*NEW ISSUE - BOOK-ENTRY ONLY*

***RATINGS:*** *Moody's: Aaa*
*Standard &Poor's: AAA*

# *$197,084,194.85*
# *CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY*
# *TAXABLE PENSION OBLIGATION BONDS*
## *$178,555,000.00 2004 Series A-1 Bonds (Current Interest Bonds)*
## *$18,529,194.85 2004 Series A-2 Bonds (Capital Appreciation Bonds)*

*(A Maturity Schedule Appears Inside following the Cover)*

*The Bonds are being issued pursuant to the terms of a Trust Agreement, dated as of June 1, 2004 (the "Trust Agreement") by and between the California Statewide Communities Development Authority (the "Authority") and Wells Fargo Bank, National Association, as trustee (the "Trustee") for the purpose of purchasing certain taxable pension obligation bonds (the "Obligations") in the same aggregate principal amount as the Bonds issued by the California counties and cities identified herein (the "Local Agencies"). The Series A-1 Bonds and the Series A-2 Bonds are sometimes collectively referred to as the "Bonds".*

*Interest on the Series A-1 Bonds (Current Interest Bonds) (the "Series A-1 Bonds" or "Current Interest Bonds") is payable on June 1 and December 1, commencing December 1, 2004. The Current Interest Bonds will bear interest at the rates set forth on the inside front cover. The Series A-2 Bonds (Capital Appreciation Bonds) (the "Series A-2 Bonds" or "Capital Appreciation Bonds") will not pay periodic interest. Interest on the Capital Appreciation Bonds will accrete in value at the rates set forth on the inside front cover. The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as owner of the Bonds and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases and sales of the Bonds may be made in book-entry form only, in Authorized Denominations. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal of and interest on the Bonds will be payable by wire transfer to DTC, which in turn is required to remit such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as more fully described herein.*

*The Current Interest Bonds are subject to redemption prior to maturity as described herein.*

*The Obligations of each Local Agency are being issued pursuant to each Local Agency's authorizing resolution (each an "Obligation Resolution") and the terms of a Trust Agreement, dated as of June 1, 2004, (each a "Local Agency Trust Agreement") by and between such Local Agency and Wells Fargo Bank, National Association, as trustee (the "Local Agency Trustee"). The Obligations of the Local Agency are obligations of the Local Agency imposed by law and are absolute and unconditional, without any right of set-off or counterclaim. Each Obligation requires the related Local Agency to deposit or cause to be deposited with the Local Agency Trustee on or before August 1 of each Fiscal Year the amount which is sufficient to pay the Local Agency's Obligations payable during such Fiscal Year. The obligation of each Local Agency is a several and not a joint obligation and is strictly limited to such Local Agency's repayment obligation under its Local Agency Trust Agreement and Obligation.*

*THE BONDS ARE A LIMITED OBLIGATION OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY A PLEDGE AND ASSIGNMENT OF, THE PENSION OBLIGATION BONDS ISSUED BY CERTAIN LOCAL AGENCIES AND PAYMENTS WITH RESPECT THERETO, TO THE EXTENT PROVIDED IN THE TRUST AGREEMENT, SUBJECT TO THE PROVISIONS OF THE TRUST AGREEMENT PERMITTING THE DISBURSEMENT THEREOF FOR OR TO THE PURPOSES AND ON THE CONDITIONS AND TERMS SET FORTH THEREIN. THE BONDS ARE NOT A LIEN OR CHARGE UPON ANY FUNDS OR PROPERTY OF THE AUTHORITY (EXCEPT TO THE EXTENT OF THE AFOREMENTIONED PLEDGE AND ASSIGNMENT). THE BONDS ARE NOT A DEBT OF ANY LOCAL AGENCY OR ANY MEMBER OF THE AUTHORITY AND NO SUCH LOCAL AGENCY OR MEMBER IS LIABLE IN ANY MANNER FOR THE PAYMENT THEREOF.*

*Payment of principal of (or, in the case of the Capital Appreciation Bonds, the accreted value) and interest on the Bonds when due will be insured by an insurance policy for the Bonds (collectively, the "Insurance Policy") to be issued concurrently with the delivery of the Bonds by Ambac Assurance Corporation (the "Insurer"). See "The Insurance Policy and the Insurer" herein and APPENDIX E – "FORM OF INSURANCE POLICY" attached hereto.*

**Ambac**

*THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT INTENDED AS A SUMMARY OF THE TRANSACTION. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.*

*Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.*

*The Bonds are offered when, as and if issued and delivered and accepted by the Underwriters, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, San Francisco, California. The Bonds in definitive form are expected to be available for delivery through the facilities of DTC in New York, New York or through the Euroclear System and Clearstream, in Luxembourg, Europe on or about June 29, 2004.*

***MORGAN STANLEY*** ***RBC DAIN RAUSCHER INC.***

***E. J. DE LA ROSA & CO., INC.***

*Dated: June 15, 2004*

## Maturity Schedule

### $178,555,000 Series A-1 Current Interest Bonds

| Maturity (June 1) | Principal Amount | Interest Rate | Yield | CUSIP*† Base No. 130911 | ISIN† Base No. US130911 |
|---|---|---|---|---|---|
| 2005 | $1,710,000 | 2.650% | 2.650% | WV 8 | WV83 |
| 2006 | 1,500,000 | 3.150 | 3.150 | WW 6 | WW66 |
| 2007 | 1,890,000 | 3.730 | 3.730 | WX 4 | WX40 |
| 2008 | 2,305,000 | 4.140 | 4.140 | WY 2 | WY23 |
| 2009 | 2,790,000 | 4.510 | 4.510 | WZ 9 | WZ97 |
| 2010 | 3,790,000 | 4.820 | 4.820 | XA 3 | XA38 |
| 2011 | 4,320,000 | 5.020 | 5.020 | XB 1 | XB11 |
| 2012 | 4,900,000 | 5.180 | 5.180 | XC 9 | XC93 |
| 2013 | 5,545,000 | 5.330 | 5.330 | XD 7 | XD76 |
| 2014 | 6,295,000 | 5.408 | 5.408 | XE 5 | XE59 |
| 2015 | 7,115,000 | 5.508 | 5.508 | XF 2 | XF25 |
| 2016 | 8,015,000 | 5.588 | 5.588 | XG 0 | XG08 |

$95,480,000 5.896% Term Bonds due June 1, 2024 - Yield 5.896% CUSIP*†: 130911 XH 8 - ISIN†: US130911XH80
$32,900,000 6.076% Term Bonds due June 1, 2034 - Yield 6.076% CUSIP*†: 130911 XJ 4 - ISIN†: US130911XJ47

### $18,529,194.85 Series A-2 Capital Appreciation Bonds

| Maturity (June 1) | Initial Principal Amount | Accreted Value at Maturity | Yield to Maturity | CUSIP*† Base No. 130911 | ISIN† Base No. US130911 |
|---|---|---|---|---|---|
| 2007 | $ 495,193.20 | $ 555,000.00 | 3.940% | XK 1 | XK10 |
| 2008 | 1,114,977.60 | 1,320,000.00 | 4.350 | XL 9 | XL92 |
| 2009 | 1,088,903.40 | 1,370,000.00 | 4.720 | XM 7 | XM75 |
| 2010 | 1,058,009.65 | 1,415,000.00 | 4.970 | XN 5 | XN58 |
| 2011 | 1,027,574.10 | 1,470,000.00 | 5.240 | XP 0 | XP07 |
| 2012 | 999,273.60 | 1,530,000.00 | 5.450 | XQ 8 | XQ89 |
| 2013 | 965,788.05 | 1,585,000.00 | 5.630 | XR 6 | XR62 |
| 2014 | 934,590.30 | 1,645,000.00 | 5.780 | XS 4 | XS46 |
| 2015 | 899,626.20 | 1,705,000.00 | 5.940 | XT 2 | XT29 |
| 2016 | 866,662.80 | 1,770,000.00 | 6.080 | XU 9 | XU91 |
| 2017 | 833,622.15 | 1,835,000.00 | 6.200 | XV 7 | XV74 |
| 2018 | 804,329.10 | 1,905,000.00 | 6.290 | XW 5 | XW57 |
| 2019 | 773,666.75 | 1,975,000.00 | 6.380 | XX 3 | XX31 |
| 2020 | 747,876.15 | 2,055,000.00 | 6.450 | XY 1 | XY14 |
| 2021 | 722,223.75 | 2,125,000.00 | 6.480 | XZ 8 | XZ88 |
| 2022 | 697,044.60 | 2,205,000.00 | 6.530 | YA 2 | YA29 |
| 2023 | 676,611.90 | 2,295,000.00 | 6.560 | YB 0 | YB02 |
| 2024 | 653,908.75 | 2,375,000.00 | 6.580 | YC 8 | YC84 |
| 2025 | 357,426.95 | 1,385,000.00 | 6.580 | YD 6 | YD67 |
| 2026 | 348,321.60 | 1,440,000.00 | 6.580 | YE 4 | YE41 |
| 2027 | 338,946.40 | 1,495,000.00 | 6.580 | YF 1 | YF16 |
| 2028 | 329,390.50 | 1,550,000.00 | 6.580 | YG 9 | YG98 |
| 2029 | 320,695.90 | 1,610,000.00 | 6.580 | YH 7 | YH71 |
| 2030 | 311,789.00 | 1,670,000.00 | 6.580 | YJ 3 | YJ38 |
| 2031 | 302,750.00 | 1,730,000.00 | 6.580 | YK 0 | YK01 |
| 2032 | 294,433.85 | 1,795,000.00 | 6.580 | YL 8 | YL83 |
| 2033 | 286,725.10 | 1,865,000.00 | 6.580 | YM 6 | YM66 |
| 2034 | 278,833.50 | 1,935,000.00 | 6.580 | YN 4 | YN40 |

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† CUSIP and ISIN data herein are set forth herein for convenience of reference only. Neither the Authority nor the Underwriters assume responsibility for the accuracy of such information.

No broker, dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Authority, the Local Agencies or the Underwriters. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority or any Local Agency since the date hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information contained in this Official Statement has been obtained from the Local Agencies and other sources believed by the Authority and the Underwriters to be reliable. The Underwriters have reviewed the information in the Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or opinions, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

In connection with this offering, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Other than with respect to information concerning Ambac Assurance Corporation (the "Insurer") as the Insurer for the Bonds contained under the caption "SECURITY AND SOURCE OF PAYMENT – The Insurance Policy" and "– The Insurer" and Appendix F attached hereto, none of the information in this Official Statement has been supplied or verified by the Insurer and the Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

**CALIFORNIA STATEWIDE COMMUNITIES
DEVELOPMENT AUTHORITY**

STEVE SZALAY, Chairman

CHRIS McKENZIE, Vice Chairman

DANIEL HARRISON, Secretary

NORMA LAMMERS, Treasurer

STEVE KEIL, Member

PAUL HAHN, Member

## SPECIAL SERVICES

### Bond Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

### Trustee

Wells Fargo Bank, National Association
Los Angeles, California

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**CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY**
**TAXABLE PENSION OBLIGATION BONDS**

**$178,555,000.00 2004 Series A-1 Bonds (Current Interest Bonds)**
**$18,529,194.85 2004 Series A-2 Bonds (Capital Appreciation Bonds)**

## INTRODUCTION

This Official Statement, including the cover page and appendices hereto (the "Official Statement"), sets forth certain information concerning the California Statewide Communities Development Authority Taxable Pension Obligation Bonds, 2004 Series A-1 (Current Interest Bonds) (the "Series A-1 Bonds" or "Current Interest Bonds") in the aggregate principal amount of $178,555,000.00 and the California Statewide Communities Development Authority Taxable Pension Obligation Bonds, 2004 Series A-2 (Capital Appreciation Bonds) (the "Series A-2 Bonds" or "Capital Appreciation Bonds") in the aggregate principal amount of $18,529,194.85. The Series A-1 Bonds and the Series A-2 Bonds are referred to collectively herein as the "Bonds." Pursuant to the California Statewide Communities Development Authority Pension Obligation Bond Program (the "Program"), the California Statewide Communities Development Authority (the "Authority") is issuing the Bonds pursuant to the terms of a Trust Agreement, dated as of June 1, 2004 (the "Trust Agreement") by and between the California Statewide Communities Development Authority (the "Authority") and Wells Fargo Bank, National Association, as trustee (the "Trustee").

The net proceeds of the Bonds will be used to purchase taxable pension obligation bonds (the "Obligations") of participating counties and cities (collectively, the "Local Agencies") in the State of California (the "State"). The Obligations purchased with the net proceeds of the Bonds will be assigned to the Trustee for the benefit of the registered owners and the Insurer of the Bonds, and the payments on such Obligations will be used for the payment of the principal of and interest on the Bonds or the reimbursement of drawings under or payments made pursuant to or from the Insurance Policy and the Obligations shall not be used for any other purpose while any of the Bonds remain Outstanding. For information on the Local Agencies, the Obligations of the Local Agencies and their allocation to the Bonds, see Appendices A, B and C hereto.

The Obligation of each Local Agency is issued under the authority of Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California (the "Act") and pursuant to the terms of a Trust Agreement, dated as of June 1, 2004, by and between each such Local Agency and Wells Fargo Bank, National Association (the "Local Agency Trustee"), as trustee (each a "Local Agency Trust Agreement") and a resolution of issuance adopted by the legislative body of each such Local Agency (each an "Obligation Resolution"). The issuance of a Local Agency's Obligation will provide moneys to meet such Local Agency's obligation to pay the Local Agency's unfunded accrued actuarial liability ("UAAL") to the California Public Employees' Retirement System ("PERS"). The aggregate amount of Obligations issued in connection with the Bonds will equal the aggregate principal amount of the Bonds. Each Local Agency's Obligations are unconditional obligations of such Local Agency, payable from any legally available source of funds. The full faith and credit of the Local Agencies are not pledged to the repayment of the Obligations. See "SECURITY AND SOURCE OF PAYMENT" herein.

Payment of principal of and interest on the Bonds when due will be insured by an insurance policy (the "Insurance Policy") to be issued concurrently with the delivery of the Bonds by Ambac Assurance Corporation (the "Insurer"). See "The Insurance Policy and the Insurer" herein and APPENDIX H – "FORM OF INSURANCE POLICY" attached hereto.

THE BONDS ARE A LIMITED OBLIGATION OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY A PLEDGE AND ASSIGNMENT OF, THE PENSION OBLIGATION BONDS ISSUED BY CERTAIN LOCAL AGENCIES AND PAYMENTS WITH RESPECT THERETO, TO THE EXTENT PROVIDED IN THE TRUST AGREEMENT, SUBJECT TO THE PROVISIONS OF THE TRUST AGREEMENT PERMITTING THE DISBURSEMENT THEREOF FOR OR TO THE PURPOSES AND ON THE CONDITIONS AND TERMS SET FORTH THEREIN. THE BONDS ARE NOT A LIEN OR CHARGE UPON ANY FUNDS OR PROPERTY OF THE AUTHORITY (EXCEPT TO THE EXTENT OF THE AFOREMENTIONED PLEDGE AND ASSIGNMENT). THE BONDS ARE NOT A DEBT OF ANY LOCAL AGENCY OR ANY MEMBER OF THE AUTHORITY AND NO SUCH LOCAL AGENCY OR MEMBER IS LIABLE IN ANY MANNER FOR THE PAYMENT THEREOF.

The audited 2002-03 Annual Financial Report for Kings County has been completed and is attached hereto at Appendix D. The audited 2001-02 Annual Financial Report of Kings County and unaudited financial information for fiscal year 2002-03 that were attached to the Preliminary Official Statement dated June 4, 2004 have been removed.

Copies of the Trust Agreement and the standard form of the Local Agency Trust Agreement summarized herein and the standard form of the Obligation Purchase Agreement (as defined herein) are available upon request during the initial offering period from Wells Fargo Bank, National Association, Corporate Trust Services, 117 Wilshire Blvd., 17th Floor, Los Angeles, California, 90017.

All capitalized words, unless otherwise defined herein, shall have the meanings set forth in APPENDIX E - "DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF LOCAL AGENCY TRUST AGREEMENTS AND SUMMARY OF TRUST AGREEMENT" or, if not defined therein, in the Trust Agreement.

## THE AUTHORITY AND THE PROGRAM

### The Authority

The Authority is a public entity organized pursuant to an Amended and Restated Joint Exercise of Powers Agreement among a number of California counties, cities, and special districts entered into pursuant to the provisions relating to the joint exercise of powers contained in Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code. The Authority is authorized to issue bonds and to finance working capital for local agencies within the State of California pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code.

The Authority has sold and delivered obligations other than the Bonds, which other obligations are and will be secured by instruments separate and apart from the Trust Agreement and the Obligations. The holders of such obligations of the Authority have no claim on the security of the Bonds, and the

Owners of the Bonds will have no claim on the security of such other obligations issued by the Authority.

**The Program**

The Authority's Pension Obligation Bond Program (the "Program") began in 2004. The Program provides unfunded pension obligation refinancing for California counties, cities and other local agencies meeting certain criteria.

## DESCRIPTION OF THE BONDS

**Denominations; Payment of Principal and Interest**

The Bonds will be prepared in fully registered form and, when issued, will be registered in the name of CEDE & Co., as registered Owner of the Bonds and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases may be made in book-entry form only in denominations (a) with respect to Current Interest Bonds, $5,000 principal amount or any integral multiple thereof; and (b) with respect to Capital Appreciation Bonds, $5,000 Maturity Amount or any integral multiple thereof ("Authorized Denominations"). Purchasers will not receive certificates representing their interest in the Bonds purchased. So long as CEDE & Co. is the registered Owner of the Bonds, as nominee of DTC, references herein to the Owners of the Bonds shall mean Cede & Co. and shall not mean the actual purchasers (the "Beneficial Owners") of the Bonds.

The Bonds will be dated the date of initial delivery and execution thereof and mature on the dates set forth on the inside front cover. Interest on the Current Interest Bonds is payable on June 1 and December 1, commencing December 1, 2004. The Current Interest Bonds will bear interest at the rates set forth on the inside front cover. The Capital Appreciation Bonds will not pay periodic interest. Interest on the Capital Appreciation Bonds will accrete in value at the rates set forth on the inside front cover. So long as Cede & Co. is the registered Owner of the Bonds, the principal of and interest on the Bonds will be payable by wire transfer by the Trustee to Cede & Co., as nominee for DTC, which is expected, in turn, to remit such amounts to DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See APPENDIX G - "BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES" Interest payable on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

**Registration and Transfer of Bonds**

So long as the Bonds are subject to the DTC book-entry system, they will be registered, and may be transferred, as described in APPENDIX G – "BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES."

**Redemption of Current Interest Bonds**

***Optional Redemption.*** The Current Interest Bonds maturing on or before June 1, 2016 will not be subject to optional redemption.

The Series A-1 Term Bonds maturing on June 1, 2024 (the "2024 Term Bonds") and the Series A-1 Term Bonds maturing on June 1, 2034 (the "2034 Term Bonds" and collectively with the 2024 Term Bonds, the "Term Bonds") are subject to optional redemption prior to their maturity at the option of the Authority, in whole or in part (and if in part, pro rata as described below) on any date, at a redemption price equal to the greater of: (1) 100 percent of the principal amount of the Term Bonds to be redeemed; or (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Term Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (defined below) plus 10.0 basis points for the 2024 Term Bonds or plus 12.5 basis points for the 2034 Term Bonds, plus in each case, accrued and unpaid interest on the Term Bonds being redeemed to the date fixed for redemption.

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Current Interest Term Bond, the US Treasury security or securities selected by the Independent Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Current Interest Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Current Interest Term Bond to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Current Interest Bond, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (2) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Trustee in consultation with the Authority.

"Reference Treasury Dealer" means each of the dealers designated in the Trust Agreement and their respective successors and three other firms, specified by the Authority from time to time, that are primary U.S. Government securities dealers in the City of New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a Current Interest Bond, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business date preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date for a Current Interest Bond, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price.

***No Optional Redemption for Capital Appreciation Bonds***. The Capital Appreciation Bonds will not be subject to optional redemption.

***Mandatory Sinking Fund Redemption.*** The 2024 Term Bonds are subject to mandatory sinking fund redemption on the dates and in the amounts designated below, upon notice pursuant to the Trust Agreement.

| Redemption Date (June 1) | Principal Amount |
|---|---|
| 2017 | $ 8,985,000 |
| 2018 | 10,060,000 |
| 2019 | 11,225,000 |
| 2020 | 12,480,000 |
| 2021 | 13,830,000 |
| 2022 | 15,285,000 |
| 2023 | 16,855,000 |
| 2024* | 6,760,000 |

* Maturity.

Giving effect to the mandatory redemption set forth above, the average life of the 2024 Term Bonds calculated from the date of delivery is 16.589 years.

The 2034 Term Bonds are subject to mandatory sinking fund redemption on the dates and in the amounts designated below, upon notice pursuant to the Trust Agreement.

| Redemption Date (June 1) | Principal Amount |
|---|---|
| 2025 | $2,055,000 |
| 2026 | 2,280,000 |
| 2027 | 2,520,000 |
| 2028 | 2,775,000 |
| 2029 | 3,050,000 |
| 2030 | 3,350,000 |
| 2031 | 3,670,000 |
| 2032 | 4,020,000 |
| 2033 | 4,390,000 |
| 2034* | 4,790,000 |

* Maturity.

Giving effect to the mandatory redemption set forth above, the average life of the 2034 Term Bonds calculated from the date of delivery is 26.180 years.

***Selection of Bonds for Redemption.*** Redemption payments on the Current Interest Bonds, being redeemed in part will be made on a pro rata basis to each holder in whose name such Current Interest Bonds are registered at the close of business on the fifteenth day of the calendar month immediately preceding the redemption date (DTC so long as the book-entry System with DTC is in effect). "Pro rata" means, in connection with any mandatory sinking fund redemption or any optional redemption in part, with respect to the allocation of amounts to be redeemed, the application to such amounts of a fraction, the numerator of which is equal to the amount of the specific maturity of Current Interest Bonds held by a holder of such Current Interest Bonds, and the denominator of which is equal to the total amount of such maturity of Current Interest Bonds, then Outstanding. So long as there is a securities depository for the Current Interest Bonds, there will be only one registered owner and neither the Authority nor the Trustee will have responsibility for prorating partial redemptions among beneficial owners of the Current Interest Bonds.

***Notice of Redemption.*** Notice of redemption shall be mailed by first-class mail by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date to (i) the respective Holders of the Current Interest Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, (ii) the Securities Depositories and (iii) one or more Information Services. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered mail or overnight delivery or facsimile transmission. Each notice of redemption shall state the date of such notice, the redemption price, if any, (including the name and appropriate address of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Current Interest Bonds of such maturity, to be redeemed and, in the case of Current Interest Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Current Interest Bonds the redemption price, if any, thereof and in the case of a Current Interest Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Current Interest Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Failure to receive such notice or any defect therein shall not invalidate any of the proceedings taken in connection with such redemption.

In the event of redemption of Current Interest Bonds (other than sinking fund redemptions), the Trustee shall mail a notice of redemption upon receipt of a Written Request of the Authority but only after the Authority shall file a Certificate of the Authority with the Trustee that on or before the date set for redemption, the Authority shall have deposited with or otherwise made available to the Trustee for deposit in the Principal Account the money required for payment of the redemption price, including accrued interest, of all Current Interest Bonds then to be called for redemption (or the Trustee determines that money will be deposited with or otherwise made available to it in sufficient time for such purpose), together with the estimated expense of giving such notice.

If notice of redemption has been duly given as aforesaid and money for the payment of the redemption price of the Current Interest Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice Current Interest Bonds so called for redemption shall become due and payable, and from and after the date so designated interest on such Current Interest Bonds shall cease to accrue, and the Holders of such Current Interest Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

## ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The table below sets forth the estimated sources and uses of the proceeds of the Bonds and other amounts.

| | Series A-1 | Series A-2 | Total |
|---|---|---|---|
| Sources | | | |
| Principal Amount | $178,555,000.00 | $18,529,194.85 | $197,084,194.85 |
| Total Sources | 178,555,000.00 | 18,529,194.85 | $197,084,194.85 |
| Uses | | | |
| Deposit to Proceeds Fund | $175,463,419.00 | $17,975,874.00 | $193,439,293.00 |
| Costs of Issuance(1) | 3,091,581.00 | 553,320.85 | 3,644,901.85 |
| Total Uses | $178,555,000.00 | $18,529,194.85 | $197,084,194.85 |

(1) Includes, among other things, Underwriters' discount and Insurance Policy premium.

## SECURITY AND SOURCE OF PAYMENT

### General

Each Obligation of a Local Agency will be purchased with proceeds of the Bonds and deposited with the Trustee, pursuant to the Trust Agreement. The Obligations are unconditional obligations of the Local Agencies payable from legally available funds. The Obligations are not voter-approved debt backed by the taxing power of the Local Agencies and the full faith and credit of the Local Agencies are not pledged to the repayment of the Obligations. The Local Agencies have other obligations payable from their General Funds. The Local Agency Trust Agreements impose no limits on the amount of General Fund obligations that the Local Agencies may incur. See Appendix A hereto for a listing of each Local Agency, the estimated principal amount of the Obligations and the allocation of each Obligation with respect to the Bonds.

Under the Trust Agreement, the Obligations and all right, title and interest of the Authority therein and to all payments thereon, are irrevocably assigned and pledged and transferred to the Trustee for the benefit of the Owners of the Bonds and the payments on the Obligations shall be used for the punctual payment of the interest on and principal of the Bonds and the Obligations shall not be used for any other purpose while any of the Bonds remain Outstanding. This assignment, transfer and pledge shall constitute a first lien on the principal and interest payments of and all other rights under the Obligations for the foregoing purpose in accordance with the terms of the Trust Agreement.

All principal and interest payments on the Obligations shall be paid directly by each Local Agency Trustee to the Trustee. All principal and interest payments on the Obligations received by the Trustee shall be held in trust by the Trustee under the terms of the Trust Agreement and shall be deposited by it, as and when received, in the Bond Fund, and all money in such fund shall be held in trust by the Trustee for the benefit and security of the Owners. If the Trustee receives Obligation repayments from a Local Agency Trustee which, together with other amounts on deposit in the Bond Fund allocable to such Local Agency, are in excess of the amounts required to pay the principal of and interest due on such Obligation, such excess amounts shall remain in the Bond Fund, and shall be transferred to such Local Agency following payment of the amount of Bonds corresponding to such Obligation.

**Moneys received by the Trustee attributable to a Local Agency shall not be used in any manner (directly or indirectly) to make up any deficiency in repayment of any other Local Agency's Obligation.**

**Flow of Funds under the Trust Agreement**

Pursuant to the Trust Agreement, the Trustee shall deposit the money contained in the Bond Fund at the following respective times in the following respective accounts in the manner and priority provided in the Trust Agreement, and the money in each of such funds shall be disbursed only for the purposes and uses authorized in the Trust Agreement:

(a) **Interest Account.** The Trustee, on the Interest Payment Date, shall deposit in the Interest Account that amount of money representing the interest due and payable on the Bonds on such date; and such money shall be used by the Trustee solely for the purpose of paying interest on the Bonds on such date.

(b) **Principal Account**. The Trustee, on the Principal Payment Date, shall deposit in the Principal Account that amount of money representing the principal becoming due and payable on the Bonds on such Principal Payment Date. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds on the Principal Payment Date.

Moneys held in the Bond Fund, the Principal Account or the Interest Account on each Interest Payment Date after the payment by the Trustee of all of the principal of and interest on the Bonds shall be (i) returned by the Trustee to each Local Agency (other than a Local Agency which is in default in the payment of the principal of and interest on its Obligation) by check in an amount equal to the proportion of the amount initially received from each Local Agency and deposited in the Bond Fund over all amounts received from all Local Agencies and deposited in the Bond Fund multiplied by the remaining balance in the Bond Fund, or (ii) applied by the Trustee as otherwise directed by the Authority.

**Flow of Funds under the Local Agency Trust Agreements**

The Local Agency Trust Agreements each provide that in order to meet each Local Agency's obligations, each Local Agency shall deposit or cause to be deposited with the Local Agency Trustee on or before August 1 of each Fiscal Year (or such other date as provided in a Supplemental Local Agency Trust Agreement) the amount which, together with moneys transferred pursuant to the related Local Agency Trust Agreement, is sufficient to pay such Local Agency's debt service obligations on the Obligations payable during such Fiscal Year.

All amounts payable by each Local Agency will be promptly deposited by the Local Agency Trustee upon receipt thereof in a special fund designated as the "Local Agency Bond Fund".

**Interest Account.** On or before each Interest Payment Date, the Local Agency Trustee shall set aside from the Bond Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest becoming due and payable on all Outstanding Obligations on such Interest Payment Date.

No deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Obligations on such Interest Payment Date.

All money in the Interest Account shall be used and withdrawn by the Local Agency Trustee for the purpose of paying the interest on the Obligations as it shall become due and payable (including accrued interest on any Obligations purchased or redeemed prior to maturity).

**Principal Account.** On or before each Principal Payment Date, the Local Agency Trustee shall set aside from the Local Agency Bond Fund and deposit in the Principal Account an amount of money equal to the amount of all sinking fund payments required to be made on such Principal Payment Date into the respective sinking fund accounts for all Outstanding Term Obligations and the principal amount or Accreted Value of all Outstanding Serial Obligations maturing on such Principal Payment Date.

No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal or Accreted Value of all Outstanding Serial Obligations maturing by their terms on such Principal Payment Date plus the aggregate amount of all sinking fund payments required to be made on such Principal Payment Date for all Outstanding Term Obligations.

The Local Agency Trustee shall establish and maintain within the Principal Account a separate subaccount for the Term Obligations of each series and maturity, designated as the "Sinking Account" (the "Sinking Account"), inserting therein the series and maturity (if more than one such account is established for such series) designation of such Obligations. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Local Agency Trustee shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Obligations of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Local Agency Trust Agreement; provided that, at any time prior to giving such notice of such redemption, the Local Agency Trustee may upon the Written Request of the related Local Agency, apply moneys in such Sinking Account to the purchase for cancellation of Term Obligations of such series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account), as may be directed by the Local Agency, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Obligations upon redemption by application of such Mandatory Sinking Account Payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Local Agency Trustee has purchased Term Obligations of such series and maturity with moneys in such Sinking Account, such Obligations so purchased shall be applied, to the extent of the full principal amount to reduce said mandatory sinking account payment.

All money in the Principal Account shall be used and withdrawn by the Local Agency Trustee solely for the purpose of paying the principal or Accreted Value of the Obligations, as applicable, as they shall become due and payable, whether at maturity or redemption, except that any money in any sinking fund account shall be used and withdrawn by the Local Agency Trustee only to purchase or to redeem or to pay Term Obligations for which such sinking fund account was created.

**Surplus Account.** On the Business Day following the last Interest Payment Date of each Fiscal Year, or on such other date as provided in a Supplemental Local Agency Trust Agreement, any moneys remaining in the Bond Fund shall be deposited by the Local Agency Trustee in the Surplus Account. So long as no Event of Default has occurred and is continuing, moneys deposited in the Surplus Account shall be transferred by the Local Agency Trustee to or upon the order of the Local Agency, as specified in a Written Request of the Local Agency.

**Issuance of Additional Bonds under the Local Agency Trust Agreements**

Under the Local Agency Trust Agreements, each Local Agency may at any time issue Additional Bonds on a parity with the Obligations, but only subject to the following conditions:

(a) The Local Agency shall be in compliance with all agreements and covenants contained in the Local Agency Trust Agreement.

(b) The issuance of such Additional Obligations shall have been authorized pursuant to the Act and shall have been provided for by a Supplemental Local Agency Trust Agreement which shall specify the following:

(1) The purpose for which such Additional Obligations are to be issued; provided that such Additional Obligations shall be applied solely for (i) the purpose of satisfying any obligation of the Local Agency to make payments to PERS relating to pension benefits accruing to PERS's members, and/or for payment of all costs incidental to or connected with the issuance of Additional Obligations for such purpose, and/or (ii) the purpose of refunding any Obligations then Outstanding, including payment of all costs incidental to or connected with such refunding;

(2) Whether such Obligations are current interest fixed rate bonds, listed securities, index bonds, auction rate securities, variable rate bonds, tender option bonds, capital appreciation bonds or bonds bearing interest at such other interest rate modes as may be set forth in a Supplemental Local Agency Trust Agreement;

(3) The authorized principal amount and designation of such Additional Obligations;

(4) The date and the maturity dates of and the sinking fund payment dates, if any, for such Additional Obligations;

(5) The interest payment dates for such Additional Obligations;

(6) The denomination or denominations of and method of numbering such Additional Obligations;

(7) The redemption premiums, if any, and the redemption terms, if any, for such Additional Obligations;

(8) The amount, if any, to be deposited from the proceeds of sale of such Additional Obligations in the Interest Account hereinafter referred to; and

(9) Such other provisions (including the requirements of a book-entry bond registration system, if any) as are necessary or appropriate and not inconsistent herewith.

At any time after the sale of any Additional Obligations in accordance with the Act, the Local Agency shall execute such Additional Obligations for issuance pursuant to the Local Agency Trust Agreement and shall deliver them to the Local Agency Trustee, and thereupon such Additional Obligations shall be delivered by the Local Agency Trustee to the purchaser thereof upon the Written Request of the Local Agency, but only upon receipt by the Local Agency Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Obligations by the Local Agency Trustee:

(a) An executed copy of the Supplemental Local Agency Trust Agreement authorizing the issuance of such Additional Obligations;

(b) A Written Request of the Local Agency as to the delivery of such Additional Obligations;

(c) An Opinion of Counsel to the effect that (1) the Local Agency has executed and delivered the Supplemental Local Agency Trust Agreement, and the Supplemental Local Agency Trust Agreement is valid and binding upon the Local Agency and (2) such Additional Obligations are valid and binding obligations of the Local Agency;

(d) A Certificate of the Local Agency stating that all requirements of the provisions related to Additional Obligations with the Local Agency Trust Agreement have been complied with and containing any other such statements as may be reasonably necessary to show compliance with the conditions for the issuance of such Additional Obligations contained in the related Local Agency Trust Agreement; and

(e) Such further documents, money or securities as are required by the provisions of the Supplemental Local Agency Trust Agreement providing for the issuance of such Additional Obligations.

**Other Obligations of the Local Agencies**

Concurrently with the issuance of the Bonds and on July 1, 2004, Butte County and Kings County will be issuing other obligations that are payable from their respective general fund (the "Other Obligations"). Such Other Obligations are being issued by Butte County in the total aggregate principal amount of approximately $28.2 million and by Kings County in the total aggregate principal amount of approximately $6.9 million. The Other Obligations are being privately placed with a single purchaser. In addition, all of the Local Agencies have other obligations payable from their respective general funds. See APPENDIX D – "FINANCIAL STATEMENTS OF THE LOCAL AGENCIES."

## THE INSURANCE POLICY AND THE INSURER

### Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

**Ambac Assurance Corporation**

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $7,670,000,000 (unaudited) and statutory capital of approximately $4,683,000,000 (unaudited) as of March 31, 2004. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such bond and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE".

**Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company . These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

**Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;

2. The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004; and

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

## RISK FACTORS

In evaluating a purchase of the Bonds, potential investors should consider the following factors, together with all other information in this Official Statement.

**Limited Obligations of the Authority**

The Bonds are a limited obligation of the Authority, payable solely from and secured by a pledge and assignment of, the pension obligation bonds issued by certain Local Agencies and payments with respect thereto, to the extent provided in the Trust Agreement, subject to the provisions of the Trust Agreement permitting the disbursement thereof for or to the purposes and on the conditions and terms set forth therein. The Bonds are not a lien or charge upon any funds or property of the Authority (except to the extent of the aforementioned pledge and assignment). The Bonds are not a debt of any Local Agency or any member of the Authority and no such Local Agency or member is liable in any manner for the payment thereof.

**Bankruptcy**

The filing of bankruptcy by the Authority or one or more of the Local Agencies could delay or impair the payment of the Bonds. Further, the opinion of Bond Counsel as to the enforceability of the Bonds is expressly qualified by the declaration of bankruptcy.

**No Joint Obligation**

The obligation of a Local Agency to make payments on or in respect to its Obligation is a several and not a joint obligation and is strictly limited to such Local Agency's repayment obligation under its Local Agency Trust Agreement and its Obligation.

**Risk of State or Local Legislation**

The Local Agencies rely on a number of revenue sources that could be reduced or eliminated by State or local legislation, including, among others, sales and use taxes, license and permit fees, fines and penalties, and motor vehicle license fees. There can be no assurance that the State or local government will not adopt legislation to reduce or eliminate one or more of these revenue sources. See "State Budget Finances" below.

In addition, a number of statutes and constitutional amendments have been adopted as measures that qualified for the ballot through California's initiative process as described under "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS." There can be no assurance that other initiative measures will not be adopted affecting the revenues of the Local Agencies.

**State Budget Finances**

The following information concerning the State of California budgets has been obtained from publicly available information that the Local Agencies believe to be reliable; however, the Local Agencies take no responsibility as to the accuracy or completeness thereof and have not independently verified such information.

***State Budget for Fiscal Year 2003-04.*** On August 2, 2003, then-Governor Davis signed the 2003-04 Budget Act (the "2003-04 Budget Act") into law. The 2003-04 Budget Act projected that State General Fund (the "State General Fund") revenues would increase from $70.9 billion for Fiscal Year 2002-03, excluding the proceeds of any fiscal recovery bonds, to $72.8 billion in Fiscal Year 2003-04, an increase of 2.8 percent. State General Fund expenditures were projected to decrease from $78.1 billion in Fiscal Year 2002-03 to $70.8 billion in Fiscal Year 2003-04, or 10 percent. A significant portion of this 10 percent decrease was attributable to the Vehicle License Fee ("VLF") increase which eliminated the need for the State to backfill local governments, new federal funds, borrowings to cover the State's 2003-04 pension obligations, and the Medi-Cal accounting shift from an accrual to a cash basis.

The 2003-04 Budget Act contained various reductions in local revenues provided by the State, including a reduction in VLF revenues of approximately $825 million during the period between the elimination of the State's VLF backfill and the increase in the VLF rate on October 1, 2003. The 2003-04 Budget Act assumed that the VLF rate would increase from the rate of 0.65 percent to 2.0 percent beginning October 1, 2003. During the approximately 90 day period between the date when the State backfill ended on July 1, 2003, and the date when the VLF rate increased, local governments would only receive revenues based on the 0.65 percent VLF rate. The 2003-04 Budget Act and related legislation required the State to repay the $825 million VLF "gap" loss to local governments no later than August 15, 2006. Governor Schwarzenegger subsequently rescinded the VLF rate increase retroactive to October 1, 2003. See "Governor's Proposed Budget for Fiscal Year 2004-05" below.

The 2003-04 Budget Act identified a budget shortfall of $38.2 billion between expenditures and revenues and attempted to close this shortfall through a combination of program savings, borrowing, new revenues, funding shifts, and deferrals. Program savings were primarily achieved in the 2003-04 Budget Act through significant reductions in spending for certain programs. Some reductions in program spending were to be offset by higher fees. The year-end reserve was projected to be approximately $2 billion and reflected the issuance of $10.7 billion in fiscal recovery bonds to eliminate the Fiscal Year 2002-03 deficit and the issuance of a second series of tobacco securitization bonds. Governor Schwarzenegger subsequently proposed, and the State Legislature approved, placing a bond measure on the March 2, 2004 ballot authorizing the issuance of up to $15 billion of economic recovery bonds to replace the fiscal recovery bonds. The voters approved this measure on March 2, 2004. See "Governor's Proposed Budget for Fiscal Year 2004-05" below.

Certain of the features of 2003-04 Budget Act affecting counties included the following:

1. The Senate budget package required redevelopment agencies to shift $250 million of redevelopment agency funds to the Educational Revenue Augmentation Fund (the "ERAF") in Fiscal Year 2003-04. The Assembly version of the budget also required such a one-time shift to the ERAF but set the amount at $135 million.

2. The 2003-04 Budget Act repealed six mandates and suspended local government requirements to implement 37 other mandates in Fiscal Year 2003-04. The 2003-04 Budget Act deferred (to an unspecified date) State funding to reimburse local agencies for: (1) implementing 40 active mandates in Fiscal Year 2003-04 (about $200 million) and (2) unpaid prior-year mandate claims (about $700 million).

3. The 2003-04 Budget Act reduced funding for the Citizens' Option for Public Safety and Juvenile Crime Prevention Grants program by $32.6 million (leaving $200 million to be divided equally between the two programs).

4. The Senate budget package eliminated the $38 million continuous appropriation for local government booking fees and county authority to charge local agencies fees for booking people into county jail. The Assembly budget package, in contrast, maintained the continuous appropriation and county fee authority.

***Governor's Proposed Budget for Fiscal Year 2004-05.*** On January 9, 2004, Governor Schwarzenegger (the "Governor") released his proposed budget for Fiscal Year 2004-05 (the "Governor's 2004-05 Proposed Budget"). The Governor's 2004-05 Proposed Budget projects the State General Fund revenues for Fiscal Year 2004-05 to be $76.4 billion, an increase over the current fiscal year of 2.4 percent, and State General Fund expenditures to be $76.1 billion, a decrease over the current fiscal year of 2.4 percent.

