</u>
Total capital assets	<u>\$ -</u>	<u>(218,457)</u>	<u>-</u>	<u>10,795,134</u>	<u>10,576,667</u>

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

4. Capital Assets, (Continued)

<u>Discrete Component Unit – Hospital</u>	Balance at <u>7/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>6/30/2012</u>
Non-depreciable assets:				
Construction in progress	\$1,122,489	<u>246,282</u>	<u>-</u>	\$ 1,368,771
Depreciable assets:				
Building and improvements	1,796,462	21,048	-	1,817,510
Machinery and equipment	1,768,021	52,236	-	1,820,257
Vehicles	<u>35,708</u>	<u>-</u>	<u>-</u>	<u>35,708</u>
Total depreciable assets	<u>3,600,191</u>	<u>73,284</u>	<u>-</u>	<u>3,673,475</u>
Less accumulated depreciation:				
Buildings and improvements	(771,334)	(141,673)	-	(913,007)
Improvements other than buildings	(1,368,766)	(185,749)	-	(1,554,515)
Machinery and equipment	<u>(35,708)</u>	<u>-</u>	<u>-</u>	<u>(35,708)</u>
Total accumulated depreciation	<u>(2,175,808)</u>	<u>(327,422)</u>	<u>-</u>	<u>(2,503,230)</u>
Total depreciable assets	<u>1,424,383</u>	<u>(254,138)</u>	<u>-</u>	<u>1,170,245</u>
Total capital assets	<u>\$ 2,546,872</u>	<u>(7,856)</u>	<u>-</u>	<u>\$ 2,539,016</u>

Depreciation expense was charged to functions / programs as follows:

Governmental Activities

Public safety	\$ 24,826
Community services	27,990
Public works	347,792
General government	166,387
Internal service funds depreciation charged to programs	<u>204,160</u>
Total depreciation expense - governmental activities	<u>\$ 771,155</u>

Business-Type Activities

Harbor	\$ 245,852
Sewer	437,994
Saltwater	67,398
Solidwaste	<u>74,069</u>
Total depreciation expense - business-type activities	<u>\$ 825,313</u>

ACIA Successor Agency

General government	\$ 102,657
Public works	<u>115,800</u>
	<u>\$ 218,457</u>

Discrete Component Unit - Hospital

Hospital	<u>\$ 327,422</u>
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CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

5. Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

<u>Governmental</u> <u>Activities</u>	Balance at <u>7/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	Transfers to Successor Agency*	Balance at <u>6/30/2012</u>	Due Within <u>One Year</u>
Bonds Payable:						
2003A TAB	\$ 23,030,000	-	(675,000)	(22,355,000)	-	-
2003B Housing TAB	<u>6,530,000</u>	<u>-</u>	<u>(135,000)</u>	<u>(6,395,000)</u>	<u>-</u>	<u>-</u>
Total Bonds Payable	<u>29,560,000</u>	<u>-</u>	<u>(810,000)</u>	<u>(28,750,000)</u>	<u>-</u>	<u>-</u>
Advances from county	3,249,451	-	(3,249,451)	-	-	-
Compensated absences	360,583	293,325	(338,592)	-	315,316	45,267
Claims payable	617,179	447,714	(339,981)	-	724,912	-
OPEB	<u>732,669</u>	<u>267,402</u>	<u>(26,841)</u>	<u>-</u>	<u>973,230</u>	<u>-</u>
Total Governmental	<u>\$ 34,519,882</u>	<u>1,008,441</u>	<u>(4,764,865)</u>	<u>(28,750,000)</u>	<u>2,013,458</u>	<u>45,267</u>
<u>Business-type</u> <u>Activities</u>						
State Department of Boating & Waterways						
Loan	\$ 1,024,424	-	(102,978)	-	921,446	95,291
Compensated absences	260,912	172,929	(123,436)	-	310,405	123,436
Claims payable	-	803,268	-	-	803,268	450,000
OPEB	<u>243,255</u>	<u>86,550</u>	<u>(14,802)</u>	<u>-</u>	<u>315,003</u>	<u>-</u>
Total Business-type	<u>\$ 1,528,591</u>	<u>1,062,747</u>	<u>(241,216)</u>	<u>-</u>	<u>2,350,122</u>	<u>668,727</u>
<u>ACIA Successor</u> <u>Agency</u>						
Bonds Payable:						
2003A TAB	\$ -	-	-	22,355,000	22,355,000	700,000
2003B Housing TAB	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,395,000</u>	<u>6,395,000</u>	<u>140,000</u>
Total Bonds Payable	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>28,750,000</u>	<u>28,750,000</u>	<u>840,000</u>

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

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.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

5. Long-term Liabilities, (Continued)

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, 2012, were as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 700,000	1,024,921	1,724,921
2014	725,000	1,000,421	1,725,421
2015	750,000	974,140	1,724,140
2016	780,000	945,078	1,725,078
2017	810,000	913,878	1,723,878
2018-2022	4,590,000	4,034,138	8,624,138
2023-2027	4,760,000	2,963,192	7,723,192
2028-2032	5,350,000	1,779,395	7,129,395
2033-2035	<u>3,890,000</u>	<u>392,293</u>	<u>4,282,293</u>
Total	<u>\$ 22,355,000</u>	<u>14,027,456</u>	<u>36,382,456</u>

B. 2003 Housing Tax Allocation Bonds, Series B

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

Term bonds in the amount of \$1,320,000, \$2,290,000 and \$3,820,000 mature September 1, 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.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

5. Long-term Liabilities, (Continued)

The annual debt service requirements on these bonds at June 30, 2012, were as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 140,000	380,646	520,646
2014	145,000	374,122	519,122
2015	155,000	367,365	522,365
2016	160,000	358,143	518,143
2017	170,000	348,623	518,623
2018-2022	1,025,000	1,577,704	2,602,704
2023-2027	1,375,000	1,232,611	2,607,611
2028-2032	1,835,000	766,536	2,601,536
2033-2035	<u>1,390,000</u>	<u>171,513</u>	<u>1,561,513</u>
Total	<u>\$ 6,395,000</u>	<u>5,577,263</u>	<u>11,972,263</u>

C. Advances from the County of Los Angeles

The Agency and the County of Los Angeles 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.

In light of the state mandated dissolution of all redevelopment agencies and the associated restructuring of tax increment revenue, the enforceability of this obligation is uncertain. The City believes that under the new revenue structure it will never receive tax increment in excess of its debt service requirements, rather it would only receive up to the debt service requirements until the debt is extinguished at which point the ACIA will be completely dissolved. Accordingly, the accompanying financial statements do not reflect a liability to the City for this matter.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

5. Long-term Liabilities, (Continued)

Business-type Activities

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

A summary of loans payable from the State Department of Boating and Waterways at June 30, 2012 is as follows:

	Amount Outstanding
Original Issue \$500,000, due in annual installments of \$24,710 through August 1, 2016, including interest of 4.5% per annum	\$ 108,477
Original Issue \$900,000, due in annual installments of \$55,890 through August 1, 2019, including interest of 4.5% per annum	368,629
Original Issue \$859,101, due in annual installments of \$56,155 through August 1, 2021, including interest of 4.5% per annum	444,340
	\$ 921,446

The annual debt service requirements on these loans payable at June 30, 2012, were as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 95,291	41,464	136,755
2014	99,578	37,177	136,755
2015	104,058	32,697	136,755
2016	108,742	28,013	136,755
2017	113,635	23,120	136,755
2018 – 2022	400,142	48,282	448,424
Total	\$ 921,446	210,753	1,132,199

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, 2012, the prime rate was 2.00%. The outstanding balance on the Line as of June 30, 2012 was \$0.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

6. Retirement Plans

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

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

Annual Pension Cost. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2011 to June 30, 2012 has been determined by an actuarial valuation of the plan as of June 30, 2009. The contribution rate indicated for the period is 15.146% of payroll for the Miscellaneous Plan and 28.445% of payroll for the Safety Plan.

A summary of principle assumptions and methods used to determine the ARC is shown below:

Miscellaneous Employees

Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period (Misc.)	18 Years as of the Valuation Date
Asset Valuation Method	15 Years as of the Valuation Date
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

6. Retirement Plans, (Continued)

Safety Employees

Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period (Misc.)	16 Years as of the Valuation Date
Asset Valuation Method	15 Years as of the Valuation Date
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

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

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

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

<u>Fiscal Year</u>	<u>Annual Pension Cost (Employer Contribution)</u>		<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
	<u>Safety</u>	<u>Miscellaneous</u>		
6/30/10	\$ 376,973	294,921	100%	-
6/30/11	627,383	306,410	100%	-
6/30/12	500,228	300,960	100%	-

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

7. Other Post Employment Benefits (OPEB)

Plan Description. The City provides medical and dental benefits for retired employees and their spouses through a single employer plan. The City contributes to the CalPERS Health Plan single-employer defined benefit healthcare plan. The benefits are available to employees who retire from the City and commence pension benefits under PERS (on or after age 50) with at least 5 years of service. Employees retiring with at least 20 years of service receive a City contribution for the full cost of coverage for medical and dental coverage. As of June 30, 2012, 22 retired employees were eligible to receive medical and dental benefits. The Plan does not issue a publicly available financial report.