The revenue increases forecasted by the Governor's 2004-05 Proposed Budget include significant gains in the personal income tax, sales tax and corporation tax. Personal income tax revenues are forecasted to be $35.1 billion in Fiscal Year 2003-04 and $38 billion in Fiscal Year 2004-05. This forecast assumes that moderate growth will resume in Fiscal Year 2003-04. Sales and use tax revenue is forecasted at $23.7 billion in Fiscal Year 2003-04 and $25 billion in Fiscal Year 2004-05. This forecast assumes a 2.3 percent increase in taxable sales for Fiscal Year 2003-04 and that taxable sales increase at a faster rate in Fiscal Year 2004-05 and Fiscal Year 2005-06 due to the improving economy, increasing by 5.8 percent and 5.4 percent, respectively. Corporate tax revenues are expected to total approximately $7.5 billion in Fiscal Year 2003-04 and approximately $7.6 billion in 2004-05. The Governor's 2004-05 Proposed Budget also forecasts $500 million in additional revenue from a 25 percent share of tribal gaming operations annual income.

Certain of the features of the Governor's 2004-05 Proposed Budget affecting counties include the following:

1. The Governor's 2004-05 Proposed Budget includes provisions for full reimbursement to local governments, including counties, for the VLF offset program in Fiscal Year 2004-05, resulting in payments estimated at $4.1 billion in such fiscal year.

2. The Governor's 2004-05 Proposed Budget includes a $1.3 billion shift of local property taxes that would have been payable to certain local governments, including counties, to the ERAF, resulting in a decrease in payments of such taxes to such local governments of approximately 10 percent.

3. The Governor's 2004-05 Proposed Budget includes a provision to reduce and, by October 2004, eliminate federal Temporary Assistance to Needy Families ("TANF") funds used to support counties' juvenile probation services, including prevention, intervention, supervision, treatment, and incarceration programs for at-risk youth and juvenile offenders.

4. The Governor's 2004-05 Proposed Budget includes a provision to eliminate State reimbursement of jail booking fees that would have been payable to counties.

5. The Governor's 2004-05 Proposed Budget proposes major reform in the health and human services area, including, with respect to the Medi-Cal program, realigning eligibility standards, requiring co-payments, implementing a tiered benefit structure and conforming basic optional benefits to those offered under private plans, and with respect to the CalWORKs program, increasing work incentives and reducing services and assistance payments thereunder. The Governor's 2004-05 Proposed Budget proposes budgeting $31.2 billion for the Medi-Cal program in Fiscal Year 2004-05. The State General Fund increase of 16.2 percent reflects the costs of using one-time savings in Fiscal Year 2003-04 because of a change in the Medi-Cal program from accrual accounting to cash accounting and Federal Medical Assistance Program amounts received in Fiscal Year 2003-04.

6. The Governor's 2004-05 Proposed Budget assumes implementation of the 2003-04 Mid-Year Spending Reduction Proposals to achieve State General Fund savings of $206.9 million in Fiscal Year 2003-04 and $479.4 million in Fiscal Year 2004-05.

The Governor's Proposed 2004-05 Budget identifies an existing deficit of more than $22 billion, which includes an accumulated deficit through Fiscal Year 2002-03 of $9.3 billion and a pre-existing operating deficit in Fiscal Year 2003-04 of $3.0 billion. The Governor's Proposed 2004-05 Budget assumes the issuance of up to $15 billion in economic recovery bonds (the "Economic Recovery Bonds") to finance the State General Fund reserve and other State obligations incurred prior to June 30, 2004. The voters approved issuance of the Economic Recovery Bonds on March 2, 2004. In connection therewith, the Governor's Proposed 2004-05 Budget also includes a provision for the creation of a deficit recovery fund to finance what would otherwise be the State General Fund's costs of the existing debt.

The amount of Economic Recovery Bond proceeds received but not used to finance the accumulated budget deficit through Fiscal Year 2002-03 will be transferred into this new fund. The new fund is to be used in Fiscal Year 2004-05 to finance outstanding State obligations due in Fiscal Year 2003-04 and Fiscal Year 2004-05. The Economic Recovery Bonds are general obligations of the State and secured by a pledge of revenues available under the Triple Flip. The "Triple Flip" is designed to trade 0.5% of the local Bradley-Burns sales tax for an equal share of property taxes from the ERAF. The legislation creating the Triple Flip becomes operative on July 1, 2004. In general, the legislation provides for the Triple Flip to sunset when the Economic Recovery Bonds are no longer outstanding.

***Governor's May Revision to 2004-05 Proposed State Budget.*** On May 13, 2004, the Governor released the May Revision to the Governor's 2004-05 Proposed Budget (the "May Revision"). The May Revision assumes an approximate $3.6 billion increase in revenues from tax shelter amnesty proceeds ($1.3 billion), accounting changes resulting in accrual of additional revenues ($1 billion) and increases in revenue forecasts for fiscal years 2003-04 and 2004-05 ($1.3 billion). The net effect is an increase in the reserve at the end of fiscal year 2004-05, from the $635 million projected in the Governor's 2004-05 Proposed Budget to the $998 million projected in the May Revision. However, pressures on the General Fund have also increased primarily due to caseload increases in certain State programs, an increase in the Proposition 98 guarantee, and court cases, resulting in a continuing structural budget problem that will require additional ongoing budget solutions.

The May Revision projects the State General Fund revenues for Fiscal Year 2004-05 to be approximately $76.7 billion, an increase over the current fiscal year of 2.8 percent and State General Fund expenditures to be approximately $77.6 billion, a decrease over the current fiscal year of 0.1 percent.

Personal income tax revenue forecasts have increased by $949 million in Fiscal Year 2003-04 from the $35.1 billion forecast in the Governor's 2004-05 Proposed Budget and increased by $559 million in Fiscal Year 2004-05 from the $38 billion forecast in the Governor's 2004-05 Proposed Budget. This forecast is due, in part, to the stock market recovery that began in mid-2003. Sales and use tax revenue forecasts are reduced by $105 million in Fiscal Year 2003-04 from the $23.7 billion forecast in the Governor's 2004-05 Proposed Budget and by $417 million in Fiscal Year 2004-05 from the $25 billion forecasted in the Governor's 2004-05 Proposed Budget. The $417 million reduction forecasted is due, in part, to an increased transfer to the Public Transportation Account and a reduced expectation of taxable sales growth in Fiscal Years 2004-05 and 2005-06 than assumed in the Governor's 2004-05 Proposed Budget. Corporate tax revenues are expected to decrease by $173 million in Fiscal Year 2003-04 from the $7.5 billion forecasted in the Governor's 2004-05 Proposed Budget and increase by $358 million in Fiscal Year 2004-05 from the $7.6 billion forecasted in the Governor's 2004-05 Proposed Budget.

The Governor's 2004-05 Proposed Budget identified an operating deficit of $14 billion and a projected year-end deficit of over $26 billion. On March 2, 2004, California voters approved Proposition 57, a bond act authorizing issuance of up to $15 billion of Economic Recovery Bonds to fund the accumulated State budget deficit. To eliminate the deficit and create a small reserve, the Governor's 2004-05 Proposed Budget proposed $12.3 billion in proceeds from Economic Recovery Bonds and $14.6 billion in various other solutions.

Certain of the features of the May Revision include the following:

1. The estimated General Fund contribution to the Proposition 98 guarantee for schools Fiscal Year 2004-05 is approximately $4.3 billion higher than the $29.7 billion estimated in the Governor's 2004-05 Proposed Budget.

2. Annual fixed increases in base State General Fund support of the University of California and the California State University systems in the amount of 3% in Fiscal Years 2005-06 and 2006-07, increasing to 4% in Fiscal Years 2007-08, and then to 5% in Fiscal Years 2008-09 through 2010-11.

3. Total Medi-Cal expenditures of $28.7 billion, a decrease of $491 million from the Governor's 2004-05 Proposed Budget. General Fund expenditures for Medi-Cal have increased by $181.9 million, or 2 percent. The estimate of the number of persons eligible for Medi-Cal in Fiscal Year 2003-04 is expected to decrease by 59,000 to 6,561,000, representing a decrease of 0.9% below the level projected in the Governor's 2004-05 Proposed Budget. The net General Fund increase includes the following adjustments: $282.2 million increase due to erosions of the Mid-Year Spending Reduction Proposals as a result of caseload adjustments, legislative delays in enacting certain proposals, legal challenges, and the Administration's rescission of certain proposals; $20.3 million decrease in fiscal intermediary expenditures; and $19.9 million decrease in county administration expenditures.

4. An increase of $1.7 million to provide increased oversight and policy direction to departments under supervision of the Youth and Adult Correctional Agency. Funding for this proposal is provided through corresponding reductions to the California Department of Corrections ($1.5 million) and the California Department of the Youth Authority ($200,000).

The Final Budget for Fiscal Year 2004-05 (the "Final Budget") must be implemented by the adoption of appropriations bills. It cannot be predicted how these future actions may affect the spending plan represented by the Final Budget bill adopted by the Legislature and signed by the Governor. Further, it cannot be predicted what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures, what the Final Budget will include or the affect of national and state economic conditions on future State budgets.

***LAO Report.*** On May 17, 2004, the State's Legislative Analyst's Office (the "LAO") released its analysis report of the May Revision (the "LAO Report"), which is available on the LAO website at www.lao.ca.gov. Information on such website is not incorporated herein by reference.

The LAO Report states that the State's short-term fiscal outlook has improved significantly since the Governor's 2004-05 Proposed Budget as a result of an improved revenue outlook and the one-time receipt of certain funds. Specifically, the LAO Report notes that the May Revision relies on the State's receipt of approximately $3.6 billion in new resources comprised of (i) approximately $1.3 billion associated with greater-than-expected receipts from a previously enacted tax shelter amnesty program, (ii) approximately $1.3 billion related to an increase in the administration's forecast of tax collections in 2003-04 and 2004-05 combined and (iii) $1 billion from an accounting adjustment, which results in the accrual of tax revenues attributable to prior-year liabilities. However, the LAO Report cautions that while this accounting adjustment improves the State's budget condition, there is no actual effect on cash received by the State. The LAO Report also notes that the May Revision relies on the State's receipt of approximately $5 billion in one-time receipt of funds comprised of (i) the use of $2 billion in Proposition 57 bond proceeds, (ii) $1 billion in pension obligation bond proceeds, (iii) $1.2 billion related to the loan of Proposition 42 funds from transportation special funds and (iv) a variety of one-time savings from delayed Medi-Cal checkwrites, special fund loans, and other funding shifts.

However, the LAO Report also concludes that the State's long-term fiscal outlook relative to the Governor's 2004-05 Proposed Budget has worsened and that the State continues to have a structural budget problem. The LAO Report contributes this negative outlook to the May Revision's reliance on less ongoing savings than the Governor's 2004-05 Proposed Budget and the May Revision's addition of future spending commitments of the State.

The LAO Report agrees with the May Revision's assumption that growth in employment and personal income in the State will be more restrained than forecasted in the Governor's 2004-05 Proposed Budget. However, the LAO Report projects that sales taxes will be stronger and corporation taxes will be weaker than assumed in the May Revision.

***Continuing State Budget Shortfall.*** The Local Agencies cannot predict whether the State will continue to encounter budgetary problems in this or in any future fiscal years, and if it were to do so, it is unknown what measures would be taken by the State to balance its budget, as required by law. Accordingly, the Local Agencies cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the Local Agencies have no control.

**The Local Government Agreement**

The May Revision relies on a proposed "agreement" with representatives from local government (the "Local Government Agreement"). The Local Government Agreement replaces the proposal in the Governor's 2004-05 Proposed Budget to permanently shift $1.3 billon in local property taxes from counties cities, special districts and redevelopment agencies to the Education Revenue Augmentation Fund ("ERAF"). The proposed $1.3 billion shift will be replaced by a Vehicle License Fee ("VLF")/property tax swap. Specifically, the Local Government Agreement reduces the VLF rate from 2 percent to 0.65 percent. This reduction in VLF to cities and counties will be replaced by an equivalent increase in the amount of property tax received by the cities and counties. However, in Fiscal Years 2004-05 and 2005-06, the State will not provide the full amount of these property taxes to the cities and counties. Under the Local Government Agreement, the State will retain $700 million, comprised of $350 million from counties and $350 million from cities in Fiscal Years 2004-05 and 2005-06.

Further, in Fiscal Years 2004-05 and 2005-06, the Local Government Agreement provides that special districts will contribute $350 million in property taxes and redevelopment agencies will contribute $250 million in property tax revenues.

The counties' $350 million reduction will be allocated based on each county's proportional share of non-realignment VLF. The cities' allocation consists of an amount based one-third on sales tax revenues, one-third on property tax revenues, and one-third on VLF revenues. City reductions are limited to no more than 4 percent of their general-purpose revenues and no less than 2 percent of their general-purpose revenues. Redevelopment agencies' property tax reductions will be allocated in a manner similar to that contained in last year's budget. The special districts' $350 million reduction will based upon the respective special district's allocation of property taxes. Enterprise special districts will collectively contribute $200 million and non-enterprise special districts will collectively contribute $150 million. For enterprise special districts, the reduction will equate to 40% of each special district's net allocation of property taxes. For non-enterprise special districts, the reduction will equate to 25% of each special district's net allocation of property taxes. Certain public safety districts, community services districts and healthcare districts will also be affected but not on as large a scale. These special districts will each contribute 3% of their net property tax allocation if such allocation exceeds $1 million. These special districts with a property tax allocation of $1 million or less will be exempt from the reduction. Further, the Local Government Agreement provides that fire districts will be exempt from contributing property taxes.

The table below shows the estimated net impact of the proposed VLF/property tax swap to Fiscal Year 2004-05 revenues for each Local Agency.

| | **Fiscal Year 2004-05 Estimated Net Impact of Proposed VLF/Property Tax Swap**[1] |
|---|---|
| **Counties** | |
| Butte County | $1,968,640 |
| Kings County | 1,409,501 |
| | |
| **Cities** | |
| City of Daly City | 1,069,890 |
| City of Merced | 666,764 |
| City of Millbrae | 266,248 |
| City of Monterey Park | 545,157 |
| City of Riverside | 2,713,954 |

______________________________
[1] Source: League of California Cities, State General Fund: City Contributions Breakdown, dated as of May 27, 2004. For more information see http://www.californiacityfinance.com. Information on such website is not incorporated herein by reference.

If VLF revenues are significantly reduced or eliminated without a corresponding increase in other offsetting revenues to cities and counties, loss of the VLF revenue will have a significant adverse impact on the revenues available to the Local Agencies. See Appendix B for more information.

**Realignment**

In 1991, the State shifted responsibility for a number of mental health, social services, and health programs to counties. This shift is known as "Realignment" and resulted in the creation of two dedicated funding streams to pay for the services shifted by Realignment. The first is a ½ cent sales tax and the second is a change in the depreciation schedule for vehicles which resulted in a 24.33% increase in VLF revenues collected by the State.

Certain features of the Realignment program adversely impact certain county revenues. Some counties receive a smaller share of revenues than other counties based on population and estimated poverty population. Revenue distributions among counties were determined by expenditures in the programs that were transferred by the State just prior to the adoption of Realignment. In connection with Realignment, the State attempted to address the inequity issue between counties. Revenue increases are distributed based on existing sharing arrangements between the counties.

The State anticipated that some of the problems with Realignment could result in litigation or unfunded mandate claims and, therefore, the legislation creating Realignment contained three "poison pill" triggers that would make certain revenue transfers under Realignment inoperative. These triggers are: (1) a successful unfunded mandate claim by a county with respect to realigned programs, (2) a constitutional challenge regarding Realignment's treatment of VLF revenues or a finding that exclusion of Realignment revenue from Proposition 98 education funding calculations is unconstitutional, and (3) an appellate court determination that 1982 legislation shifting responsibility for medically indigent adults to counties is reimbursable as an unfunded mandate.

The County of San Diego was recently successful in court in seeking additional funds from the State for medically indigent adults. This court action triggered the third poison pill provision (discussed above) and resulted in the immediate cessation of Realignment VLF payments to counties by the State. The State Legislature has passed a measure to temporarily revoke the poison pill provisions and make the counties whole for funds lost as a result of the San Diego decision; however, this measure only resolves the problem until July 15, 2004. Further resolution of the Realignment issue is being considered as part of the State's Fiscal Year 2004-05 budget process. Delays in the adoption of a final State budget may result in a monthly loss to certain counties.

### Security

Military conflicts and terrorist activities may adversely impact the operation of the Local Agencies. In addition, the Local Agencies may experience a decrease with respect to their revenues because of any change in economic circumstances as a result of future military conflicts or terrorist activities. Such a reduction in revenues may include, but is not limited to, a decline in airport, transient occupancy tax, parking tax, business tax and sales tax revenues.

The Local Agencies are subject to safety and security measures and inspections on a continuing basis. The Local Agencies do not represent that any existing or additional safety and security measures will be adequate in the event that terrorist activities are directed against any of the Local Agencies or that costs of security measures will not be greater than presently anticipated.

### Recent Litigation Regarding Increase in Assessed Valuation

On November 2, 2001, the Orange County, California Superior Court issued a Minute Order in the case of County of Orange v. County of Orange County Assessment Appeals Board No. 3. The case involved the assessed value of a property that exceeded the prior year's assessed value by more than 2 percent. The increase of a property's assessed value by more than 2 percent is a common practice among California assessors when the prior year value of the property is less than the base year value of the property (the value assigned upon change of ownership or new construction) and the current year, market value of property is equal to or higher than the computed base year value for the current year. Such instances occur when the prior year value of the property was determined by a Proposition 8 appeal and the condition causing reduction (e.g., recession in the real estate market) has ceased to influence the value of property.

The court ruled that the California Constitution and the California Revenue and Taxation Code limit the year to year change in value of property to 2 percent except in situations described in law. The court also found that the California Constitution does not authorize a temporary decline in the base value of property that can be restored at a rate higher than 2 percent. Some of the Local Agencies follow similar procedures regarding increases in assessed values as practiced by Orange County.

On March 26, 2004, the California Court of Appeal reversed the judgment of the trial court in the County of Orange case favor of the county. The Court of Appeals decided that the base on which the 2% inflation adjustment should be figured is the original purchase price (or an assessment at time of a genuine new construction), and not a prior year's reduced (or level) base due to a decline in property values or natural disaster.

On May 5, 2004, the Respondent filed a petition to the California Supreme Court for a review of the decision published by the Court of Appeal on March 26, 2004. The California Supreme Court is expected to issue its decision to accept or deny this petition for review within 60 to 90 days.

**Pension Benefit Liability**

Many factors influence the amount of each Local Agency's pension benefit liability, including, without limitation, inflationary factors, changes in statutory provisions of applicable retirement system laws, changes in the levels of benefits provided or in the contribution rates of such Local Agency, increases or decreases in the number of covered employees, changes in actuarial assumptions or methods, and differences between actual and anticipated investment experience of each Local Agency's respective pension system. Any of these factors could give rise to additional liability of a Local Agency to its pension system as a result of which the Local Agency would be obligated to make additional payments to its pension system over the amortization schedule for full funding of such Local Agency's obligation to its pension system.

## PARTICIPATING LOCAL AGENCIES INFORMATION

### General

There are two types of Local Agencies participating in the Program: counties and cities. Following are brief summaries of each such type of Local Agency.

Counties are political subdivisions of the State and are governed by elected boards of supervisors. Counties generally provide for the health, safety and welfare of their residents. County revenues are generally comprised of property and other taxes, aid from other government agencies, license, permit and use fees, and fines, forfeitures and penalties. A substantial portion of county revenues is derived from the State.

Cities are either general law cities, established under California statutes, or charter cities, established under the California Constitution and their voter approved charters. Cities generally provide for the health, safety and welfare of their residents. Cities are governed by elected city councils. City revenues are generally composed of property taxes, other taxes, license, permit and use fees, and fines, forfeitures and penalties. Other taxes may include some or all of sales taxes, utility user taxes, business taxes, State motor vehicle license fees, transient occupancy taxes, State cigarette taxes, real property transfer taxes and other miscellaneous taxes.

Certain information regarding the individual Local Agencies participating in the Program is included in the appendices hereto. A table listing the participating Local Agencies, the principal amount of the Obligation being issued by each such Local Agency and the principal amount of the Obligation of such Local Agency as a percentage of the principal amount of Bonds and the debt service schedule for such Obligations is set forth in APPENDIX A - "DEBT SERVICE BY LOCAL AGENCY AND UAAL BY LOCAL AGENCY." Certain general information and a summary of certain budget and financial information for each Local Agency are set forth in APPENDIX B - "LOCAL AGENCY INFORMATION" and APPENDIX C - "SUMMARY HISTORICAL FINANCIAL INFORMATION."

The information contained herein regarding each Local Agency has been derived from information provided by such Local Agency. The Authority and the Underwriters have no reason to believe that any such information is incorrect; however, they have not verified the accuracy of such information and take no responsibility therefor. Each Local Agency has represented that the information relating to such Local Agency included herein does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements about such Local Agency contained herein, in light of the circumstances under which they were made, not misleading.

The information regarding the Local Agencies contained in the Appendices hereto is essential to making an informed investment decision with respect to the Bonds. Investors are advised to thoroughly and carefully review such information.

The audited 2002-03 Annual Financial Report for Kings County has been completed and is attached hereto at Appendix D. The audited 2001-02 Annual Financial Report of Kings County and unaudited financial information for fiscal year 2002-03 that were attached to the Preliminary Official Statement dated June 4, 2004 have been removed.

**PERS Pension Plans**

The following information concerning the California Public Employees' Retirement System ("PERS") is excerpted from publicly available sources, which the Local Agencies believe to be accurate. PERS is not obligated in any manner for payment of debt service on the Series 2004 Bonds, and the assets of PERS are not available for such payment. PERS should be contacted directly at CalPERS, Lincoln Plaza, 400 P Street Sacramento, California 95814 or (888) 225-7377 for other information, including information relating to its financial position and investments.

Each Local Agency provides retirement benefits to certain of their employees through contracts with PERS, a multiple-employer public sector employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to PERS members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments.

PERS may maintain more than one pension plan (each, a "PERS Plan") for each Local Agency based on type of employee (i.e. a Local Agency may have a PERS Plan for "Safety Employees" and a separate PERS Plan for "Miscellaneous Employees"). Each Local Agency contributes to PERS amounts equal to the recommended rates for the PERS Plans multiplied by the payroll of those employees of the Local Agency who are eligible under PERS.

The staff actuaries at PERS prepare annually an actuarial valuation which covers a Fiscal Year ending approximately 15 months before the actuarial valuation is prepared (thus, the actuarial valuation delivered to each Local Agency in September 2003 covered PERS' Fiscal Year ended June 30, 2002). The actuarial valuations express each Local Agency's required contribution rates in percentages of payroll, which percentages each Local Agency must contribute in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, each Local Agency's contribution rate derived from the actuarial valuation as of June 30, 2002, that were prepared in September 2003, will affect such Local Agency's Fiscal Year 2004-05). PERS rules require the PERS Local Agencies to implement the actuary's recommended rates.

In calculating the annual actuarially recommended contribution rates, the PERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that PERS will fund under the PERS Plans, which includes two components, the normal cost and the UAAL. The normal cost represents the actuarial present value of benefits that PERS will fund under the PERS Plans that are attributed to the current year, and the UAAL represents the actuarial present value of benefits that PERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between assets on deposit at PERS and the present value of the benefits that PERS will pay under the PERS Plans to retirees and active employees upon their retirement. The UAAL, is based on several assumptions such as, among others, the rate of investment return, average life expectancy, average age of retirement, inflation, salary increases and occurrences of disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL may be considered an estimate of the unfunded actuarial present value of the benefits that PERS will fund under the PERS Plans to retirees and active employees upon their retirement and not as a fixed expression of the liability the PERS Local Agencies owe to PERS under their respective PERS Plans.

In each actuarial valuation, the PERS actuary estimates the actuarial value of the assets (the "Actuarial Value") of the PERS Plans at the end of the Fiscal Year (which assumes, among other things, that the rate of return during that Fiscal Year equaled the assumed rate of return of 8.25%). The PERS actuary uses a smoothing technique to determine Actuarial Value that generally only recognizes one third of the gain or loss realized in a given Fiscal Year. However, PERS does not allow the Actuarial Value to be less than 90% or more than 110% of the Market Value.

On April 21, 2004, the PERS Board approved a change in the inflation assumption used in the actuarial valuations that set employer contribution rates. The inflation assumption was changed from 3.5 percent to 3 percent. The change impacted the inflation component of the annual investment return assumption, the long term payroll growth assumption and the individual salary increase assumptions as follows:

- The annual assumed investment return has decreased from 8.25 percent to 7.75 percent.
- The long term salary increase assumption has decreased from 3.75 percent to 3.25 percent.
- The inflation component of individual salary scales has decreased from 3.75 percent to 3.25 percent.

The change to the inflation assumption also impacted the cost of living adjustments and purchasing power protection allowances assumed in the actuarial valuations. The new assumptions will be used to determine the Local Agency 2005-06 employer contribution rates. For complete updated inflation and actuarial assumptions, please contact PERS at the above-referenced address.

Included in the PERS pension plans for Butte County and Kings County employees are State trial court employees. The State is obligated to reimburse the County for the share of PERS costs associated with the trial court employees, but the County remains primarily liable for such costs to PERS.

## CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

### Article XIIIA of the California Constitution

In 1978, California voters approved Proposition 13, adding Article XIIIA to the California Constitution. Article XIIIA was subsequently amended in 1986, as discussed below. Article XIIIA limits the amount of any ad valorem tax on real property to 1% of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters voting on such indebtedness. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the Fiscal Year 1975-76 tax bill under 'full cash' or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster.

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

**Article XIIIB of the California Constitution**

On November 6, 1979, California voters approved Proposition 4, known as the Gann Initiative, which added Article XIIIB to the California Constitution. Propositions 98 and 111, approved by the California voters in 1988 and 1990, respectively, substantially modified Article XIIIB. The principal effect of Article XIIIB is to limit the annual appropriations of the State and any city, county, school district, authority, or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living and population. The initial version of Article XIIIB provided that the "base year" for establishing an appropriations limit was the 1978-79 Fiscal Year, which was then adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies. Proposition 111 revised the method for making annual adjustments to the appropriations limit by redefining changes in the cost of living and in population. It also required that beginning in Fiscal Year 1990-91, each appropriations limit must be recalculated using the actual 1986-87 appropriations limit and making the applicable annual adjustments as if the provisions of Proposition 111 had been in effect.

Appropriations subject to limitation of a local government under Article XIIIB include generally any authorization to expend during a fiscal year the proceeds of taxes levied by or for that entity and the proceeds of certain State subventions to that entity, exclusive of refunds of taxes. Proceeds of taxes include, but are not limited to, all tax revenues plus the proceeds to an entity of government from (1) regulatory licenses, user charges and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), (2) the investment of tax revenues, and (3) certain subventions received from the State. Article XIIIB permits any government entity to change the appropriations limit by a vote of the electors in conformity with statutory and constitutional voting effective for a maximum of four years.

As amended by Proposition 111, Article XIIIB provides for testing of appropriations limits over consecutive two-year periods. If an entity's revenues in any two-year period exceed the amounts permitted to be spent over such period, the excess has to be returned by revising tax rates or fee schedules over the subsequent two years. As amended by Proposition 98, Article XIIIB provides for the payment of a portion of any excess revenues to a fund established to assist in financing certain school needs.

**Unitary Property**

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the Fiscal Year 1988-89, will be allocated as follows: (i) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, the valuation of which continues to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

**Proposition 218**

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIIIC and XIIID to the California Constitution and contains a number of interrelated provisions affecting the ability of local agencies to levy and collect both existing and future taxes, assessments, fees and charges. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

Proposition 218 (Article XIIIC) requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of a Local Agency require a majority vote and taxes for specific purposes, even if deposited in such Local Agency's General Fund, require a two-thirds vote. Further, any general purpose tax which a Local Agency imposed, extended or increased without voter approval after December 31, 1994 may continue to be imposed only if approved by a majority vote in an election which must be held within two years of November 5, 1996.

Proposition 218 (Article XIIID) also adds several provisions making it generally more difficult for local agencies to levy and maintain fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

Proposition 218 (Article XIIIC) also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of any Local Agency will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of such Local Agency's General Fund.

In connection with the sale of the Bonds, each Local Agency, subject to one exception described below, has represented that Proposition 218 will not materially impact any existing or future taxes, fees and assessments collected by the Local Agency and that no revenues collected by the Local Agency have been challenged as a result of Proposition 218. The City of Riverside has indicated that a taxpayer group challenged the City's Street Light Assessment District revenues under Proposition 218. The City prevailed in defending the challenge and the assessments were upheld by the Court of Appeals. See Appendix B for more information.

**Proposition 62**

Proposition 62, a statutory initiative that was adopted by the voters voting in the State at the November 4, 1986 general election, (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities be approved by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIIIA of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, (f) required that any tax imposed by a local governmental entity on or after August 1, 1985 be ratified by a majority vote of the voters voting in an election on the tax within two years of November 5, 1986 or be terminated by November 15, 1988, and (g) requires a reduction of ad valorem property taxes allocable to the jurisdiction imposing a tax not in compliance with its provisions equal to one dollar for each dollar of revenue attributable to the invalid tax, for each year that the tax is collected.

Following its adoption by the voters, various provisions of Proposition 62 were declared unconstitutional at the appellate court level. For example, in *City of Woodlake v. Logan*, 230 Cal.App.3d 1058 (1991) (the "Woodlake Case"), the Court of Appeal held portions of Proposition 62 unconstitutional as a referendum on taxes prohibited by the California Constitution. In reliance on the Woodlake Case, numerous taxes were imposed or increased after the adoption of Proposition 62 without satisfying the voter approval requirements of Proposition 62.

On September 28, 1995, the California Supreme Court, in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) (the "Santa Clara Case"), upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote in order for a local government or district to impose a special tax, and, by implication, upheld a parallel provision requiring a majority vote in order for a local government or district to impose any general tax. In deciding the Santa Clara Case on Proposition 62 grounds, the Court disapproved the decision in the Woodlake Case.

The decision in the Santa Clara Case did not address the question of whether it should be applied retroactively. On June 4, 2001, the California Supreme Court released *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("*La Habra*"). In this decision, the court held that a public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

In connection with the sale of the Bonds, each Local Agency, has represented that Proposition 62 will not materially impact any existing or future taxes, fees and assessments collected by the Local Agency and that no revenues collected by the Local Agency have been challenged as a result of Proposition 62. See Appendix B for more information.

**Future Initiatives**

Article XIIIA, Article XIIIB, Proposition 218 and Proposition 62 were each adopted as measures that qualified for the ballot through California's initiative process. From time to time other initiative measures could be adopted, further affecting Local Agency revenues.

## TAX MATTERS

Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix F – "PROPOSED FORM OF BOND COUNSEL OPINION."

The following is a summary of certain of the United States federal income tax consequences of the ownership of the Bonds as of the date hereof. Each prospective investor should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as Treasury regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the Bonds generally and does not purport to furnish information in the level of detail or with the investor's specific tax circumstances that would be provided by an investor's own tax advisor. For example, it generally is addressed only to original purchasers of the Bonds that are "U.S. holders" (as defined below), deals only with Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to holders that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, FASITs, S corporations, persons that hold Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in a holder of Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a beneficial owner of a Bond. A "non-U.S. investor" is a holder (or beneficial owner) of a Bond that is not a U.S. Person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

**Tax Status of the Bonds**

The Bonds will be treated, for federal income tax purposes, as a debt instrument. Accordingly, interest will be included in the income of the holder as it is paid (or, if the holder is an accrual method taxpayer, as it is accrued) as interest.

Holders of the Bonds that allocate (which generally will include all initial holders of the Bonds) a basis in the Bonds that is greater than the principal amount of the Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under section 171 of the Code.

If a holder purchases the Bonds for an amount that is less than the principal amount of the Bonds, and such difference is not considered to be de minimis, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year, will be deferred.

Although the Bonds are expected to trade "flat," that is, without a specific allocation to accrued interest, for federal income tax purposes, a portion of the amount realized on sale attributed to the Bonds will be treated as accrued interest and thus will be taxed as ordinary income to the seller (and will not be subject to tax in the hands of the buyer).

**Sale and Exchange of Bonds**

Upon a sale or exchange of a Bond, a holder generally will recognize gain or loss on the Bonds equal to the difference between the amount realized on the sale and its adjusted tax basis in such Bond. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the Bond not yet taken into income will be ordinary). The adjusted basis of the holder in a Bond will (in general) equal its original purchase price and decreased by any payments received on the Bond. In general, if the Bond is held for longer than one year, any gain or loss would be long term capital gain or loss, and capital losses are subject to certain limitations.

### Defeasance

Defeasance of any Bond may result in a reissuance thereof, in which event a holder will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the holder's adjusted tax basis in the Bond.

### Foreign Investors

Distributions on the Bonds to a non-U.S. holder that has no connection with the United States other than holding its Bond generally will be made free of withholding tax, as long as that the holder has complied with certain tax identification and certification requirements.

## ERISA CONSIDERATIONS

Section 406 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and Section 4975 of the Internal Revenue Code (the "Code"), prohibit employee benefit plans ("Plans") subject to ERISA or Section 4975 of the Code from engaging in certain transactions involving "plan assets" with persons that are "parties in interest" under ERISA or "disqualified persons" under the Code (collectively, "Parties in Interest") with respect to the Plan. ERISA also imposes certain duties on persons who are fiduciaries of Plans subject to ERISA. Under ERISA, any person who exercises any authority or control respecting the management or disposition of the assets of a Plan is considered to be a fiduciary of such Plan (subject to certain exceptions not relevant here). A violation of these "prohibited transaction" rules may generate excise tax and other liabilities under ERISA and the Code for fiduciaries and Parties in Interest.

The Underwriters, as a result of their own activities or because of the activities of an affiliate, may be considered Parties in Interest, with respect to certain plans. Prohibited transactions may arise under Section 406 of ERISA and Section 4975 of the Code if Bonds are acquired by a Plan with respect to which the Underwriters or any of their affiliates are Parties in Interest. Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan fiduciary making the decision to acquire a Bond and the circumstances under which such decision is made. Included among these exemptions are those transactions regarding securities purchased during the existence of an underwriting, investments by insurance company pooled separate accounts, investments by insurance company general accounts, investments by bank collective investment funds, transactions effected by "qualified professional asset managers," and transactions affected by certain "in-house asset managers." Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. In order to ensure that no prohibited transaction under ERISA or Section 4975 of the Code will take place in connection with the acquisition of a Bond by or on behalf of a Plan, each prospective purchaser of a Bond that is a Plan or is acquiring on behalf of a Plan will be required to represent that either (i) no prohibited transactions under ERISA or Section 4975 of the Code will occur in connection with the acquisition of such Bond or (ii) the acquisition of such Bond is subject to a statutory or administrative exemption.

Any Plan fiduciary who proposes to cause a Plan to purchase Bonds should (i) consult with its counsel with respect to the potential applicability of ERISA and the Code to such investments and whether any exemption would be applicable and (ii) determine on its own whether all conditions have been satisfied. Moreover, each Plan fiduciary should determine whether, under the general fiduciary standards of investment prudence and diversification, an investment in the Bonds is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio.

## ABSENCE OF LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the Bonds, the Trust Agreement or in any way contesting or affecting the validity of the foregoing, or any action of the Authority taken with respect to any of the foregoing.

There is no litigation pending or, to the knowledge of the Authority, threatened, questioning the existence of the Authority, or the title of the officers of the Authority to their respective offices, or the power and authority of the Authority to issue the Bonds.

Each Local Agency will certify to the effect that, other than as described in the Official Statement, including all appendices hereto, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending or, to the best knowledge of the Local Agency, threatened (i) in any way questioning the existence of the Local Agency or the titles of the officers of the Local Agency to their respective offices; (ii) in any way contesting or affecting the validity of the legal documents relating to the Obligations entered into by the Local Agency or the consummation of the transactions contemplated thereby, (iii) which may result in any material adverse change relating to the finances or operations of the Local Agency; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. See Appendix B for certain information related to any litigation affecting the Participants.

For information on litigation concerning the Local Agencies, see Appendix B attached hereto. For information on the judicial validation of the proceedings and transactions related to the issuance of the Obligations, see "VALIDATION" herein.

## RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Rating Services have assigned the ratings of "Aaa" and "AAA", respectively, to the Bonds. The ratings on the Bonds are conditioned on the issuance of the Insurance Policy. See "SECURITY AND SOURCE OF PAYMENT - The Insurance Policy" herein. The Authority and the Local Agencies supplied certain information to the rating agencies to be considered in evaluating the Bonds. Each rating reflects only the views of the rating agency issuing such rating, and any explanation of the significance of such rating on the Bonds should be obtained from such rating agency. There is no assurance that any rating will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agency issuing such rating if, in its judgment, circumstances so warrant. The Authority undertakes no responsibility to oppose any downward revision or withdrawal of any rating. Any such downward revision or withdrawal of any rating may have an adverse effect on the market price of the Bonds.

## UNDERWRITING

The Authority and Morgan Stanley & Co. Incorporated, as representative of the underwriters (the "Underwriters"), have entered into a Bond Purchase Agreement pursuant to which the Bonds are to be purchased by the Underwriters at a discount of $1,430,364.55 from the offering price of the Bonds stated on the the cover hereof (the "Bond Purchase Agreement"). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Bonds if any are purchased, the obligations to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Bonds to certain dealers and others at a price lower than the offering prices stated on the cover hereof. The Underwriters may change the offering prices from time to time.

## CONTINUING DISCLOSURE

The Local Agencies have covenanted in Continuing Disclosure Certificates for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to Local Agencies by not later than the 210 days following the end of the fiscal year (currently their fiscal years end on June 30) (the "Local Agencies Annual Reports"), commencing with the fiscal year ending June 30, 2004, and to provide notices of the occurrence of certain enumerated events, if material.

The Authority has covenanted in a Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the Bonds to provide notices of the occurrence of certain enumerated events, if material.

The Local Agencies Annual Reports and the notices of material events will be filed by the Trustee as Dissemination Agent with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Reports and the notice of material events is set forth in APPENDIX J—"FORMS OF CONTINUING DISCLOSURE CERTIFICATES" hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934.

## CERTAIN LEGAL MATTERS

At the time of the delivery of the Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, will deliver its final approving opinion in the form set forth in Appendix F. A copy of such approving will be available for delivery with each Bond. Bond Counsel has undertaken no responsibility for the completeness or fairness or accuracy of this Official Statement.

Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, San Francisco, California.

## VALIDATION

Each Local Agency, acting pursuant to the provisions of Sections 860 et seq. of the California Code of Civil Procedure, has filed a complaint in the Superior Court of the State of California for such Local Agency seeking judicial validation of the proceedings and transactions relating to the adoption of the Obligation Resolution, the issuance of the Obligations, the execution and delivery of the Local Agency Trust Agreement and certain other matters. Each court has entered a default judgment to the effect, among other things, that the Local Agency Trust Agreement and the Obligations are valid, legal and binding obligations of such Local Agency and that the Obligations are valid and in conformity with all applicable provisions of law. In issuing the opinion as to the validity of the Obligations and the Bonds, Bond Counsel has relied upon the entry of the foregoing default judgments. The last day of the appeal periods for the Local Agencies was June 12, 2004. No appeals were filed prior to the last day of the appeal periods.

## AUTHORIZATION AND APPROVAL

This Official Statement, and its distribution and use by the Underwriters, have been duly authorized and approved by the Authority.

CALIFORNIA STATEWIDE COMMUNITIES
DEVELOPMENT AUTHORITY

By: /s/ Norma Lammers
Member of the Commission of the Authority

# APPENDIX A

## DEBT SERVICE BY LOCAL AGENCY AND UAAL BY LOCAL AGENCY

## DEBT SERVICE TABLES

Following is a table listing the debt service payable by each Local Agency for each Series of Bonds.