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

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

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

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

Annual required contribution	\$ 369,948
Interest on net OPEB obligation	43,917
Adjustment to annual required contribution	<u>(59,914)</u>
Annual OPEB cost (expense)	353,951
Actual contributions made	<u>(41,643)</u>
Increase in net OPEB obligation	312,308
Net OPEB Obligation - beginning of year	<u>975,925</u>
Net OPEB Obligation - end of year	<u>\$ 1,288,233</u>

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

7. Other Post Employment Benefits, (Continued)

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, 2012 and the two preceding years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/10	\$ 348,267	\$ 24,078	6.9%	\$ 656,962
6/30/11	350,887	31,924	9.1%	975,925
6/30/12	353,951	41,643	11.8%	1,288,233

Funded Status and Funding Progress. As of June 30, 2012, the most recent actuarial valuation date, the funded status of the plan was as follows:

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

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

Actuarial Methods and Assumptions

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

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

7. Other Post Employment Benefits, (Continued)

The ARC for the plan's initial year was determined as part of the July 1, 2011 actuarial valuation using the following methods and assumptions:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Average Remaining Period (Misc.)	18 Years as of the Valuation Date
Discount Rate	4.5%
Inflation Rate	3%
Healthcare Cost Trend Rate	5.0% to 7.0% for Medical and 5.0% for Dental

8. Risk Management and Self-Insurance

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

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

	<u>Claims Liability</u>	
	<u>Gov't Funds</u>	<u>Enterprise Funds</u>
Liability as of June 30, 2010	\$ 56,000	-
Claims incurred and changes in estimates	562,611	-
Claim payments	<u>(1,432)</u>	<u>-</u>
Liability as of June 30, 2011	<u>617,179</u>	<u>-</u>
Claims incurred and changes in estimates	447,714	803,268
Claim payments	<u>(339,981)</u>	<u>-</u>
Liability as of June 30, 2012	<u>\$ 724,912</u>	<u>803,268</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.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

8. Risk Management and Self-Insurance, (Continued)

Settlement claims have not exceeded 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, 2012.

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, 2012 totaled \$10,772.

9. Individual Fund Disclosures

Deficit Fund Balance:

The following funds reported a deficit fund balance:

Internal Service Funds:	
General Administration Fund	3,430
Insurance Fund	80,486

Excess of Expenditures Over Appropriations:

The following funds reported an excess of expenditures over appropriations:

	Budget	Actual	Variance
Major Funds:			
General Fund	\$ 6,447,579	7,236,956	(789,377)
Low / Mod Income Housing Asset Fund	-	25,309	(25,309)
Nonmajor Governmental Funds:			
Traffic Control and Safety Special Revenue Fund	131,931	197,322	(65,391)
Child Care Special Revenue Fund	250,467	277,594	(27,127)

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

10. Commitments and Contingencies

A. Lawsuits

Long Beach Unified School District v. County of Los Angeles

In July 2012, the Long Beach Unified School District filed a Writ of Mandate in the California Superior Court, Los Angeles County, naming multiple public agencies including the Successor Agency to the Avalon Community Improvement Agency and the City of Avalon. This petition is an attempt by the plaintiff to recover past due statutory pass-through payment amounts under Community Redevelopment Law. The City of Avalon expects a judicial finding that it is obligated to return overpayments it has received. The proper calculation to decide how much Avalon has received however is still being determined. Thus, the parties have agreed to continue the time for the defendants to file responsive pleadings 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, 2012 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 cannot be estimated at this time. Once the costs are known, the parties will attempt to negotiate a cost sharing agreement for that portion of the work, to avoid litigation.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

10. Commitments and Contingencies, (Continued)

EPA/State/Regional Water Board Investigations

The United States Environmental Protection Agency, the State Water Resources Control Board and the Los Angeles Regional Water Quality Control Board have conducted a review of the City's sanitary sewer system operations. The City owns a sewage treatment plant and related conveyance system, and the City has a contract with Environ Strategies to operate and maintain the system. The probability of such litigation or amount or monetary exposure is unknown at this time. A draft Cease and Desist Order has been issued by the Los Angeles Regional Water Quality Board that requires the City to initiate many programs and updates to its sewer system. No fines are proposed and we do not anticipate any fines being levied. The City has estimated costs of remediation to be \$650,000. This amount is included as a liability in the Sewer Enterprise Fund.

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

B. Federal and State Grants

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

11. Recent Changes in Legislation Affecting California Redevelopment Agencies

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

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On May 3, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 12-01.

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

11. Recent Changes in Legislation Affecting California Redevelopment Agencies,
(Continued)

The Bill also allows the sponsoring community that formed the Successor Agency to assume the housing functions and take over the certain housing assets of the dissolved redevelopment agency. On January 30, 2012, the Oversight Board of the Successor Agency to the ACIA elected to assume these responsibilities and created the Avalon Housing Authority in accordance with the Bill as part of City resolution number 12-05.

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

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

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

Prior to dissolution of the redevelopment agency on February 1, 2012, the final seven months of the activity of the redevelopment agency were reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City, pending the liquidation and distribution of the assets and liabilities of the former redevelopment agency to other taxing entities in accordance with state law.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss (or gain) in the governmental fund financial statements. The receipt of these assets and liabilities as of February 1, 2012 was reported in the private-purpose trust fund as an extraordinary gain (or loss).

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

11. Recent Changes in Legislation Affecting California Redevelopment Agencies,
(Continued)

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the trust funds (*economic resources measurement focus*), the extraordinary loss (gain) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized in the fiduciary fund financial statements.

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary gain recognized in the fiduciary fund financial statements is reconciled as follows:

Total extraordinary loss reported in governmental funds	(\$12,923,589)
Capital assets recorded in the government-wide financial statements – increase to Net Position of the Successor Agency Trust Fund	(10,795,137)
Accrued bond interest reported in the government-wide financial statements – decrease to Net Position of the Successor Agency Trust Fund	585,653
Long-term debt reported in the government-wide financial Statements – decrease to Net Position of the Successor Agency Trust Fund	28,750,000
Long Term debt no longer considered enforceable (see note 5)	<u>3,249,451</u>
Net decrease to Net Position reported in the government-wide financial statements of the City	<u>\$ 8,866,378</u>

CITY OF AVALON
Notes to the Financial Statements
June 30, 2012

12. Prior Period Adjustments

Below is a schedule of the adjustments affecting Governmental beginning fund balance and net position:

	As Previously Reported	(A) Compensated Absences	(B) Land Held for Resale	(C) OPEB Liability	(D) Deferred/Unearned Revenue	As Restated
Governmental Activities	\$ 6,697,266	(287,342)	(1,227,583)	232,237	-	5,414,578
<u>Governmental Fund:</u>						
General Fund	3,315,308	373,898	-	-	-	3,689,206
Low / Mod Fund	6,787,248	-	3,152,600	-	1,000,000	10,939,848
Local Trans. Fund	(22,461)	-	-	-	900,000	877,539
<u>Internal Service Funds</u>						
General Administration	592,437	(609,192)	-	-	-	(16,755)
Insurance	69,389	(3,712)	-	-	-	65,677
<u>Enterprise Funds</u>						
Harbor Fund	15,245,118	280,012	-	(232,237)	(118,734)	15,174,159
Sewer Fund	5,174,279	209,624	-	(232,237)	(118,734)	5,032,932
Saltwater Fund	7,639,997	56,913	-	-	-	7,696,910
	1,288,837	13,473	-	-	-	1,302,310

- A. During the year the City discovered an error in how compensated absences had been recorded in previous years. This adjustment is to correct errors in the amount of compensated absences recorded in the Government-wide Financial Statements and to properly reflect related compensated absences expenditures in the appropriate funds.
- B. During the year the City discovered that certain pieces of property that had previously been reported in the Governmental Activities as capital assets were land held for resale in the name of the ACIA Low/Mod Income Housing Fund. Additionally, of these amounts the City discovered certain pieces of that property had actually been disposed of in prior years. This entry is to remove the capital assets and accumulated depreciation taken in error, and to record the land held for resale owned by the ACIA Low/Mod Income Housing Fund.
- C. During the year the City discovered an error in how the OPEB liability was recorded between Business-type Activities and Governmental Activities. This adjustment is to correct the beginning balance of OPEB.
- D. During the year the City discovered that it had previously been recording revenue for annual mooring fees upon receipt. Mooring fees are collected in December for the lease period of the following calendar year. This adjustment is to reflect unearned revenue at June 30, 2012 for amounts that had not yet been earned. Additionally, due to the implementation of GASB statement No. 65, the City identified deferred revenues of \$900,000 recorded in the Local Transportation Fund and \$1,000,000 recorded in the Low and Moderate Housing Income Fund that no longer qualify for deferral under GASB statement No. 65.

CITY OF AVALON
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Taxes	\$ 4,850,000	4,850,000	6,339,213	1,489,213
Licenses, permits and fees	409,050	409,050	272,134	(136,916)
Fines, forfeitures and penalties	16,100	16,100	8,920	(7,180)
Investment income	20,245	20,245	14,175	(6,070)
Intergovernmental revenue	149,433	149,433	312,285	162,852
Charges for services	437,500	437,500	279,998	(157,502)
Other revenue	329,500	329,500	395,457	65,957
Total revenues	<u>6,211,828</u>	<u>6,211,828</u>	<u>7,622,182</u>	<u>1,410,354</u>
Expenditures:				
Current:				
Public safety	1,317,822	1,317,822	1,370,304	(52,482)
Fire and ambulance	1,689,075	1,689,075	2,092,103	(403,028)
Planning, building and engineering	448,086	448,086	510,765	(62,679)
Community Services	1,123,689	1,123,689	352,568	771,121
Public works	649,887	649,887	798,699	(148,812)
General government:				
Services and charges	833,307	833,307	1,232,679	(399,372)
Contract services	385,713	385,713	534,056	(148,343)
Special departmental	-	-	14,274	(14,274)
Capital expenditures	-	-	331,508	(331,508)
Total expenditures	<u>6,447,579</u>	<u>6,447,579</u>	<u>7,236,956</u>	<u>(789,377)</u>
Excess of revenues over (under) expenditures	(235,751)	(235,751)	385,226	620,977
Other Financing Sources (Uses):				
Transfers in	-	-	5,966	5,966
Transfers out	-	-	(478,103)	(478,103)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(472,137)</u>	<u>(472,137)</u>
Net change in fund balance	(235,751)	(235,751)	(86,911)	148,840
Fund balance, beginning of year, as restated	<u>3,689,206</u>	<u>3,689,206</u>	<u>3,689,206</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,453,455</u>	<u>3,453,455</u>	<u>3,602,295</u>	<u>148,840</u>