### County of Butte

| Fiscal Year Ending June 30 | Series A-1 Principal | Series A-1 Interest | Series A-2 Principal | Series A-2 Compounded Interest | Total Debt Service |
|---|---|---|---|---|---|
| 2005 | - | 1,559,470.22 | - | - | 1,559,470.22 |
| 2006 | - | 1,690,991.80 | - | - | 1,690,991.80 |
| 2007 | - | 1,690,991.80 | - | - | 1,690,991.80 |
| 2008 | - | 1,690,991.80 | - | - | 1,690,991.80 |
| 2009 | - | 1,690,991.80 | - | - | 1,690,991.80 |
| 2010 | - | 1,690,991.80 | - | - | 1,690,991.80 |
| 2011 | - | 1,690,991.80 | - | - | 1,690,991.80 |
| 2012 | - | 1,690,991.80 | - | - | 1,690,991.80 |
| 2013 | - | 1,690,991.80 | - | - | 1,690,991.80 |
| 2014 | 55,000.00 | 1,690,991.80 | - | - | 1,745,991.80 |
| 2015 | 125,000.00 | 1,688,017.40 | - | - | 1,813,017.40 |
| 2016 | 200,000.00 | 1,681,132.40 | - | - | 1,881,132.40 |
| 2017 | 280,000.00 | 1,669,956.40 | - | - | 1,949,956.40 |
| 2018 | 370,000.00 | 1,653,447.60 | - | - | 2,023,447.60 |
| 2019 | 470,000.00 | 1,631,632.40 | - | - | 2,101,632.40 |
| 2020 | 575,000.00 | 1,603,921.20 | - | - | 2,178,921.20 |
| 2021 | 690,000.00 | 1,570,019.20 | - | - | 2,260,019.20 |
| 2022 | 815,000.00 | 1,529,336.80 | - | - | 2,344,336.80 |
| 2023 | 950,000.00 | 1,481,284.40 | - | - | 2,431,284.40 |
| 2024 | 1,100,000.00 | 1,425,272.40 | - | - | 2,525,272.40 |
| 2025 | 1,260,000.00 | 1,360,416.40 | - | - | 2,620,416.40 |
| 2026 | 1,435,000.00 | 1,283,858.80 | - | - | 2,718,858.80 |
| 2027 | 1,625,000.00 | 1,196,668.20 | - | - | 2,821,668.20 |
| 2028 | 1,825,000.00 | 1,097,933.20 | - | - | 2,922,933.20 |
| 2029 | 2,045,000.00 | 987,046.20 | - | - | 3,032,046.20 |
| 2030 | 2,285,000.00 | 862,792.00 | - | - | 3,147,792.00 |
| 2031 | 2,540,000.00 | 723,955.40 | - | - | 3,263,955.40 |
| 2032 | 2,820,000.00 | 569,625.00 | - | - | 3,389,625.00 |
| 2033 | 3,115,000.00 | 398,281.80 | - | - | 3,513,281.80 |
| 2034 | 3,440,000.00 | 209,014.40 | - | - | 3,649,014.40 |
| TOTAL | 28,020,000.00 | 41,402,008.02 | - | - | 69,422,008.02 |

## County of Kings

| Fiscal Year Ending June 30 | Series A-1 Principal | Series A-1 Interest | Series A-2 Principal | Series A-2 Compounded Interest | Total Debt Service |
|---|---|---|---|---|---|
| 2005 | - | - | - | - | - |
| 2006 | - | - | - | - | - |
| 2007 | - | - | 495,193.20 | 59,806.80 | 555,000.00 |
| 2008 | - | - | 489,914.40 | 90,085.60 | 580,000.00 |
| 2009 | - | - | 476,892.00 | 123,108.00 | 600,000.00 |
| 2010 | - | - | 463,580.20 | 156,419.80 | 620,000.00 |
| 2011 | - | - | 450,874.35 | 194,125.65 | 645,000.00 |
| 2012 | - | - | 437,590.40 | 232,409.60 | 670,000.00 |
| 2013 | - | - | 423,484.35 | 271,515.65 | 695,000.00 |
| 2014 | - | - | 409,060.80 | 310,939.20 | 720,000.00 |
| 2015 | - | - | 393,091.80 | 351,908.20 | 745,000.00 |
| 2016 | - | - | 379,471.00 | 395,529.00 | 775,000.00 |
| 2017 | - | - | 365,703.45 | 439,296.55 | 805,000.00 |
| 2018 | - | - | 352,553.70 | 482,446.30 | 835,000.00 |
| 2019 | - | - | 338,846.45 | 526,153.55 | 865,000.00 |
| 2020 | - | - | 327,537.00 | 572,463.00 | 900,000.00 |
| 2021 | - | - | 316,079.10 | 613,920.90 | 930,000.00 |
| 2022 | - | - | 305,055.80 | 659,944.20 | 965,000.00 |
| 2023 | - | - | 296,294.10 | 708,705.90 | 1,005,000.00 |
| 2024 | - | - | 286,343.20 | 753,656.80 | 1,040,000.00 |
| 2025 | - | - | - | - | - |
| 2026 | - | - | - | - | - |
| 2027 | - | - | - | - | - |
| 2028 | - | - | - | - | - |
| 2029 | - | - | - | - | - |
| 2030 | - | - | - | - | - |
| 2031 | - | - | - | - | - |
| 2032 | - | - | - | - | - |
| 2033 | - | - | - | - | - |
| 2034 | - | - | - | - | - |
| TOTAL | - | - | 7,007,565.30 | 6,942,434.70 | 13,950,000.00 |

## City of Daly City

| | Series A-1 | | Series A-2 | | |
|---|---|---|---|---|---|
| Fiscal Year Ending June 30 | Principal | Interest | Principal | Compounded Interest | Total Debt Service |
| 2005 | 400,000.00 | 1,877,355.79 | - | - | 2,277,355.79 |
| 2006 | 335,000.00 | 2,025,087.00 | - | - | 2,360,087.00 |
| 2007 | 435,000.00 | 2,014,534.50 | - | - | 2,449,534.50 |
| 2008 | 545,000.00 | 1,998,309.00 | - | - | 2,543,309.00 |
| 2009 | 660,000.00 | 1,975,746.00 | - | - | 2,635,746.00 |
| 2010 | 790,000.00 | 1,945,980.00 | - | - | 2,735,980.00 |
| 2011 | 930,000.00 | 1,907,902.00 | - | - | 2,837,902.00 |
| 2012 | 1,080,000.00 | 1,861,216.00 | - | - | 2,941,216.00 |
| 2013 | 1,250,000.00 | 1,805,272.00 | - | - | 3,055,272.00 |
| 2014 | 1,430,000.00 | 1,738,647.00 | - | - | 3,168,647.00 |
| 2015 | 1,625,000.00 | 1,661,312.60 | - | - | 3,286,312.60 |
| 2016 | 1,840,000.00 | 1,571,807.60 | - | - | 3,411,807.60 |
| 2017 | 2,070,000.00 | 1,468,988.40 | - | - | 3,538,988.40 |
| 2018 | 2,325,000.00 | 1,346,941.20 | - | - | 3,671,941.20 |
| 2019 | 2,600,000.00 | 1,209,859.20 | - | - | 3,809,859.20 |
| 2020 | 2,895,000.00 | 1,056,563.20 | - | - | 3,951,563.20 |
| 2021 | 3,215,000.00 | 885,874.00 | - | - | 4,100,874.00 |
| 2022 | 3,560,000.00 | 696,317.60 | - | - | 4,256,317.60 |
| 2023 | 3,925,000.00 | 486,420.00 | - | - | 4,411,420.00 |
| 2024 | 4,325,000.00 | 255,002.00 | - | - | 4,580,002.00 |
| 2025 | - | - | - | - | - |
| 2026 | - | - | - | - | - |
| 2027 | - | - | - | - | - |
| 2028 | - | - | - | - | - |
| 2029 | - | - | - | - | - |
| 2030 | - | - | - | - | - |
| 2031 | - | - | - | - | - |
| 2032 | - | - | - | - | - |
| 2033 | - | - | - | - | - |
| 2034 | - | - | - | - | - |
| TOTAL | 36,235,000.00 | 29,789,135.09 | - | - | 66,024,135.09 |

# City of Merced

| Fiscal Year Ending June 30 | Series A-1 Principal | Series A-1 Interest | Series A-2 Principal | Series A-2 Compounded Interest | Total Debt Service |
|---|---|---|---|---|---|
| 2005 | 50,000.00 | 384,362.03 | - | - | 434,362.03 |
| 2006 | 40,000.00 | 415,453.10 | - | - | 455,453.10 |
| 2007 | 65,000.00 | 414,193.10 | - | - | 479,193.10 |
| 2008 | 85,000.00 | 411,768.60 | - | - | 496,768.60 |
| 2009 | 115,000.00 | 408,249.60 | - | - | 523,249.60 |
| 2010 | 140,000.00 | 403,063.10 | - | - | 543,063.10 |
| 2011 | 170,000.00 | 396,315.10 | - | - | 566,315.10 |
| 2012 | 205,000.00 | 387,781.10 | - | - | 592,781.10 |
| 2013 | 245,000.00 | 377,162.10 | - | - | 622,162.10 |
| 2014 | 285,000.00 | 364,103.60 | - | - | 649,103.60 |
| 2015 | 325,000.00 | 348,690.80 | - | - | 673,690.80 |
| 2016 | 375,000.00 | 330,789.80 | - | - | 705,789.80 |
| 2017 | 425,000.00 | 309,834.80 | - | - | 734,834.80 |
| 2018 | 480,000.00 | 284,776.80 | - | - | 764,776.80 |
| 2019 | 540,000.00 | 256,476.00 | - | - | 796,476.00 |
| 2020 | 610,000.00 | 224,637.60 | - | - | 834,637.60 |
| 2021 | 680,000.00 | 188,672.00 | - | - | 868,672.00 |
| 2022 | 755,000.00 | 148,579.20 | - | - | 903,579.20 |
| 2023 | 840,000.00 | 104,064.40 | - | - | 944,064.40 |
| 2024 | 925,000.00 | 54,538.00 | - | - | 979,538.00 |
| 2025 | - | - | - | - | - |
| 2026 | - | - | - | - | - |
| 2027 | - | - | - | - | - |
| 2028 | - | - | - | - | - |
| 2029 | - | - | - | - | - |
| 2030 | - | - | - | - | - |
| 2031 | - | - | - | - | - |
| 2032 | - | - | - | - | - |
| 2033 | - | - | - | - | - |
| 2034 | - | - | - | - | - |
| TOTAL | 7,355,000.00 | 6,213,510.83 | - | - | 13,568,510.83 |

## City of Millbrae

| Fiscal Year Ending June 30 | Series A-1 Principal | Series A-1 Interest | Series A-2 Principal | Series A-2 Compounded Interest | Total Debt Service |
|---|---|---|---|---|---|
| 2005 | - | - | - | - | - |
| 2006 | - | - | - | - | - |
| 2007 | - | - | - | - | - |
| 2008 | - | - | 625,063.20 | 114,936.80 | 740,000.00 |
| 2009 | - | - | 612,011.40 | 157,988.60 | 770,000.00 |
| 2010 | - | - | 594,429.45 | 200,570.55 | 795,000.00 |
| 2011 | - | - | 576,699.75 | 248,300.25 | 825,000.00 |
| 2012 | - | - | 561,683.20 | 298,316.80 | 860,000.00 |
| 2013 | - | - | 542,303.70 | 347,696.30 | 890,000.00 |
| 2014 | - | - | 525,529.50 | 399,470.50 | 925,000.00 |
| 2015 | - | - | 506,534.40 | 453,465.60 | 960,000.00 |
| 2016 | - | - | 487,191.80 | 507,808.20 | 995,000.00 |
| 2017 | - | - | 467,918.70 | 562,081.30 | 1,030,000.00 |
| 2018 | - | - | 451,775.40 | 618,224.60 | 1,070,000.00 |
| 2019 | - | - | 434,820.30 | 675,179.70 | 1,110,000.00 |
| 2020 | - | - | 420,339.15 | 734,660.85 | 1,155,000.00 |
| 2021 | - | - | 406,144.65 | 788,855.35 | 1,195,000.00 |
| 2022 | - | - | 391,988.80 | 848,011.20 | 1,240,000.00 |
| 2023 | - | - | 380,317.80 | 909,682.20 | 1,290,000.00 |
| 2024 | - | - | 367,565.55 | 967,434.45 | 1,335,000.00 |
| 2025 | - | - | 357,426.95 | 1,027,573.05 | 1,385,000.00 |
| 2026 | - | - | 348,321.60 | 1,091,678.40 | 1,440,000.00 |
| 2027 | - | - | 338,946.40 | 1,156,053.60 | 1,495,000.00 |
| 2028 | - | - | 329,390.50 | 1,220,609.50 | 1,550,000.00 |
| 2029 | - | - | 320,695.90 | 1,289,304.10 | 1,610,000.00 |
| 2030 | - | - | 311,789.00 | 1,358,211.00 | 1,670,000.00 |
| 2031 | - | - | 302,750.00 | 1,427,250.00 | 1,730,000.00 |
| 2032 | - | - | 294,433.85 | 1,500,566.15 | 1,795,000.00 |
| 2033 | - | - | 286,725.10 | 1,578,274.90 | 1,865,000.00 |
| 2034 | - | - | 278,833.50 | 1,656,166.50 | 1,935,000.00 |
| TOTAL | | | 11,521,629.55 | 22,138,370.45 | 33,660,000.00 |

## City of Monterey Park

| Fiscal Year Ending June 30 | Series A-1 Principal | Series A-1 Interest | Series A-2 Principal | Series A-2 Compounded Interest | Total Debt Service |
|---|---|---|---|---|---|
| 2005 | - | 943,286.52 | - | - | 943,286.52 |
| 2006 | - | 1,022,840.80 | - | - | 1,022,840.80 |
| 2007 | - | 1,022,840.80 | - | - | 1,022,840.80 |
| 2008 | - | 1,022,840.80 | - | - | 1,022,840.80 |
| 2009 | 25,000.00 | 1,022,840.80 | - | - | 1,047,840.80 |
| 2010 | 525,000.00 | 1,021,713.30 | - | - | 1,546,713.30 |
| 2011 | 510,000.00 | 996,408.30 | - | - | 1,506,408.30 |
| 2012 | 495,000.00 | 970,806.30 | - | - | 1,465,806.30 |
| 2013 | 485,000.00 | 945,165.30 | - | - | 1,430,165.30 |
| 2014 | 475,000.00 | 919,314.80 | - | - | 1,394,314.80 |
| 2015 | 465,000.00 | 893,626.80 | - | - | 1,358,626.80 |
| 2016 | 455,000.00 | 868,014.60 | - | - | 1,323,014.60 |
| 2017 | 450,000.00 | 842,589.20 | - | - | 1,292,589.20 |
| 2018 | 445,000.00 | 816,057.20 | - | - | 1,261,057.20 |
| 2019 | 440,000.00 | 789,820.00 | - | - | 1,229,820.00 |
| 2020 | 435,000.00 | 763,877.60 | - | - | 1,198,877.60 |
| 2021 | 430,000.00 | 738,230.00 | - | - | 1,168,230.00 |
| 2022 | 425,000.00 | 712,877.20 | - | - | 1,137,877.20 |
| 2023 | 425,000.00 | 687,819.20 | - | - | 1,112,819.20 |
| 2024 | 410,000.00 | 662,761.20 | - | - | 1,072,761.20 |
| 2025 | 795,000.00 | 638,587.60 | - | - | 1,433,587.60 |
| 2026 | 845,000.00 | 590,283.40 | - | - | 1,435,283.40 |
| 2027 | 895,000.00 | 538,941.20 | - | - | 1,433,941.20 |
| 2028 | 950,000.00 | 484,561.00 | - | - | 1,434,561.00 |
| 2029 | 1,005,000.00 | 426,839.00 | - | - | 1,431,839.00 |
| 2030 | 1,065,000.00 | 365,775.20 | - | - | 1,430,775.20 |
| 2031 | 1,130,000.00 | 301,065.80 | - | - | 1,431,065.80 |
| 2032 | 1,200,000.00 | 232,407.00 | - | - | 1,432,407.00 |
| 2033 | 1,275,000.00 | 159,495.00 | - | - | 1,434,495.00 |
| 2034 | 1,350,000.00 | 82,026.00 | - | - | 1,432,026.00 |
| TOTAL | 17,405,000.00 | 21,483,711.92 | - | - | 38,888,711.92 |

## City of Riverside

| Fiscal Year Ending June 30 | Series A-1 Principal | Series A-1 Interest | Series A-2 Principal | Series A-2 Compounded Interest | Total Debt Service |
|---|---|---|---|---|---|
| 2005 | 1,260,000.00 | 4,588,647.25 | - | - | 5,848,647.25 |
| 2006 | 1,125,000.00 | 4,942,251.60 | - | - | 6,067,251.60 |
| 2007 | 1,390,000.00 | 4,906,814.10 | - | - | 6,296,814.10 |
| 2008 | 1,675,000.00 | 4,854,967.10 | - | - | 6,529,967.10 |
| 2009 | 1,990,000.00 | 4,785,622.10 | - | - | 6,775,622.10 |
| 2010 | 2,335,000.00 | 4,695,873.10 | - | - | 7,030,873.10 |
| 2011 | 2,710,000.00 | 4,583,326.10 | - | - | 7,293,326.10 |
| 2012 | 3,120,000.00 | 4,447,284.10 | - | - | 7,567,284.10 |
| 2013 | 3,565,000.00 | 4,285,668.10 | - | - | 7,850,668.10 |
| 2014 | 4,050,000.00 | 4,095,653.60 | - | - | 8,145,653.60 |
| 2015 | 4,575,000.00 | 3,876,629.60 | - | - | 8,451,629.60 |
| 2016 | 5,145,000.00 | 3,624,638.60 | - | - | 8,769,638.60 |
| 2017 | 5,760,000.00 | 3,337,136.00 | - | - | 9,097,136.00 |
| 2018 | 6,440,000.00 | 2,997,526.40 | - | - | 9,437,526.40 |
| 2019 | 7,175,000.00 | 2,617,824.00 | - | - | 9,792,824.00 |
| 2020 | 7,965,000.00 | 2,194,786.00 | - | - | 10,159,786.00 |
| 2021 | 8,815,000.00 | 1,725,169.60 | - | - | 10,540,169.60 |
| 2022 | 9,730,000.00 | 1,205,437.20 | - | - | 10,935,437.20 |
| 2023 | 10,715,000.00 | 631,756.40 | - | - | 11,346,756.40 |
| 2024 | - | - | - | - | - |
| 2025 | - | - | - | - | - |
| 2026 | - | - | - | - | - |
| 2027 | - | - | - | - | - |
| 2028 | - | - | - | - | - |
| 2029 | - | - | - | - | - |
| 2030 | - | - | - | - | - |
| 2031 | - | - | - | - | - |
| 2032 | - | - | - | - | - |
| 2033 | - | - | - | - | - |
| 2034 | - | - | - | - | - |
| TOTAL | 89,540,000.00 | 68,397,010.95 | - | - | 157,937,010.95 |

## UNFUNDED ACCRUED ACTUARIAL LIABILITY TABLE

Following is a table listing the accrued liability, actuarial value of assets and rolled forward unfunded liability for each Local Agency's pension plan. See "PARTICIPATING LOCAL AGENCIES INFORMATION – PERS Pension Plans" in the Official Statement.

| | County of Butte | | County of Kings | City of Daly City | | City of Merced | City of Millbrae | | City of Monterey Park | City of Riverside |
|---|---|---|---|---|---|---|---|---|---|---|
| | Safety Plan | Miscellaneous Plan | Safety Plan | Safety Plan | Miscellaneous Plan | Safety Plan | Safety Plan | Miscellaneous Plan | Safety Plan | Safety Plan |
| Entry Age Normal Accrued Liability (6/30/02) | 51,872,187 | 228,722,348 | 85,432,196 | 129,247,025 | 100,554,045 | 54,441,620 | 38,704,016 | 22,898,788 | 84,836,349 | 381,310,978 |
| Actuarial Value of Assets (6/30/02) | 43,919,098 | 216,691,430 | 76,538,512 | 122,601,881 | 93,213,436 | 48,694,355 | 33,432,123 | 22,476,784 | 69,904,508 | 328,395,034 |
| Unfunded Accrued Liability (6/30/02) | 7,953,089 | 12,030,918 | 8,893,684 | 6,645,144 | 7,340,609 | 5,747,265 | 5,271,893 | 422,004 | 14,931,841 | 52,915,944 |
| 6/30/2004 Rolled Forward Unfunded Liability | 9,160,991 | 23,978,723 | 13,551,748 | 11,710,811 | 12,474,265 | 7,138,378 | 6,354,783 | 1,361,764 | 17,012,841 | 67,343,907 |
| Certified Unfunded Actuarial Liability (6/29/04) | 11,900,000 | 35,200,000* | 18,300,000 | 18,300,000 | 17,300,000 | 10,200,000 | 8,500,000 | 2,700,000 | 21,500,000 | 88,300,000 |

* Does not include Superior Court employees.

Source: CalPERS Annual Actuarial Valuations - June 30, 2002; Bartel Associates, LLC for " Certified Unfunded Actuarial Liability."

# APPENDIX B

# LOCAL AGENCY INFORMATION

This Appendix contains certain information on each Local Agency. Such information is intended to be reviewed in conjunction with the audited financial statements of each Local Agency in Appendix D and the summary financial information in Appendix C. The financial statements for each Local Agency are presented in Appendix D should be read in their entirety.

## Local Agency Certifications and Additional Information

In response to a written due diligence questionnaire, each Local Agency has certified, **subject to certain exceptions noted by such Local Agency described herein**, that the following statements are true and correct to the best knowledge of an officer of such Local Agency. See "Exceptions and Additional Information" below. Each Local Agency's Fiscal Year ends on June 30.

- The Local Agency has not defaulted on a lease or debt obligation in the last 10 years.

- The Local Agency has never failed to comply with any disclosure obligation with respect to securities, including any obligations under SEC Rule 15(c)(2)(12) or a written undertaking.

- There has been no material adverse change in the Local Agency's financial condition since June 30, 2003.

- The Local Agency does not have any sales tax or property tax payers which contribute in excess of 10% of the sales tax or property tax received by the Local Agency during the 2003-04 Fiscal Year.

- Proposition 218 and 62 cannot materially impact any existing or future taxes, fees and assessments collected by the Local Agency.

- No revenues collected by the Local Agency have been challenged under Proposition 218 or 62.

- The Local Agency does not have any funds invested in derivates or reverse repurchase agreements and does not have a leveraged portfolio.

- No major taxpayers are currently delinquent, or expected to be delinquent, in the payment of property taxes, franchise taxes or other taxes to the Local Agency.

- Over the last ten years, the Local Agency has not experienced any significant losses, realized or unrealized, in its investment portfolio as a result of a ratings downgrade, bankruptcy or decline in market value relating to such investments.

- The Local Agency has not recently adopted, and does not plan to adopt, any significant changes in accounting practices that may have a material adverse impact on its finances or the presentation of its finances in its financial statements.

- The Local Agency does not have any major ongoing or expected challenges to assessed property valuations within its boundaries (including any challenges to annual increases in assessed valuation in excess of 2%).

- Since June 30, 2003, the Local Agency has not entered into any long-term lease obligations or issued any debt.

- The loss of motor vehicle license fee revenues, or any proposed item in the State's FY 2004-05 budget, would not result in a significant reduction (greater than 5%) in the Local Agency's discretionary revenues.

- No other conditions or events, including but not limited to labor disputes, litigation or hazardous materials, exist which may adversely affect the finances of the Local Agency.

- The Local Agency does not have any other information which is necessary to make the above statements, in the light of the circumstances under which such statements are made, not misleading.

- The Local Agency has not failed in the last ten (10) years to make its allocated pension funding obligation.

- The Local Agency does not anticipate any significant increase in its liabilities related to post-employment benefits other than pension benefits, including healthcare and life insurance ("OPEB") as a result of GASB's recent proposal to require Local Agencies to (i) recognize the cost of OPEB during the periods employees render the services and (ii) provide relevant information about OPEB obligations.

***Exceptions and Additional Information.*** Certain of the Local Agencies have reported exceptions and additional information in connection with the matters described above. Such exceptions and additional information is described under the Local Agency sections below under the headings "Other Information."

## THE COUNTY OF BUTTE

Set forth below is certain information with respect to the County of Butte ("Butte County" or the "County"). Such information was provided by the County except as otherwise indicated.

### General

Butte County is located in north central California and encompasses approximately 1,665 square miles in the northern portion of the Sacramento Valley. The County is surrounded by the counties of Plumas to the northeast, Tehama to the northwest and Glenn to the west, with Sutter, Yuba and Colusa counties bordering to the south.

Butte County was created in 1850, one of California's original twenty-seven counties, and incorporated as a county in 1865. The City of Oroville serves as the county seat. Butte County is a chartered county divided into five supervisorial districts on the basis of registered voters and population. The County is governed by a five-member Board of Supervisors who serve four-year terms. The Chairman is elected by and from members of the Board.

A Chief Administrative Officer, appointed by the Board of Supervisors, administers county affairs. Other elected county officials include the Assessor, Auditor-Controller, Clerk-Recorder, District Attorney, Sheriff-Coroner, Treasurer-Tax Collector, and Superintendent of Schools.

### Assessed Valuation

The following table sets forth the assessed valuation by category and property type for Fiscal Year 1999-00 through Fiscal Year 2003-04.

**County of Butte**
**Assessed Valuation History By Category And Property Type[1]**
**Fiscal Years 1999-00 Through 2003-04**

| | Secured | Utility | Unsecured | Total Before Rdv. Increment | Unitary Utility |
|---|---|---|---|---|---|
| 1999-00 | $ 9,049,396,442 | $20,077,633 | $523,536,374 | $ 9,593,010,449 | $648,454,447 |
| 2000-01 | 9,507,581,525 | 19,591,858 | 572,349,506 | 10,099,522,889 | 585,521,735 |
| 2001-02 | 9,974,228,528 | 20,289,420 | 596,850,004 | 10,591,367,952 | 524,383,116 |
| 2002-03 | 10,659,245,938 | 18,939,397 | 623,191,997 | 11,301,377,332 | 571,973,306 |
| 2003-04 | 11,387,731,654 | 18,939,909 | 635,802,768 | 12,042,474,331 | 529,503,014 |

Source: California Municipal Statistics, Inc.

## Top Twenty Property Taxpayers

The following table shows the total tax levied against the twenty largest property taxpayers in Butte County for Fiscal Year 2003-04.

**County of Butte**
**Twenty Largest Local Secured Taxpayers**
**2003-04**

| Property Owner | Primary Land Use | 2003-04 Assessed Valuation | Percent of Total [1] |
|---|---|---|---|
| Farmland Reserve Inc. | Agricultural | $35,295,633 | 0.31% |
| Chico Mall Partners LP | Shopping Center | 30,792,980 | 0.27 |
| California Water Service | Water Service | 23,476,652 | 0.21 |
| Sierra Sunrise Senior Village of Chico | Retirement Home | 23,372,302 | 0.21 |
| Western Investment Real Estate Trust | Commercial Store | 23,305,584 | 0.20 |
| Pacific Realty Associates LP | Commercial Store | 20,733,934 | 0.18 |
| Pan Pacific Development LLC | Commercial Store | 19,256,395 | 0.17 |
| Safeway Inc. | Commercial Store | 19,222,584 | 0.17 |
| Evergreen Orchard LLC | Commercial Store | 17,731,680 | 0.16 |
| M&H Realty Partners IV LP | Commercial Store | 17,714,243 | 0.16 |
| Wal-Mart Real Estate Business Trust | Commercial Store | 15,347,501 | 0.13 |
| Merle A. Webb & Sons | Apartments | 14,304,705 | 0.13 |
| Lowes HIW Inc. | Commercial Store | 14,232,060 | 0.12 |
| Gregory L. and Joan R. Webb | Apartments | 13,158,821 | 0.12 |
| Ed and Mary Wittmeier | Commercial Store | 12,789,491 | 0.11 |
| 1661 Forest Avenue Investors | Apartments | 12,448,167 | 0.11 |
| Parrott Investment Co. Inc. | Agricultural | 12,248,347 | 0.11 |
| A&L of Chico LLC | Professional Buildings | 10,777,146 | 0.09 |
| Ceres Plaza Apartments LLC | Apartments | 10,634,800 | 0.09 |
| Paradise Retirement Residence LLC | Retirement Home | 10,353,371 | 0.09 |
| | | $357,196,396 | 3.14% |

[1] 2003-04 Local Secured Assessed Valuation: $11,387,731,654.
Source: California Municipal Statistics, Inc.

## Population

As of January 1, 2004, the population of Butte County was estimated to be 212,700, an increase of 4.7% over the 2000 population of 203,100. The following table shows the population for Butte County for the years 2000 to 2004.

**County of Butte**
**Population**
**As of January 1**

| | |
|---|---|
| 2000 | 203,100 |
| 2001 | 206,100 |
| 2002 | 208,600 |
| 2003 | 210,800 |
| 2004 | 212,700 |

Source: State of California, Department of Finance.

## Labor Market and Unemployment Rate

As of March 2004, the civilian labor force in Butte County reached an estimated 92,300. This is an increase of 6.5% from the 2000 annual average civilian labor force of 86,700. The annual average unemployment rate increased from 7.0% to 8.9% during the same period. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2000 to March 2004.

**Butte County**
**Civilian Labor Force, Employment and Unemployment**
**Annual Average[(1)]**

| | 2000 | 2001 | 2002 | 2003 | 2004[(2)] |
|---|---|---|---|---|---|
| Labor Force | 86,700 | 88,000 | 90,100 | 91,800 | 92,300 |
| Employment | 80,600 | 81,800 | 83,100 | 84,600 | 84,100 |
| Unemployment | 6,100 | 6,200 | 7,000 | 7,200 | 8,200 |
| Unemployment Rate | 7.0% | 7.1% | 7.7% | 7.8% | 8.9% |

(1) Benchmark March 2003; data not seasonally adjusted.
(2) Preliminary data as of March 2004.
Source: State of California, Employment Development Department.

## Major Employers

The following table sets forth the major employers in Butte County.

**Butte County**
**Major Employers**
**As of April 2004**

| Employer | Location | Type of Business |
|---|---|---|
| Aero Union Corp | Chico | Aircraft & Parts |
| Butte Community College | Oroville | Colleges & Universities |
| Butte County Government | Multiple | Government |
| California State University - Chico | Chico | Colleges & Universities |
| Enloe Medical Center | Chico | Hospitals |
| Feather Falls Casino | Oroville | Misc. Amusement, Recreation Services |
| Gold Country Casino | Oroville | Misc. Amusement, Recreation Services |
| Paradise Post | Paradise | Advertising |
| Pro Pacific Fresh | Durham | Groceries & Related Products |
| Roplast Industries Inc. | Oroville | Plastics Materials & Synthetics |

Source: California Employment Development Department.

## Agriculture and Industry

The economy of the County relies heavily on agricultural production and its fertile land supports a variety of cash crops, including rice, almonds, walnuts, dried prunes and timber. The County's industry employers include government, trade, transportation and utilities, and educational and health services. Government is the largest employment sector in the County and trade, transportation and utilities is the second largest. Financial activities has become one of the County's fastest growing industries along with natural resources, mining and construction, growing 35% and 24% respectively since 1998.

The value of agricultural production in the County for 1998 through 2002 is presented in the following table.

**County of Butte**
**Value of Agricultural Production**
**(in 000's)**

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| Field Crops | $ 86,730 | $120,435 | $127,540 | $106,642 | $112,987 |
| Seed Crops | 5,708 | 10,190 | 7,5553 | 5,755 | 6,877 |
| Vegetable Crops | 550 | 575 | 570 | 505 | 490 |
| Fruit & Nut Crops | 105,521 | 112,620 | 138,634 | 121,991 | 149,687 |
| Nursery Stock | 3,610 | 6,400 | 5,961 | 8,555 | 7,178 |
| Apiary Products | 2,404 | 2,277 | 2,515 | 2,377 | 2,260 |
| Livestock, all | 8,797 | 9,330 | 8,573 | 8,800 | 8,018 |
| Timber | 33,360 | 29,484 | 33,484 | 32,878 | 18,056 |
| Grand Total | $246,990 | $291,311 | $324,829 | $287,503 | $305,553 |

Source: Butte County Agricultural Commissioner's Office - 2002 Agricultural Crop Report.

## Litigation

Butte County is a defendant in various lawsuits and is a party to various claims. The County Counsel estimates that the potential claims against Butte County resulting from such litigation would not materially affect the financial condition of Butte County.

## Plans for Future Borrowing

Butte County anticipates issuing approximately $20 million in tax and revenue anticipation notes for the 2004-05 Fiscal Year.

Butte County is in the process of installing 997 kw of photovoltaic cells at a cost of $8.4 million. The first $4.2 million is funded from a grant from PG&E. The remaining $4.2 million is funded through a loan from the California Energy Commission and an internal loan of $1.2 million from the County Treasury. The loans are expected to be paid from the reduction in utility costs resulting from the project over the next 12.5 years. The cells are guaranteed for a 25 year life. Butte County is also considering issuing bonds to advance fund workers compensation in order to move from an insured to a self-insured approach. Butte County has indicated that it does not have current plans for issuing any general obligation debt or certificates of participation or bonds payable from the general fund.

Butte County also anticipates issuing other obligations in the total aggregate principal amount of approximately $28.2 million payable from its general fund around the same time as the Bonds are issued. See "SECURITY AND SOURCE OF PAYMENT – Other Obligations of the Local Agencies" in the Official Statement.

## Other Information

Butte County reports that general fund revenue has been reduced by $2,146,243 or 1.4% of general fund revenues resulting from a loss of vehicle license fee ("VLF") revenue for Fiscal Year 2003-04. However, the County has budgeted for this loss of funds for Fiscal Year 2004-05 and anticipates repayment of these funds by the State in Fiscal Year 2006-07. See "Risk Factors – The Local Government Agreement" in the Official Statement.

## THE COUNTY OF KINGS

Set forth below is certain information with respect to the County of Kings ("Kings County" or the "County"). Such information was provided by the County except as otherwise indicated.

### General

Kings County was created in 1893 from a section of Tulare County. In 1908, one hundred square miles of territory were added to Kings County from Fresno County, bringing Kings County total area to approximately 1,390 square miles. Kings County is bordered by Fresno County to the north, Kern County to the south, Monterey County to the west and Tulare County to the east. There are four incorporated cities in Kings County: Hanford, Lemoore, Corcoran and Avenal.

Kings County is a general law county divided into five supervisorial districts on the basis of registered voters and population. Kings County is governed by a five-member Board of Supervisors, elected by district. Members serve staggered four-year terms, and the chairman is elected by the Board members. Kings County administration includes appointed and elected officials, boards, commissions and committees which assist the Board of Supervisors.

Kings County provides a wide range of services to residents, including public protection, medical and health services, education, library services and public assistance programs.

Kings County is located in the central San Joaquin Valley approximately half way between Los Angeles and San Francisco. The county is served by two major highway systems, Hwy 99 on the east side and Interstate 5 on the west side. Both passenger and freight rail service is available to the area.

### Assessed Valuation

The following table sets forth the assessed valuation by category and property type for Fiscal Year 1999-00 through Fiscal Year 2003-04.

**Kings County**
**Assessed Valuation History By Category And Property Type(1)**
**Fiscal Years 1999-00 Through 2003-04**

| | Local Secured | Non-Unitary Utility | Unsecured | Total Before Rdv. Increment | Total After Rdv. Increment | Unitary Utility |
|---|---|---|---|---|---|---|
| 1999-00 | $3,972,705,669 | $ 7,642,268 | $169,573,943 | $4,149,921,880 | $3,751,746,631 | $203,367,432 |
| 2000-01 | 4,193,898,902 | 7,476,663 | 179,442,883 | 4,380,818,448 | 3,961,200,562 | 188,935,000 |
| 2001-02 | 4,361,636,990 | 7,916,830 | 190,230,838 | 4,559,784,658 | 4,115,094,828 | 170,479,608 |
| 2002-03 | 4,524,292,941 | 7,221,351 | 204,290,156 | 4,735,804,448 | 4,176,142,657 | 186,686,341 |
| 2003-04 | 4,936,822,607 | 167,766,696 | 219,125,112 | 5,323,714,415 | 4,547,754,158 | 189,232,027 |

Source: California Municipal Statistics, Inc.

## Top Twenty Property Taxpayers

The following table shows the total tax levied against the twenty largest property taxpayers in Kings County for Fiscal Year 2003-04.

**County of Kings**
**Twenty Largest Local Secured Taxpayers**
**2003-04**

| Property Owner | 2003-04 Assessed Valuation | Percent of Total[1] |
|---|---|---|
| Leprino Foods Company | $287,716,501 | 5.83% |
| J.G. Boswell Co. | 190,618,728 | 3.86 |
| Del Monte Corporation | 103,713,584 | 2.10 |
| SK Foods LP | 47,970,744 | 0.97 |
| Hanford Mall Partners LP | 39,682,527 | 0.80 |
| Sandridge Partners | 34,672,660 | 0.70 |
| Waste Management Holdings Inc. | 34,494,589 | 0.70 |
| Wasatch Pool Holdings LLC | 24,557,761 | 0.50 |
| Chevron USA Inc. | 19,695,707 | 0.40 |
| International Paper | 19,435,205 | 0.39 |
| Exopack LLC | 17,740,090 | 0.36 |
| Hanford Medical Plaza | 15,139,788 | 0.31 |
| William J. Warmerdam | 14,366,235 | 0.29 |
| CAG 45 Inc. | 12,972,468 | 0.26 |
| Penney Newman Milling LCL | 12,903,139 | 0.26 |
| Centennial Capital LP | 12,800,000 | 0.26 |
| Wal-Mart Real Estate Business Trust | 11,880,658 | 0.24 |
| Calcot Ltd. | 11,380,542 | 0.23 |
| DeJong Investment Group | 11,118,508 | 0.23 |
| Valley View Farms | 10,943,700 | 0.22 |
| | $933,803,134 | 18.92% |

[1] 2003-04 Local Secured Assessed Valuation: $4,936,822,607
Source: California Municipal Statistics, Inc.

## Population

As of January 1, 2004, the population of Kings County was estimated to be 141,400, an increase of 9.8% over the 2000 population of 128,000. The following table shows the population of Kings County for the years 2000 to 2004.

**County of Kings**
**Population**
**As of January 1**

| | |
|---|---|
| 2000 | 128,800 |
| 2001 | 131,600 |
| 2002 | 134,300 |
| 2003 | 137,400 |
| 2004 | 141,400 |

Source: State of California, Department of Finance

## Labor Market and Unemployment Rate

As of March 2004, the civilian labor force in Kings County reached an estimated 49,690. This is an increase of 9% from the 2000 annual average civilian labor force of 45,600. The annual average unemployment rate increased from 14% to 17.1% for the same period. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2000 to March 2004.

**County of Kings**
**Civilian Labor Force, Employment and Unemployment**
**Annual Average[(1)]**

| | 2000 | 2001 | 2002 | 2003 | 2004[(2)] |
|---|---|---|---|---|---|
| Labor Force | 45,600 | 46,100 | 47,300 | 49,200 | 49,690 |
| Employment | 39,200 | 39,700 | 40,400 | 42,000 | 41,200 |
| Unemployment | 6,400 | 6,400 | 6,970 | 7,200 | 8,490 |
| Unemployment Rate | 14% | 13.8% | 14.6% | 14.6% | 17.1% |

(1) Benchmark March 2003; data not seasonally adjusted.
(2) Preliminary data as of March 2004.
Source: State of California, Employment Development Department.

## Major Employers

The following table lists the major employers in Kings County and their type of business, as of April 2004.

**County of Kings**
**Major Employers**
**As of April 2004**

| Employer | Location | Type of Business |
|---|---|---|
| California State Prison | Corcoran | Government |
| Central Valley General Hospital | Hanford | Healthcare |
| Del Monte Corporation | Hanford | Preserved Fruits and Vegetables |
| Double L Contracting | Lemoore | Personnel Supply Services |
| Hanford Community Medical Center | Hanford | Healthcare |
| Hanford Joint High School District | Hanford | Education |
| Palace Bingo | Lemoore | Amusement & Recreation |
| US Naval Air Station | Lemoore | Government |
| Wal-Mart | Hanford | Retail Merchandising |
| Warmerdam Packing | Hanford | Wholesale Groceries & Related Products |

Source: State of California Employment Development Department.

## Agriculture and Industry

Kings County's largest industry employers include government, agriculture and trade, transportation and utilities. Government positions currently account for more than 34% of total employment in Kings County. In agriculture, the second largest industry employment sector, Kings County currently ranks twelfth in the state in terms of agricultural production value. The Tulare Lake Basin area supports extensive cotton and tomato farming operations, and the top five crops by value were milk, cotton and cottonseed, cattle, alfalfa hay and turkeys. In recent years, Kings County has successfully diversified its economy by building upon this strong agricultural base by expanding into the food processing industry with the processing of onions, garlic, cotton, tomatoes and cheese. Jobs in the trade, transportation and utilities employment sector provided approximately 12% of all employment in Kings County, particularly in the area of retail trade.

The following table shows the value of agricultural production for the leading commodities in Kings County for 1999 through 2003.