CITY OF AVALON
Local Transportation Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Investment income	\$ -	-	1,512	1,512
Intergovernmental revenue	<u>1,076,406</u>	<u>1,076,406</u>	<u>653,488</u>	<u>(422,918)</u>
Total revenues	<u>1,076,406</u>	<u>1,076,406</u>	<u>655,000</u>	<u>(421,406)</u>
Expenditures:				
Current:				
General government:				
Contract services	1,058,731	1,058,731	1,033,786	24,945
Special departmental	<u>17,400</u>	<u>17,400</u>	<u>9,534</u>	<u>7,866</u>
Total expenditures	<u>1,076,131</u>	<u>1,076,131</u>	<u>1,043,320</u>	<u>32,811</u>
Excess of revenues over (under) expenditures	275	275	(388,320)	(388,595)
Net change in fund balance	275	275	(388,320)	(388,595)
Fund balance (deficit), beginning of year, as restated	<u>877,539</u>	<u>877,539</u>	<u>877,539</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ 877,814</u>	<u>877,814</u>	<u>489,219</u>	<u>(388,595)</u>

CITY OF AVALON
 Low/Mod Income Housing Asset Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
 Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Other revenue	\$ -	-	11,280	11,280
Total revenues	<u>-</u>	<u>-</u>	<u>11,280</u>	<u>11,280</u>
Expenditures:				
Current:				
General government:				
Contract services	-	-	21,172	(21,172)
Other	<u>-</u>	<u>-</u>	499	(499)
Total expenditures	<u>-</u>	<u>-</u>	<u>25,309</u>	<u>(25,309)</u>
Excess of revenues over (under) expenditures	-	-	(14,029)	(14,029)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	23,006	23,006
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>23,006</u>	<u>23,006</u>
Extraordinary gain (loss)	<u>-</u>	<u>-</u>	<u>4,152,600</u>	<u>(4,152,600)</u>
Net change in fund balance	-	-	4,161,577	(4,143,623)
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>-</u>	<u>4,161,577</u>	<u>(4,143,623)</u>

CITY OF AVALON
 Low/Mod Income Housing Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
 Year ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Taxes	\$ 1,110,000	1,110,000	-	(1,110,000)
Investment income	7,000	7,000	7,461	461
Other revenue	600	600	12,300	11,700
Total revenues	<u>1,117,600</u>	<u>1,117,600</u>	<u>19,761</u>	<u>(1,097,839)</u>
Expenditures:				
Current:				
General government:				
Human services	141,933	141,933	72,795	69,138
Contract services	170,000	170,000	2,677	167,323
Other	3,700	3,700	1,149	2,551
Total expenditures	<u>315,633</u>	<u>315,633</u>	<u>76,621</u>	<u>239,012</u>
Excess of revenues over (under) expenditures	<u>801,967</u>	<u>801,967</u>	<u>(56,860)</u>	<u>(858,827)</u>
Other Financing Sources (Uses):				
Transfers in	-	-	8,625	8,625
Transfers out	-	-	(328,469)	328,469
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(319,844)</u>	<u>337,094</u>
Extraordinary gain (loss)	<u>-</u>	<u>-</u>	<u>(10,563,144)</u>	<u>10,563,144</u>
Net change in fund balance	801,967	801,967	(10,939,848)	10,041,411
Fund balance, beginning of year, as restated	<u>10,939,848</u>	<u>10,939,848</u>	<u>10,939,848</u>	<u>-</u>
Fund balance, end of year	<u>\$ 11,741,815</u>	<u>11,741,815</u>	<u>-</u>	<u>10,041,411</u>

CITY OF AVALON
Notes to Required Supplementary Information
June 30, 2012

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 2011-2012, 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.

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

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

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

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

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

CITY OF AVALON
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

	Special Revenue Funds		
	Street	Traffic Control and Safety	Community Development Block Grant
Assets:			
Cash and investments	\$ 364,456	12,403	22,496
Receivables, net:			
Accounts	-	1,470	873
Interest	277	-	12
Total assets	364,733	13,873	23,381
Liabilities:			
Accounts payable	137	12,330	11,947
Accrued liabilities	-	1,543	-
Total liabilities	137	13,873	11,947
Fund Balances:			
Restricted:			
Community development	-	-	11,434
Capital projects	-	-	-
Street projects	364,596	-	-
Total fund balances	364,596	-	11,434
Total liabilities and fund balances	\$ 364,733	13,873	23,381

Special Revenue Funds

<u>Child Care</u>	<u>Mclean / Hall / Putnam Trust</u>	<u>Offield Contribution</u>	<u>Total</u>
12,813	64,288	110,000	586,456
14,627	-	-	16,970
-	50	-	339
<u>27,440</u>	<u>64,338</u>	<u>110,000</u>	<u>603,765</u>
12,813	-	-	37,227
2,084	143	-	3,770
<u>14,897</u>	<u>143</u>	<u>-</u>	<u>40,997</u>
12,543	-	-	23,977
-	64,195	110,000	174,195
-	-	-	364,596
<u>12,543</u>	<u>64,195</u>	<u>110,000</u>	<u>562,768</u>
<u>27,440</u>	<u>64,338</u>	<u>110,000</u>	<u>603,765</u>

CITY OF AVALON
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Year ended June 30, 2012

	Special Revenue Funds		
	Streets	Traffic Control and Safety	Community Development Block Grant
Revenues:			
Taxes	\$ 110,013	-	-
Fines, forfeitures and penalties	-	64,248	-
Investment income	1,016	-	50
Intergovernmental revenue	-	-	60,563
Charges for services	-	-	-
Other revenue	-	-	-
Total revenues	111,029	64,248	60,613
Expenditures:			
Current:			
General government:			
Human services	-	181,397	-
General office	-	-	-
Services and charges	-	5,380	-
Contract services	4,835	-	21,278
Special departmental	3,276	10,545	-
Total expenditures	8,111	197,322	21,278
Excess of revenues over (under) expenditures	102,918	(133,074)	39,335
Other Financing Sources (Uses):			
Transfers in	-	259,377	-
Total other financing sources (uses)	-	259,377	-
Extraordinary gain (loss)	-	-	-
Net change in fund balance	102,918	126,303	39,335
Fund balance (deficit), beginning of year	261,678	(126,303)	(27,901)
Fund balance, end of year	\$ 364,596	-	11,434

Special Revenue Funds

Child Care	Mclean / Hall / Putnam Trust	Offfield Contribution	Total
-	-	-	110,013
-	-	-	64,248
-	207	-	1,273
-	-	-	60,563
134,553	-	-	134,553
7,388	2,500	-	9,888
<u>141,941</u>	<u>2,707</u>	<u>-</u>	<u>380,538</u>
269,558	-	-	450,955
1,153	-	-	1,153
440	-	-	5,820
-	-	-	26,113
6,443	-	-	20,264
<u>277,594</u>	<u>-</u>	<u>-</u>	<u>504,305</u>
(135,653)	2,707	-	(123,767)
<u>148,196</u>	<u>61,488</u>	<u>-</u>	<u>469,061</u>
<u>148,196</u>	<u>61,488</u>	<u>-</u>	<u>469,061</u>
<u>-</u>	<u>-</u>	<u>110,000</u>	<u>110,000</u>
12,543	64,195	110,000	455,294
<u>-</u>	<u>-</u>	<u>-</u>	<u>107,474</u>
<u><u>12,543</u></u>	<u><u>64,195</u></u>	<u><u>110,000</u></u>	<u><u>562,768</u></u>

CITY OF AVALON
Streets
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2012

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes	\$ 37,200	110,013	72,813
Investment income	450	1,016	566
Total revenues	37,650	111,029	73,379
Expenditures:			
Current:			
Public works	36,000	-	36,000
Total expenditures	36,000	8,111	27,889
Net change in fund balance	1,650	102,918	101,268
Fund balance, beginning of year	261,678	261,678	-
Fund balance, end of year	\$ 263,328	364,596	101,268

CITY OF AVALON
Traffic Control and Safety
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Fines, forfeitures and penalties	\$ 100,000	64,248	(35,752)
Total revenues	<u>100,000</u>	<u>64,248</u>	<u>(35,752)</u>
Expenditures:			
Current:			
General government:			
Human services	124,181	181,397	(57,216)
Services and charges	6,750	5,380	1,370
Special departmental	<u>1,000</u>	<u>10,545</u>	<u>(9,545)</u>
Total expenditures	<u>131,931</u>	<u>197,322</u>	<u>(65,391)</u>
Excess of revenues over (under) expenditures	(31,931)	(133,074)	(101,143)
OTHER FINANCING SOURCES (USES):			
Transfers in	<u>-</u>	<u>259,377</u>	<u>259,377</u>
Total other financing sources (uses)	<u>-</u>	<u>259,377</u>	<u>259,377</u>
Net change in fund balance	(31,931)	126,303	158,234
Fund balance (deficit), beginning of year	<u>(126,303)</u>	<u>(126,303)</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ (158,234)</u>	<u>-</u>	<u>158,234</u>

CITY OF AVALON
Community Development Block Grant
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Investment income	\$ 800	50	(750)
Intergovernmental revenue	<u>118,300</u>	<u>60,563</u>	<u>(57,737)</u>
Total revenues	<u>119,100</u>	<u>60,613</u>	<u>(58,487)</u>
 Expenditures:			
General government:			
Contract services	<u>126,000</u>	<u>21,278</u>	<u>104,722</u>
Total expenditures	<u>126,000</u>	<u>21,278</u>	<u>104,722</u>
 Net change in fund balance	(6,900)	39,335	46,235
 Fund balance, beginning of year	<u>(27,901)</u>	<u>(27,901)</u>	-
Fund balance, end of year	<u><u>\$ (34,801)</u></u>	<u><u>11,434</u></u>	<u><u>46,235</u></u>