**County of Kings**
**Value of Agricultural Production**
**(in Thousands)**

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Milk | $317,473 | $293,313 | $361,839 | $303,507 | $325,412 |
| Cotton | 211,477 | 232,100 | 205,707 | 205,353 | 200,071 |
| Cattle and Calves | 51,073 | 62,617 | 66,958 | 66,544 | 103,683 |
| Alfalfa, Hay | 30,907 | 33,928 | 39,028 | 50,186 | 45,807 |
| Turkeys | 46,067 | 30,449 | 36,966 | 33,388 | 30,117 |
| Alfalfa, Seed | 26,085 | - | - | - | - |
| Pistachios | 21,442 | - | 18,271 | 32,237 | 37,744 |
| Tomatoes | 20,538 | 21,899 | 19,610 | 29,045 | 26,495 |
| Wheat | - | 28,993 | 36,146 | 29,039 | 22,525 |
| Peaches | - | 15,559 | 15,687 | 26,848 | 22,121 |
| Corn Silage | 20,840 | 15,556 | 17,801 | 23,709 | 26,460 |
| Grapes | 20,523 | 15,533 | - | - | - |
| Total | $766,425 | $749,947 | $818,013 | $799,856 | $840,435 |

Source: Kings County Agricultural Commissioner, Annual Crop Reports.

## Litigation

Kings County's County Counsel has determined that there are no significant lawsuits or potential claims against Kings County that would materially affect the financial condition of Kings County.

## Plans for Future Borrowing

The County reports that it anticipates issuing certificates of participation by the end of 2004 in an amount not to exceed $8 million for the construction of a new jail facility. The certificates are expected to be repaid by revenues from court penalty assessments, although if the court penalty assessments are insufficient, the Kings County may pay the certificates from moneys in its general fund. Kings County also anticipates issuing municipal lease obligations during the 2003-04 fiscal year in the amount of $2.4 million for energy retrofitting of Kings County buildings.

Kings County also anticipates issuing other obligations in the total aggregate principal amount of approximately $6.9 million payable from its general fund around the same time as the Bonds are issued. See "SECURITY AND SOURCE OF PAYMENT – Other Obligations of the Local Agencies" in the Official Statement.

**Other Information**

Kings County has recently implemented GASB 34 and has indicated that this accounting standard will change the presentation of its financial statements, but will not have a material adverse impact on its financials.

The County's general fund revenue has been reduced by approximately $1.8 million resulting from the loss of vehicle license fee revenue for Fiscal Year 2003-04. The County has budgeted for this reduction and does not expect it to affect its operations for the 2004-05 fiscal year. Kings County anticipates repayment by the State of the VLF reduction in Fiscal Year 2006-07. See "Risk Factors – The Local Government Agreement" in the Official Statement.

Since the last actuarial valuation on June 30, 2002, Kings County has contracted for minor pension benefits enhancements for its fire safety employees.

The audited 2002-03 Annual Financial Report for Kings County has been completed and is attached hereto at Appendix D. The audited 2001-02 Annual Financial Report of Kings County and unaudited financial information for fiscal year 2002-03 that were attached to the Preliminary Official Statement dated June 4, 2004 have been removed.

## CITY OF DALY CITY

Set forth below is certain information with respect to the City of Daly City ("Daly City" or the "City"). Such information was provided by Daly City except as otherwise indicated.

### General

The Daly City is a general law city which was incorporated in 1911. Daly City is located in the north area of San Mateo County, adjacent to the southern boundary of the City and County of San Francisco and 45 miles north of San Jose. There are approximately 7.6 square miles of land included in the Daly City's boundary. Daly City is served by the Bay Area Rapid Transit ("BART") system and is accessible by Interstate 280, U.S. 101 and several state highways. Daly City's BART stations are important transfer points for commuters en route to San Francisco from Peninsula locations and local neighborhoods. Daly City is located within close proximity to the San Francisco International Airport and the Ports of San Francisco and Redwood City. Daly City is also served by the Municipal Railway (MUNI) of San Francisco and the San Mateo County Transit District (SAMTRANS).

Daly City operates under a Council-Manager form of government, whereby policies of the City Council are administered by a City Manager, who is appointed by the City Council. All municipal departments operate under the supervision of the City Manager. The Council consists of five members who are elected at large for four-year overlapping terms. The Council elects one of the Council members to serve as Mayor each year. Municipal services provided by Daly City include police, fire, public works, general government, parks and recreation, sanitary sewer, water, community development, planning, and library.

Daly City is part of the highly urbanized Peninsula, which consists of San Francisco, San Mateo, and Santa Clara counties. Less than 10% of the population is retired, and overall labor force participation is 52%.

Daly City is a significant retail shopping area in San Mateo County. Daly City draws its shoppers from San Francisco and the neighboring communities of North San Mateo County. Two of the most successful regional and community shopping centers in the Bay Area, Serramonte Shopping Center and Westlake Shopping Center, are located in Daly City.

Serramonte Center, an 860,000 square foot regional shopping center located on Interstate 280, was constructed in the early 1970's by Suburban Realty Company. Serramonte Center is anchored by Macy's, Target, Mervyn's and the Good Guys, and has over 140 other retail tenants. Serramonte Plaza, which is adjacent to Serramonte Center, is a mixed-use, office/retail project with Circuit City, Office Depot, Sportmart and Hollywood Video as tenants.

Westlake Shopping Center has over 620,000 square feet of commercial space. This discount center is anchored by Safeway, Walgreen's, Burlington Coat Factory, Hollywood Video, and Trader Joe's.

## Assessed Valuation

The following table shows the assessed valuations for Daly City for fiscal years 1999-00 to 2003-04.

**City of Daly City**
**Assessed Valuations**

| | Secured | Unsecured | Total Before Rdv. Increment | Total After Rdv. Increment |
|---|---|---|---|---|
| 1999-00 | $4,316,612,527 | $122,918,796 | $4,439,531,323 | $4,353,061,708 |
| 2000-01 | 4,638,518,217 | 132,857,473 | 4,771,375,690 | 4,635,562,764 |
| 2001-02 | 5,033,633,048 | 132,101,446 | 5,165,734,494 | 4,983,352,568 |
| 2002-03 | 5,482,283,726 | 148,807,194 | 5,631,090,920 | 5,275,370,770 |
| 2003-04 | 5,990,705,974 | 169,352,103 | 6,160,058,077 | 5,732,350,266 |

Source: California Municipal Statistics, Inc.

## Top Twenty Property Taxpayers

The following table shows the total tax levied against the twenty largest property taxpayers in Daly City for Fiscal Year 2003-04.

**City of Daly City**
**Twenty Largest Local Secured Taxpayers**
**2003-04**

| Property Owner | Primary Land Use | 2003-04 Assessed Valuation | Percent of Total [1] |
|---|---|---|---|
| HPMC Pacific Plaza LLC | Office Building | $122,455,621 | 2.04% |
| Daly City Serramonte Center LLC | Shopping Center | 115,461,354 | 1.93 |
| Kimco Westlake LP | Shopping Center | 80,000,000 | 1.34 |
| John Daly Blvd. Associates LP | Apartments | 56,812,318 | 0.95 |
| Seton Medical Center (2) | Medical Buildings | 56,071,438 | 0.94 |
| Sky Line Heights Apartments LLC | Apartments | 34,262,346 | 0.57 |
| Daly City Partners II LP | Commercial Stores | 28,089,485 | 0.47 |
| Linc Franciscan LP | Mobile Home Park | 27,317,587 | 0.46 |
| Serramonte Corporate Center LLC | Office Building | 21,100,000 | 0.35 |
| Target Corporation, Lessee | Shopping Center | 18,515,422 | 0.31 |
| Serramonte Medical, Lessee | Medical Buildings | 18,437,795 | 0.31 |
| Seagate Buchanan Associates LLC | Office Building | 18,333,157 | 0.31 |
| Bay Apartment Communities Inc. | Apartments | 15,300,346 | 0.26 |
| American Store Properties Inc. | Supermarket | 12,989,184 | 0.22 |
| JS Group LLC | Office Building | 10,949,612 | 0.18 |
| First American Tax Valuation | Apartments | 9,812,151 | 0.16 |
| Citizens S&L Association, Lessee | Office Building | 9,711,855 | 0.16 |
| California State Automobile Association | Office Building | 9,348,467 | 0.16 |
| Shurgard Inc. | Industrial | 8,267,743 | 0.14 |
| Shyam Lodging Group LLC | Hotel | 8,141,105 | 0.14 |
| | | $681,376,986 | 11.37% |

[1] 2003-04 Local Secured Assessed Valuation: $5,990,705,974
Source: California Municipal Statistics, Inc.

## Population

As of January 1, 2004, Daly City's population was estimated to be 103,300, a decrease of .3% from the 2000 population of 103,600. The following table shows the population for Daly City for the years 2000 to 2004.

**City of Daly City**
**Population**
**As of January 1**

| | |
|---|---|
| 2000 | 103,600 |
| 2001 | 103,600 |
| 2002 | 103,300 |
| 2003 | 103,000 |
| 2004 | 103,300 |

Source: State of California, Department of Finance.

## Labor Market and Unemployment Rate

As of March 2004, the civilian labor force in Daly City reached an estimated 51,310. This is a decrease of 7.5% from the 2000 annual average civilian labor force of 55,470. The annual average unemployment rate increased from 2.1% to 5.8% over the same period. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2000 to March 2004.

**City of Daly City**
**Civilian Labor Force, Employment and Unemployment**
**Annual Average[1]**

| | 2000 | 2001 | 2002 | 2003 | 2004[2] |
|---|---|---|---|---|---|
| Labor Force | 55,470 | 54,740 | 53,290 | 51,930 | 51,310 |
| Employment | 54,290 | 52,660 | 49,840 | 48,530 | 48,360 |
| Unemployment | 1,180 | 2,080 | 3,450 | 3,400 | 2,950 |
| Unemployment Rate | 2.1% | 3.8% | 6.5% | 6.5% | 5.8% |

[1] Benchmark March 2003; data not seasonally adjusted.
[2] Preliminary data as of March 2004.
Source: State of California, Employment Development Department.

## Major Employers

The following table shows the major employers in Daly City.

**City of Daly City**
**Major Employers**
**2004**

| Company | Number of Employees |
|---|---|
| Seton Medical Center | 1,580 |
| Jefferson School District | 1,418 |
| City of Daly City | 775 |
| Target Serramonte | 610 |
| U.S. Postal Service | 584 |
| Genesys Telecommunications Lab | 380 |

Source: City of Daly City web site: www.ci.daly-city.ca.us.

## Litigation

Daly City is a defendant in various lawsuits and is a party to various claims. The City Attorney estimates that the potential claims against Daly City resulting from such litigation would not materially affect the financial condition of Daly City.

## Plans for Future Borrowing

The City expects to issue certificates of participation in June 2004 in an amount not to exceed $10.8 million for the purpose of financing other water utility improvements. Payment of the certificates of participation will be secured by future water utility revenues.

## Other Information

The City has received a loan from the State Water Resources Control Board State Revolving Fund in the Amount of $4,437,040 to finance capital improvements to the Tertiary Water Treatment Project of the North San Mateo County Sanitation District (the "District"). The loan is secured from sewer service revenues of the District.

Total vehicle license fees revenues constitute approximately 12% of the City's general fund revenues. The loss of vehicle license fees under the State's current budget proposal would not exceed 5% of the City's general fund revenues.

# CITY OF MERCED

Set forth below is certain information with respect to the City of Merced ("Merced" or the "City"). Such information was provided by Merced except as otherwise indicated.

## General

Merced was incorporated in 1889 and operates as a charter city. Merced is located in the County of Merced (the "Merced County") approximately 131 miles southeast of San Francisco and 275 miles northwest of Los Angeles. Merced is a full service city operating under a council-manager form of government.

Merced has long been a Central California transportation hub. The town was born when the Central Pacific Railroad established a station in 1871, and rail service still plays an important role. With Highway 99 running through the City of Merced, and Interstate 5 on the West side of the county, a substantial portion of all north/south traffic in the state passes through the Merced County. Merced's prime location in the California heartland ensures manufacturers and suppliers rapid and cost-effective access to the West's major markets, via truck, mainline rail, or air service.

Merced's largest industry employment sectors are government, agriculture, manufacturing and retail trade. These four sectors combined provide 71% of the Merced's jobs. Employment in these sectors is expected to grow, especially in the retail trade sector. Industrial expansion is progressing with the sale of over thirty (30) acres in the Airport Industrial Park to several users. Recent industrial developments include the Western Industrial Park, Airport Industrial Park and University Industrial Park. Major tenants include Safeway Food Processing, Quebecor and Malibu Boats.

Merced is also the home of a new campus of the University of California. Merced was selected after an exhaustive seven-year, 80-city site search by university officials. Construction of the new $600 million educational facilities began in 2002 and is targeted for completion in 2005. The new campus will encompass over 500,000 square feet and will house 2,000 students, faculty and staff at its opening. The UC-Merced campus development will provide a major stimulus for the local economy. The new academic community is expected to increase demand for housing in Merced and surrounding areas, and housing starts are currently double the average rate experienced during the 1990's. The addition of the campus will create 3,000 new local jobs by the year 2010, and create an economic benefit of $434 million annually by the time the campus reaches 10,000 students. The University of California will help to make Merced the educational and cultural center of the San Joaquin Valley. Campus theatrical productions, concerts, lectures, exhibits, dances, and workshops, as well as visiting artists and speakers, will benefit the local community. The availability of undergraduate and post-graduate courses will insure that opportunities for continuing education are available to our workforce, and will be of major assistance in attracting new industry and economic growth to the area.

## Assessed Valuation

The following table shows the assessed valuations for Merced for fiscal years 1999-00 to 2003-04.

**City of Merced**
**Assessed Valuations**

| | Secured | Utility | Unsecured | Total Before Rdv. Increment | Total After Rdv. Increment |
|---|---|---|---|---|---|
| 1999-00 | $2,019,662,932 | $7,060,887 | $160,305,537 | $2,187,029,356 | $1,802,847,949 |
| 2000-01 | 2,123,171,394 | 7,011,952 | 154,853,138 | 2,285,036,484 | 1,892,169,720 |
| 2001-02 | 2,201,131,642 | 6,673,878 | 162,524,826 | 2,370,330,346 | 1,953,334,599 |
| 2002-03 | 2,410,877,512 | 5,889,898 | 223,179,317 | 2,639,946,727 | 2,170,472,906 |
| 2003-04 | 2,613,362,863 | 5,836,087 | 228,667,521 | 2,847,866,471 | 2,362,250,572 |

Source: California Municipal Statistics, Inc.

## Top Twenty Property Taxpayers

The following table shows the total property tax levied against the twenty largest property taxpayers in Merced for Fiscal Year 2003-04.

**City of Merced**
**Twenty Largest Local Secured Taxpayers**
**2003-04**

| Property Owner | Primary Land Use | 2003-04 Assessed Valuation | Percent of Total [1] |
|---|---|---|---|
| Quebecor World | Industrial | $113,266,964 | 4.33% |
| Conopco Inc. | Industrial | 45,844,418 | 1.75 |
| Safeway Inc. | Industrial | 30,188,416 | 1.16 |
| Scholle Corporation | Industrial | 26,659,769 | 1.02 |
| Merced Mall Ltd. | Commercial | 13,526,990 | 0.52 |
| California Rental Properties LLC | Apartments | 12,985,447 | 0.50 |
| Lyons Investments, a Partnership | Industrial | 12,607,214 | 0.48 |
| Costco Wholesale Corporation | Commercial | 11,960,000 | 0.46 |
| McLane Company Inc. | Industrial | 10,713,063 | 0.41 |
| Timothy F. and Billie K. Razzari, Co-Trust | Commercial | 10,661,964 | 0.41 |
| Clifford A. and Judith G. Zachman, Trustees | Apartments | 10,253,058 | 0.39 |
| HD Development of Maryland Inc. | Commercial | 9,637,849 | 0.37 |
| Village Landing Partnership | Apartments | 9,500,000 | 0.36 |
| Don and Thelma Irene Gragnani | Agricultural | 8,842,744 | 0.34 |
| Dayton Hudson Corporation | Commercial | 8,229,367 | 0.31 |
| Merced Medical Investment Group | Commercial | 7,660,680 | 0.29 |
| Merced Retirement Residence | Apartments | 7,003,159 | 0.27 |
| Jon J. Campisi | Commercial | 7,000,000 | 0.27 |
| Merced Commons Partnership | Apartments | 6,693,931 | 0.26 |
| James E. and Joyce Raley Teel, Trustees | Commercial | 6,479,973 | 0.25 |
| | | $369,715,006 | 14.15% |

[1] 2003-04 Local Secured Assessed Valuation: $2,613,362,863
Source: California Municipal Statistics, Inc.

## Population

As of January 1, 2004, Merced's population was estimated to be 69,800, a 9.9% increase over the 2000 population of 63,500. The following table shows the population for Merced for the years 2000 to 2004.

**City of Merced**
**Population**
**As of January 1**

| | |
|---|---|
| 2000 | 63,500 |
| 2001 | 64,500 |
| 2002 | 66,500 |
| 2003 | 68,200 |
| 2004 | 69,800 |

Source: State of California, Department of Finance.

## Labor Market and Unemployment Rate

As of March 2004, the civilian labor force in Merced reached an estimated 28,360. This is an increase of 10.8% from the 2000 annual average civilian labor force of 25,590. The annual average unemployment rate increased from 14.4% to 18.2% over the same period. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2000 to March 2004.

**City of Merced**
**Civilian Labor Force, Employment and Unemployment**
**Annual Average[(1)]**

| | 2000 | 2001 | 2002 | 2003 | 2004[(2)] |
|---|---|---|---|---|---|
| Labor Force | 25,590 | 25,350 | 26,600 | 27,260 | 28,360 |
| Employment | 21,910 | 21,790 | 22,780 | 23,260 | 23,210 |
| Unemployment | 3,680 | 3,560 | 3,820 | 4,000 | 5,150 |
| Unemployment Rate | 14.4% | 14.0% | 14.3% | 14.7% | 18.2% |

(1) Benchmark March 2003; data not seasonally adjusted.
(2) Preliminary data as of March 2004.
Source: State of California, Employment Development Department.

## Major Employers

The following table shows the major employers in the City of Merced.

**City of Merced**
**Major Manufacturing and Processing Employers**
**2004**

| Company | Location | Industry |
|---|---|---|
| Quebecor World | Western Industrial Park | Commercial Printing |
| Malibu Boats | Airport Industrial Park | Ski/Wakeboard Boats |
| Werner Company | Airport Industrial Park | Ladders |
| Wellmade | University Industrial Park | Lighting Fixtures |
| Scholle Corporation | Western Industrial Park | Food Packing |

Source: City of Merced.

## Litigation

Merced is a defendant in various lawsuits and is a party to various claims. The City Attorney estimates that the potential claims against Merced resulting from such litigation would not materially affect the financial condition of Merced.

## Other Information

Merced has issued revenue bonds in June 2004 in the aggregate principal amount of $21,000,000 and $8,755,000 in connection with its wastewater system and water system, respectively. These bonds are payable from wastewater system and water system revenues and will not be secured by a pledge on general fund revenues. Additionally, the City has a construction loan with County Bank, the proceeds of which are being used for the installation of water and sewer services to the new University of California - Merced campus. Upon completion of the project, the financing will be converted to permanent financing with the University of California as the obligor.

Based on the Governor's May proposed budget for Fiscal Year 2004-05, Merced could experience a potential loss of revenue of approximately $667,000 which is approximately 2.7% of the City's General Fund revenues.

The City currently pays post-employment health benefits for 153 retirees at an approximate annual cost of $600,000. Current contract commitments require that the City provide heath care insurance for another 420 employees upon their retirement. The City will not have an obligation to provide post-employment health insurance benefits for police officers and sergeants hired after December 31, 2002, white collar workers who are part of AFSCME and hired after December 31, 2003 and members of the Teamsters hired after December 31, 2004.

## CITY OF MILLBRAE

Set forth below is certain information with respect to the City of Millbrae ("Millbrae" or the "City"). Such information was provided by Millbrae except as otherwise indicated.

### General

Millbrae was incorporated in 1948 and operates as a General Law City. The City is located in the County of San Mateo (the "San Mateo County") approximately 15 miles south of San Francisco, 35 miles north of San Jose and adjacent to the San Francisco International Airport ("SFO"). Millbrae is served by the Bay Area Rapid Transit ("BART") system and is accessible by Interstate 280, U.S. 101 and several state highways. Millbrae's BART station is an important inter-modal transfer point with the Caltrain system for commuters en route to SFO from local neighborhoods as well as locations from San Francisco, the Peninsula and the entire Bay Area. Millbrae is located within close proximity to the Ports of San Francisco and Redwood City. Millbrae is a full service city operating under a council-administrator form of government.

### Assessed Valuation

The following table shows the assessed valuations for Millbrae for fiscal years 1999-00 to 2003-04.

**City of Millbrae**
**Assessed Valuations**

| | Secured | Utility | Unsecured | Total Before Rdv. Increment |
|---|---|---|---|---|
| 1999-00 | $1,759,025,348 | $7,492,088 | $50,653,981 | $1,817,171,417 |
| 2000-01 | 1,869,470,464 | 6,638,136 | 50,169,539 | 1,926,278,139 |
| 2001-02 | 2,011,836,711 | 8,338,765 | 56,459,257 | 2,076,634,733 |
| 2002-03 | 2,107,215,515 | 8,309,812 | 52,356,002 | 2,167,881,329 |
| 2003-04 | 2,279,863,221 | 7,105,108 | 54,399,015 | 2,341,367,344 |

Source: California Municipal Statistics, Inc.

## Top Twenty Property Taxpayers

The following table shows the total property tax levied against the twenty largest property taxpayers in the City of Millbrae for Fiscal Year 2003-04.

**City of Millbrae**
**Twenty Largest Local Secured Taxpayers**
**2003-04**

| Property Owner | Primary Land Use | 2003-04 Assessed Valuation | Percent of Total [1] |
|---|---|---|---|
| Westin Bay Hotel Company | Hotel | $ 40,535,625 | 1.78% |
| SLT Realty LP | Hotel | 31,500,000 | 1.38 |
| Magnolia of Millbrae Inc. | Senior Assisted Living | 24,227,458 | 1.06 |
| Marymount Greenhills LLC | Apartments | 18,969,093 | 0.83 |
| Glenborough Pauls Millbrae LLC | Recreational | 12,483,759 | 0.55 |
| Williams Portfolio I | Condominiums | 11,916,256 | 0.52 |
| Townsquare Associates | Apartments | 9,961,255 | 0.44 |
| American Store Properties Inc. | Commercial | 9,735,187 | 0.43 |
| John and Susan C. Wilms | Hotel | 8,182,963 | 0.36 |
| Millbrae Hotels Suites LLC | Hotel | 7,269,389 | 0.32 |
| Green Hills Country Club | Golf Course/Country Club | 6,905,335 | 0.30 |
| World Journal Inc. | Industrial | 6,223,606 | 0.27 |
| Raymond Denardi | Apartments | 6,187,430 | 0.27 |
| EMJP Partners LP | Hotel | 5,772,163 | 0.25 |
| Millbrae Square Company | Shopping Center | 5,756,566 | 0.25 |
| Ramkabir LLC | Hotel | 5,537,432 | 0.24 |
| Paul D. and Nancy Jean Wright | Commercial | 4,968,362 | 0.22 |
| Integrated Storage Properties III LLC | Industrial | 4,551,579 | 0.20 |
| Poplar Apartments LLC | Apartments | 4,463,384 | 0.20 |
| California Lucky Man Enterprises | Commercial | 4,416,680 | 0.19 |
| | | $229,563,522 | 10.07% |

[1] 2003-04 Local Secured Assessed Valuation: $2,279,863,221.
Source: California Municipal Statistics, Inc.

## Population

As of January 1, 2004, the City of Millbrae's population was estimated to be 20,450, a decrease of 1.2% from the 2000 population of 20,700. The following table shows the population for the City of Millbrae for the years 2000 to 2004.

**City of Millbrae**
**Population**
**As of January 1**

| | |
|---|---|
| 2000 | 20,700 |
| 2001 | 20,700 |
| 2002 | 20,600 |
| 2003 | 20,450 |
| 2004 | 20,450 |

Source: State of California, Department of Finance.

As of January 1, 2004 the population for the County of San Mateo was 712,400, a .9% increase over the 2000 population level of 706,300. The following table shows the population for the County of San Mateo for the years 2000 to 2004.

**County of San Mateo**
**Population**
**As of January 1**

| | |
|---|---|
| 2000 | 706,300 |
| 2001 | 709,100 |
| 2002 | 709,900 |
| 2003 | 709,200 |
| 2004 | 712,400 |

Source: State of California, Department of Finance.

### Labor Market and Unemployment Rate

As of March 2004, the civilian labor force in the City of Millbrae reached an estimated 10,380. This is a decrease of 9.0% from the 2000 annual average civilian labor force of 11,410. The annual average unemployment rate increased from 1.2% to 3.4% over the same period. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2000 to March 2004.

**City of Millbrae**
**Civilian Labor Force, Employment and Unemployment**
**Annual Average[1]**

| | 2000 | 2001 | 2002 | 2003 | 2004[2] |
|---|---|---|---|---|---|
| Labor Force | 11,410 | 11,180 | 10,750 | 10,470 | 10,380 |
| Employment | 11,270 | 10,930 | 10,340 | 10,070 | 10,030 |
| Unemployment | 140 | 250 | 410 | 400 | 350 |
| Unemployment Rate | 1.2% | 2.2% | 3.8% | 3.9% | 3.4% |

(1) Benchmark March 2003; data not seasonally adjusted.
(2) Preliminary data as of March 2004.
Source: State of California, Employment Development Department.

As of March 2004, the civilian labor force in the County of San Mateo reached an estimated 366,800. This is a decrease of 8.3% from the 2000 annual average civilian labor force of 400,100. The annual average unemployment rate increased from 1.6% to 4.4% over the same period. The table below lists figures for the civilian labor force and comparative employment level and unemployment rates for the years 2000 to March 2004.

**County of San Mateo**
**Civilian Labor Force, Employment and Unemployment**
**Annual Average[1]**

| | 2000 | 2001 | 2002 | 2003 | 2004[2] |
|---|---|---|---|---|---|
| Labor Force | 400,100 | 393,200 | 380,300 | 370,600 | 366,800 |
| Employment | 393,600 | 381,700 | 361,300 | 351,800 | 350,500 |
| Unemployment | 6,500 | 11,500 | 19,000 | 18,800 | 16,300 |
| Unemployment Rate | 1.6% | 2.9% | 5.0% | 5.1% | 4.4% |

(1) Benchmark March 2003; data not seasonally adjusted.
(2) Preliminary data as of March 2004.
Source: State of California, Employment Development Department.

## Major Employers

The City of Millbrae is a "bedroom" community, and the majority of its residents commute by car, rail or bus to workplaces outside of Millbrae. Millbrae's economic community is a mix of retail, shopping, restaurants, service businesses, hotels and public services. According to the Millbrae Chamber of Commerce, the three largest employers in Millbrae are the Westin Hotel and the Clarion Hotel, both owned by the Starwood Hotel Group, and the El Rancho Inn and Suites. The Westin and the Clarion each employ approximately 100 people and the El Rancho employs between 50-100 people. In addition, there are over 800 licensed businesses in Millbrae and the vast majority of these businesses consist of small retail stores and shops employing less than five people.

The major employers in the County of San Mateo are listed below.

**County of San Mateo**
**Major Employers**
**As of April 2004**

| Employer | Location | Type of Business |
|---|---|---|
| Applied Biosystems Group | Foster City | Professional & Commercial Equipment |
| DPR Construction Inc. | Redwood City | Nonresidential Building Construction |
| Electronic Arts Inc | Redwood City | Computer Programming, Data Processing, and Other Computer Related Services |
| Franklin Templeton | San Mateo | Security Brokers & Dealers |
| Genentech Inc. | South San Francisco | Drugs, Proprietaries & Sundries |
| Mills-Peninsula Medical Center | Burlingame | Hospitals |
| Oracle Corp | Redwood City | Computer Programming, Data Processing and Other computer Related Services |
| Raychem Corp | Menlo Park | Electronic components & Accessories |
| Sequoia Hospital | Redwood City | Hospitals |
| Seton Medical Center | Daly City | Hospitals |
| Siebel Systems Inc. | San Mateo | Computer Programming, Data Processing and Other Computer Related Services |
| SRI International | Menlo Park | Research & Testing Services |
| United Airlines | South San Francisco | Air Transportation |
| UPS | South San Francisco | Freight Transportation |
| Visa International | Foster City | Business Credit Institutions |

Source: California Employment Development Department.

## Litigation

Millbrae is a defendant in various lawsuits and is a party to various claims. The City Attorney estimates that the potential claims against Millbrae resulting from such litigation would not materially affect the financial condition of Millbrae.

## Plans for Future Borrowing

Millbrae has indicated that it does not have any current plans for future borrowings.

## Other Information

The City reports that general fund revenues have been reduced by an estimated $300,000 for Fiscal Year 2003-04 and by an estimated $200,000 for Fiscal Year 2004-05. The City has budgeted for this reduction and has taken steps to reduce expenses.

## CITY OF MONTEREY PARK

Set forth below is certain information with respect to the City of Monterey Park ("Monterey Park" or the "City"). Such information was provided by Monterey Park except as otherwise indicated.

### General

Monterey Park was incorporated in 1916 and operates as a General Law City under the Council-Manager form of municipal government. Monterey Park is located in the County of Los Angeles (the "Los Angeles County") approximately 8 miles east of the City of Los Angeles. The City is a full-service municipal government, offering its residents police, fire and emergency medical protection, water, sewer and refuse collections, public infrastructure improvements, and culture and leisure programming. Striving to blend residence and commerce, Monterey Park maintains 60% of its space for residential living, 11% for industrial, 14% for commercial and retail use, and 15% for schooling and recreational facilities.

### Assessed Valuation

The following table shows the assessed valuations for Monterey Park for fiscal years 1999-00 to 2003-04.

**City of Monterey Park**
**Assessed Valuations**

| | Local Secured | Utility | Unsecured | Total Before Rdv. Increment | Total After Rdv. Increment |
|---|---|---|---|---|---|
| 1999-00 | $2,913,616,911 | $244,321 | $101,623,205 | $3,015,484,437 | $2,623,218,394 |
| 2000-01 | $3,037,523,828 | $530,721 | $99,766,072 | $3,137,820,621 | $2,716,446,812 |
| 2001-02 | $3,212,893,652 | $530,721 | $119,504,643 | $3,332,929,016 | $2,874,292,759 |
| 2002-03 | $3,394,267,023 | $370,275 | $125,783,288 | $3,520,420,586 | $3,031,984,699 |
| 2003-04 | $3,636,302,376 | $362,530 | $95,328,794 | $3,731,993,700 | $3,215,190,263 |

Source: California Municipal Statistics, Inc.

### Top Twenty Property Taxpayers

The following table shows the total property tax levied against the twenty largest property taxpayers in Monterey Park for Fiscal Year 2003-04.

**City of Monterey Park**
**Twenty Largest Local Secured Taxpayers**
**2003-04**

| Property Owner | Primary Land Use | 2003-04 Assessed Valuation | Percent of Total [1] |
|---|---|---|---|
| Arden Realty Finance Partnership | Office Building | $ 47,119,016 | 1.30% |
| Union Bank | Office Building | 38,408,140 | 1.06 |
| Garfield Medical Center Inc. | Medical Buildings | 38,329,903 | 1.06 |
| GMS Five LLC | Shopping Center | 38,065,635 | 1.05 |
| Lloyds Bank of California | Office Building | 30,906,000 | 0.85 |
| Monterey Park Hospital | Hospital | 22,883,077 | 0.63 |
| Mar Investment | Commercial | 18,174,615 | 0.50 |
| Real Estate Investors 1984 1 et. al. | Industrial | 16,110,000 | 0.44 |
| NNN 901 Corporate Center LLC | Commercial | 13,983,111 | 0.38 |
| TSL Development Inc. | Commercial | 12,024,310 | 0.33 |
| Monterey Atlantic Place Partnership | Shopping Center | 11,938,723 | 0.33 |
| Lincoln Plaza Garden Restaurant | Commercial | 11,050,823 | 0.30 |
| Fu Jen Company LLC | Office Building | 10,710,000 | 0.29 |
| Lyte Optronics Inc. | Industrial | 10,072,065 | 0.28 |
| Aespace America Inc. | Commercial | 9,800,000 | 0.27 |
| BCTC Development Corporation | Commercial | 6,988,000 | 0.19 |
| Miller Brothers Coral Circle LLC | Commercial | 6,866,638 | 0.19 |
| Monterey Park Village Associates | Commercial | 6,786,151 | 0.19 |
| Energy First Credit Union | Office Building | 6,692,106 | 0.18 |
| A H A S Inc. | Commercial | 6,331,661 | 0.17 |
| | | $363,239,974 | 9.99% |

[1] 2003-04 Local Secured Assessed Valuation: $3,636,302,376.
Source: Los Angeles County Assessor 2003-04 Secured Tax Rolls.

## Population

As of January 1, 2004, Monterey Park's population was estimated to be 63,900, an increase of 6.7% from the 2000 population of 59,900. The following table shows the population for Monterey Park for the years 2000 to 2004.

**City of Monterey Park**
**Population**
**As of January 1**

| | |
|---|---|
| 2000 | 59,900 |
| 2001 | 61,400 |
| 2002 | 62,600 |
| 2003 | 63,300 |
| 2004 | 63,900 |

Source: State of California, Department of Finance.

As of January 1, 2004, the population for Los Angeles County was estimated at 10,103,100, a 6.5% increase over the 2000 population level of 9,487,400. The following table shows the population for Los Angeles County for the years 2000 to 2004.

**Los Angeles County**
**Population**
**As of January 1**

| | |
|---|---|
| 2000 | 9,487,400 |
| 2001 | 9,661,800 |
| 2002 | 9,822,600 |
| 2003 | 9,966,200 |
| 2004 | 10,103,000 |

Source: State of California, Department of Finance.

## Labor Market and Unemployment Rate

As of March 2004, the civilian labor force in Monterey Park reached an estimated 30,340. This is an increase of 2.1% from the 2000 annual average civilian labor force of 29,720. The annual average unemployment rate increased from 4.4% to 5.1% over the same period. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2000 to March 2004.

**City of Monterey Park**
**Civilian Labor Force, Employment and Unemployment**
**Annual Average[(1)]**

| | 2000 | 2001 | 2002 | 2003 | 2004[(2)] |
|---|---|---|---|---|---|
| Labor Force | 29,720 | 30,380 | 30,400 | 30,370 | 30,340 |
| Employment | 27,700 | 28,950 | 26,680 | 28,590 | 28,800 |
| Unemployment | 1,320 | 1,430 | 1,720 | 1,780 | 1,540 |
| Unemployment Rate | 4.4% | 4.7% | 5.6% | 5.9% | 5.1% |

(1) Benchmark March 2003; data not seasonally adjusted.
(2) Preliminary data as of March 2004.
Source: State of California, Employment Development Department.

As of March 2004, the civilian labor force in Los Angeles County reached an estimated 4,774,700. This is an increase of 2.2% from the 2000 annual average civilian labor force of 4,671,800. The annual average unemployment rate increased from 5.3% to 6.1% over the same period. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2000 to March 2004.

**Los Angeles County**
**Civilian Labor Force, Employment and Unemployment**
**Annual Average[(1)]**

| | 2000 | 2001 | 2002 | 2003 | 2004[(2)] |
|---|---|---|---|---|---|
| Labor Force | 4,671,800 | 4,777,000 | 4,789,800 | 4,788,800 | 4,774,700 |
| Employment | 4,421,900 | 4,506,900 | 4,465,600 | 4,451,700 | 4,484,200 |
| Unemployment | 249,900 | 270,100 | 324,200 | 337,100 | 290,500 |
| Unemployment Rate | 5.3% | 5.7% | 6.8% | 7.0% | 6.1% |

(1) Benchmark March 2003; data not seasonally adjusted.
(2) Preliminary data as of March 2004.
Source: State of California, Employment Development Department.

## Major Employers

The major employers in the City of Monterey Park are listed below.

**City of Monterey Park**
**Major Employers**
**2004**

| Employer | Number of Employees |
|---|---|
| East Los Angeles Community College | 2,988 |
| Union Bank Processing Center | 1,600 |
| United California Bank Processing Center | 1,000 |
| Garfield Medical Center | 896 |
| Los Angeles County Sheriff's Dept. | 791 |
| Los Angeles County Children's Court | 736 |
| Community Development Commission | 500 |

| Employer | Number of Employees |
|---|---|
| City of Monterey Park | 500 |
| Monterey Park Hospital | 374 |
| Southern California Gas Company | 290 |
| Pacific Bell | 281 |
| A T & T Communications | 233 |
| Chinese Daily News | 166 |
| Ralph's Grocery Store (2 Locations) | 143 |
| California Highway Patrol | 131 |
| La Colonial Tortilla Products, Inc. (2 Loc) | 131 |
| Sav-On Drugs (2 locations) | 120 |
| Heritage Manor Healthcare | 96 |
| Southern California Edison Company | 87 |
| Monterey Park Convalescent Hospital | 84 |
| Shun Fat Supermarket | 82 |

Source: City of Monterey Park

## Litigation

Monterey Park is a defendant in various lawsuits and is a party to various claims. The City believes that the potential claims against Monterey Park resulting from such litigation would not materially affect the financial condition of Monterey Park.

## Plans for Future Borrowing

Monterey Park is considering entering into certain lease/purchase agreements for water system improvements and the purchase of major equipment.

## Other Information

In March, 2004, Monterey Park entered into a five-year lease/purchase agreement for $770,000 with LaSalle Bank National Association for the purchase of City vehicles. Additional debt may be issued to fund water system improvements for major equipment purchases.

Monterey Park receives $3,600,000 in vehicle license fees ("VLF") annually which amount to 13.5% of the City's general fund revenues. The estimated loss to Monterey Park for 2004-05 is approximately $546,000, or 2% of the General Fund budget. Monterey Park anticipates repayment by the State of the VLF reduction in Fiscal Year 2006-07. See "Risk Factors – The Local Government Agreement" in the Official Statement.

Monterey Park has indicated that its voters had previously approved certain special retirement property taxes which are available to pay for Monterey Park's pension costs. The special tax will be available to pay debt service on the Bonds. For 2004-05, the projected retirement tax is $3 million.

Monterey Park has one local business taxpayer (an auto dealership) which contributes in excess of 17% of the City's sales tax (it represents a 2.9% General Fund budget) received by the City during the 2003-04 Fiscal Year.

Monterey Park currently pays post-employment health benefits for 189 retirees at an approximate annual cost of $776,000. Current contract commitments require that the City provide healthcare insurance for another 347 full-time employees upon their retirement. The cost of providing benefits to these retirees in the near term is not expected to be significant; the long-term costs of providing benefits to retirees is not presently known.

Proposition 218 and 62 cannot materially impact any existing taxes, fees and assessments collected by the City or the future collection of such taxes at their current rates. They may impact taxes adopted in the future and future increases in taxes.

Monterey Park is currently a party to litigation involving hazardous materials, however, the City does not anticipate any adverse financial effects as a result of this litigation.

Based on historic results and assuming the continued viability of the Court of Appeal decision in *County of Orange v. County of Orange County Assessment Appeals Board No. 2* (the "Orange County Case"), the City does not expect any ongoing or expected challenges to assessed property valuations to have a significant effect on the City’s finances. No evaluation has been made concerning the effect on the City's finances if the Orange County Case is overturned on appeal. See "RISK FACTORS – Recent Litigation Regarding Increase in Assessed Valuation" in the Official Statement for a description of the Orange County Case.

## CITY OF RIVERSIDE

Set forth below is certain information with respect to the City of Riverside ("Riverside" or the "City"). Such information was provided by Riverside except as otherwise indicated.

### General

The City of Riverside is a charter city founded in 1883 and operates under a Council-Manager form of government. Riverside is located in the County of Riverside (the "Riverside County") approximately 60 miles from Los Angeles. The City of Riverside provides is a full range of services to citizens including sewer, water, electric, refuse, police, fire, recreation, parks, airport, museum, libraries and street services.

### Assessed Valuation

The following table shows the assessed valuations for Riverside for fiscal years 1999-00 to 2003-04.

**City of Riverside**
**Assessed Valuations**

| | Secured | Utility | Unsecured | Total |
|---|---|---|---|---|
| 1999-00 | $10,063,942,547 | $ 19,303,745 | $ 630,052,109 | $10,713,298,401 |
| 2000-01 | 10,733,676,024 | 19,124,138 | 682,809,430 | 11,435,609,592 |
| 2001-02 | 11,618,309,751 | 19,366,272 | 795,333,567 | 12,433,009,590 |
| 2002-03 | 12,525,074,163 | 18,111,595 | 972,883,427 | 13,516,069,185 |
| 2003-04 | 13,620,166,707 | 12,843,594 | 835,370,922 | 14,468,381,223 |

Source: California Municipal Statistics, Inc.

### Top Twenty Property Taxpayers

The following table shows the total property tax levied against the twenty largest property taxpayers in the City of Riverside for Fiscal Year 2003-04.

**City of Riverside**
**Twenty Largest Local Secured Taxpayers**
**2003-04**

| Property Owner | Primary Land Use | 2003-04 Assessed Valuation | Percent of Total [1] |
|---|---|---|---|
| Tyler Mall LP | Shopping Center/Mall | $ 142,410,201 | 1.05% |
| State Street Bank & Trust Company of California | Warehouse | 94,846,282 | 0.70 |
| Riverside Healthcare System | Hospital | 94,669,360 | 0.70 |
| Charter Communications Entertainment II | Communications | 60,178,663 | 0.44 |
| Rohr, Inc. | Industrial | 56,706,464 | 0.42 |
| Lyon Corona Pointe | Apartments | 55,799,880 | 0.41 |
| California State Teachers Retirement System | Apartments | 54,359,183 | 0.40 |

| Property Owner | Primary Land Use | 2003-04 Assessed Valuation | Percent of Total [(1)] |
|---|---|---|---|
| Pepsi Bottling Group LLC | Industrial | 48,587,342 | 0.36 |
| Press Enterprise Co. | Industrial | 45,263,011 | 0.33 |
| Mission Grove Park Apartments | Apartments | 43,567,461 | 0.32 |
| Metal Container Corp. | Industrial | 41,423,449 | 0.30 |
| Bryan H. Richter | Apartments | 36,771,000 | 0.27 |
| Ralphs Grocery Co. | Industrial | 35,406,339 | 0.26 |
| University Village | Commercial | 32,904,086 | 0.24 |
| Nordstrom Inc. | Department Store | 30,670,307 | 0.23 |
| Kilroy Realty Square Partnership | Office Building | 28,777,390 | 0.21 |
| Windemere at Sycamore Highlands | Apartments | 28,440,000 | 0.21 |
| Mission Grove Plaza LP | Shopping Center | 27,990,091 | 0.21 |
| Historic Mission Inn Corp. | Hotel | 26,426,884 | 0.19 |
| Dow Jones & Co. Inc. | Industrial | 25,569,296 | 0.19 |
| | | $1,010,766,689 | 7.42% |

(1) 2003-04 Local Secured Assessed Valuation: $13,620,166,707
Source: California Municipal Statistics, Inc.

## Population

As of January 1, 2004, the population for the City of Riverside was estimated to be 277,000, an increase of 9.1% over the 1999 population of 253,800. The following table shows the population for the City of Riverside for the years 2000 to 2004.

**City of Riverside**
**Population**
**As of January 1**

| | |
|---|---|
| 2000 | 253,800 |
| 2001 | 261,700 |
| 2002 | 270,100 |
| 2003 | 276,300 |
| 2004 | 277,000 |

Source: State of California, Department of Finance.

As of January 1, 2004, the population for Riverside County was 1,776,700, a 15.8% increase over the 2000 population level of 1,533,800. The following table shows the population for Riverside County for the years 2000 to 2004.

**Riverside County**
**Population**
**As of January 1**

| | |
|---|---|
| 2000 | 1,533,800 |
| 2001 | 1,586,900 |
| 2002 | 1,648,800 |
| 2003 | 1,719,000 |
| 2004 | 1,776,700 |

Source: State of California, Department of Finance.

### Labor Market and Unemployment Rate

As of March 2004, the civilian labor force in the City of Riverside reached an estimated 177,340. This is an increase of 15.7% from the 2000 annual average civilian labor force of 153,230. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2000 to March 2004.

**City of Riverside**
**Civilian Labor Force, Employment and Unemployment**
**Annual Average[1]**

| | 2000 | 2001 | 2002 | 2003 | 2004[2] |
|---|---|---|---|---|---|
| Labor Force | 153,230 | 159,490 | 168,920 | 173,840 | 177,340 |
| Employment | 144,840 | 151,190 | 158,740 | 163,400 | 167,250 |
| Unemployment | 8,390 | 8,300 | 10,180 | 10,440 | 10,090 |
| Unemployment Rate | 5.5% | 5.2% | 6.0% | 6.0% | 5.7% |

(1) Benchmark March 2003; data not seasonally adjusted.
(2) Preliminary data as of March 2004.
Source: State of California, Employment Development Department.

As of March 2004, the civilian labor force in Riverside County reached an estimated 834,000. This is an increase of 15.7% from the 2000 annual average civilian labor force of 720,700. The table below lists figures for the civilian labor force and comparative unemployment rates for the years 2000 to March 2004.

**Riverside County**
**Civilian Labor Force, Employment and Unemployment**
**Annual Average[1]**

| | 2000 | 2001 | 2002 | 2003 | 2004[2] |
|---|---|---|---|---|---|
| Labor Force | 720,700 | 750,000 | 794,500 | 817,600 | 834,000 |
| Employment | 680,900 | 710,700 | 746,200 | 768,100 | 786,200 |
| Unemployment | 39,800 | 39,300 | 48,300 | 49,500 | 47,800 |
| Unemployment Rate | 5.5% | 5.2% | 6.1% | 6.1% | 5.7% |

(1) Benchmark March 2003; data not seasonally adjusted.
(2) Preliminary data as of March 2004.
Source: State of California, Employment Development Department.

## Major Employers

The following table shows the major employers in the City of Riverside.

**City of Riverside**
**Major Employers**
**2004**

| Company | Number of Employees |
|---|---|
| Riverside County Sheriff's Department | 3,000 |
| Riverside Unified School District | 3,000 |
| Kaiser Permanente Medical Center | 1,600 |
| Alvord Unified School District | 1,269 |
| Press-Enterprise Company | 1,200 |
| Riverside Community College | 918 |
| Riverside Community Hospital | 900 |
| Goodrich | 750 |
| Market Broiler Management Inc. | 600 |
| Riverside City Police Department | 550 |
| Luxfer Gas Cylinders | 540 |
| Fleetwood Enterprises | 500 |
| Johnson Machinery | 500 |
| Pepsi Cola Bottling Group | 500 |
| Riverside County Office of Education | 500 |
| Riverside Medical Clinic | 500 |
| Riverside Public Utilities | 500 |
| SBC | 500 |
| The Historic Mission Inn | 400 |
| Taco Bell/ET Tacos Inc. | 400 |

Source: Greater Riverside Chamber of Commerce, May 2004.

## Litigation

Riverside is a defendant in various lawsuits and is a party to various claims. The City Attorney estimates that the potential claims against Riverside resulting from such litigation would not materially affect the financial condition of Riverside.

## Plans for Future Borrowing

Riverside indicates that two new assessment districts are in the process of formation and will issue bonds upon formation and that another assessment district is in the process of refunding its bonds. These bonds will not be secured by a pledge on general fund revenues.

## Other Information

In December 2003, Riverside completed a $53 million certificate of participation financing to finance various municipal construction and acquisition projects, including a fire station, park improvements, a parking structure, sewer improvements, a police station and a library. These certificates of participation mature in 2033. In early 2004, Riverside completed two bank financings in the aggregate amount of $3.8 in connection with a software project.

Furthermore, voters have also approved general obligation bonds to construct certain fire facilities.

In June 2004, Riverside issued $110 million of Electric Revenue Bonds for generation and distribution facilities. Riverside's Redevelopment Agency recently issued Tax Allocation Bonds in the aggregate principal amount of $7.5 million. These bonds are not secured by a pledge on general fund revenues.

Riverside's Street Light Assessment District revenues were challenged by the Howard Jarvis Tax Payers' Association. Riverside has prevailed with respect to this challenge.

The City reports that the loss of the backfill for reduced motor vehicle license fee revenues could result in a reduction of approximately $11 million or 7% of general fund revenues. See "Risk Factors – The Local Government Agreement" in the Official Statement.

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# APPENDIX C

# SUMMARY HISTORICAL FINANCIAL INFORMATION

| | Butte, County of | | | |
|---|---|---|---|---|
| | 06/30/01 | 06/30/02 | 06/30/03 | 06/30/04 |
| | Audited | Audited | Audited | Estimated |
| *INCOME STATEMENT* | | | | |
| Total Revenues | 116,607,893 | 121,282,126 | 126,667,394 | 134,488,351 |
| Total Expenditures | 102,841,203 | 108,996,401 | 119,992,559 | 150,584,454 |
| Total Other Financing Sources | (7,046,309) | (5,471,288) | (490,410) | |
| Net Income | 6,720,381 | 6,814,437 | 6,184,425 | (16,096,103) |
| Beginning Fund Balance | 14,991,204 | 21,711,585 | 42,489,825 | 48,674,325 |
| Adjustments + Transfers | | 13,963,803 | 75 | |
| Ending Fund Balance | 21,711,585 | 42,489,825 | 48,674,325 | 32,578,222 |
| *BALANCE SHEET* | | | | |
| Total Assets | 31,965,071 | 52,367,858 | 58,117,965 | |
| Total Liabilities | 10,253,486 | 9,878,033 | 9,443,640 | |
| Total Fund Equity | 21,711,585 | 42,489,825 | 48,674,325 | |
| Total Liabilities + Fund Equity | 31,965,071 | 52,367,858 | 58,117,965 | |

| | Daly, City of | | | |
|---|---|---|---|---|
| | 06/30/01 | 06/30/02 | 06/30/03 | 06/30/04 |
| | Audited | Audited | Audited | Estimated |
| *INCOME STATEMENT* | | | | |
| Total Revenues | 47,539,148 | 47,503,230 | 48,656,357 | 57,626,274 |
| Total Expenditures | 41,966,887 | 46,653,688 | 49,762,228 | 57,275,920 |
| Total Other Financing Sources | (2,575,697) | (979,743) | 1,393,465 | |
| Net Income | 2,996,564 | (130,201) | 287,594 | 350,354 |
| Beginning Fund Balance | 29,305,069 | 32,301,633 | 32,171,432 | 32,247,392 |
| Adjustments + Transfers | | | (211,634) | |
| Ending Fund Balance | 32,301,633 | 32,171,432 | 32,247,392 | 32,597,746 |
| *BALANCE SHEET* | | | | |
| Total Assets | 46,677,991 | 47,381,516 | 48,855,431 | |
| Total Liabilities | 14,376,358 | 15,210,084 | 16,608,039 | |
| Total Fund Equity | 32,301,633 | 32,171,432 | 32,247,392 | |
| Total Liabilities + Fund Equity | 46,677,991 | 47,381,516 | 48,855,431 | |

| | Kings, County of | | | |
|---|---|---|---|---|
| | 06/30/01 | 06/30/02 | 06/30/03 | 06/30/04 |
| | Audited | Audited | Audited | Estimated |
| *INCOME STATEMENT* | | | | |
| Total Revenues | 95,875,562 | 104,325,086 | 107,459,166 | 121,300,000 |
| Total Expenditures | 94,479,877 | 104,387,207 | 105,314,546 | 121,300,000 |
| Total Other Financing Sources | (506,121) | (526,000) | 13,571 | |
| Net Income | 889,564 | (588,121) | 2,158,191 | |
| Beginning Fund Balance | 11,054,250 | 12,054,354 | 11,466,233 | 15,165,662 |
| Adjustments + Transfers | 110,540 | | 1,541,238 | |
| Ending Fund Balance | 12,054,354 | 11,466,233 | 15,165,662 | 15,165,662 |
| *BALANCE SHEET* | | | | |
| Total Assets | 12,940,410 | 12,569,592 | 16,763,488 | |
| Total Liabilities | 886,056 | 1,103,359 | 1,597,826 | |
| Total Fund Equity | 12,054,354 | 11,466,233 | 15,165,662 | |
| Total Liabilities + Fund Equity | 12,940,410 | 12,569,592 | 16,763,488 | |

| | Merced, City of | | | |
|---|---|---|---|---|
| | 06/30/01 | 06/30/02 | 06/30/03 | 06/30/04 |
| | Audited | Audited | Audited | Estimated |
| *INCOME STATEMENT* | | | | |
| Total Revenues | 22,990,736 | 24,289,323 | 26,560,958 | 30,928,378 |
| Total Expenditures | 19,666,226 | 20,824,621 | 22,908,931 | 30,928,378 |
| Total Other Financing Sources | (1,461,807) | (1,752,787) | (2,494,271) | |
| Net Income | 1,862,703 | 1,711,915 | 1,157,756 | |
| Beginning Fund Balance | 10,236,108 | 12,098,811 | 13,807,362 | 14,816,933 |
| Adjustments + Transfers | | (3,364) | (148,185) | |
| Ending Fund Balance | 12,098,811 | 13,807,362 | 14,816,933 | 14,816,933 |
| *BALANCE SHEET* | | | | |
| Total Assets | 12,718,790 | 14,502,381 | 15,747,691 | |
| Total Liabilities | 619,979 | 695,019 | 930,758 | |
| Total Fund Equity | 12,098,811 | 13,807,362 | 14,816,933 | |
| Total Liabilities + Fund Equity | 12,718,790 | 14,502,381 | 15,747,691 | |

| | Millbrae, City of | | | |
|---|---|---|---|---|
| | 06/30/01 | 06/30/02 | 06/30/03 | 06/30/04 |
| | Audited | Audited | Audited | Estimated |
| *INCOME STATEMENT* | | | | |
| Total Revenues | 12,931,929 | 11,006,671 | 10,680,424 | 13,312,357 |
| Total Expenditures | 12,447,075 | 12,651,857 | 11,803,163 | 15,121,739 |
| Total Other Financing Sources | (694,418) | 27,014 | 648,584 | |
| Net Income | (209,564) | (1,618,172) | (474,155) | (1,809,382) |
| Beginning Fund Balance | 3,602,589 | 3,393,025 | 1,774,853 | 1,300,698 |
| Adjustments + Transfers | | | | |
| Ending Fund Balance | 3,393,025 | 1,774,853 | 1,300,698 | (508,684) |
| *BALANCE SHEET* | | | | |
| Total Assets | 4,292,142 | 2,453,111 | 2,027,499 | |
| Total Liabilities | 899,117 | 678,258 | 726,801 | |
| Total Fund Equity | 3,393,025 | 1,774,853 | 1,300,698 | |
| Total Liabilities + Fund Equity | 4,292,142 | 2,453,111 | 2,027,499 | |

| | Monterey Park, City of | | | |
|---|---|---|---|---|
| | 06/30/01 | 06/30/02 | 06/30/03 | 06/30/04 |
| | Audited | Audited | Audited | Estimated |
| *INCOME STATEMENT* | | | | |
| Total Revenues | 24,893,366 | 24,709,683 | 25,306,407 | 25,686,001 |
| Total Expenditures | 23,034,647 | 23,748,632 | 24,471,464 | 25,546,471 |
| Total Other Financing Sources | (150,000) | (156,007) | | |
| Net Income | 1,708,719 | 805,044 | 834,943 | 139,530 |
| Beginning Fund Balance | 7,063,765 | 8,772,484 | 9,577,528 | 10,412,471 |
| Adjustments + Transfers | | | | |
| Ending Fund Balance | 8,772,484 | 9,577,528 | 10,412,471 | 10,552,001 |
| *BALANCE SHEET* | | | | |
| Total Assets | 10,206,832 | 11,114,862 | 12,258,201 | |
| Total Liabilities | 1,434,348 | 1,537,334 | 1,845,730 | |
| Total Fund Equity | 8,772,484 | 9,577,528 | 10,412,471 | |
| Total Liabilities + Fund Equity | 10,206,832 | 11,114,862 | 12,258,201 | |

| | Riverside, City of | | | |
|---|---|---|---|---|
| | 06/30/01 | 06/30/02 | 06/30/03 | 06/30/04 |
| | Audited | Audited | Audited | Estimated |
| *INCOME STATEMENT* | | | | |
| Total Revenues | 125,917,000 | 125,495,000 | 129,287,000 | 122,062,571 |
| Total Expenditures | 130,474,000 | 135,994,000 | 145,163,000 | 148,600,423 |
| Total Other Financing Sources | 30,505,000 | 15,138,000 | 18,060,000 | |
| Net Income | 25,948,000 | 4,639,000 | 2,184,000 | (26,537,852) |
| Beginning Fund Balance | 44,189,000 | 70,137,000 | 74,776,000 | 81,738,000 |
| Adjustments + Transfers | | | 4,778,000 | |
| Ending Fund Balance | 70,137,000 | 74,776,000 | 81,738,000 | 55,200,148 |
| *BALANCE SHEET* | | | | |
| Total Assets | 100,928,000 | 111,999,000 | 121,367,000 | |
| Total Liabilities | 30,791,000 | 37,223,000 | 39,629,000 | |
| Total Fund Equity | 70,137,000 | 74,776,000 | 81,738,000 | |
| Total Liabilities + Fund Equity | 100,928,000 | 111,999,000 | 121,367,000 | |

# APPENDIX D

# FINANCIAL STATEMENTS OF LOCAL AGENCIES

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**COUNTY OF BUTTE**
**STATE OF CALIFORNIA**

**INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2003**

## COUNTY OF BUTTE, CALIFORNIA

## AUDIT REPORT
**For the Year Ended June 30, 2003**

Table of Contents

## FINANCIAL SECTION

Gilbert Associates, Inc.
CPAs and Advisors

## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors and Grand Jury
County of Butte
Oroville, California

We have audited the accompanying financial statements of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Butte, California, (the County), as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2003, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and schedules of funding progress and budgetary comparison information on pages 2 through 11 and 49 through 52, respectively, are not a required part of the financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC.**
**November 21, 2003**

2880 Gateway Oaks Dr. • Suite 100 • Sacramento, CA 95833
Phone 916.646.6464 • Fax 916.641.2727
http://www.gilbertcpa.com

# MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the County of Butte's (County) annual financial report, the County management discusses financial results for the fiscal year ended June 30, 2003. It should be read in conjunction with the County's financial statements following this section. All dollar amounts are expressed in thousands in the text and tables unless otherwise indicated.

## I. FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by $427,675 (net assets). Of this amount, $32,421 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by $8,104 during the year.
- As of June 30, 2003, the County's governmental funds reported combined ending fund balances of $75,999, a net increase of $2,589 in comparison with the prior year. This net increase represents an increase of $3,848 in reserved fund balances and a decrease of $1,259 in unreserved fund balances, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was $16,079 or 13.4% of total general fund expenditures.
- The County's total long-term obligations as of June 30, 2003 increased by $4,339 over the prior period. A key factor in the increase was the issuance of the 2003 COPS bonds to refinance the 1993 Justice Facility COPS and the fire trucks capital leases, but the old debt totaling $5,222 was not due and payable until July, 2003, so is still showing as outstanding long-term debt as of June 30, 2003. Other key factors affecting the long-term debt were a capital equipment lease for the Neal Road Landfill for $2,258, and a decrease in the Landfill Closure/Post-Closure calculated liability of $2,954.

## II. OVERVIEW OF THE FINANCIAL STATEMENTS

### A. GASB 34 Financial Report Model

The County of Butte has adopted a financial reporting model that is designed to demonstrate government accountability by presenting both a long-term and a near-term view of its finances. This model is prescribed by Statement Number 34 of the Government Accounting Standard Board (GASB 34). This model is comprised of three parts: 1) Management Discussion and Analysis which provides the financial highlights; 2) The County's basic financial statements, which consist of the Government-Wide financial statements; the Fund financial statements and the Notes to the financial statements; 3) Required Supplementary Information.

### B. Government-Wide Financial Statements

The government-wide financial statements provide an overview of the County's finances, in a manner similar to a private-sector business, that is, using the accrual basis of accounting. They demonstrate accountability of Butte County by showing the extent to ch it has met operating objectives efficiently and effectively, using all resources available, and whether it can continue to do so.

The ***statement of net assets*** presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The ***statement of activities*** presents information on expenses and revenues to show how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported as soon as earned and expenses are reported as soon as incurred even though the related cash flows may not take place until future fiscal periods (e.g., earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities) The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation. The business-type activities of the County include the Butte County Landfill and Butte County Transit Funds.

Certain component units such as county service areas are essentially part of County operations and their financial data are blended in with operational funds of the County.

### C. Fund Financial Statements

The fund financial statements provide evidence of accountability by demonstrating compliance with budgetary decisions made in public forum. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes stipulated by laws, regulations or policies. The funds of the County are divided into three categories: governmental, proprietary and fiduciary.

***Governmental funds*** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The County maintains 142 individual governmental funds. On the financial statements for governmental funds information is presented separately for three major funds: the General Fund, the Welfare Fund and the Road Fund. Data from the other governmental funds are aggregated into a single column.



***Proprietary funds*** are of two types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its central landfill and transit operations. Internal service funds are used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for a variety of services including telephone services, fleet services, insurance, information systems, duplicating, utilities and facilities maintenance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds statements provide the same type of information as the part of government-wide financial statements pertaining to business-type activities, only in more detail. The County's internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements

***Fiduciary funds*** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's programs. In the fiduciary fund category, the County maintains both agencies funds and investment trust funds.

Notes to the Financial Statements

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the information provided in the financial statements.

### D. Required Supplementary Information

In addition to the basic financial statements, this report presents Required Supplementary Information that includes budgetary comparisons for the General Fund and the major funds and combining statements for the aggregated non-major funds.

## III. FINANCIAL ANALYSIS COUNTY-WIDE

**County of Butte's Net Assets**

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 02-03 | 01-02 | 02-03 | 01-02 | 02-03 | 01-02 |
| Current and other assets | 92,588 | 90,904 | 15,419 | 15,445 | 108,007 | 106,349 |
| Capital assets | 358,584 | 368,490 | 6,652 | 3,716 | 365,236 | 372,206 |
| Total assets | 451,172 | 459,394 | 22,071 | 19,161 | 473,243 | 478,555 |
| Current and other liabilities | 13,497 | 14,643 | 942 | 1,342 | 14,439 | 15,985 |
| Long-term liabilities | 23,701 | 18,675 | 7,428 | 8,116 | 31,129 | 26,791 |
| Total liabilities | 37,198 | 33,318 | 8,370 | 9,458 | 45,568 | 42,776 |
| Net assets: | 413,974 | 426,076 | 13,701 | 9,703 | 427,675 | 435,779 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 346,873 | 361,052 | 4,390 | 3,716 | 351,263 | 364,768 |
| Restricted | 43,991 | 50,628 | 0 | 0 | 43,991 | 50,628 |
| Unrestricted | 23,110 | 14,396 | 9,311 | 5,987 | 32,421 | 20,383 |
| Total net assets | 413,974 | 426,076 | 13,701 | 9,703 | 427,675 | 435,779 |

Investment in capital assets net of related debt reflects the County's investment in capital assets (i.e. its land, structures and improvements, infrastructure and equipment). The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets represent resources that are subject to external restrictions on how they may be used.

Unrestricted net assets represent 7.6% of the total net assets and may be used to meet the County's ongoing obligations to citizens and creditors.

Beside the amount invested in capital assets, there are externally imposed debt service reserve and statutory constraints on the use of 100% of the restricted net assets.



The following table presents the activities that accounted for the changes in net assets.

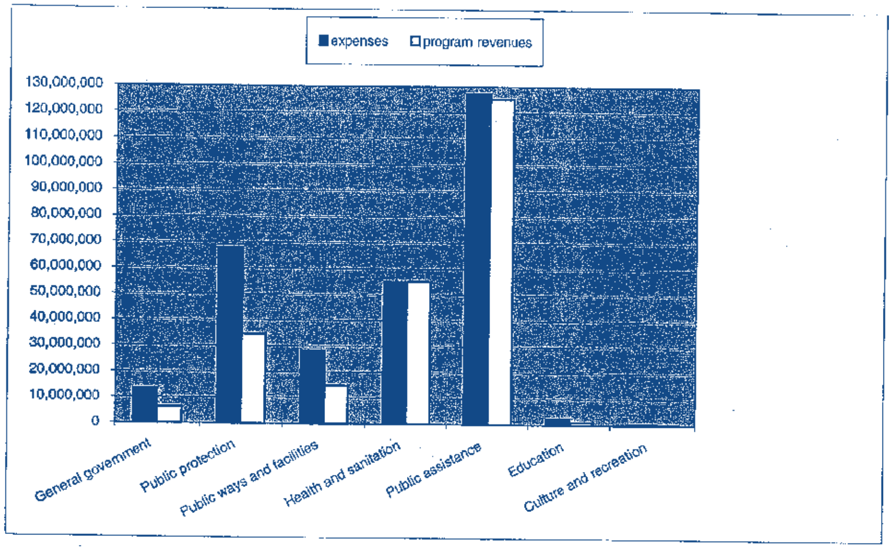
**County of Butte's Changes in Net Assets**

| | Governmental activities | | Business-type activities | | Total | |
|---|---|---|---|---|---|---|
| | 02-03 | 01-02 | 02-03 | 01-02 | 02-03 | 01-02 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | 29,861 | 27,358 | 4,868 | 4,399 | 34,729 | 31,757 |
| Grants & contributions | 207,823 | 208,812 | 2,097 | 1,600 | 209,920 | 210,412 |
| General Revenues: | | | | | 0 | 0 |
| Property taxes | 17,799 | 14,269 | | | 17,799 | 14,269 |
| Other taxes | 6,164 | 6,968 | | | 6,164 | 6,968 |
| Other revenues | 21,645 | 22,632 | 651 | 888 | 22,296 | 23,520 |
| Total revenues: | 283,292 | 280,039 | 7,616 | 6,887 | 290,908 | 286,926 |
| Expenses: | | | | | | |
| General government | 13,404 | 12,073 | | | 13,404 | 12,073 |
| Public protection | 67,876 | 61,196 | | | 67,876 | 61,196 |
| Public ways and facilities | 28,463 | 27,590 | | | 28,463 | 27,590 |
| Health and sanitation | 55,095 | 49,121 | | | 55,095 | 49,121 |
| Public Assistance | 127,500 | 123,119 | | | 127,500 | 123,119 |
| Education | 2,522 | 2,454 | | | 2,522 | 2,454 |
| Culture and recreation | 534 | 430 | | | 534 | 430 |
| Central landfill | | | 1,426 | 4,781 | 1,426 | 4,781 |
| Transit enterprise | | | 2,192 | 1,796 | 2,192 | 1,796 |
| Total expenses: | 295,394 | 275,983 | 3,618 | 6,577 | 299,012 | 282,560 |
| Increase (decrease) in net assets | (12,102) | 4,056 | 3,998 | 310 | (8,104) | 4,366 |
| Beginning net assets | 426,076 | 422,020 | 9,703 | 9,393 | 435,779 | 431,413 |
| Ending net assets | 413,974 | 426,076 | 13,701 | 9,703 | 427,675 | 435,779 |

The following highlights significant factors that affected the governmental and business activities and contributed to the decrease in net assets:

- Governmental Activities accounted for a decrease in net assets of $12,102. This decrease is due primarily from current year depreciation expense of the County's infrastructure (roads and bridges) capital assets exceeding the current year capital outlays for infrastructure by a total of $14,966.

### Expenses and Program Revenues – Governmental Activities




## IV. FINANCIAL ANALYSIS OF FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with budgetary and legal requirements.

***Governmental funds.*** The general government functions are included in the General, Special Revenue, and Capital Project Funds. Included in these funds are the special districts governed by the Board of Supervisors. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

At June 30, 2003, the County's governmental funds reported combined ending fund balances of $75,999. Approximately 39.7% of this total amount ($30,185) constitutes unreserved fund balance, which may be used to meet the County's ongoing general



obligations to citizens and creditors. The remainder of fund balance is reserved to indicate that it is not available for general obligations because it has been committed in the form of prior year obligations (encumbrances), inventories, debt service reserves or the funds have statutory restrictions.

The general fund is the main operating fund of the County. At June 30, 2003, unreserved fund balance of the general fund was $18,581 while total fund balance reached $48,674. As measures of the general fund's liquidity, it is useful to note that unreserved fund balance represents 15.5% percent of total fund expenditures, while total fund balance represents 40.6% percent of that same amount.

The following table presents the revenues from various sources as well as increases or decreases from the prior year in the governmental funds.

**County of Butte**
**Revenues in the Governmental Funds**

| | FY 2003 | | FY 2002 | | Change | |
|---|---|---|---|---|---|---|
| Revenue Sources | Amount | % of total | Amount | % of total | Amount | % of change |
| Taxes | $ 22,754 | 8.1% | $ 21,238 | 7.5% | $ 1,516 | 7.1% |
| Licenses and permits | 3,989 | 1.4% | 3,398 | 1.2% | 591 | 17.4% |
| Fines, forfeitures and penalties | 2,255 | 0.8% | 2,115 | 0.7% | 140 | 6.6% |
| Use of money and property | 3,053 | 1.1% | 3,533 | 1.3% | (480) | -13.6% |
| Intergovernmental | 223,632 | 79.2% | 224,680 | 79.6% | (1,048) | -0.5% |
| Charges for services | 22,705 | 8.0% | 20,092 | 7.1% | 2,613 | 13.0% |
| Other | 3,913 | 1.4% | 5,638 | 2.0% | (1,725) | -30.6% |
| Total | $ 282,301 | 100% | $ 280,694 | 99% | $ 1,607 | 0.6% |

Significant changes for major revenue sources are explained below.

- Taxes – Tax revenues include sales taxes and property taxes. The increase in tax revenues is due to primarily to increased property taxes as well as smaller increases in sales tax and property transfer tax revenues.
- Licenses and Permits – Increased franchise fee revenues as well as increased revenues from construction permits and planning application fees account for most of the increase noted in this revenue category.
- Use of money and property – Reflects decreased market interest rates available. Pooled investment interest earnings for the quarter ended 6/30/03 were 3.79% versus a 4.56% return for the same period one year ago (a decrease of 16.9%)
- Charges for services – The increased charges for services revenues reflects increases from a wide variety of sources. Two significant increases were due to increased services agreements with the Butte County Children's and Families Commission ($600) and increased court – related fees ($400).

Other – Grants and contributions from private funding sources for the South Oroville Community Center accounted for $1,270 of the FY 2002 revenues. Since construction was completed in that year, there were no comparable revenues in the current year.

The following table presents expenditures by function compared to prior year's amounts in the governmental funds.

**County of Butte**
**Expenditures in the Governmental Funds**

| Function | FY 2003 Amount | FY 2003 % of total | FY 2002 Amount | FY 2002 % of total | Change Amount | Change % of change |
|---|---|---|---|---|---|---|
| General government | $ 13,565 | 4.8% | $ 13,294 | 4.7% | $ 271 | 2.0% |
| Public protection | 72,319 | 25.4% | 68,904 | 24.2% | 3,415 | 5.0% |
| Public ways and facilities | 13,942 | 4.9% | 14,798 | 5.2% | (856) | -5.8% |
| Health and sanitation | 54,706 | 19.2% | 48,967 | 17.2% | 5,739 | 11.7% |
| Public assistance | 127,320 | 44.7% | 122,399 | 42.9% | 4,921 | 4.0% |
| Education | 2,596 | 0.9% | 2,324 | 0.8% | 272 | 11.7% |
| Culture and recreation | 630 | 0.2% | 4,066 | 1.4% | (3,436) | -84.5% |
| Total | $ 285,078 | 100% | $ 274,752 | 96% | $ 10,326 | 3.8% |

Significant changes for major functions are explained below.

- Health and sanitation – Behavioral Health expenditures increased by $4,100 and Public Health expenditures by $1,600.
- Culture and recreation – The decrease in this function is due to the completion of the construction of the South Oroville Community Center in FY 2002.

***Proprietary funds.*** The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. These funds include the enterprise funds: Butte County Transit Funds and the County Central Landfill funds; and the internal service funds which are presented in aggregate.

## V. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were $4,164 of increased appropriations funded primarily by additional grant revenues received from State and Federal programs ($3,195) as well as increased charges for services ($1,028).

During the year, actual revenues were less than budgetary estimates by $2,675. Actual expenditures and transfers were less than budgetary estimates by $29, 297. The net effect of under-realization of revenues and under-utilization of appropriations resulted in a favorable variance of $26,622. Although a significant portion of the variance, $6,184,



reflected increases to reserved fund balances, the amount of available general fund balance at fiscal year-end increased by $156 from the prior period, to $18,581.

## VI. CAPITAL ASSETS AND DEBT ADMINISTRATION

### A. Capital Assets

The County's investment in capital assets for its governmental and business type activities as of June 30, 2003, amounts to $365,236 (net of accumulated depreciation). This investment in capital assets includes land, structures and improvements, equipment, construction-in-progress, and some infrastructure. The total decrease in the County's net investment in capital assets for the current period was 01.9% . The decrease resulted from infrastructure depreciation exceeding infrastructure assets acquired by $14,966.

Key events affecting capital assets during the fiscal year included the following:

- GASB 34 requires the County to record infrastructure costs as capital assets. Infrastructure includes the County's road network, bridges, drainage ditches, and sewer systems, if any. As provided for in Statement 34, the County is phasing in the historical costs related to it's infrastructure. Currently, only the roads network includes historical costs and related depreciation. All current year acquisition costs identified for infrastructure have been included. Current year infrastructure acquisitions totaled $4,362 while depreciation was $19,328. Information on other existing infrastructure assets will be provided in the next four fiscal years, as permitted by Government Accounting Standards Board Statement No. 34.
- For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

**County of Butte's Capital Assets**
**(Net of Depreciation)**

| | Governmental activities 2003 | Governmental activities 2002 | Business-type activities 2003 | Business-type activities 2002 | Total 2003 | Total 2002 |
|---|---|---|---|---|---|---|
| Land | 1,680 | 1,215 | 488 | 488 | 2,168 | 1,703 |
| Structures & improvements | 31,853 | 32,415 | 548 | 517 | 32,401 | 32,932 |
| Equipment | 11,188 | 10,158 | 4,984 | 2,711 | 16,172 | 12,869 |
| Infrastructure | 301,304 | 316,270 | | | 301,304 | 316,270 |
| Construction in progress | 12,558 | 8,433 | 632 | | 13,190 | 8,433 |
| Total | 358,583 | 368,491 | 6,652 | 3,716 | 365,235 | 372,207 |

### B. Long-Term Debt

At June 30, 2003, the County had total long-term debt outstanding of $15,021 consisting of $9,345 in Certificates of Participation, capital lease obligations of $4,624, bonds payable of $1,052. Additional long-term liabilities include compensated leave payable of

40, actuarial claims liability of $1,324 for the general insurance ISF, and landfill closure/post closure care liability of $5,145.

Additional information on the County's long-term liabilities can be found in the Notes to the Financial Statements section of this report.

**VII. Fiscal Outlook**

The County adopted it's fiscal year 2003-2004 Final Budget in the total amount of $318,905, with a General Fund Contingency Appropriation of $6,023. While this represents increased financing requirements of $23,771 from the prior year, the General Fund Contingency Appropriation decreased by $1,281. The County is facing a difficult fiscal challenge in the short-term. Although the most critical fiscal uncertainty facing the County continues to be the impact on local government from actions the State of California may take in addressing it's own fiscal problems, large increases in employee benefit and worker's compensation insurance costs will also impact the ability of the County to maintain current service levels.

**VIII. Request for Information**

This financial report is designed to demonstrate accountability by the Butte County government by providing both a long-term and near-term views of the County's finances. Questions or comments regarding any of the information presented in this report or requests for additional financial information should be addressed to the Auditor-Controller, 25 County Center Drive, Oroville, CA 95965.



## BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

# COUNTY OF BUTTE, CALIFORNIA

## STATEMENT OF ACTIVITIES
## FOR THE YEAR ENDED JUNE 30, 2003

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|---|---|---|---|---|---|---|
| **Functions/Programs** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** | **Governmental Activities** | **Business-Type Activities** | **Total** |
| **Primary government:** | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | $ 13,403,744 | $ 5,563,714 | $ 810,692 | | $ (7,029,338) | | $ (7,029,338) |
| Public protection | 67,875,626 | 13,731,788 | 19,832,185 | $ 944,672 | (33,366,981) | | (33,366,981) |
| Public ways and facilities | 28,463,533 | 2,631,921 | 10,887,733 | 1,260,654 | (13,683,225) | | (13,683,225) |
| Health and sanitation | 55,095,207 | 6,391,541 | 48,759,180 | | 55,514 | | 55,514 |
| Public assistance | 127,500,579 | 1,157,862 | 124,167,910 | | (2,174,807) | | (2,174,807) |
| Education | 2,522,005 | 327,068 | 712,109 | | (1,482,828) | | (1,482,828) |
| Culture and recreation | 533,602 | 57,256 | 9,162 | 438,603 | (28,581) | | (28,581) |
| Total governmental activities | 295,394,296 | 29,861,150 | 205,178,971 | 2,643,929 | (57,710,246) | | (57,710,246) |
| Business-type activities: | | | | | | | |
| Sanitation | 1,425,942 | 4,553,286 | 511,827 | | | $ 3,639,171 | 3,639,171 |
| Transit | 2,192,068 | 314,320 | 1,585,564 | | | (292,184) | (292,184) |
| Total business-type activities | 3,618,010 | 4,867,606 | 2,097,391 | | | 3,346,987 | 3,346,987 |
| Total Butte County | $ 299,012,306 | $ 34,728,756 | $ 207,276,362 | $ 2,643,929 | (57,710,246) | 3,346,987 | (54,363,259) |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | | | | | 17,798,624 | | 17,798,624 |
| Sales taxes | | | | | 3,517,481 | | 3,517,481 |
| Special assessments | | | | | 292,941 | | 292,941 |
| Other taxes and related revenues | | | | | 2,353,498 | | 2,353,498 |
| Grants and contributions not restricted to specific programs | | | | | 15,056,401 | | 15,056,401 |
| Unrestricted investment earnings | | | | | 1,587,619 | 632,463 | 2,220,082 |
| Miscellaneous | | | | | 5,008,578 | 18,862 | 5,027,440 |
| Transfers | | | | | (6,906) | | (6,906) |
| Total general revenues and transfers | | | | | 45,608,236 | 651,325 | 46,259,561 |
| Change in net assets | | | | | (12,102,010) | 3,998,312 | (8,103,698) |
| Net assets--beginning of year | | | | | 426,075,956 | 9,703,054 | 435,779,010 |
| Net assets--ending of year | | | | | $ 413,973,946 | $ 13,701,366 | $ 427,675,312 |



...e accompanying notes are an integral part of these financial statements.

# COUNTY OF BUTTE, CALIFORNIA

## STATEMENT OF NET ASSETS
## JUNE 30, 2003

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total |
| **ASSETS** | | | |
| Cash and investments | $ 70,651,824 | $ 14,751,549 | $ 85,403,373 |
| Restricted cash with fiscal agent | 5,974,454 | | 5,974,454 |
| Imprest cash | 89,635 | 1,000 | 90,635 |
| Accounts receivable | 154,533 | 350,619 | 505,152 |
| Due from other governments | 10,989,639 | 190,000 | 11,179,639 |
| Prepaid items | 15,293 | | 15,293 |
| Deposits with others | 2,797 | | 2,797 |
| Inventories | 347,622 | | 347,622 |
| Internal balances | 15,678 | (15,678) | |
| Receivables from external parties | 1,212,464 | 141,938 | 1,354,402 |
| Loans receivable | 3,134,461 | | 3,134,461 |
| Capital assets, net | 358,583,767 | 6,652,339 | 365,236,106 |
| Total assets | 451,172,167 | 22,071,767 | 473,243,934 |
| **LIABILITIES** | | | |
| Accounts payable | 6,230,997 | 444,654 | 6,675,651 |
| Salaries and benefits payable | 2,378,586 | 15,433 | 2,394,019 |
| Deferred revenue | 4,753,273 | 482,152 | 5,235,425 |
| Accrued interest | 133,926 | | 133,926 |
| Long term liabilities: | | | |
| Due within one year | 6,858,664 | 536,922 | 7,395,586 |
| Due in more than one year | 15,518,775 | 1,746,083 | 17,264,858 |
| Claims and judgments | 1,324,000 | | 1,324,000 |
| Landfill closure/post-closure care costs | | 5,145,157 | 5,145,157 |
| Total liabilities | 37,198,221 | 8,370,401 | 45,568,622 |
| **NET ASSETS** | | | |
| Invested in capital assets, net of related debt | 346,872,973 | 4,389,868 | 351,262,841 |
| Restricted | 43,991,120 | | 43,991,120 |
| Unrestricted | 23,109,853 | 9,311,498 | 32,421,351 |
| Total net assets | $ 413,973,946 | $ 13,701,366 | $ 427,675,312 |

The accompanying notes are an integral part of these financial statements.

## BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

# COUNTY OF BUTTE, CALIFORNIA

### BALANCE SHEET
### GOVERNMENTAL FUNDS
### JUNE 30, 2003

| | General Fund | Welfare Fund | Road Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and investments | $ 44,766,365 | $ 3,592,229 | $ 7,677,203 | $ 11,608,412 | $ 67,644,209 |
| Restricted cash with fiscal agent | 4,811,274 | | | 1,163,180 | 5,974,454 |
| Imprest cash | 44,270 | | 100 | 5,265 | 49,635 |
| Due from other funds | 2,194,292 | 250,432 | 131,304 | 2,794,243 | 5,370,271 |
| Accounts receivable | 43,995 | 627 | 4,078 | 2,597 | 51,297 |
| Due from other governments | 6,251,685 | 2,344,274 | 1,477,151 | 916,529 | 10,989,639 |
| Prepaid items | 3,584 | | | 11,140 | 14,724 |
| Deposits from others | 2,500 | | | 297 | 2,797 |
| Inventory | | | 119,333 | | 119,333 |
| Loans receivable | | | | 3,134,461 | 3,134,461 |
| Total assets | $ 58,117,965 | $ 6,187,562 | $ 9,409,169 | $ 19,636,124 | $ 93,350,820 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| Liabilities: | | | | | |
| Due from other funds | $ 2,949,625 | $ 1,184,365 | $ 29,687 | $ 315,608 | $ 4,479,285 |
| Accrued interest payable | 133,476 | | | 450 | 133,926 |
| Accounts payable and accured liabilities | 2,944,054 | 536,829 | 1,001,662 | 1,186,073 | 5,668,618 |
| Salaries and benefits payable | 1,513,570 | 491,480 | 118,849 | 193,184 | 2,317,083 |
| Deferred revenue | 1,902,915 | 2,801,463 | 48 | 48,847 | 4,753,273 |
| Total liabilities | 9,443,640 | 5,014,137 | 1,150,246 | 1,744,162 | 17,352,185 |
| Fund balances: | | | | | |
| Reservered for: | | | | | |
| Encumbrances | 7,257,572 | 1,274,877 | 2,573,001 | 3,456,499 | 14,561,949 |
| Imprest cash | 44,270 | | 100 | 5,265 | 49,635 |
| Deposits with others | 2,500 | | | | 2,500 |
| Loan receivables | | | | 3,134,461 | 3,134,461 |
| General restrictions | 18,132,280 | | 2,639,377 | 1,367,051 | 22,138,708 |
| Debt service | 4,656,265 | | | 1,150,916 | 5,807,181 |
| Inventory | | | 119,333 | | 119,333 |
| Unreserved: | | | | | |
| Designated | 2,502,727 | 65,429 | 548,033 | 4,981,473 | 8,097,662 |
| Undesignated, reported in: | | | | | |
| General fund | 16,078,711 | | | | 16,078,711 |
| Special revenue funds | | (166,881) | 2,379,079 | 5,127,644 | 7,339,842 |
| Capital project funds | | | | (1,331,347) | (1,331,347) |
| Total fund balances | 48,674,325 | 1,173,425 | 8,258,923 | 17,891,962 | 75,998,635 |
| Total liabilities and fund balances | $ 58,117,965 | $ 6,187,562 | $ 9,409,169 | $ 19,636,124 | $ 93,350,820 |

The accompanying notes are an integral part of these financial statements.

# COUNTY OF BUTTE, CALIFORNIA

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS FOR THE YEAR ENDED JUNE 30, 2003

| | | |
|---|---|---|
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Fund balance-total governmental funds | | $ 75,998,635 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of: | | |
| Land | 1,679,979 | |
| Construction in progress | 12,559,230 | |
| Infrastructure, net of $276,101,722 accumulated depreciation | 301,303,860 | |
| Buildings and improvements, net of $12,997,326 accumulated depreciation | 31,852,298 | |
| Equipment, net of $23,236,688 accumulated depreciation | 11,188,400 | |
| Total capital assets | | 358,583,767 |
| Internal service funds are used by the county to charge the cost of liability, malpractice, and worker's compensation insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. | | 3,092,983 |
| Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debit is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities are reported in the statement of net assets. Balances as of June 30, 2003 are: | | |
| Certificates of participation | (9,345,000) | |
| Bonds payable | (1,051,620) | |
| Capital leases | (2,365,795) | |
| Compensated absences | (9,615,024) | |
| Claims and judgments | (1,324,000) | |
| Total long-term liabilities | | (23,701,439) |
| Net assets of governmental activities | | $ 413,973,946 |

The accompanying notes are an integral part of these financial statements.



# COUNTY OF BUTTE, CALIFORNIA

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2003

| | General Fund | Welfare Fund | Road Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Taxes | $ 15,318,304 | | | $ 7,435,489 | $ 22,753,793 |
| Licenses and permits | 3,478,678 | | $ 242,289 | 267,572 | 3,988,539 |
| Fines, forfeits and penalties | 2,094,173 | | | 160,956 | 2,255,129 |
| Revenues from uses of money and property | 1,675,543 | $ 38,296 | 252,513 | 1,086,818 | 3,053,170 |
| Aid from other governments | 82,198,075 | 115,029,592 | 12,148,388 | 14,256,473 | 223,632,528 |
| Charges for services | 18,599,335 | 691,233 | 1,561,261 | 1,853,411 | 22,705,240 |
| Other | 3,303,286 | 76,498 | 134,275 | 398,414 | 3,912,473 |
| Total revenues | 126,667,394 | 115,835,619 | 14,338,726 | 25,459,133 | 282,300,872 |
| **EXPENDITURES:** | | | | | |
| General government | 12,030,003 | | | 1,534,589 | 13,564,592 |
| Public protection | 54,239,020 | 285,069 | | 17,794,690 | 72,318,779 |
| Public ways and facilities | | | 13,644,213 | 298,136 | 13,942,349 |
| Health and sanitation | 52,713,286 | | | 1,993,136 | 54,706,422 |
| Public assistance | 552,312 | 117,258,407 | | 9,509,328 | 127,320,047 |
| Education | 198,345 | | | 2,397,592 | 2,595,937 |
| Recreation and cultural services | 259,593 | | | 370,151 | 629,744 |
| Total expenditures | 119,992,559 | 117,543,476 | 13,644,213 | 33,897,622 | 285,077,870 |
| Excess (deficiency) of revenues over expenditures | 6,674,835 | (1,707,857) | 694,513 | (8,438,489) | (2,776,998) |
| **OTHER FINANCING SOURCES (USES):** | | | | | |
| Sales of fixed asset | 20,528 | 5,858 | 14,339 | 15,224 | 55,949 |
| Operating transfers in | 819,863 | 59,649 | | 5,749,458 | 6,628,970 |
| Operating transfer out | (5,219,459) | | | (1,139,430) | (6,358,889) |
| Capitalized leases | 3,888,658 | | | 1,151,361 | 5,040,019 |
| Total other financing sources (uses) | (490,410) | 65,507 | 14,339 | 5,776,613 | 5,366,049 |
| Net change in fund balances | 6,184,425 | (1,642,350) | 708,852 | (2,661,876) | 2,589,051 |
| Fund balance-beginning of year | 42,489,825 | 2,815,775 | 7,550,071 | 20,553,913 | 73,409,584 |
| Equity transfers | 75 | | | (75) | 0 |
| Fund balance-ending of year | $ 48,674,325 | $ 1,173,425 | $ 8,258,923 | $ 17,891,962 | $ 75,998,635 |

The accompanying notes are an integral part of these financial statements.

## COUNTY OF BUTTE, CALIFORNIA

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2003

| | |
|---|---|
| Amounts reported for governmental activities in the statements of activities are different because: | |
| Net change to fund balance-total governmental funds | $ 2,589,051 |
| Governmental funds reported capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation ($23,331,258) exceeded capital outlays ($12,962,950) in the current period. | (10,368,308) |
| Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets. | |
| Repayments: | |
| To bond, certificate, and note holders | 1,121,253 |
| Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. | (5,150,000) |
| Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. | |
| Compensated absences | (743,431) |
| Internal service funds are used by the County to charge the costs of liability, malpractice, and worker's compensation insurance to individual funds. The net revenue of internal service funds is reported with governmental activities. | 449,425 |
| Change in net assets of governmental activities | $ (12,102,010) |



## COUNTY OF BUTTE, CALIFORNIA

### STATEMENT OF NET ASSETS PROPRIETARY FUNDS JUNE 30, 2003

| | Business-Type Activities-Enterprise Funds | | | Governmental Activities |
|---|---|---|---|---|
| | Transit | Landfill | Total | Internal Service Funds |
| **ASSETS** | | | | |
| Cash and investments | $ 365,536 | $ 14,386,013 | $ 14,751,549 | $ 3,007,615 |
| Imprest cash | | 1,000 | 1,000 | 40,000 |
| Due from other funds | 61,793 | 138,302 | 200,095 | 563,799 |
| Accounts receivable | 171,023 | 179,596 | 350,619 | 103,236 |
| Inventory | | | | 228,289 |
| Prepaid items | | | | 569 |
| Due from other governments | 190,000 | | 190,000 | |
| Capital assets, net | 2,906,774 | 3,745,565 | 6,652,339 | 1,147,866 |
| Total assets | 3,695,126 | 18,450,476 | 22,145,602 | 5,091,374 |
| **LIABILITIES** | | | | |
| Due to other funds | 55,158 | 18,677 | 73,835 | 226,643 |
| Accounts payable | 171,445 | 269,982 | 441,427 | 561,660 |
| Accrued salaries and benefits | | 15,433 | 15,433 | 61,503 |
| Accrued sales tax | 2,351 | 876 | 3,227 | 719 |
| Unredeemed passenger tickets | 50,268 | | 50,268 | |
| Deferred revenue | 431,884 | | 431,884 | |
| Long-term liabilities: | | | | |
| Due within one year | | 536,922 | 536,922 | 316,680 |
| Due in more than one year | | 1,746,083 | 1,746,083 | |
| Claims and judgments | | | | 1,324,000 |
| Landfill closure/post-closure care costs | | 5,145,157 | 5,145,157 | |
| Total liabilities | 711,106 | 7,733,130 | 8,444,236 | 2,491,205 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 2,906,774 | 1,483,094 | 4,389,868 | 1,147,867 |
| Restricted | | | | |
| Unrestricted | 77,246 | 9,234,252 | 9,311,498 | 1,452,302 |
| Total net assets | $ 2,984,020 | $ 10,717,346 | $ 13,701,366 | $ 2,600,169 |

## COUNTY OF BUTTE, CALIFORNIA

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
### PROPRIETARY FUNDS
### FOR THE YEAR ENDED JUNE 30, 2003

| | Business-Type Activities - Enterprise Funds | | | Governmental Activities |
|---|---|---|---|---|
| | Transit | Landfill | Total | Internal Service Funds |
| **OPERATING REVENUES** | | | | |
| Charges for services | | | | $ 15,936,134 |
| Transit fares | $ 314,320 | | $ 314,320 | |
| Landfill fees | | $ 4,531,337 | 4,531,337 | |
| Contractor fees | | 9,000 | 9,000 | |
| Other revenue | 238,167 | 12,949 | 251,116 | 6,555 |
| Total operating revenue | 552,487 | 4,553,286 | 5,105,773 | 15,942,689 |
| **OPERATING EXPENSES** | | | | |
| Administration | 86,229 | 1,093,129 | 1,179,358 | |
| Salaries and employee benefits | | 434,712 | 434,712 | 3,380,503 |
| Service and supplies | | | | 8,602,132 |
| Claims and judgements | | | | 3,274,535 |
| Operation and maintenance | 1,772,520 | 1,682,705 | 3,455,225 | |
| Contractor fees | | 1,066,531 | 1,066,531 | |
| Depreciation | 333,319 | 103,325 | 436,644 | 270,080 |
| Other expenses | | | | 559,235 |
| Landfill closure/post-closure care cost | | (2,954,460) | (2,954,460) | |
| Total operating expenses | 2,192,068 | 1,425,942 | 3,618,010 | 16,086,485 |
| Operating income (loss) | (1,639,581) | 3,127,344 | 1,487,763 | (143,796) |
| **NONOPERATING REVENUE (EXPENSE)** | | | | |
| Intergovernmental | 1,157,397 | | 1,157,397 | 46,444 |
| Interest income (expense) | 24,831 | 607,632 | 632,463 | 152,096 |
| Other income (expense) | 342 | 18,520 | 18,862 | |
| Grants | 190,000 | | | |
| Transfer out | | | | (270,080) |
| Sale of capital asset | | 511,827 | 511,827 | 12,253 |
| Total nonoperating revenue (expense) | 1,372,570 | 1,137,979 | 2,320,549 | (59,287) |
| Net income before capital contributions | (267,011) | 4,265,323 | 3,808,312 | (203,083) |
| Capital contributions | | | | 652,508 |
| Change in net assets | (267,011) | 4,265,323 | 3,808,312 | 449,425 |
| Total net assets-beginning of year | 3,251,031 | 6,452,023 | 9,703,054 | 2,150,744 |
| Total net assets-ending of year | $ 2,984,020 | $ 10,717,346 | $ 13,511,366 | $ 2,600,169 |

The accompanying notes are an integral part of these financial statements.



## COUNTY OF BUTTE, CALIFORNIA

### STATEMENT OF CASH FLOWS
### PROPRIETARY FUNDS
### FOR THE YEAR ENDED JUNE 30, 2003

| | Business-Type Activities-Enterprise Funds | | | Governmental Activities |
|---|---|---|---|---|
| | Transit | Landfill | Total | Internal Service Funds |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | |
| Cash receipt from customers | $ 295,562 | $ 3,777,017 | $ 4,072,579 | $ 16,699,365 |
| Cash paid to suppliers for goods and services | (1,560,064) | (2,267,072) | (3,827,136) | (11,800,651) |
| Cash paid to employees for services | | (410,707) | (410,707) | (3,074,720) |
| Internal activities - payments from (to) other funds | (58,964) | (399,653) | (458,617) | (438,775) |
| Other receipts | 634 | 10,000 | 10,634 | |
| Net cash provided by (used in) operating activities | (1,322,832) | 709,585 | (613,247) | 1,385,219 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:** | | | | |
| Aid from other governmental agencies | 761,184 | 470,992 | 1,232,176 | 35,120 |
| Advances from other funds | | | | (604,991) |
| Transfers | | | | (1,073,564) |
| Non-operating revenues | | 2,332 | 2,332 | 8,182 |
| Net cash provided by (used in) noncapital financing activities | 761,184 | 473,324 | 1,234,508 | (1,635,253) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | | | |
| Proceeds from capital lease | | 2,526,539 | 2,526,539 | |
| Payments related to the acquisition of capital assets | (38,168) | (3,293,443) | (3,293,443) | |
| Principal and interest paid on capital lease | | (268,461) | (268,461) | |
| Net cash used in capital and related financing activities | (38,168) | (1,035,365) | (1,073,533) | |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | |
| Interest received | 32,438 | 625,206 | 657,644 | 143,269 |
| Net increase (decrease) in cash and cash equivalents | (567,378) | 772,750 | 205,372 | (106,765) |
| Cash and cash equivalents, beginning of year | 932,914 | 13,614,263 | 14,547,177 | 3,154,380 |
| Cash and cash equivalents, end of year | $ 365,536 | $ 14,387,013 | $ 14,752,549 | $ 3,047,615 |

The accompanying notes are an integral part of these financial statements.

# COUNTY OF BUTTE, CALIFORNIA

## STATEMENT OF CASH FLOWS
## PROPRIETARY FUNDS
## FOR THE YEAR ENDED JUNE 30, 2003

| | Business-Type Activities-Enterprise Funds | | | Governmental Activities |
|---|---|---|---|---|
| | Transit | Landfill | Total | Internal Service Funds |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) | | | | |
| Operating income (loss) | $ (1,639,581) | $ 3,127,344 | $ 1,487,763 | $ (143,796) |
| Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 333,319 | 103,325 | 436,644 | 270,080 |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in: | | | | |
| Accounts receivable | (37,057) | 280,740 | 243,683 | (46,043) |
| Due from other funds | (54,530) | 277,974 | 223,444 | 1,485,665 |
| Inventory | | | | 42,480 |
| Prepaid expenses and other asses | | | | (569) |
| Increase (decrease) in: | | | | |
| Accounts payable/accrued sales tax/deferred revenue | 21,367 | 110,481 | 131,848 | (299,752) |
| Due to other funds | 53,650 | (255,581) | (201,931) | 56,876 |
| Accrued salaries and benefits | | 10,737 | 10,737 | 9,982 |
| Compensated absences | | 9,025 | 9,025 | (9,704) |
| Landfill closure/post-closure cost | | (2,954,460) | (2,954,460) | |
| Claims and judgments | | | | 20,000 |
| Net cash provided by (used in) operating activities | $ (1,322,832) | $ 709,585 | $ (613,247) | $ 1,385,219 |

The accompanying notes are an integral part of these financial statements.



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## COUNTY OF BUTTE, CALIFORNIA

### STATEMENT OF FIDUCIARY NET ASSETS
### FIDUCIARY FUNDS
### JUNE 30, 2003

| | Investment Trust | Agency Funds |
|---|---|---|
| **ASSETS** | | |
| Cash and investments | $ 193,356,217 | $ 22,808,779 |
| Imprest cash | 7,671 | |
| Due from other funds | 1,482,598 | 357,664 |
| Accounts receivable | 1,111,517 | |
| Property tax receivable | | 7,098,547 |
| Total assets | 195,958,003 | $ 30,264,990 |
| **LIABILITIES** | | |
| Due to other funds | 470,556 | $ 2,724,110 |
| Accounts payable and accrued liabilities | 1,224,391 | 739 |
| Sales tax accrual | 691 | |
| Salaries and benefits payable | 147,966 | |
| Notes payable | 58,109 | |
| Deferred revenue | 82,995 | |
| Agency funds held for others | | 27,540,141 |
| Total liabilities | 1,984,708 | $ 30,264,990 |
| **NET ASSETS** | | |
| Held in trust for pool participants | 193,973,295 | |
| Total net assets | $ 193,973,295 | |

The accompanying notes are an integral part of these financial statements.



## COUNTY OF BUTTE, CALIFORNIA

### STATEMENT OF CHANGES IN NET ASSETS
### INVESTMENT TRUST FUND
### FOR THE YEAR ENDED JUNE 30, 2003

| | |
|---|---|
| Additions: | |
| Contributions to pooled investments | $1,044,945,008 |
| Interest and investment income | 5,056,174 |
| Total additions | 1,050,001,182 |
| Deductions: | |
| Distribution from investment pool | (1,052,344,252) |
| Total deductions | (1,052,344,252) |
| Net decrease | (2,343,070) |
| Net assets, beginning of year | 196,316,365 |
| Net assets, ending of year | $ 193,973,295 |

The accompanying notes are an integral part of these financial statements.

1. **Summary of Significant Accounting Policies**

A. **The Financial Reporting Entity**

The County of Butte (the County), which was incorporated as a County in 1850 as one of the State's original 27 counties, is a legal subdivision of the State of California charged with governmental powers. The County's powers are exercised through a Board of Supervisors which, as the governing body of the County, is responsible for the legislative and executive control of the County. As required by generally accepted accounting principles, these financial statements present the government and its component units, legally separate entities for which the County is considered to be financially accountable.

Blended component units, although legally separate entities, are, in substance, part of the County's operations and so data from these units are combined with data of the primary government. Each blended component unit has a June 30, 2003 year-end.

In evaluating how to define the County for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity."

The Butte County Air Quality Management District (the District) is a blended component unit of the County. The District's Board is composed of seven members, of which five members are the County's Board of Supervisors. Financial statements of the District may be obtained by contacting the District or the County Auditor-Controller's Office.

Based on the criteria established by GASB 14, the reporting entity also includes the following blended component units which are Special Districts under control of the Board of Supervisors:

County Service Area (CSA) – Lighting

Lindo Manor
Rancho De Thunder
East Chico – CSA #14
East Chico – CSA #15
West Chico – CSA #16
North Park
Oro – Quincy Road
Richvale
Oro-Wyandotte
Glen Haven
Chico Rancheria
Durham
Ward Subdivision
Peach Tree Place
Meadow Estates
South Oroville – Las Plumas Park
Stirling City Lighting
Walnut Woods
Woodside
Oak Way Estates
Carriage Manor
Rosewood Subdivision





County Service Area (CSA) – Lighting (continued)

Ramada Street
Olive Glen Estates
Mulberry Street
Stirling City
Morris Subdivision
Almond Grove West
Lassenwood Subdivision

CSA – Drainage & Lighting

East and Guynn
Quail Run
Big Chico Creek Estates CSA #7921 and #7922
Lindo West
Lakeridge Village
Silvertree Subdivision
Stony Brook
Sacramento Avenue Estates
Carriage Estates Subdivision
Holly Gardens
Meadowlark Acres
Black Oaks Subdivision
El Verano
Walnut Grove Units 1 & 2
Young & Hobart Subdivision
Pearman Subdivision
Pistachio Grove Subdivision
Macintosh Avenue
South Fork Estates
Alamo East Subdivision
Willow Bend Subdivision
West Chico Estates
Westwood Lane Subdivision
Wildflower Estates Subdivision
Orchard House Estates
Ceres Avenue Subdivision
Baker's Dozen Subdivision
Featherview Estates

CSA – Drainage

Sierra Del Oro
Keefer Road/Rock Creek
North Chico
Pleasant Valley
Chico – Mud Creek
Shasta Union
Copley Acres
Oro Monte Estates

CSA – Sewer

Oakridge
Stirling City
Mountain Oaks Subdivision
Reorganization Webb Home
Keefer Creek

CSA – Lighting & Maintenance

Vista Del Cerro
Crestwood
Lindo Gardens
Joshua Tree
Joshua Tree #2

CSA – Drainage & Lighting
(continued)

Oak Way Park
Daily
Marigold Estates
Shastan, Inc.
Forebay Vista Subdivision
Laurelwood Estates
Canyon Ranch Estates
Pheasant Landing Subdivision

Other

Valley Oaks Subdivision
Southgate Acres Drainage and Fire Protection
Thermalito Sewer and Drainage
Sycamore Valley Sewer and Lighting
Gridley – Biggs Ambulance
Vallombrosa Lighting and Fire Hydrant
Biggs Swimming Pool – Recreation
Gridley Swimming Pool – Recreation
County of Butte – Nitrate Study Plan
Walnut Manor
Durham-Dayton Industrial Partners for Extended Structural Fire Protection
Forrest Young
Biggers Subdivision
Ishi Valley Estates
Thorntree Industrial Park
County of Butte – Animal Control
Justin Manor Subdivision
Keefer Creek Estates Lighting, Drainage and Sewer

Excluded from the Reporting Entity

Local Board Governed Districts and School Districts: These potential component units have been excluded from the reporting entity. They are legally separate primary governmental units. The financial reporting for these governmental entities, which are independent of the County, are limited to the total amount for cash and investments and the related fiduciary responsibilities of the County for disbursement of these assets. Activities of school districts and local board governed districts are administered by boards which are separately elected and which are independent of the County Board of Supervisors. The following local board governed districts and school districts have been excluded from the County's financial statements:





Protection to Persons & Property

El Medio Fire District
Maintenance Area #5
Maintenance Area #7
Maintenance Area #13
Maintenance Area #16

Cemetery

Bangor Cemetery
Gridley-Biggs Cemetery
Kimshew Cemetery
Oroville Cemetery
Paradise Cemetery
Pine Creek Cemetery
Thompson Flat Cemetery
Upham Cemetery

Recreation

Chico Area Recreation & Park
Durham Recreation & Park
Feather River Recreation & Park
Paradise Recreation & Park
Richvale Recreation & Park

Drainage

Butte Creek Drainage
Drainage District #1
Drainage District #2
Drainage District #100
Drainage District #200
Reclamation District #833
Rock Creek Reclamation District

Other Districts

Butte County Association of Governments
School Districts
Butte County Fair

Health & Sanitation

Butte County Mosquito Abatement
Durham Mosquito Abatement
Oroville Mosquito Abatement
Richvale Sanitary Operating
Richvale Sanitary – Bond & Interest Redemption

These entities have separate elected boards and provide services to residents, generally within the geographic boundaries of the County. In addition, these entities are excluded from the reporting entity because they are not financially accountable to the County.

## B. Basis of Presentation

*Government-Wide Financial Statements*

The statement of net assets and statement of activities display information about the primary government (the County) and its blended component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function, and allocated indirect expenses. Interest expense related to long term debt is reported as a direct expense. The total amount of interest charged to expense for the year ended June 30, 2003 was $461,046. Program revenues include 1) fees, fines and charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

*Fund Financial Statements*

The fund financial statements provide information about the County's funds, including fiduciary funds and blended component units. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are separately aggregated and reported as other governmental funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The County reports the following major governmental funds:

- The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the County that are not accounted for through other funds. For the County, the General Fund includes such activities as public protection, public ways and facilities, health and sanitation, public assistance, education and recreation services.





- The *Welfare Fund* was established to account for the activities of the Butte County Department of Employment and Social Services. The department administers the CalWorks program, Adult and Children's Protection Services and various other State, Federal and local assistance programs.

- The *Road Fund* was established to account for the construction and maintenance of the County's roads and bridges.

The County reports the following major enterprise funds:

- The *Transit Fund* was established to account for the County's share of costs in providing transit and transit related services to the citizens of Butte County in both the unincorporated and incorporated areas of the County.

- The *Landfill Fund* was established to account for the County's costs of providing landfill and related waste disposal services to the citizens of Butte County in both the unincorporated and incorporated areas of the County.

The County reports the following additional fund types:

- *Internal Service Funds* are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County on a cost-reimbursement basis.

- The *Investment Trust Fund* accounts for the assets of legally separate entities that deposit cash with the County Treasurer in an investment pool, which commingles resources in the investment portfolio for the benefit of all participants. These entities include school and community college districts, other special districts governed by local boards, regional boards and authorities and pass through funds for tax collections for cities.

- The *Agency Funds* are custodial in nature and do not involve measurement of the results of operations. Such funds have no equity accounts since all assets are due to invidiuals or entities at some future time. These funds account for assets held by the County as an agent for other government units.

## C. Basis of Accounting

The government-wide, proprietary, and investment trust fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financial sources.

When both restricted and unrestricted net assets are available, unrestricted resouces are used only after the restricted resources are depleted.

For its proprietary funds, the County has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), are accounting principles generally accepted in the United States of America.

D. **Cash and Cash Equivalents**

For purposes of the accompanying statement of cash flows – Proprietary Funds, the County considers all highly liquid investments with a maturity of three months or less when purchased, and their equity in the County Treasurer's investment pool, to be cash equivalents.

E. **Inventories and Prepaid Items**

Inventories are valued at cost, which is determined on a first-in, first-out basis, and consist primarily of expendable supplies held for consumption. The cost is recorded as an expenditure when the items are used. In the governmental funds balance sheet, there is a reservation of fund balance equal to the inventory balance as these amounts are not available for appropriation.





Payments made for services that will benefit future accounting periods are recorded as prepaid items. In the governmental fund types, there is a reservation of fund balance equal to the amount of prepaid items, since these amounts are not available for appropriation.

F. **Property Taxes**

Property taxes attach as an enforceable lien on January 1. Secured taxes are levied on July 1 and are payable in two installments due by December 10 and April 10. All general property taxes are then allocated by the County Auditor-Controller's Office to the various taxing entities per the legislation-implementing Proposition 13. The method of allocation used by the County is subject to review by the State of California.

Alternative Method of Distribution of Tax Levies

The County utilizes the alternative method of property tax distribution, whereby the County, through the legally required Tax Resource Agency Fund purchases the current secured unpaid taxes remaining at year-end from participating agencies. In return, the Tax Resource Agency Fund records a tax receivable and receives the delinquent secured taxes. The Tax Loss Reserve Agency Fund receives delinquent penalties and redemption interest accruing to delinquent collections related to participating agencies. The participating agencies, including the County, the special districts, and the school districts, in turn, receive their full tax distribution with no liability for uncollected taxes to the Tax Resource Agency Fund. Therefore, for participating agencies, revenue is measurable and available and is recorded in the period the payment of current secured unpaid taxes is received.

The County is required to create a tax loss reserve fund (an agency fund) under one of two alternative methods: 1) one percent of the total amount of taxes and assessments levied on the secured roll for the year or 2) twenty-five percent of the total delinquent secured taxes and assessments as calculated at the end of the fiscal year. The County is using twenty-five percent of the delinquent secured taxes to establish its tax loss reserve.

G. **Loans Receivable**

Loans receivable relate to the Housing and Community Development Program funded by federal and state monies. Loans receivable are collateralized by deeds of trust. Proceeds from the collection of the loans receivable and resale of assets held for sale are restricted by the terms of the grant and, accordingly, are offset by a fund balance reserve which indicates that they do not constitute available spendable resources. No amount has been provided as an allowance for doubtful accounts because in the opinion of management all material amounts are fully collectible.

### H. Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are valued at their estimated fair market value on the date contributed. Capital assets include public domain (infrastructure) general fixed assets consisting of certain improvements including roads, bridges, water/sewer, lighting system, drainage systems, and flood control. The County defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and the proprietary funds.

The estimated useful lives are as follows:

| | |
|---|---|
| Infrastructure (except for the maintained pavement subsystem) | 20 to 50 years |
| Structures and improvements | 20 to 50 years |
| Equipment | 3 to 25 years |

The County has five networks of infrastructure assets – roads, water/sewer, lighting, drainage, and flood control. The County has the option of phasing in the historical costs related to it's infrastructure. Currently, the road network has been included in the County's capital assets at historical cost and related depreciation. In future years, the remaining networks will be added to capital assets. All current year acquisition costs identified for infrastructure have been included.

### I. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.



COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

### J. Interfund Receivables and Payables

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and 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 the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

### K. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 2. Cash and Investments

Total cash and investments held in the Treasury are pooled for investment purposes. Cash with fiscal agent is held outside the Treasury and is not pooled with other cash and investments.

Total County deposits and investments are as follows:

| | |
|---|---|
| Cash and investments | $ 301,568,369 |
| Restricted cash with fiscal agent | 5,974,454 |
| Imprest Cash | 98,306 |
| | $ 307,641,129 |

The County maintains a Cash and Investment Pool (Pool) that is available for use by all County funds and agencies outside of the County reporting entity participate in the Pool. The participation of these agencies is involuntary, except for the Butte County Fair. The agencies participating in the Investment Trust Fund are Superior Court, Butte County Fair, Autonomous Special Districts, Schools, School Bonds, and the Butte County Association of Governments.

The fair value of investments in the Pool is determined monthly based upon quoted market prices. The Pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by the California Government Code Section 27143. The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2003 to support the values of shares in the Pool. However, management believes that the investments in the Pool are of high quality and that the risk of participation in the Pool is negligible. At June 30, 2003, the difference between the cost and fair value of cash and investments was not material and approximates fair value. Therefore, an adjustment to fair value was not made for GASB 31 compliance.

The Pool values participants' shares on an amortized cost basis. Specifically, the Pool distributes income to participants quarterly based on their relative participation during the month which is calculated based on (1) realized investment gains and losses computed on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This method differs from the fair value method used to value investments in these financial statements because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair value of the Pool's investments. Investment income related to investments reported in certain funds is assigned to other funds based upon legal or contractual provisions.

Deposits

All deposits are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure a County's deposits by pledging governmental securities as collateral. The market value of pledged securities must equal at least 110% of a County's deposits. California law also allows financial institutions to secure a County's deposits by pledging first trust deed mortgage notes having a value of 150% of a County's total deposits. The County may waive collateral requirements for deposits, which are fully insured up to $100,000 by the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2003, the carrying amount of the County's cash deposits in the Treasury (including amounts in checking and non-negotiable certificates of deposit) was $17,872,363 and the bank balance was $14,244,407. The difference between carrying amount of the County's deposits and the bank balance is a result of transactions in transit including $3,696,270 in outstanding warrants. Of the bank balances, $200,000 was covered by federal depository insurance and $14,044,407 was collateralized (i.e., collateralized with securities held by pledging financial institutions at 110% of the investments, but not in the County's name).





Investments

The California Government Code authorizes the County to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Recorder's, non-negotiable certificates of deposit, bankers' acceptances, repurchase agreements, negotiable certificates of deposit, obligations of the State of California, obligations of local agencies within California, corporate notes, mutual funds, financial futures, financial option contracts and the State Treasurer's Local Agency Investment Fund. The County is also authorized to enter into reverse repurchase agreements; however, the County did not enter into such agreements during the year ended June 30, 2003.

Cash and investments with fiscal agent consists of reserve funds in the General Fund and Other Government Funds of $5,974,454 for debt service. The funds are held by a third party custodian in accordance with the terms of debt or trust agreements.

The pooled treasury's pro-rata share of investment in the State Treasurer's Local Agency Investment Fund (LAIF) at June 30, 2003 is $110,770,000. The total amount invested by all public agencies in LAIF is $55.71 billion. Of this amount, 100 percent was invested in non-derivative financial products, and 0 percent in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the pooled treasury's portion in the pool.

Credit Risk, Carrying Amount, and Fair Values of Investments

Investments of the County are summarized below. The investments that are represented by specific identifiable investment securities are classified as to custodial credit risk by three categories as follows:

**Category 1** – includes investments that are insured or registered, or for which securities are held by the County or its agent in the County's name;

**Category 2** – includes uninsured and unregistered investments for which the securities are held by the counterparty trust department or agent in the County's name;

**Category 3** – includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name.

| | Maturity Date | Stated Interest Rates | Carrying Amount |
|---|---|---|---|
| Category 1 Investments: | | | |
| U.S. Government Agencies | 8/18/03 – 6/5/08 | 3.25% - 7.25% | $ 190,530,619 |
| Corporate and Other Notes | 11/13/03 | 5.625% | 3,980,065 |
| Total Investments Subject to Categorization | | | 194,510,684 |
| Local Certificates of Deposit | | | 500,000 |
| Local Agency Investment Fund | | | 110,770,000 |
| Cash in Bank | | | 17,372,363 |
| Cash on Hand | | | 37,594 |
| Total Treasury | | | 323,190,641 |
| Outstanding Warrants | | | (21,690,074) |
| Cash Deposits – Outside Accounts | | | 67,802 |
| Total Cash and Investments | | | $ 301,568,369 |

The following are condensed statements of net assets and changes in net assets, for the County's investment pool as of and for the year ended June 30, 2003:

Statement of Net Assets

| | |
|---|---|
| Net assets held for pool participants | $ 301,568,369 |
| Equity of internal pool participants | $ 107,595,074 |
| Equity of external pool participants | 193,973,295 |
| Total Equity | $ 301,568,369 |

Statement of Changes in Net Assets

| | |
|---|---|
| Net assets at July 1, 2002 | $ 301,162,700 |
| Net Change in investment by pool participants | 405,669 |
| Net Assets at June 30, 2003 | $ 301,568,369 |





3. **Interfund Transactions**

**Interfund Receivables/Payables**

The composition of interfund balances as of June 30, 2003 are as follows:

***Balances due to/from other funds:***

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General | Welfare | $ 1,117,629 |
| | Road | 4,295 |
| | Other Governmental | 98,368 |
| | Transit | 839 |
| | Landfill | 4,989 |
| | Internal Service | 82,364 |
| | Trust and Agency | 885,808 |
| | | 2,194,292 |
| Welfare | General | 122,698 |
| | Other Governmental | 93,925 |
| | Internal Service | 20,059 |
| | Trust and Agency | 13,750 |
| | | 250,432 |
| Road | General | 40,966 |
| | Other Governmental | 7,821 |
| | Internal Service | 1,869 |
| | Landfill | 13,092 |
| | Trust and Agency | 67,556 |
| | | 131,304 |
| Other Governmental | General | 2,489,667 |
| | Other Governmental | 478 |
| | Internal Service | 101,906 |
| | Trust and Agency | 202,192 |
| | | 2,794,243 |
| Transit | General | 2,245 |
| | Internal Service | 29 |
| | Transit | 54,319 |
| | Trust and Agency | 5,200 |
| | | 61,793 |

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| Landfill | General | $ 1,453 |
| | Internal Service | 112 |
| | Trust and Agency | 136,737 |
| | | 138,302 |
| Internal Service | General | 288,094 |
| | Welfare | 66,736 |
| | Road | 25,274 |
| | Other Governmental | 115,003 |
| | Landfill | 596 |
| | Internal Service | 15,928 |
| | Trust and Agency | 52,168 |
| | | 563,799 |
| Trust and Agency | General | 4,502 |
| | Road | 118 |
| | Other Governmental | 13 |
| | Internal Service | 4,375 |
| | Trust and Agency | 1,831,254 |
| | | 1,840,262 |
| | Total | $ 7,974,427 |

***Transfers to/from other funds:***

| Transfer From | Transfer To | Amount |
|---|---|---|
| General Fund | Other Governmental | $ 5,159,810 |
| Other Governmental | General Fund | 819,863 |
| General Fund | Welfare Fund | 59,649 |
| Internal Service Fund | Other Governmental | 270,080 |
| Other Governmental | Other Governmental | 319,568 |
| | Total | $ 6,628,970 |





## 4. Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

| | Balance July 1, 2002 | Additions | Retirements | Transfers & Adjustments | Balance June 30, 2003 |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| **Capital assets, not being depreciated:** | | | | | |
| Land | $ 1,215,258 | $ 508,221 | | $ (43,500) | $ 1,679,979 |
| Construction in progress | 8,432,895 | 4,874,366 | | (748,031) | 12,559,230 |
| Total capital assets, not being depreciated | 9,648,153 | 5,382,587 | | (791,531) | 14,239,209 |
| **Capital assets, being depreciated:** | | | | | |
| Infrastructure | 577,125,069 | 4,361,592 | $ (4,081,079) | | 577,405,582 |
| Structures and improvements | 44,547,169 | 23 | | 302,432 | 44,849,624 |
| Equipment | 32,444,366 | 3,927,761 | (2,460,653) | 513,615 | 34,425,088 |
| Total capital assets, being depreciated | 654,116,604 | 8,289,376 | (6,541,732) | 816,047 | 656,680,294 |
| **Less accumulated depreciation for:** | | | | | |
| Infrastructure | (260,855,301) | (19,327,500) | 4,081,079 | | (276,101,722) |
| Structures and improvements | (12,132,410) | (864,916) | | | (12,997,326) |
| Equipment | (22,287,143) | (2,973,170) | 1,974,609 | 49,017 | (23,236,688) |
| Total accumulated depreciation | (295,274,854) | (23,165,586) | 6,055,680 | 49,017 | (312,335,736) |
| Total capital assets, being depreciated, net | 358,841,750 | (14,876,210) | (486,044) | 865,064 | 344,344,558 |
| Government activities capital assets, net | $ 368,489,903 | $ (9,493,623) | $ (486,044) | $ 73,533 | $ 358,583,767 |
| **Business-Type Activities** | | | | | |
| **Capital assets, not being depreciated:** | | | | | |
| Land | $ 488,133 | | | | $ 488,133 |
| Construction in progress | | $ 632,412 | | | 632,412 |
| Total capital assets, not being depreciated | 488,133 | 632,412 | | | 1,120,545 |
| **Capital assets, being depreciated:** | | | | | |
| Structures and improvements | 796,286 | 138,173 | $ (28,004) | | 906,455 |
| Equipment | 3,869,153 | 2,636,592 | (6,005) | | 6,499,740 |
| Total capital assets, being depreciated | 4,665,439 | 2,774,765 | (34,009) | | 7,406,195 |
| **Less accumulated depreciation for:** | | | | | |
| Structures and improvements | (279,488) | (79,583) | | | (359,071) |
| Equipment | (1,158,269) | (357,061) | | | (1,515,330) |
| Total accumulated depreciation | (1,437,757) | (436,644) | | | (1,874,401) |
| Total capital assets, being depreciated, net | 3,227,682 | 2,338,121 | (34,009) | | 5,531,794 |
| Business-Type activities capital assets, net | $ 3,715,815 | $ 2,970,533 | $ (34,009) | $ | $ 6,652,339 |

Depreciation expense was changed to functions as follows:

| | |
|---|---|
| **Governmental Activities:** | |
| General government | $ 336,830 |
| Public protection | 2,232,773 |
| Public ways | 19,654,343 |
| Health and sanitation | 286,840 |
| Public assistance | 441,354 |
| Education | 105,455 |
| Recreation | 107,991 |
| Total | $ 23,165,586 |
| **Business-Type Activities:** | |
| Transit | $ 333,319 |
| Sanitation | 103,325 |
| Total | $ 436,644 |

5. **Long-Term Debt**

A. **Summary of Long-Term Debt**

The following is a summary of changes in long-term debt:

| | Balance July 1, 2002 | Additions | Deletions | Balance June 30, 2003 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| Capital lease obligation | $ 2,998,067 | $ 74,886 | $ 707,158 | $ 2,365,795 | $ 1,346,916 |
| Bonds payable | 1,109,309 | | 57,689 | 1,051,620 | 67,942 |
| Compensated absences | 8,823,608 | 791,416 | | 9,615,024 | 1,248,806 |
| Certificates of participation | 4,440,000 | 5,150,000 | 245,000 | 9,345,000 | 4,195,000 |
| Total Governmental Activities Long-Term Liabilities | $ 17,370,984 | $ 6,016,302 | $ 1,009,847 | $ 22,377,439 | $ 6,858,664 |
| **Business-Type Activities:** | | | | | |
| Compensated absences | $ 15,902 | $ 9,025 | | $ 24,927 | |
| Capital Lease Obligation | | 2,526,539 | $ 268,461 | 2,258,078 | $ 536,922 |
| Total Business-Type Activities Long-Term Liabilities | $ 15,902 | $ 2,535,564 | $ 268,461 | $ 2,283,005 | $ 536,922 |





B. **Capital Lease Obligations**

The County leases equipment under capital leases. The following is a summary, by year, of future minimum lease payments, together with the present value of the minimum lease payments, as of June 30, 2003:

| Year Ending June 30, | Governmental Activities | Business-Type Activities |
|---|---|---|
| 2004 | $ 1,507,458 | $ 536,922 |
| 2005 | 384,371 | 536,922 |
| 2006 | 374,951 | 536,922 |
| 2007 | 363,094 | 536,922 |
| 2008 | | 268,461 |
| Total minimum lease payments | 2,629,874 | 2,416,149 |
| Less: Amount representing interest | (264,079) | (158,071) |
| Present value of minimum lease payments | $ 2,365,795 | $ 2,258,078 |

The following is a schedule of net reamainng property leased under capital leases at June 30, 2003:

| | Acquisition Value | Accumulated Depreciation |
|---|---|---|
| Governmental Activities: | | |
| Energy Management Facility | $ 2,555,775 | $ 306,693 |
| Vehicles | 132,450 | 25,923 |
| 5 Hi-Tech Fire Engines | 1,418,499 | 217,474 |
| Business-Type Activities: | | |
| Caterpillar Equipment | 2,526,539 | 55,744 |

C. **Bonds Payable**

At June 30, 2003, bonds outstanding consist of the following Butte County Service Area No. 26 bonds:

| | |
|---|---|
| 1974 Sewer Bonds | $ 365,000 |
| 1975 Sewer Bonds, Series A | 430,000 |
| 1975 Sewer Bonds, Series B | 210,000 |
| 1975 Sewer Bonds, Series C | 46,620 |
| Total | $ 1,051,620 |

The bonds bear interest at the rate of five percent per annum which is payable semi-annually. Principal payments are due January 1 of each year through 2015. The debt service requirements over the next five years and thereafter, are as follows.