CITY OF AVALON
Child Care
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Charges for services	\$ 186,000	134,553	(51,447)
Other revenue	<u>30,350</u>	<u>7,388</u>	<u>(22,962)</u>
Total revenues	<u>216,350</u>	<u>141,941</u>	<u>(74,409)</u>
Expenditures:			
Current:			
General government:			
Human services	242,867	269,558	(26,691)
General office	2,600	1,153	1,447
Services and charges	-	440	(440)
Special departmental	<u>5,000</u>	<u>6,443</u>	<u>(1,443)</u>
Total expenditures	<u>250,467</u>	<u>277,594</u>	<u>(27,127)</u>
Excess of revenues over (under) expenditures	(34,117)	(135,653)	(101,536)
Other Financing Sources (Uses):			
Transfers in	<u>-</u>	<u>148,196</u>	<u>148,196</u>
Net change in fund balance	(34,117)	12,543	46,660
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ (34,117)</u>	<u>12,543</u>	<u>46,660</u>

CITY OF AVALON
Mclean / Hall / Putnam Trust
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Investment income	\$ 200	207	7
Other revenue	<u>5,000</u>	<u>2,500</u>	<u>(2,500)</u>
Total revenues	<u>5,200</u>	<u>2,707</u>	<u>(2,493)</u>
Net Change in fund balance	5,200	2,707	(2,493)
Fund balance, beginning of year as restated	<u>61,488</u>	<u>61,488</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 66,688</u></u>	<u><u>64,195</u></u>	<u><u>(2,493)</u></u>

CITY OF AVALON
Offfield Contribution
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Extraordinary gain (loss)	\$ -	110,000	(110,000)
Net change in fund balance	-	110,000	(110,000)
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>110,000</u>	<u>(110,000)</u>

CITY OF AVALON
ACIA Debt Service Fund - Major Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:	\$ -	-	-
Expenditures:			
Current:			
Debt service:			
Principal	\$ 810,000	810,000	-
Interest	<u>1,419,682</u>	<u>716,898</u>	<u>702,784</u>
Total expenditures	<u>2,229,682</u>	<u>1,526,898</u>	<u>702,784</u>
Excess of revenues over (under) expenditures	(2,229,682)	(1,526,898)	702,784
Other Financing Sources (Uses)			
Transfers in	-	<u>1,526,898</u>	<u>1,526,898</u>
Total other financing sources (uses)	<u>-</u>	<u>1,526,898</u>	<u>1,526,898</u>
Extraordinary gain (loss)	-	<u>(3,772)</u>	<u>3,772</u>
Net change in fund balance	(2,229,682)	(3,772)	2,233,454
Fund balance, beginning of year	<u>3,772</u>	<u>3,772</u>	<u>-</u>
Fund balance, end of year	<u>\$ (2,225,910)</u>	<u>-</u>	<u>2,233,454</u>

CITY OF AVALON
ACIA Capital Projects Fund - Major Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget to Actual
Year ended June 30, 2012

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes	\$ 4,463,800	1,509,499	(2,954,301)
Investment income	<u>25,075</u>	<u>16,567</u>	<u>(8,508)</u>
Total revenues	<u>4,488,875</u>	<u>1,526,066</u>	<u>(2,962,809)</u>
Expenditures:			
Current:			
General government:			
Human services	300,655	457,919	(157,264)
Contract services	149,500	80,221	69,279
Special departmental	2,227,000	1,134,548	1,092,452
Other	27,600	43,415	(15,815)
Capital expenditures	<u>6,170,000</u>	<u>134,884</u>	<u>6,035,116</u>
Total expenditures	<u>8,874,755</u>	<u>1,850,987</u>	<u>7,023,768</u>
Excess of revenues over (under) expenditures	(4,385,880)	(324,921)	4,060,959
Other Financing Sources (Uses):			
Transfers in	-	328,469	328,469
Transfers out	<u>-</u>	<u>(1,535,523)</u>	<u>1,535,523</u>
Total other financing sources (uses)	<u>-</u>	<u>(1,207,054)</u>	<u>1,863,992</u>
Extraordinary gain (loss)	<u>-</u>	<u>(6,619,273)</u>	<u>6,619,273</u>
Net change in fund balance	(4,385,880)	(8,151,248)	12,544,224
Fund balance, beginning of year	<u>8,151,248</u>	<u>8,151,248</u>	<u>-</u>
Fund balance, end of year	<u>\$ 3,765,368</u>	<u>-</u>	<u>12,544,224</u>

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
Internal Service Funds
Combining Statement of Net Position
June 30, 2012

	<u>General Administration</u>	<u>Insurance</u>	<u>Vehicle Maintenance</u>	<u>Totals</u>
Assets:				
Current Assets:				
Cash and investments	\$ 160,485	647,109	375,321	1,182,915
Receivables, net:				
Accounts	294	-	819	1,113
Interest	-	496	214	710
Total current assets	<u>160,779</u>	<u>647,605</u>	<u>376,354</u>	<u>1,184,738</u>
Noncurrent assets:				
Capital assets, net of accumulated depreciation	-	-	881,961	881,961
Total noncurrent assets	-	-	881,961	881,961
Total assets	<u>160,779</u>	<u>647,605</u>	<u>1,258,315</u>	<u>2,066,699</u>
Liabilities:				
Current liabilities:				
Accounts payable	159,985	3,179	20,767	183,931
Accrued liabilities	4,224	-	824	5,048
Total current liabilities	<u>164,209</u>	<u>3,179</u>	<u>21,591</u>	<u>188,979</u>
Noncurrent liabilities:				
Claims payable	-	724,912	-	724,912
Total noncurrent liabilities	-	724,912	-	724,912
Total liabilities	<u>164,209</u>	<u>728,091</u>	<u>21,591</u>	<u>913,891</u>
Net Position:				
Net investment in capital assets	-	-	881,961	881,961
Unrestricted	<u>(3,430)</u>	<u>(80,486)</u>	<u>354,763</u>	<u>270,847</u>
Total net position	<u>\$ (3,430)</u>	<u>(80,486)</u>	<u>1,236,724</u>	<u>1,152,808</u>

CITY OF AVALON
Internal Service Funds
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2012

	General Administration	Insurance	Vehicle Maintenance	Totals
Operating revenues:				
Charges for services	\$ 1,326,781	222,706	459,642	2,009,129
Other revenue	26,429	4,545	-	30,974
Total operating revenues	<u>1,353,210</u>	<u>227,251</u>	<u>459,642</u>	<u>2,040,103</u>
Operating expenses:				
Salaries and benefits	616,141	5,707	87,672	709,520
Contractual services	493,844	-	-	493,844
Office supplies	56,233	-	-	56,233
Utilities and rent	73,500	-	812	74,312
Repairs and maintenance	-	-	231,559	231,559
Operating supplies	74,725	-	3,097	77,822
Other services and charges	25,442	369,364	4,388	399,194
Depreciation	-	-	204,160	204,160
Total operating expenses	<u>1,339,885</u>	<u>375,071</u>	<u>531,688</u>	<u>2,246,644</u>
Operating income (loss)	<u>13,325</u>	<u>(147,820)</u>	<u>(72,046)</u>	<u>(206,541)</u>
Nonoperating revenues (expenses):				
Interest income	-	1,657	1,126	2,783
Total nonoperating revenues (expenses)	<u>-</u>	<u>1,657</u>	<u>1,126</u>	<u>2,783</u>
Changes in net position	13,325	(146,163)	(70,920)	(203,758)
Net position, beginning of year as restated	<u>(16,755)</u>	<u>65,677</u>	<u>1,307,644</u>	<u>1,356,566</u>
Net position, end of year	<u>\$ (3,430)</u>	<u>(80,486)</u>	<u>1,236,724</u>	<u>1,152,808</u>

CITY OF AVALON
Combining Statement of Cash Flows
Internal Service Funds
Year ended June 30, 2012

	<u>General Administration</u>	<u>Insurance</u>	<u>Vehicle Maintenance</u>	<u>Totals</u>
Cash Flows from Operating Activities:				
Cash received from interfund services provided	\$ 1,353,210	227,251	459,642	2,040,103
Cash payments to suppliers for goods and services	(686,287)	(256,141)	(236,848)	(1,179,276)
Cash payments to employees for services	(616,141)	(5,629)	(87,672)	(709,442)
Net cash provided by operating activities	<u>50,782</u>	<u>(34,519)</u>	<u>135,122</u>	<u>151,385</u>
Cash Flows from Noncapital Financing Activities:				
Cash received from other funds	47,406	-	-	47,406
Net cash provided by noncapital financing activities	<u>47,406</u>	<u>-</u>	<u>-</u>	<u>47,406</u>
Cash Flows from Capital and Related Financing Activities:				
Cash payments to acquire capital and other assets	-	-	(229,917)	(229,917)
Net cash provided by capital and related financing activities	<u>-</u>	<u>-</u>	<u>(229,917)</u>	<u>(229,917)</u>
Cash Flows from Investing Activities:				
Interest in investments	-	1,657	1,370	3,027
Net increase (decrease) in cash and cash equivalents	98,188	(32,862)	(93,425)	(28,099)
Cash and cash equivalents, beginning of year	62,297	679,971	468,746	1,211,014
Cash and cash equivalents, end of year	<u>\$ 160,485</u>	<u>647,109</u>	<u>375,321</u>	<u>1,182,915</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ 13,325	(147,820)	(72,046)	(206,541)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	-	-	204,160	204,160
(Increase) decrease in accounts receivable	245	5,040	(769)	4,516
Increase (decrease) in accounts payable	87,330	528	4,132	91,990
Increase (decrease) in accrued liabilities	(2,711)	-	(355)	(3,066)
Increase (decrease) in compensated absences	(47,407)	-	-	(47,407)
Increase (decrease) in claims payable	-	107,733	-	107,733
Net Cash Provided by Operating Activities:	<u>\$ 50,782</u>	<u>(34,519)</u>	<u>135,122</u>	<u>151,385</u>

There were no noncash capital, investing or financing activities