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2004 | $ 67,942 | $ 50,885 | $ 118,827 |
| 2005 | 73,089 | 46,444 | 119,533 |
| 2006 | 73,244 | 43,701 | 116,945 |
| 2007 | 73,406 | 40,035 | 113,441 |
| 2008 | 83,576 | 36,110 | 119,686 |
| 2009-2013 | 465,749 | 158,715 | 624,464 |
| 2014-2015 | 214,614 | 10,860 | 225,474 |
| | $ 1,051,620 | $ 386,750 | $ 1,438,370 |

D. **Compensated Absences**

Upon termination, an employee may be compensated for sick leave amounts accrued over 240 hours at half the normal pay rate not to exceed $3,000. Upon retirement, County employees have a one time option of cashing out their accrued sick leave or electing post retirement health insurance benefits up to age 65. If an employee has 10 years of cumulative service, the County will pay health insurance benefits for 12 months plus 1 month for every 8 hours in excess of 240 hours accrued sick leave (employee coverage only). Vacation is accrued at varying rates depending on an employee's years of services. Upon termination, an employee is paid at 100% of the amount accrued. Compensated absences for vacation are paid out at the employee's current rate of pay. Administrative leave is accrued by employees exempt from paid overtime and may be accrued up to a maximum of 352 hours.

E. **Certificates of Participation**

The County issued 1993 Certificates of Participation totaling $5,515,000 for the construction of a new justice facility project. Interest rates range from 3.8% to 5.5% and the certificates fully mature in 2014. Interest payments began in July 1995, payments of principal and interest began in July 1996 and are funded by penalty assessments on court fines, parking fines and assessments. Shortfalls in assessment and fine revenues are funded by the other General Fund revenues. The balance of the 1993 Certificates of Participation were paid off in July of 2003.





On June 30, 2003, the County issued $5,150,000 in Certificates of Participation (COP's) with interest rates ranging from of 2.0% to 3.4% to advance refund $4,195,000 of outstanding 1993 COP's and $1,026,882 of outstanding lease obligations for fire trucks with interest rates ranging from 3.8% to 5.5%. The net proceeds of $5,091,245 (after payment of $166,950 in underwriting fees, insurance, and other issuance costs) plus an additional $883,208 of 1993 COP's reserve fund monies were used to purchase U.S. government securities. The 1993 COP's were pre-called and proceeds were provided for all future debt service payments on the 1993 COP's and fire trucks. Payoff of the 1993 COP's and fire trucks occurred on July 1, 2003. As a result, the 1993 COP's are considered to be defeased but the liability for those bonds will be removed from the general long-term debt account group in the following year.

The County's advance refunded the 1993 Certificate of Participation to reduce its total debt service payments over the next 12 years by almost $94,448 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $335,626.

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2004 | $ 4,195,000 | $ 64,115 | $ 4,259,115 |
| 2005 | 610,000 | 121,423 | 731,423 |
| 2006 | 620,000 | 109,122 | 729,122 |
| 2007 | 630,000 | 96,623 | 726,623 |
| 2008 | 640,000 | 83,922 | 723,922 |
| 2009-2013 | 1,835,000 | 269,357 | 2,104,357 |
| 2014-2015 | 815,000 | 27,565 | 842,565 |
| | $ 9,345,000 | $ 772,127 | $10,117,127 |

6. **Landfill Closure and Post-closure Costs**

State and federal laws and regulations require the County to place a final cover on its Neal Road landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $5,145,157 reported as landfill closure and post-closure care liability at June 30, 2003, represents the cumulative amount reported to date based on the use of 29.57 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of $12,295,603 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2003. The County expects to close the landfill in the year 2018. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a separate fund to finance closure and postclosure care. The County is in compliance with these requirements, and at June 30, 2003, investments of $5,616,885 are held for these purposes. The County expects the future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

Annually, the Landfill adjusts the estimated closure and postclosure costs due to changes in inflation and capacity. At June 30, 2003, total estimated costs for closure and postclosure increased from $17,211,434 at June 30, 2002 to $17,400,760 and the remaining capacity of the landfill increased from 26.33 percent to 29.57 percent at June 30, 2002 and 2003, respectively. These changes resulted in a reduction to the landfill closure and postclosure care liability of $2,954,460 at June 30, 2003.

## 7. Net Assets/Fund Balances

### Net Assets

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the net asset balance.

- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Assets* – This category represents net assets of the County, not restricted for any project or other purpose.

### Fund Balances

In the fund financial statements, governmental funds report reserves and designations to segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions.

The term "reserved" is used to indicate the portion of fund balance that is (1) legally restricted to a specific use or (2) not available for appropriation or expenditure. The County's management will sometimes designate portions of unreserved (available) fund balance based on tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned.





The County has "reserved" fund balances as follows:

- *Reserve for Encumbrances* reflects the outstanding contractual obligations based on purchase order and contracts signed by the County but not yet completed as of the close of the fiscal year.

- *Reserve for Imprest Cash* represents the portion of the fund balance that is not available for expenditure because the County maintains various levels of revolving funds for daily operations.

- *Reserve for Deposits with Others* reflects the portion of the fund balance that is not available for expenditure because of the restrictions placed on the fund in order to obtain certain guarantees.

- *Reserve for Loans Receivable* reflects a segregation of a portion of fund balance to indicate that assets equal to the long-term Housing and Community Development loans are not available for appropriation.

- *Reserve for Legal Restrictions* represents the portion of fund balance legally restricted to a narrower use than the fund itself.

- *Reserve for Debt Service* represents cash and investments held by a fiscal agent for the repayment of long-term capital lease obligations.

- *Reserve for Inventories* reflects balances of inventory account which reflect resources already expended, but not consumed.

## 8. County Employees Retirement Plan (Defined Benefit Pension Plan)

### Plan Description

The County contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS provides retirement and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions and all other requirements are established by state statute and County ordinance. Copies of CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

### Funding Policy

Employees under the Miscellaneous Plan are required to contribute 7% and employees under the Safety Plan are required to contribute 9% of their annual covered salary. The County is required to contribute at an actuarially determined rate; the current rate is .878% for non-safety employees and 16.629% for safety employees, of annual covered payroll. The contribution requirements of plan members and the County are established and may be amended by CalPERS.

Annual Pension Cost

For the year ended June 30, 2003, the County's annual pension cost of $7,557,216 for CalPERS was equal to the County's required and actual contributions. The required contributions was determined as part of the June 30, 2002 actuarial valuation using the entry age actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual merit or seniority salary increases that vary by length of service, and (c) no post retirement benefit increases. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of the County's CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period (smoothed market value). The County's CalPERS unfunded actuarial accrued liability is being amortized as a level of percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2002 was thirty-two years for the Miscellaneous Plan and fourteen years for the Safety Plan.

Three-Year Trend Information for PERS

| Fiscal Year | Annual Pension Cost | Percentage of APC (APC) | Net Pension Contributed | Obligation |
|---|---|---|---|---|
| 6/30/01 | $ 4,973,762 | 100% | $ -- | $ -- |
| 6/30/02 | 5,937,479 | 100% | -- | -- |
| 6/30/03 | 7,557,216 | 100% | -- | -- |

## 9. Post-Retirement Health Benefits

In addition to the pension benefits described in Note 8, the County provides post-retirement health insurance benefits, in accordance with County ordinance, to employees who retire from the County before attaining age 65 with at least 10 years of continuous service who have accrued sick leave in excess of 240 hours and elect the post-retirement insurance benefits rather than the sick leave payout option. Refer to Note 5, compensated absences, for specific details. The County pays the full premium for health and dental coverage incurred by retirees under 65 years of age or not covered by another governmental or employer-paid health plan. Expenditures for post-retirement health care benefits are recognized as retirees report premiums paid for reimbursement. During the fiscal year, expenditures of $596,299 were recognized for post-retirement health care covering 102 retirees.





## 10. Risk Management

The County is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The County has two risk management funds (Internal Service Funds) to consolidate the County's insurance programs that are partially self-insured. Fund revenues are primarily premium charges to other funds and are planned to equal estimated expenses resulting from self-insurance programs, liability insurance coverage in excess of the self-insured amount, and operating expenses. The primary activities of the funds consist of risk management programs related to the following:

General Liability Insurance
Unemployment Insurance

The County maintains a self-insured retention (SIR) of $100,000 per occurrence for its general liability program. For general liability claims, the County is a participant in the California State Association of Counties – Excess Insurance Authority (CSAC) excess liability insurance program. The County covers the first $100,000 of claims. The purpose of the pool is to spread the adverse effects of losses among the member agencies. The County pays an annual basic premium for excess coverage and is assessed an annual risk premium based on an actuarial review that estimates each of the program's participant's ultimate liabilities. Should actual losses among participants be greater than anticipated, the County will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, the County will be refunded its pro rata share of the excess. Commercial insurance covers claims between $100,000 and $20,000,000. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The County is fully self-insured for its unemployment insurance program. Quarterly billings from the State Employment Development Department are sent to the County's claims reviewers, R.E. Harrington, Inc. After the claims are reviewed by R.E. Harrington, Inc., they are turned over to the County for payment.

It is the County's policy to charge to expense of the Internal Service Fund the estimated liability, as determined with the assistance of independent actuaries, for claims in cases where such amounts are reasonably determinable and where the likelihood of liability exists.

There were no settled claims that have exceeded insurance coverages during the past three fiscal years.

All operating funds participate in the program and make payments to the insurance funds based on actuarial estimates of the amounts needed to pay prior and current year claims, and to allow accrual of estimated incurred but not reported claims. These claims liability estimates are based on the requirements of GASB Statements No. 10 and 30 and include estimate claims incurred but not yet reported as of June 30, 2003. The claims liability includes all allocated loss adjustment expenses. Changes in the insurance funds' claims liability amount during the fiscal years ended June 30, 2002 and 2003 were as follows:

| | Claims Liability July 1 | Current Year Claims and Changes in Estimates | Current Year Claim | Claims Liability June 30 |
|---|---|---|---|---|
| 2002-2003 | $ 1,304,000 | $ 150,787 | $ 130,787 | $ 1,324,000 |
| 2001-2002 | $ 1,341,000 | $ 58,486 | $ 95,486 | $ 1,304,000 |

## 11. Contingencies

### Grants

The County participates in a number of grant programs funded, in whole or part, by federal, state and other sources. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the year ended June 30, 2003, have not yet been conducted. Additionally, certain audits related to prior years have not been finalized. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although, the County expects such amounts, if any, to be immaterial.

### Litigation

The County is a defendant in various matters of litigation. Of these matters, management and County's legal counsel do not anticipate any material effect on the June 30, 2003 financial statements.



# REQUIRED SUPPLEMENTARY INFORMATION

# COUNTY OF KINGS
# STATE OF CALIFORNIA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

**For the Fiscal Year Ended**
**June 30, 2003**

**Vee-Jay Brann**
**Director of Finance**

**BORCHARDT, CORONA & FAETH**
Accountancy Corporation

Thomas R. Borchardt, CPA
Gustavo M. Corona, CPA
Scott A. Faeth, CPA

INDEPENDENT AUDITORS' REPORT

The Honorable Board of Supervisors
County of Kings, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of County of Kings, California, as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of County of Kings, California, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Kings, California, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2004 on our consideration of the County of Kings, California internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and page 30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

1540 E. Shaw Avenue, Suite 118 • Fresno, California 93710 • Phone (559) 225-6891 • Fax (559) 225-6951 • Web Site: http://www.bcf-cpa.com

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Kings, California basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied to the audit of the basic financial statements, and accordingly, we express no opinion on it.

Borchardt, Corona & Faeth

May 26, 2004



## Management's Discussion and Analysis

Our discussion and analysis of the County of King's (the County's) financial performance provides an overview of the County's financial activities for the fiscal year ended June 30, 2003. We encourage readers to consider the information here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i through vi of this report. All amounts, unless otherwise indicated, are expressed in whole dollars.

**Financial Highlights**

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by $89,181,969 Of this amount, $42,661,311 is restricted for specified purposes and is not available to meet the government's ongoing obligations to citizens and creditors, $42,661,311 is invested in capital assets (net of related debt).

- The government's total net assets increased by $2,158,290 during the fiscal year. This is attributable to a number of factors, including increases in revenues, and reductions in expenditures. Expenditures were reduced due to County departments not filling vacant positions. Several departments have also been reviewing all discretionary expenditures, eliminating unnecessary items and finding ways to get the same benefit more economically.

- As of June 30, 2003, the County's governmental funds reported a combined ending fund balance of $89,181,969. Approximately $45,232,274, of this total amount, is available for spending at the government's discretion (unreserved fund balance).

- At the close of the fiscal year, unreserved fund balance for the general fund was $11,020,619, or 10.4 percent of total general fund expenditures of $105,314,546.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the County of King's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to private-sector business.

The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues related to uncollected taxes and earned but unused vacation leave.

Both of the government-wide statements distinguish functions of the County of Kings that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, public protection, public assistance, health and sanitation, public ways and facilities, recreation and cultural services, and education. The business-type activities of the County include the Public Works, Fleet Management, Data Processing, Health and Workers' Compensation Internal Service Funds.

**Fund financial statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Kings, like all other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. These statements, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County of Kings maintains several individual funds organized according to their type (special revenue, capital projects, debt service and general fund). Information, is presented separately in the, governmental fund balance sheet and in the governmental, fund statement of revenues, expenditures, and changes in fund balances for the general fund, property development special revenue fund, grant revenue special revenue fund, capital projects fund and debt service fund, all of which are considered major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

**Government-wide Financial Analysis**

This is the first year that the County has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements - and Management's Discussion and Analysis (MD&A) - for State and Local Governments. Because this reporting model changes significantly both the recording and presentation of financial data, the County has not restated prior fiscal years for purposes of providing comparative information for the MD&A. In future years when prior-year information is available a comparative analysis of government-wide data will be included in this report.

**Analysis of net assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County of Kings, assets exceed liabilities by $89,181,969 at June 30, 2003.

The largest portion of the County's net assets $38,832,013, 43.5 percent is investment in capital assets (e.g. land, buildings, equipment and infrastructure), less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



**County of Kings's**
**Net Assets**
**June 30, 2003**

| | Governmental Activities |
|---|---|
| Assets: | |
| Current and other assets | $ 54,485,061 |
| Capital assets | 42,661,311 |
| Total assets | 97,146,372 |
| Liabilities: | |
| Long-term liabilities | 442,147 |
| Other liabilities | 7,522,255 |
| Total liabilities | 7,964,402 |
| Net assets: | |
| Invested in capital assets, net of related debt | 42,661,311 |
| Restricted | |
| Unrestricted (deficit) | 46,520,658 |
| Total net assets | $88,251,969 |

**Analysis of changes in net assets**

The County's net assets overall decreased by $12,977,642 during the current fiscal year.

**County of King's**
**Changes in Net Assets**
**June 30, 2003**

| | Governmental Activities |
|---|---|
| Revenues: | |
| Program revenues: | |
| Charges for services | $27,155,472 |
| Operating grants and contributions | 98,482,884 |
| Grants & Contributions not restricted | 2,736,516 |
| General revenues: | |
| Property taxes | 13,026,110 |
| Sales taxes | 2,382,375 |
| Other taxes | 3,097,389 |
| Interest and investment income | 1,074,347 |
| Other | 4,585,568 |
| Total revenues | 152,540,661 |
| Expenses: | |
| General government | 21,842,342 |
| Public safety | 43,232,730 |

| | |
|---|---|
| Public assistance | 53,400,960 |
| Health and sanitation | 20,388,501 |
| Public ways and facilities | 20,425,880 |
| Recreation and cultural services | 571,977 |
| Education | 1,191,117 |
| Hiways & Streets | 4,464,796 |
| Total expenses | 165,518,303 |
| Increase/(decrease) in net assets | (12,977,642) |
| Net assets-beginning | $101,229,611 |
| Net assets – ending | $88,251,969 |

**Governmental activities**

Governmental activities decreasedthe County of Kings's net assets by $12,977,642., thereby accounting for all of the total growth in the net assets of the County. Key elements of this increase are as follows:

- Property tax revenues increased by approximately $1.9 million or 11.4 percent during the year. Most of this increase is attributable to growth in the assessed value of property.
- Charges for services increased $519,253 in the primary government. Intergovernmental revenues decreased by $3,767,876 , in large part due to decreased State welfare fundings. Fines, forfeitures and penalties revenue were up by $79,501.
- Interest and investment income declined by approximately $197,272 or 11.4 percent. This was mainly due to a decline in the average yield on pooled investments.

**Financial Analysis of the County's Funds**

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds**

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the County include the general fund, special revenue funds, debt service funds, and capital project funds.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of $45,232,274, a decrease of $9,651,154 in comparison with the prior year. The unreserved amount of $32,894,997 is available for spending at the County's discretion.

The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed, (1) to liquidate existing contracts and purchase orders ($7,262,682); (2) Investments; (3) For Economic uncertainties ($3,831,813); (4) for a variety of other restricted purposes ($16,000).



Revenues for governmental funds overall totaled approximately $132,5 million in the fiscal year ended June 30, 2003, which represents an decrease of 3.5 percent from the fiscal year ended June 30, 2002. Expenditures for governmental funds, totaling $142.7 million, increased by 7 percent over the fiscal year ended June 30, 2002. In the fiscal year ended June 30, 2003, expenditures of governmental funds exceeded revenues by approximately $10.2 million, or about 7.7 percent.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, the unreserved fund balance of the general fund was $11,020,619, while total fund balance was $15,165,662. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 7.7 percent of total general fund expenditures of $ 142.7million, while total find balance represents 10.7 percent of that same amount. The fund balance in the County's general fund increased by $3,699,429 during the fiscal year. This was mainly due to continued growth in local revenues, especially property taxes, other local taxes, and intergovernmental revenues, particularly state grants and subventions.

As noted above, the County's general fund property tax collections increased by approximately 9 percent during the fiscal year related to growth in assessed values, reduced assessment appeals, and growth in supplemental property tax revenues. In addition, many general fund program expenses grew more slowly than projected.

**General fund budgetary highlights**

The County's final budget of the general fund differs from the original budget in that it contains carry-forward appropriations for various programs and projects, and supplemental appropriations approved during the fiscal year. Differences between the original budget and the final amended budget of $1,386,295 net increase in appropriations are briefly summarized as follows:

- The public protection departments increased appropriations for services to County departments and outside entities by $1,483,277. The General Government departments increased appropriations by $1,231,6771.
- The Public Assistance departments incresed appropriations by $1,837,969,
- The Health Department increased its appropriations overall by $2,791,863.
- Only $2.8 million of County's appropriations for contingencies budget of $5.9 million was used..

Overall, the County's actual general fund revenues were under budgeted in fiscal year 2003 by $2,741,753, or 2.5 percent. Revenues that had significant variances include the following:

- Approximately $2,566,040 or 4. percent of the budget for state aid was under realized.
- Charges for current services was greater than budget by $476,145, or 5.9%. • Tax revenues exceeded budget by $2,059,,308, 17%.

Actual expenditures in the general fund were less than the adjusted budget by $7,971,026 or 7.5 percent. In general, this reflects consistent savings from all the general government functions, primarily due to expenditure controls by departments, slower capital acquisitions, and savings in salary costs due to a hiring freeze. Significant savings came from the following County functions:

**Capital assets and debt administration**

Capital assets

The County's capital assets for its governmental type activities as of June 30, 2003 amount to $42,661,311 (net of accumulated depreciation) as shown in the table below. This investment in capital assets includes land, buildings and improvements, machinery and equipment, park facilities, roads, streets, and bridges. The total increase in the County's capital assets for the current fiscal year, net of depreciation, was $3,114,179 percent (a 7.5) percent increase for governmental activities.

**Capital Assets, Net of Accumulated Depreciation**
**June 30, 2003**

| | |
|---|---|
| Land and other assets not | |
| Being depreciated | $2,670,490 |
| Facilities, infrastructure, and | 24,296,025 |
| Equipment | 15,694,796 |
| Total | $42,661,311 |

For government-wide statement of net assets presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year.

Fund financial statements record capital asset purchases as expenditures. In fiscal year 2003, ongoing infrastructure projects are accounted for in construction in progress.

Debt Administration

At the end of the current fiscal year, the County had long-term obligations outstanding, of $1,762,624 in two capital leases.

Kings County's legal debt limit is $152,540,661. As of June 30, 2003, the County did not have any general obligation bonds and therefore had not used any of its debt limit

On July of 2002, the Board of Supervisors approved the sale of the Master Settlement Agreement Tobacco revenues to be received as a result of the lawsuit against the largest U. S. tobacco manufacturers. The proceeds will be used to partially finance construction of a new detention facility.

**Economic factors and next year's budget and rates**

- The unemployment rate for Kings County was 15.4 percent in December 2003, compared to the state's average unemployment rate of 7 percent.

- Increased energy costs steming from California's energy crisis had a significant impact on the County's budget, causing the County to budget for higher energy costs.

All of the above factors were considered in preparing the County's budget for fiscal year 2003/04.

The County adopted its fiscal year 2003/04 budget before the State of California finalized its own budget. The State's economic situation will have future negative impacts to the County's budget for fiscal year 2003/04. The County has begun to take steps to mitigate budgetary problems by restricting departmental spending in fiscal year 2003/04



**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. Below is the contact for questions about this report or requests for additional financial information.

Kings County
Department of Finance
1400 W. Lacey Blvd.
Hanford, CA 93230

## County of Kings
## Statement of Net Assets
## June 30, 2003

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $44,390,236 |
| Investments | 1,226,782 |
| Receivables (net of allowance for uncollectibles) | 8,622,659 |
| Inventories and prepaid expenses | 245,384 |
| Capital assets (net of accumulated depreciation): | |
| Land | 2,376,392 |
| Structures and improvements | 24,296,025 |
| Equipment | 15,694,796 |
| Construction in progress | 294,098 |
| Total assets | 97,146,372 |
| **LIABILITIES** | |
| Accounts payable and other current liabilities | 2,964,352 |
| Due other agencies | 152,474 |
| Noncurrent liabilities: | |
| Due within one year: | |
| Claims payable | 4,310,000 |
| Capital Leases | 95,429 |
| Due in more than one year: | |
| Compensated absences | 442,147 |
| Total liabilities | 7,964,402 |
| **NET ASSETS** | |
| Invested in capital assets, net of related debt | 42,661,311 |
| Unrestricted | 46,520,658 |
| Total net assets | $89,181,969 |

The notes to the financial statements are an integral part of this statement.



## County of Kings
## Statement of Activities
## For the Year Ended June 30, 2003

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets: Governmental Activities |
|---|---|---|---|---|
| **Primary government** | | | | |
| Governmental activities: | | | | |
| General government | $21,842,342 | $9,267,697 | $13,487,957 | $913,312.01 |
| Public safety | 43,232,730 | 5,674,504 | 17,253,159 | (20,305,067) |
| Public ways and facilities | 20,425,881 | 10,941,891 | 381,601 | (9,102,389) |
| Highways and streets | 4,464,796 | 475,314 | 892,414 | (3,097,067) |
| Health and sanitation | 20,388,501 | 688,101 | 18,069,850 | (1,630,549) |
| Public Assistance | 53,400,960 | 1,448 | 48,093,259 | (5,306,252) |
| Education | 1,191,117 | 42,979 | 144,202 | (1,003,936) |
| Culture and recreation | 571,977 | 63,538 | 160,442 | (347,998) |
| Total primary government | $165,518,303 | $27,155,472 | $98,482,884 | ($39,879,946) |
| General revenues: | | | | |
| Property Taxes | | | | 13,026,110 |
| Sales Taxes | | | | 2,382,375 |
| Franchise Taxes | | | | 2,900,654 |
| Hotel Taxes | | | | 196,735 |
| Grants and contributions not restricted to specific programs | | | | 2,736,516 |
| Unrestricted investment earnings | | | | 1,074,347 |
| Gain on sale of capital assets | | | | 1,154,789 |
| Miscellaneous | | | | 3,430,779 |
| Total general revenues | | | | 26,902,305 |
| Change in net assets | | | | (12,977,642) |
| Net assets - beginning | | | | 102,159,611 |
| Net assets - ending | | | | $89,181,969 |

The notes to the financial statements are an integral part of this statement.

## County of Kings
## Balance Sheet
## Governmental Funds
## June 30, 2003

| ASSETS | General | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| Treasurer investments | $8,242,928 | $5,727,614 | $6,565,023 | $20,535,565 |
| Imprest cash | 23,425 | | 490 | 23,915 |
| Deposits with others | | 18,369,802 | 25,000 | 18,394,802 |
| Investments | 1,226,782 | | | 1,226,782 |
| Accounts receivable | 6,612,346 | 167,159 | 1,112,037 | 7,891,542 |
| Advances to other funds | 606,478 | | | 606,478 |
| Inventories | 29,775 | | | 29,775 |
| Prepaid expenses | 21,754 | | | 21,754 |
| Total assets | $16,763,488 | $24,264,575 | $7,702,550 | $48,730,613 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accrued expenses payable | 1,445,352 | 12,413 | 1,198,100 | 2,655,865 |
| Claims payable | | | 690,000 | 690,000 |
| Due other agencies | 152,474 | | | 152,474 |
| Total liabilities | 1,597,826 | 12,413 | 1,888,100 | 3,498,339 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Encumbrances | 1,604,718 | 5,499,879 | 158,085 | 7,262,682 |
| Investments | 1,226,782 | | | 1,226,782 |
| Economic uncertainties | 1,313,543 | | 2,518,270 | 3,831,813 |
| Other purposes | | | 16,000 | 16,000 |
| Unreserved, reported in: | | | | |
| General fund | 11,020,619 | | | 11,020,619 |
| Special revenue funds | | | 3,122,095 | 3,122,095 |
| Capital projects funds | | 18,752,283 | | 18,752,283 |
| Total fund balances | 15,165,662 | 24,252,162 | 5,814,450 | 45,232,274 |
| Total liabilities and fund balances | $16,763,488 | $24,264,575 | $7,702,550 | |

| | |
|---|---|
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 38,832,013 |
| Internal service funds are used by management to charge the costs of public works, fleet management, data processing, health self-insurance and workers compensation self-insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. | 5,117,682 |
| | $89,181,969 |

The notes to the financial statements are an integral part of this statement.



## County of Kings
## Statement of Revenues, Expenditures, and Changes in Fund Balances
## Government Funds
## For the Year Ended June 30, 2003

| REVENUES | General | Special Revenue | Capital Projects | Total Governmental Funds |
|---|---|---|---|---|
| Taxes: | | | | |
| Property | $9,143,482 | $3,882,627 | | $13,026,110 |
| Sales | 2,245,858 | 136,518 | | 2,382,375 |
| Franchise | 2,392,033 | 413,139 | 95,481 | 2,900,654 |
| Hotel | 196,735 | | | 196,735 |
| Licenses and permits | 290,752 | | | 290,752 |
| Fines and forfeits | 36,600 | 614,116 | | 650,716 |
| Intergovernmental | 82,396,138 | 16,983,217 | 868,918 | 100,248,274 |
| Charges for services | 8,539,738 | 67,088 | | 8,606,826 |
| Rents and Concessions | 516,969 | | | 516,969 |
| Investment earnings | 682,257 | 169,581 | 160,133 | 1,011,971 |
| Contributions and donations | | 10,106 | | 10,106 |
| Miscellaneous | 1,018,602 | 1,591,209 | 51,380 | 2,661,192 |
| Total revenues | 107,459,166 | 23,867,601 | 1,175,912 | 132,502,679 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General government | 10,155,009 | 508,707 | | 10,663,716 |
| Public Safety | 32,428,193 | 9,901,964 | | 42,330,157 |
| Highways and streets | | 4,464,796 | | 4,464,796 |
| Health and sanitation | 19,690,048 | 690,000 | | 20,380,048 |
| Public assistance | 42,104,245 | 11,210,526 | | 53,314,771 |
| Education | 133,531 | 1,054,143 | | 1,187,674 |
| Culture and recreation | 803,521 | | | 803,521 |
| Capital outlay | | | 9,577,528 | 9,577,528 |
| Total expenditures | 105,314,546 | 27,830,136 | 9,577,528 | 142,722,210 |
| Excess (deficiency) of revenues over (under) expenditures | 2,144,620 | (3,962,535) | (8,401,616) | (10,219,532) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers in | | 531,198 | | 531,198 |
| Transfers out | (531,198) | | | (531,198) |
| Sale of capital assets | 544,869 | 23,509 | | 568,377 |
| Total other financing sources and uses | 13,671 | 554,707 | | 568,377 |
| Net change in fund balances | 2,158,290 | (3,407,828) | (8,401,616) | (9,651,154) |
| Fund balances - beginning | 13,007,372 | 9,222,278 | 32,653,778 | 54,883,428 |
| Fund balances - ending | $15,165,662 | $5,814,450 | $24,252,162 | $45,232,274 |

The notes to the financial statements are an integral part of this statement.

**County of Kings**
**Reconciliation of the Statement of Revenues,**
**Expenditures, and Changes in Fund Balances of Governmental Funds**
**To the Statement of Activities**
**For the Year Ended June 30, 2003**

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

| | |
|---|---|
| Net change in fund balances - total governmental funds | ($9,651,154) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount bv which depreciation ($2,149,950) exceeded capital outlays ($1,727,149) in in the current period | (422,801) |
| Internal service funds are used by management to charge the costs of public works, fleet management, data processing, health self-insurance and workers compensation self-insurance to individual funds. The net revenue (expenses) of certain activities of service funds is reported with governmental activities. | (2,903,687) |
| Change in net assets of governmental activities | ($12,977,642) |

The notes to the financial statements are an integral part of this statement.



**County of Kings**
**Statement of Net Assets**
**Proprietary Funds**
**June 30, 2003**

| | Internal Service Funds |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Treasurer investments | $5,175,775 |
| Imprest cash | 180 |
| Deposit with others | 260,000 |
| Accounts receivable | 105,972 |
| Inventories | 143,983 |
| Prepaid expenses | 49,871 |
| Amounts to be provided | 18,666 |
| Total current assets | 5,754,448 |
| Noncurrent assets: | |
| Capital assets: | |
| Land | 88,691 |
| Structures and improvements | 620,198 |
| Equipment | 11,486,050 |
| Less accumulated depreciation | (8,365,642) |
| Total capital assets (net of accumulated depreciation) | 3,829,297 |
| Total noncurrent assets | 3,829,297 |
| Total assets | 9,583,745 |
| **LIABILITIES** | |
| Current liabilities: | |
| Accrued expenses payable | 308,487 |
| Claims payable | 3,620,000 |
| Capital leases payable | 95,429 |
| Total current liabilities | 4,023,916 |
| Noncurrent liabilities: | |
| Compensated absences payable | 442,147 |
| Total noncurrent liabilities | 442,147 |
| Total liabilities | 4,466,063 |
| **NET ASSETS** | |
| Invested in capital assets, net of related debt | 3,829,297 |
| Unrestricted | 1,288,385 |
| Total net assets | $5,117,682 |

The notes to the financial statements are an integral part of this statement.

**County of Kings**
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**
**Proprietary Funds**
**For the Year Ended June 30, 2003**

| | Internal Service Funds |
|---|---|
| Operating revenues: | |
| Charges for services | $16,626,999 |
| Miscellaneous | 1,222,691 |
| Total operating revenues | 17,849,690 |
| Operating expenses: | |
| Salaries and benefits | 5,615,443 |
| Services and supplies | 13,585,776 |
| Administration | 1,028,679 |
| Depreciation | 596,691 |
| Total operating expenses | 20,826,590 |
| Operating income (expenses) | (2,976,899) |
| Nonoperating revenues (expenses): | |
| Investment earnings | 62,376 |
| Interest expense | (2,927) |
| Net gain on sale of fixed assets | 27,503 |
| Total nonoperating revenue (expenses) | 86,953 |
| Income (expenses) before contributions and transfers | (2,889,947) |
| Transfers out | (13,740) |
| Change in net assets | (2,903,687) |
| Total net assets - beginning | 8,021,368 |
| Total net assets - ending | $5,117,682 |

The notes to the financial statements are an integral part of this statement.



**County of Kings**
**Statement of Cash Flows**
**Proprietary Funds**
**For the Year Ended June 30, 2003**

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Receipts from interfund services provided | $18,249,972 |
| Payments to suppliers | (11,276,264) |
| Payments to employees | (5,586,346) |
| Miscellaneous Receipts | 80,749 |
| Net cash provided by operating activities | 1,468,112 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Transfer to other funds | (13,740) |
| Net cash provided (used) by noncapital financing activities | (13,740) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Purchases of capital assets | (1,249,918) |
| Principal paid on capital debt | (80,201) |
| Interest paid on capital debt | (2,927) |
| Proceeds from sales of capital assets | 70,518 |
| Net cash provided (used) by capital and related financing activities | (1,262,528) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest and dividends received | 62,376 |
| Net cash provided (used) by investing activities | 62,376 |
| Net increase in cash and cash equivalents | 254,219 |
| Cash and cash equivalents - beginning of the year | 5,181,736 |
| Cash and cash equivalents - end of the year | $5,435,955 |
| **Reconciliation of operating income to net cash provided by operating activities:** | |
| Operating income | $ (2,976,899) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation expense | 596,691 |
| (Increase) decrease in accounts receivable | (61,786) |
| (Increase) decrease in advances receivable | 548,710 |
| (Increase) decrease in inventories | (21,743) |
| (Increase) decrease in prepaid items | (49,871) |
| (Increase) decrease in amounts to be provided | (5,891) |
| Increase (decrease) in accrued expenses payable | 3,433,011 |
| Increase (decrease) in compensated absences payable | 5,890 |
| Total adjustments | 4,445,011 |
| Net cash provided by operating activities | $ 1,468,112 |

The notes to the financial statements are an integral part of this statement.

**County of Kings**
**Statement of Fiduciary Net Assets**
**Fiduciary Funds**
**June 30, 2003**

| | Agency Funds |
|---|---|
| **ASSETS** | |
| Treasurer investments | $127,591,733 |
| Accounts receivable | 4,236,735 |
| Deposits with others | 2,814,900 |
| Total assets | 134,643,368 |
| **LIABILITIES** | |
| Due other agencies | 134,643,368 |
| Total liabilities | 134,643,368 |
| **NET ASSETS** | $ ------- |

The notes to the financial statements are an integral part of this statement.



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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -

The financial statements of the County of Kings have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to government. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

These financial statements present primary government. There are no blended or discretely presented component units included in these financial statements. The criteria used in determining what accounting entities, agencies, commissions, board and authorities are part of the County of Kings operations include how the budget is adopted, whether debt is secured by general obligation of the County, the County's duty to cover any deficits that may occur, and supervision over the accounting functions. There are no other agencies, organizations or activities meeting any of the above criteria that are excluded from the County reporting entity. The following sections further describe the significant accounting policies of the County of Kings.

Reporting Entity

The County of Kings was incorporated in 1897 under laws of the State of California. The legislative body is a five-member Board of Supervisors, elected by district. A County Administrative Officer, appointed by the Board of Supervisors, administers County affairs. Other elected County officials include Assessor/Clerk-Recorder, Auditor-Controller, District Attorney, Sheriff-Coroner-Public Administrator, Treasurer-Tax Collector, and Superintendent of Schools.

The County provides various services including health and welfare, police, fire fighting and prevention force, road maintenance force, a park and recreation system, a library and the necessary support to these service providers. All are responsible to the Citizens of County of Kings, and are therefore included within the reporting entity.

a. Basis of Presentation – The government-wide financial statement of net assets and the statement of activities display information about the primary government and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business type activities of the County. Governmental-type activities are generally financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the County and for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include fees, fines and charges paid by the recipients of goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues

The financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for governmental accounting and financial reporting principles. In 2003, the County adopted new accounting standards in order to conform to GASB Nos. 34, 37 and 38 and these statements are presented according to those requirements. The more significant of the County's accounting policies are described below.



The County reports the following major governmental fund:
General Fund. This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund

Capital Outlay Fund. These funs account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by propriety and trust funds.

The County Reports the following fund types:

Internal Service Funds. These funds account for program costs relating to roads, building maintenance, surveyor and other reimbursable projects, motor pool and heavy equipment repairs and rentals, data processing, health and workers' compensation self-insurance coverage to other departments on a cost-reimbursement basis.

Agency Funds. These funds account for monies held on behalf of school districts and special districts that use the County as a depository, and property taxes collected on behalf of other governments.

b. Measurement Focus, Basis of accounting

Government-wide, Propriatory, and Fiduciary Find Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognizes as expenditures to the extent they are matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by contribution of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assts available to finance program.

All governmental and business-type activities of the County follow FASB Statements and interpretations issued on or before 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| Asset Class | Useful Lives |
|---|---|
| Infrastructure | 30 |
| Buildings | 50 |
| Building Improvements | 20 |
| Vehicles | 2-15 |
| Office Equipment | 3-15 |
| Computer Equipment | 3-15 |

d. Vacation and Sick Leave - Expenditures for vacation and vested sick leave benefits are recognized when earned. Employees are vested to 20 percent of their sick leave balance after 5 years of service. At June 30, 2003, the vested portion of sick leave benefits and the accrued vacation totaled $3,672,306. The portion relating to the proprietary funds is $442,147 at June 30, 2003. The benefit amounts relating to governmental funds that will be paid from future resources are recorded in the General Long-Term Obligations Account Group.

e. Treasurer Investments - Under the County's cash management program, cash in excess of operating requirements is deposited in demand accounts, savings accounts or invested pursuant to the Treasurer's Statement of Investment Policy. Cash and cash equivalents are displayed as Treasurer Investments in all funds.

For purposes of the accompanying combined statement of cash flows, the Enterprise and Internal Service funds consider all highly liquid investments with a maturity of three months or less when purchased, and their equity in the County Treasurer's investment pool, to be cash equivalents.

The County's cash balance at year-end was composed of (1) Coin and currency held in the vault and used for daily operations, (2) cash and checks prepared for deposit to the bank, and (3) a demand deposit account held in the County's name of which $100,000 was covered by federal depository insurance with the balance collateralized by securities held by the County's custodial bank in the County's name. The Public Guardian cash in bank is covered by federal depository insurance, up to $100,000.

f. Investments - Statutes authorize the County to invest in obligations of the U.S. Treasury, agencies, and municipalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, certificates of deposit, medium term corporate notes, shares of Government money market funds, repurchase agreements, and the state treasurer's investment pool. The County is also authorized to enter into reverse repurchase agreements. Investments are stated at market and are included in cash, investments, impressed cash, and deposits with others in the accompanying financial statements. Interest income is allocated to the various funds quarterly based on their average daily balances.

g. Fair Value of Investments – Accounting pronouncement GASB 31 generally applies to investments in external investment pools (State of California LAIF and other government sponsored investments pools), investments purchased with maturities greater than one year, mutual funds and certain investment agreements. Generally, governmental entities need to report the "fair market value" changes for these investments at year-end and if significant, records these gains or losses on their income statement. The County does not present realized and unrealized gains or losses on separate items on the face of its financial statements or in its note disclosures.

h. Methods and Assumptions used to Estimate Fair Value – The County presents its records at cost which approximates "fair value" at fiscal year end. The County's investment custodian provides market values on each investment instrument on a monthly basis. The investments held by the County are widely traded and trading values are readily available from numerous published sources.

The County's cash and investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes amounts that are insured or registered or for which the deposits are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered amounts for which the deposits are held by the banks, brokers or dealer's trust department or agent in the County's name. Category 3 includes uninsured and unregistered amounts for which the deposits are held by the bank, broker or dealer, or by its trust department or agent but not in the County's name.



| | Category | | | Bank/Market | Carrying |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | Value | Value |
| **Categorizing Treasurer Investments** | | | | | |
| Government Agency Coupon Securities | $58,507,504 | | | $58,507,504 | $58,324,577 |
| Government Agency Disc. –At Cost | 2,987,447 | | | 2,987,447 | 2,987,261 |
| Bankers Acceptances –At Cost | 3,716,334 | | | 3,716,334 | 3,716,049 |
| Commercial Paper Disc.-At Cost | 4,981,243 | | | 4,981,243 | 4,981,172 |
| LAIF – Local Agency Investment Pool | 40,000,000 | | | 40,000,000 | 40,000,000 |
| MMA Black Rock T-Fund | 4,000,000 | | | 4,000,000 | 4,000,000 |
| MMA Nations Treasury Reserve | 1,053,425 | | | 1,053,425 | 1,053,425 |
| Medium Term Notes | 36,502,814 | | | 36,502,814 | 36,508,389 |
| **Total** | $151.748,767 | | | $151,748,767 | $151,570,873 |
| **Cash and Accrued Interest** | | | | | |
| Passbook/Checking | | | 261,812 | 261,812 | 261,812 |
| Ending Accrued Interest | | | 910,902 | 910,902 | 910,902 |
| **Subtotal** | | | $1,172,714 | $1,172,714 | $1,172,714 |
| **Total Cash and Investments Value** | | | | $152.921,481 | $152,743,587 |

In April of 1988, the Board of Supervisors authorized the purchase of Farmers' Home Administration bonds outstanding on local sewer and water assessment bonds in the amount of $2,335,000. The investment is amortized over 35 years and returns are all being transferred to the General Fund. At June 30, 2003 The County's remaining unamortized balance is $1,226,782.

i. Total Columns on Fund Financial - Overview
Total columns on the Combined Statements - Overview are captioned Memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

j. Budgeting Principles - The County is required by state statute to adopt annual budgets for governmental and proprietary funds of the County. The budget is Adopted by August 30th of each year. The County Board of Supervisors may amend the budget by transferring budgeted amounts from one object or purpose To another within the same fund.

2. RECEIVABLES

Accounts receivable in the general fund consists mainly of amounts to be received from the State of California for their share of the cost of 2002-2003 Mental Health program $421,126, Welfare Administration $1,204,863, Welfare Incentives Program $1,135,971, Office of Criminal Justice Planning grants $303,626, Health programs $1,345,273, Water Purchases $154,589, Child Abuse Prevention $60,269, Hazardous Waste Taxes $335,493, Other $41,774, Prison Cost Reimbursement $289,926, Victim Witness $82,209, School Probation Officer $47,567, Contract Law Enforcement $168,722. Property taxes receivable, in the amount of $3,263,300 is shown in Agency Funds

3. PROPERTY TAX -

The County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions including the schools and special districts within the County. Property taxes, for which the lien date is January 1, and levy date is October 7, are payable in equal installments, November 1 and February 1 and are receivable when levied. They become delinquent on December 10 and April 10, respectively. Property taxes are accounted for in the Property Tax Collection fund, (an Agency fund), until apportionment and disbursement to taxing jurisdictions. Property tax revenues are recognized when collected. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent, if unpaid, on August 31. Assessment of supplemental taxes is kept current.

The County is permitted by Article XIIIA of the State of California Constitution (known as Proposition 13) to levy a maximum tax of $1.00 per $100 of full cash value for all taxing agencies.

4. RETIREMENT PLAN -

PERS. The County of Kings contributes to the California Public Employees' Retirement System (PERS), an agent Multiple-employer public retirement system that acts as common investment and administrative agent for participating public entities within the State of California. The County's payroll for employees covered by the PERS plan for the year ended June 30, 2003 was approximately $44,996,973(total payroll was approximately $47,143,169). The majority of employees of the County, with the exception of temporary employees are required to contribute to the PERS.

All full-time County employees are eligible to participate in the PERS plan. Benefits vest fully after 5 years of service. County employees who retire at or after age 60 (55 for "Local Safety Members") with 5 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to their highest salary in any 12 months during the their employment, and all other requirements are established by statute.

The County contributes 100% of the amounts required to fund the PERS plan using the actuarial basis specified by statute.

Funding Status and Progress. "Pension benefits obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the PERS plan on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is called the "actuarial present value of the credited projected benefits" and is independent of the funding method used to determine contributions to the PERS plan.

The pension benefits obligation was computed as part of an actuarial valuation performed as of June 30, 2002 (the latest annual report available for PERS). Significant actuarial assumptions used in the valuations include (a) a rate of return on the investment of present and future assets of 8.25 percent a year compounded annually; (b) the salary scale used assumes salary increases that vary by length of service. The total increase in any future year includes an assumed 3.5% inflation rate, a 3.75% across the board increase and merit increases that vary by length of service. (c) No post-retirement benefit increases.



The total unfunded pension benefit obligation applicable to the County's employees was approximately $(38,950,052) at June 30, 2002. (The date of the latest annual PERS report), as follows:

| | |
|---|---|
| Present Value of Benefits | $ 293,266,253 |
| Present Value of Future Employer Normal Costs | 44,770,320 |
| Present Value of Future Employee Contributions | 35,229,319 |
| Entry Age Normal Accrued Liability | 213,266,614 |
| Actuarial Value of Assets | 215,070,568 |
| Unfunded Accrued Liability/(Excess Assets) | $ (1,803,954) |
| Changes in the pension benefit obligation since last year due to: | |
| Changes in benefit payment | N/A |
| Changes in actuarial methods and assumptions | N/A |

Actuarially Determined Contribution Requirements and Contribution Made. The PERS plan's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the County's employee group as a whole has tended to remain level as a percentage of annual covered payrolls. The contribution rate for normal cost is determined using the credited projected benefits actuarial funding method with proration based on service. The PERS plan uses the level percentage of payroll method to amortize the unfunded liability over a period not to exceed thirty years.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute pension benefits earned as described under funding status and progress, above.
The County's contribution of $6,359,799 for 2003 was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 1996. The employer contribution for 2003 was 13.49 percent of current covered payroll.

Funded Status of Plan The table below displays a short history of the Entry Age Normal Accrued Liability, the Actuarial Value of Assets, and the Unfunded Liability (or Excess Assets), Funded Status (i.e., the ratio of the Actuarial Value of Assets to Entry Age Normal Accrued Liability), the estimated annual covered payroll and the Unfunded Actuarial Accrued Liability (UAAL) as a percentage of that covered payroll.

| Valuation Date | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Unfunded Liability/ Excess Assets) | Funded Status | Annual Covered Payroll | UAAL As a % of Payroll |
|---|---|---|---|---|---|---|
| 6/30/99 | $ 147,187,099 | $ 202,181,959 | $ (54,994,860) | 137.4% | $ 37,769,946 | (145.605%) |
| 6/30/00 | 168,422,358 | 221,140,132 | (52,717,774) | 131.3% | 40,919,950 | (128.831%) |
| 6/30/01 | 191,024,871 | 229,974,923 | (38,950,052) | 120.4% | 44,454,073 | (87.619%) |
| 6/30/02 | 213,289,399 | 214,995,163 | (1,705,764) | 100.0% | 49,044,721 | (03.477%) |

5. DEFERRED COMPENSATION PLAN

The County does not provide administrative nor investment advice for the Plan, therefore, the County is not required to report Plan assets and has excluded them fron their financial statements.

6. GENERAL LONG-TERM DEBT ACCOUNT GROUP:

The following schedule summarizes the changes in general long-term debt for the year ended June 30, 2003:

| | Compensated Absences Payable | Capital Leases Payable | Total |
|---|---|---|---|
| Beginning balance | $ 3,745,964 | $ 1,892,326 | $5,638,290 |
| Increase or (Decrease) | (73,658) | (129,702) | (203,360) |
| ENDING BALANCE | $ 3,672,306 | $ 1,762,624 | $ 5,434,930 |

Payment Schedule – Capital Leases:

| Year | Payment |
|---|---|
| 2004 | 212,278 |
| 2005 | 212,278 |
| 2006 | 212,278 |
| 2007 | 212,278 |
| 2008 | 212,278 |
| Thereafter | 1,061,391 |
| Total Payments | 2,121,781 |
| Interest Portion | (360,157) |
| Net Present Value | 1,762,624 |

7. EQUITY RESERVATIONS AND CHANGES IN CONTRIBUTED CAPITAL:

The County's Combined Balance Sheet reports a number of reserves, which are maintained for specific purposes. The nature and purpose of these reserves are explai below.

Fund Balance Reserves: The Reserve for Inventory, Reserve for Deposit With Others, Reserve for Prepaid Expenses, and Reserve for Equipment Replacement reflect portions of fund balance represented by stores inventory, deposit with others, prepaid postage and supplies, and prior depreciation, respectively, fund balance is reserved for general liability and earthquake coverage. These amounts are not available for appropriations and expenditure at the balance sheet.

Retained Earnings/Fund Balance Unavailable: This includes Investments, Certificate of Participation Bond Reserve, designations of Library, Fire, and Off Highway M Vehicle, a General Reserve in the Special Revenue Funds, and Workers' Compensation and Health Insurance in the Internal Service Funds.

Reserve for Encumbrances: The encumbrances outstanding at June 30, 2003, represent the estimated amount of expenditures ultimately to result if unperformed contr in process at year-end are completed. This reserve earmarks resources for specific future uses and legally segregates a portion of fund balance.



8. Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

Governmental activities:

| | Balance June 30, 2002 | Additions | Deletions | Balance June 30, 2003 |
|---|---|---|---|---|
| Land | $2,746,776 | | ($370,384) | $ 2,376,392 |
| Construction In Progress | | 294,098 | | 294,098 |
| Total Capital Assets, Not Being Depreciated | 2,746,776 | 294,098 | (370,384) | $2,670,490 |
| Capital assets, Being Depreciated: | | | | |
| Structures and Improvements Land | 49,038,608 | 242,063 | (22,345) | 49,258,326 |
| Equipment | 23,875,291 | 6,048,069 | (1,95,047) | 27,928,313 |
| Total Capital Assets Being Depreciated | 72,913,899 | 6,290,132 | (370,384) | 77,186,639 |
| Less Accumulated Depreciation: | | | | |
| Structures and Improvements Land | (23,271,222) | (1,691,029) | | (24,962,301) |
| Equipment | (10,970,389) | (1,779,022) | 515,894 | (12,233,517) |
| Total Capital Assets Being Depreciated | (34,241,661) | (3,470,051) | 515,894 | (37,195,818) |
| Total Capital Assets Being Depreciated Net | 38,672,238 | 2,820,081 | (1,501,498) | 39,990,821 |
| Governmental Activities Capital Assets, Net | $41,419,014 | $3,,114,179 | $(1,871,882) | $42,661,311 |

Depreciation expense was charged to functions/programs for governmental activities as follows:

| | |
|---|---|
| Governmental Activities: | |
| General Government | $1,110,432 |
| Public Safety | 273,509 |
| Public Ways and Facilities | 1,971,829 |
| Highways and Streets | 0 |
| Health and Sanitation | 11,905 |
| Public Assistance | 97,419 |
| Education | 4,957 |
| Grand Total | $3,470,051 |

9. RISK MANAGEMENT

The County has a risk management fund (Internal Service Fund) to consolidate the County's Workers' Compensation insurance programs that are partially self-insured. Fund revenues are primarily premium charges to other funds and are planned to equal estimated payments resulting from self-insurance programs, liability insurance coverage in excess of the self-insured amount, and operating expenses.

The County maintains a self-insured retention (SIR) of $300,000 per occurrence for its Workers' Compensation Program. Losses, which exceed the SIR, are covered by an excess insurance policy purchased through the CSAC Excess Insurance Authority.

The actuarially determined outstanding claims liability and claims including incurred but not reported claims, adjustment expense liability (at 75% confidence level, after recognition of anticipated investment income) as of June 30, 2002 were as follows:

| | |
|---|---|
| Workers' compensation | $3,620,000 |
| General Liability | 690,000 |

It is the County's policy to charge to the expense of the Internal Service Fund the estimated liability for outstanding claims, as determined with the assistance of independent actuaries. The liability for self insurance coverage reported in the Internal Service Fund is based on the requirements of GASB No. 10, which requires that a liability for claims be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The estimated liability determined by independent actuaries is subject to change based on case study reviews.

10. UNPAID CLAIMS LIABILITIES

The County of Kings establishes claims liabilities based on estimates of the ultimate costs of the claims that have been reported but not settled, and of claims that have been incurred, but not reported (IBNR). The length of time for which such costs must be estimated varies depending on the type of insurance involved. Estimated amounts of salvage and reinsurance recoverable are considered in developing the estimates. Because actual claims costs depend on many complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. In estimating the liability, reliance is placed on both actual historical data and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.



11. CONTINGENCIES

a. Litigation – The County is a defendant in other various claims. The County is vigorously contesting all these claims and in the opinion of management and legal council, the potential losses are deemed immaterial to the financial statements.

b. Program Compliance Requirements - The County participates in various federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives who may be covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects amounts, if any, to be immaterial.

c. C.S.A.C. Excess Insurance Authority - Kings County, with fifty-two other counties, is a member of C.S.A.C. Excess Insurance Authority (the "Authority"). The Authority is a Joint Powers Agency organized in accordance with Article 1, Chapter 5, Division 7, Title 1 of California Government Code. The purpose of the entity is to develop and fund excess insurance programs for member counties. The Authority operates public entity risk pools for workers' compensation, comprehensive liability, property, medical malpractice; and pool purchases, excess insurance and services for members. The County participates in the medical malpractice and comprehensive liability programs.
The relationship between the County and the Authority is such that the Authority is not a component unit of the County for financial reporting purposes. The Authority is under the control and direction of the board of directors consisting of representatives of the fifty-two, member counties. For purposes of control and daily management, the Authority annually elects an executive committee. The executive committee controls the operations of the Authority, including budgets, independent of any influence by the member counties beyond their representation on the executive committee.

Each member county pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to their participation in the Authority. The lower coverage limits vary with each entity from $100,000 in the smaller counties to $1 million in the larger counties with a maximum limit of $10 million. Kings County's coverage range is $500,000 to $10 million.

Kings County's cost sharing ratio is 2.19% and as such has a maximum debt service liability for the agencies working capital debt of $34 million, to be paid through its basic premium which is not to exceed $179,207 annually until the debt is paid off in the year 2007.

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# CITY OF DALY CITY, CALIFORNIA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

## FOR THE FISCAL YEAR ENDED

## JUNE 30, 2003

Daly City Redevelopment Agency

Prepared by

**DEPARTMENT OF FINANCE**
**AND**
**ADMINISTRATIVE SERVICES**

**Donald W. McVey**
**Director**

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**INDEPENDENT AUDITORS' REPORT ON THE BASIC FINANCIAL STATEMENTS**

Honorable Mayor and Members of the
City Council of the City of Daly City, California

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Daly City as of and for the year ended June 30, 2003 as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to in the first paragraph present fairly in all material respects the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Daly City at June 30, 2003 and the results of its operations and the cash flows of its proprietary fund types, and the respective budgetary comparisons listed as part of the basic financial statements for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The basic financial statements referred to above follow the requirements of the Government Accounting Standards Board's Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. No. 36, *Recipient Reporting for Certain Nonexchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, as discussed in Note 1 to the basic financial statements.

Management's Discussion and Analysis is required by the Governmental Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Statistical Section listed in the table of contents was not audited by us and, accordingly, we do not express an opinion on this information.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal 2003 is the first year the City is required to issue its financial statements in the format prescribed by the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34), which requires the City to provide this overview of its financial activities for the fiscal year.

This discussion and analysis of the City of Daly City's financial results provides an overview of the City's financial activities for the year ended June 30, 2003. The following information, especially the information presented about government-wide financial status and results include many new concepts introduced with the advent of GASB 34.

With these changes, great care must be taken when comparing the 2003 financial statements with those of prior years. The inclusion of infrastructure assets, as well as adding their annual depreciation costs to governmental activities show a different picture of costs and make comparisons to previous reports challenging.

### FISCAL 2003 FINANCIAL HIGHLIGHTS

- The City's total net assets increased $13.9 million during Fiscal 2003. At June 30, 2003, net assets totaled $221 million.
- Total City revenues, including program and general revenues, were $101 million, while total expenses were $87 million in fiscal 2003. Total capital assets increased $10.2 million.
- Net assets in governmental funds were $140.4 million, while net assets in business activities were $81 million.
- Governmental program revenues were $27.2 million compared with $26.9 million in fiscal 2002.
- Governmental general revenues of $44.4 million represent an increase of $2.9 million over the prior year.

### OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in three sections:

1) Introductory Section, containing the Transmittal Letter and miscellaneous other information
2) Financial Section, containing the Independent Auditors' Report, Management's Discussion and Analysis (this part), the Basic Financial Statements, which include the Government-wide and the Fund Financial Statements, along with the Notes to these financial statements, Required Supplemental Information, and Combining Statements for Nonmajor Governmental Funds and Fiduciary Funds
3) Statistical Section containing financial trend data, insurance information and general statistical information about the City

#### The Basic Financial Statements

The Basic Financial Statements are comprised of the City-wide Financial Statements and the Fund Financial Statements, including the Notes thereto. These two sets of financial statements provide two different views of the City's financial activities and financial position.

The *Government-wide Financial Statements* provide a longer-term view of the City's activities as a whole, and are comprised of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by private



corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in net assets for the year.

All of the City's activities are grouped into governmental activities and business-type activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into governmental activities and business-type activities in order to provide a summary of these two types of activities of the City as a whole.

The *Fund Financial Statements* report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's General Fund and other major funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major funds account for the major financial activities of the City and are presented individually, while the activities of nonmajor funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds.

The fiduciary statements provide financial information about the assets for which the City acts solely as custodian, including assessment districts and where the City acts as a fiscal agent.

***The Government-wide Financial Statements***

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

- Governmental activities—All of the City's basic services are considered to be governmental activities, including general government, public safety, public works, streets and infrastructure, culture and recreation, and economic and community development. These services are supported by general City revenues such as taxes, and by specific program revenues. The City's governmental activities include the activities of a separate legal entity, the Daly City Redevelopment Agency, because the City is financially accountable for the Agency
- Business-type activities—All the City's enterprise activities are reported here, including water, sewer, and solid waste transport. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

Government-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

***Fund Financial Statements***

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB 34 and replaces the concept of combining funds by fund type and presenting them in total. Instead, each major fund is presented individually, with all nonmajor funds summarized and presented only in a single column. Subordinate schedules present the detail of these nonmajor funds. Major funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City's activities.

Governmental fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the governmental fund financial statements.

Enterprise fund financial statements are prepared on the full accrual basis, and include all their assets and liabilities, both current and long-term.

Since the City's internal service funds provide goods and services only to the City's governmental and business-type activities, their activities are reported only in total at the fund level. Internal service funds can not be major funds because their revenues are derived from other City funds. These revenues are eliminated in the City-wide financial statements and any related profits or losses are returned to the activities which created them, along with any residual net assets of the internal service funds. Comparisons of budget and actual financial information are presented only for the General Fund and other major funds that are special revenue funds.

*Fiduciary Statements*

The City is the agent for certain assessment districts and several small local agencies. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Assets. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

## FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the City's Governmental Activities and Business-Type Activities (Tables 1, 2 and 3) presented in the City-wide Statement of Net Assets and Statement of Activities that follow.

**Table 1**
**Net Assets at June 30**
**(in thousands)**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Cash and investments | $ 62,834 | $ 54,929 | $ 17,804 | $ 19,511 | $ 80,638 | $ 74,440 |
| Other assets | 18,615 | 21,904 | 4,146 | 4,348 | 22,761 | 26,252 |
| Capital assets | 75,983 | 69,818 | 72,524 | 68,482 | 148,507 | 138,300 |
| Total assets | 157,432 | 146,651 | 94,474 | 92,341 | 251,906 | 238,992 |
| Long-term liabilities | 9,961 | 8,762 | 9,994 | 11,040 | 19,955 | 19,802 |
| Other liabilities | 7,056 | 8,635 | 3,480 | 3,115 | 10,536 | 11,750 |
| Total liabilities | 17,017 | 17,397 | 13,474 | 14,155 | 30,491 | 31,552 |
| Net assets: | | | | | | |
| Invested in capital assets, Net of related debt | 74,918 | 68,778 | 72,524 | 68,482 | 147,442 | 137,260 |
| Restricted | 7,226 | | 1,048 | | 8,274 | - |
| Unrestricted | 58,271 | 60,476 | 7,428 | 9,704 | 65,699 | 70,180 |
| Total net assets | $ 140,415 | $ 129,254 | $ 81,000 | $ 78,186 | $ 221,415 | $ 207,440 |

***Governmental Activities***

The City's net assets from governmental activities increased $11.2 million (9%) to $140.4 million in 2003 from $129.2 million in 2002. This increase is the Change in Net Assets reflected in the Statement of Activities, as shown in Table 2, and is explained below.

- Cash and investments increased $7.9 million principally as a result of increases of $3.4 million in the Gas Tax Special Revenue Fund reflecting grants received and funds accumulated for future roadway capital projects, an increase of $4.2 million in major capital project cash reserves to fund specific capital projects of City-wide benefit, an increase of $1.4 million in the Redevelopment Agency resulting from significant increases in property tax revenue, an increase of $1 million in the General Fund as a result of repayment of Redevelopment Agency advances, an increase in the Self Insurance Fund cash balance of $0.6 million as a result of disaster claims reimbursements, and a decrease in federal grant advances of $3.5 million as a result of spending those grant funds.



- Other assets decreased $3.5 million primarily as a result of a decrease in grants and other advances receivable, and partially reflected in the increase in cash noted above.
- Net assets invested in capital assets net of related debt increased $6.1 million primarily due to the City's continued investment in infrastructure, including streets and roadways and major capital improvements.
- Restricted net assets have no comparable amount for 2002, as this is the first year of GASB 34 implementation.
- Unrestricted net assets is the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements. Unrestricted net assets of $58.2 million are available to finance day-to-day operations and other expenditures approved by City Council.

***Business-type Activities***

The net assets of business-type activities increased $2.8 million in fiscal 2003, to a total of $81 million, primarily as the result of applying cash reserves to fund capital projects. There were no significant changes in funding sources or expenses during the fiscal year.

## CHANGES IN NET ASSETS

Table 2 shows that total revenues increased $5.5 million in fiscal 2003, as a result of increases in capital grants in the form of federal road grants, Redevelopment Agency property taxes, and charges for services in the proprietary funds. Other individual increases and decreases are not considered material. Expenses for fiscal 2002 for governmental activities are not available for comparative purposes as fiscal 2003 is the first year of implementation of GASB 34. Business-type activity expenses increased $1 million or 4.7 percent, commensurate with labor cost increases.

**Table 2**
**Changes in Net Assets**
**For the Years Ended June 30**
**(in thousands)**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | S 12,230 | $ 12,409 | $ 25,778 | $ 25,193 | $ 38,008 | $ 37,602 |
| Operating grants & contributions | 12,014 | 13,260 | 385 | 281 | 12,399 | 13,541 |
| Capital grants & contributions | 2,997 | 1,243 | 1,431 | - | 4,428 | 1,243 |
| Total program revenues | 27,241 | 26,912 | 27,594 | 25,474 | 54,835 | 52,386 |
| General revenues: | | | | | | |
| Property tax | 15,426 | 13,002 | 939 | 926 | 16,365 | 13,928 |
| Sales tax | 8,950 | 8,469 | | | 8,950 | 8,469 |
| Motor vehicle in-lieu | 6,092 | 5,849 | | | 6,092 | 5,849 |
| Other taxes | 9,455 | 9,319 | | | 9,455 | 9,319 |
| Investments earnings | 3,504 | 2,963 | 706 | 835 | 4,210 | 3,798 |
| Other | 941 | 1,816 | 251 | 46 | 1,192 | 1,862 |
| Total general revenues | 44,368 | 41,418 | 1,896 | 1,807 | 46,264 | 43,225 |
| Total revenues | 71,609 | 68,330 | 29,490 | 27,281 | 101,099 | 95,611 |
| Expenses: | | | | | | |
| General government | 3,861 | N/A | | | 3,861 | N/A |
| Public safety | 29,896 | | | | 29,896 | |
| Public works | 5,820 | | | | 5,820 | |
| Streets & infrastructure | 1,909 | | | | 1,909 | |
| Culture & recreation | 11,472 | | | | 11,472 | |
| Economic & community dev. | 10,273 | | | | 10,273 | |
| Nondepartmental | 408 | | | | 408 | |
| Interest on long-term debt | 1,032 | | | | 1,032 | |
| Water utility | | | 8,440 | 7,652 | 8,440 | |
| Sewer | | | 12,115 | 11,771 | 12,115 | |
| Civic center | | | 627 | 770 | 627 | |
| Transfer station | | | 1,271 | 1,242 | 1,271 | |
| Total expenses | 64,671 | N/A | 22,453 | 21,435 | 87,124 | N/A |
| Increase(decrease) in net assets before transfers | 6,938 | | 7,037 | 5,846 | 13,975 | |
| Transfers | 4,223 | | (4,223) | (4,692) | | |
| Increase in net assets | 11,161 | | 2,814 | 1,154 | 13,975 | |
| Net assets, July 1, 2002 | 129,254 | N/A | 78,186 | 77,032 | 207,440 | N/A |
| Net assets, June 30, 2003 | $ 140,415 | $ 129,254 | $ 81,000 | $ 78,186 | $ 221,415 | $207,440 |



## GOVERNMENTAL ACTIVITIES

Table 3 presents the net cost of each of the City's major governmental programs. Net cost is defined as total program cost less the revenues generated by those specific activities, and corresponds to the Statement of Activities amounts. In general terms, the net cost illustrates the financial burden placed on the City's general taxpayers to fund these essential City services. Comparative amounts are unavailable as fiscal 2003 is the first year of GASB 34 implementation.

**Table 3**
**Governmental Activities**
**For the Year Ended June 30, 2003**
**(in thousands)**

| | Revenues | Expenses | Net Revenue (Expense) |
|---|---|---|---|
| Governmental Activities | | | |
| General government | $ 556 | $ 3,861 | $ (3,305) |
| Public safety | 4,301 | 29,896 | (25,595) |
| Public works | 2,624 | 5,820 | (3,196) |
| Streets & infrastructure | 1,179 | 1,909 | (730) |
| Culture & recreation | 6,321 | 11,472 | (5,151) |
| Economic & community dev. | 8,684 | 10,273 | (1,589) |
| All other | 3,576 | 1,440 | 2,136 |
| Total governmental activities | $ 27,241 | $ 64,671 | $ (37,430) |

## THE CITY'S FUND FINANCIAL STATEMENTS

### *Governmental Funds*

At June 30, 2003, the City's major governmental funds consisted of the General Fund, Gas Tax, Redevelopment Agency, and Capital Projects funds. The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial status.

The General Fund's unreserved fund balance increased slightly, from $11.4 million at June 30, 2002 to $11.7 million at June 30, 2003, or 2.7 percent. This increase is primarily due to the normal fluctuations in balance sheet receivable and payable accounts, as well as a minor adjustment as a result of GASB 34 implementation. Unreserved fund balance represents 21 percent of General Fund total expenditures for fiscal 2003. Revenues and expenditures in the General Fund have not seen significant change from the prior year, reflecting only very modest growth in total revenues and total expenditures.

The Gas Tax Special Revenue Fund had $1.8 million of unreserved fund balance as of June 30, 2003, an increase of $5 million. This wide swing resulted primarily from a $4.7 million receivable present at June30, 2002 that was collected during the year. The $1.8 million of unreserved fund balance represents uncommitted funds that are legally required to be spent on local roadway projects.

Redevelopment Agency unreserved fund deficit of $29 million is due to the long-term advances payable to the City's General Fund. These advances are expected to be repaid from future property tax increment revenues.

The City's Capital Projects Fund had $17.5 million in unreserved fund balance; all designated for specific capital projects that will benefit the community as a whole. Most significant of these projects are the new Bayshore Community Center and the replacement of the War Memorial Community Center.

***Proprietary Funds***

The City of Daly City's proprietary funds provide the same type of information found in the government-wide financial statements, only in more detail.

Water Utility revenues grew at approximately one percent over the previous year. This growth includes a 3.3 percent rate increase, showing a decrease in water usage even in a nondrought period. At the same time, expenses increased 8.3 percent, mostly from purchased water. A nine percent rate increase has been adopted for fiscal 2004.

Sanitation District revenues grew 3.3 percent over the prior year, and expenses grew 3.6 percent. Because sewer service charges are billed based on the previous year's winter water usage, a 5.75 percent rate increase was adopted for fiscal 2004.

**General Fund Budgetary Highlights**

The City of Daly City uses a biennial budgeting process, and fiscal 2003 represents the first year of a two-year budget. Two individual budget years are proposed to the City Council at the same time, with midbudget adjustments at the end of the first of the two years. This process provides more opportunity for long-term planning, but does require adjustment based on changing economic conditions, including on occasion adjustments to the first year. After midbudget adjustments, both revenues and expenditures were in line with expectations, with some savings in expenditures realized from holding the line on services and supplies and other charges. These savings were realized consistently over all operating departments.

## CAPITAL ASSETS

At the end of fiscal 2003 the City had $148.5 million, net of accumulated depreciation, invested in a broad range of capital assets, as shown in Table 4 below (further detail may be found in Note 4 to the financial statements):

**Table 4**
**Capital Assets at June 30**
**(in thousands)**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Land | $21,044 | $20,715 | $ 2,863 | $ 2,848 | $ 23,907 | $ 23,563 |
| Buildings & improvements | 13,996 | 15,032 | 4,981 | 5,173 | 18,977 | 20,205 |
| Streets & infrastructure | 24,087 | 19,886 | | | 24,087 | 19,886 |
| Wells & pump stations | | | 3,229 | 3,278 | 3,229 | 3,278 |
| Water reservoirs | | | 4,816 | 5,010 | 4,816 | 5,010 |
| Water mains | | | 9,114 | 8,498 | 9,114 | 8,498 |
| Sanitation subsurface lines | | | 12,637 | 10,214 | 12,637 | 10,214 |
| Sewage facilities | | | 22,742 | 23,830 | 22,742 | 23,830 |
| Equipment | 6,067 | 6,096 | 3,078 | 3,383 | 9,145 | 9,479 |
| Furniture & fixtures | 73 | 222 | 19 | 24 | 92 | 246 |
| Construction in progress | 10,716 | 7,867 | 9,045 | 6,224 | 19,761 | 14,091 |
| Total net capital assets | $75,983 | $69,818 | $72,524 | $68,482 | $148,507 | $138,300 |



As of June 30, 2003, the Bayshore Community Center was under construction, with a total budget of $8.9 million. This project will provide a much needed community facility for recreation programs, as well as a new library facility, and is located in the Bayshore neighborhood. With a total budget of $12 million, the War Memorial replacement project is the single most significant project in the entire major capital plan. This facility will also include a new library facility along with recreation space and community rooms.

Local roadway projects of various types were in the design phase or under construction, with a total available budget for the coming 2004 fiscal year of $6.5 million.

Various water master plan projects were completed as part of the Water Utility enterprise fund's $2.5 million investment in additional infrastructure, repair, and replacement in 2003. The Sanitation District contributed an additional $6.1 million to add to the City's enterprise fund infrastructure repairs, replacements, and additions. Most significant for the District will be the tertiary water treatment system project, begun in fiscal 2003, with a total budget of $6.9 million.

## DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 5 to the financial statements. In 2003 the City refinanced the outstanding Sanitation District certificates of participation (COP's), reducing interest rates from 5.0 to 5.375 percent to 2.0 to 2.5 percent. At June 30, the City's debt comprised:

**Table 5**
**Outstanding Debt**
**(in thousands)**

| | 2003 | 2002 |
|---|---|---|
| ***Governmental activities*** | | |
| 2002 Capital Lease – Energy Efficiency Project 4.69%, due 2011 | $945 | $1,041 |
| Line of Credit – Business Center 5.7%, due 2006 | 120 | 120 |
| Total | $1,065 | $1,161 |
| ***Business-type Activities*** | | |
| 2002 Wastewater COP's 2%-2.5%, due serially to 2009 | $9,375 | $0 |
| 1992 Wastewater COP's 5%-5.375%, refunded | 0 | 10,870 |
| Total | $9,375 | $10,870 |

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Consumer Price Index-All Urban Consumers was 1.6 percent for the San Francisco-Oakland region, compared to 2.1 percent for the U.S. City Average, as of June 2003. This is up slightly from the prior period, when the index was 1.2 percent locally and 1.1 percent nationally.

The Daly City annual average unemployment rate was 6.5 percent in December 2002, up from 3.6 percent in 2001 and 2.1 percent in 2000. This compares with 5.0, 2.8, and 1.6 percent, respectively, for San Mateo County as a whole. California, and especially Northern California, remained in an economic downturn during fiscal 2003.

Fiscal 2004 continues with the selective hiring freeze to aid in balancing the General Fund budget this year, and in anticipation of the second year of significant increases in retirement costs. Cash contributions, previously zero for four years, will be 9.17 percent and 5.108 percent of covered payroll for the Miscellaneous and Public Safety employee groups, respectively, in fiscal 2004. Beginning in fiscal 2005 rates will increase to 17.828 percent and 23.201 percent of covered payroll, as estimated by CalPERS. Assuming the resumption of previous average revenue growth, no other steps should be needed to maintain a balanced budget.

The continuing State of California budget shortfall, now estimated at $14 billion annually, has the potential to upset this delicate balance. Should the State choose, as it has done in the past, to take local government revenues to balance the State budget, more significant changes to City operations would be necessary.

## ADDITIONAL INFORMATION

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the Department of Finance and Administrative Services, 333 – 90th Street, Daly City California 94015.



# CITY OF DALY CITY
# STATEMENT OF NET ASSETS
## JUNE 30, 2003

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| ASSETS | | | |
| Cash and investments (Note 1F) | $62,834,081 | $16,756,328 | $79,590,409 |
| Cash with fiscal agent (Note 1F) | | 1,047,654 | 1,047,654 |
| Accounts receivable, net | 4,279,792 | 2,459,150 | 6,738,942 |
| Inventories | 274,612 | 1,611,678 | 1,886,290 |
| Prepaids | 358,519 | 74,617 | 433,136 |
| Notes receivable (Note 13) | 1,109,774 | | 1,109,774 |
| Property held for development (Note 1C) | 12,592,159 | | 12,592,159 |
| Capital assets, net (Note 4) | 75,982,589 | 72,523,846 | 148,506,435 |
| Total Assets | 157,431,526 | 94,473,273 | 251,904,799 |
| LIABILITIES | | | |
| Accounts payable | 2,794,887 | 3,265,410 | 6,060,297 |
| Accrued payroll | 1,033,535 | 123,577 | 1,157,112 |
| Accrued liabilities | 753,759 | | 753,759 |
| Deposits payable | 936,519 | 52,230 | 988,749 |
| Deferred revenue | 946,646 | | 946,646 |
| Compensated absences (Note 1J) | 6,981,704 | 657,446 | 7,639,150 |
| Accrued claims payable (Note 10) | 2,505,100 | | 2,505,100 |
| Long-term debt (Note 5): | | | |
| Due within one year | 100,023 | 1,635,000 | 1,735,023 |
| Due in more than one year | 964,483 | 7,740,000 | 8,704,483 |
| Total Liabilities | 17,016,656 | 13,473,663 | 30,490,319 |
| NET ASSETS (Note 11) | | | |
| Invested in capital assets, net of related debt | 74,918,083 | 71,690,579 | 146,608,662 |
| Restricted for: | | | |
| Debt service | | 1,047,654 | 1,047,654 |
| Redevelopment projects | 728,663 | | 728,663 |
| Special revenue projects | 6,496,742 | | 6,496,742 |
| Total Restricted Net Assets | 7,225,405 | 1,047,654 | 8,273,059 |
| Unrestricted | 58,271,382 | 8,261,377 | 66,532,759 |
| Total Net Assets | $140,414,870 | $80,999,610 | $221,414,480 |

See accompanying notes to financial statements

# CITY OF DALY CITY
## STATEMENT OF ACTIVITIES
## FOR THE YEAR ENDED JUNE 30, 2003

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets: Governmental Activities | Net (Expense) Revenue and Changes in Net Assets: Business-type Activities | Total |
|---|---|---|---|---|---|---|---|
| Governmental Activities: | | | | | | | |
| General government | $3,861,142 | $376,564 | $176,604 | $3,000 | ($3,304,974) | | ($3,304,974) |
| Public safety | 29,896,315 | 3,658,856 | 642,393 | | (25,595,066) | | (25,595,066) |
| Public works | 5,819,840 | 2,044,763 | 333,748 | 245,389 | (3,195,940) | | (3,195,940) |
| Streets and Infrastructure | 1,909,043 | 1,179,774 | | | (729,269) | | (729,269) |
| Culture and recreation | 11,471,728 | 2,466,170 | 1,358,547 | 2,495,883 | (5,151,128) | | (5,151,128) |
| Economic and community development | 10,272,554 | 2,215,902 | 6,468,033 | | (1,588,619) | | (1,588,619) |
| Nondepartmental | 407,667 | 288,268 | 3,034,498 | 252,922 | 3,168,021 | | 3,168,021 |
| Interest on long term debt | 1,032,337 | | | | (1,032,337) | | (1,032,337) |
| Total Governmental Activities | 64,670,626 | 12,230,297 | 12,013,823 | 2,997,194 | (37,429,312) | | (37,429,312) |
| Business-type Activities: | | | | | | | |
| Water Utility | 8,440,424 | 10,202,528 | 385,293 | | | $2,147,397 | 2,147,397 |
| Civic Center | 626,682 | 869,306 | | | | 242,624 | 242,624 |
| Transfer Station | 1,270,705 | 1,591,840 | | | | 321,135 | 321,135 |
| Sanitation District | 12,115,172 | 13,114,197 | | 1,430,442 | | 2,429,467 | 2,429,467 |
| Total Business-type Activities | 22,452,983 | 25,777,871 | 385,293 | 1,430,442 | | 5,140,623 | 5,140,623 |
| Total | $87,123,609 | $38,008,168 | $12,399,116 | $4,427,636 | (37,429,312) | 5,140,623 | (32,288,689) |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property tax | | | | | 15,426,462 | 939,013 | 16,365,475 |
| Sales tax | | | | | 8,949,909 | | 8,949,909 |
| Utility users tax | | | | | 5,246,566 | | 5,246,566 |
| Franchise fees | | | | | 2,281,204 | | 2,281,204 |
| Other taxes | | | | | 1,927,177 | | 1,927,177 |
| Motor vehicle in lieu | | | | | 6,091,761 | | 6,091,761 |
| Investment earnings | | | | | 3,503,897 | 706,251 | 4,210,148 |
| Gain (loss) from disposal of capital assets | | | | | 409,575 | (117,770) | 291,805 |
| Miscellaneous | | | | | 531,535 | 368,542 | 900,077 |
| Transfers (Note 7) | | | | | 4,222,495 | (4,222,495) | |
| Total general revenues and transfers | | | | | 48,590,581 | (2,326,459) | 46,264,122 |
| Change in Net Assets | | | | | 11,161,269 | 2,814,164 | 13,975,433 |
| Net Assets-Beginning | | | | | 129,253,601 | 78,185,446 | 207,439,047 |
| Net Assets-Ending | | | | | $140,414,870 | $80,999,610 | $221,414,480 |

See accompanying notes to financial statements



# CITY OF DALY CITY
## GOVERNMENTAL FUNDS
## BALANCE SHEET
## JUNE 30, 2003

| | General | Gas Tax | Redevelopment Agency | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Cash and investments (Note 1F) | $12,906,306 | $5,324,073 | $4,921,258 | $25,800,710 | $2,225,732 | $51,178,079 |
| Accounts receivable, net | 2,399,708 | 524,799 | 3,373 | 417,117 | 875,093 | 4,220,090 |
| Inventories | 131,483 | | | | | 131,483 |
| Prepaids | 280,927 | | | | 225 | 281,152 |
| Notes receivable (Note 13) | 203,831 | | | | 905,943 | 1,109,774 |
| Long-term interfund receivables (Note 7) | 32,933,176 | | | | | 32,933,176 |
| Property held for development (Note 1C) | | | 12,592,159 | | | 12,592,159 |
| Total Assets | $48,855,431 | $5,848,872 | $17,516,790 | $26,217,827 | $4,006,993 | $102,445,913 |
| LIABILITIES | | | | | | |
| Accounts payable | $599,603 | $142,260 | $44,176 | $1,216,206 | $583,484 | $2,585,729 |
| Accrued payroll | 899,596 | | 5,822 | | 50,312 | 955,730 |
| Accrued liabilities | 732,120 | | | | 15,741 | 747,861 |
| Deposits payable | 759,912 | | 175,850 | | | 935,762 |
| Deferred revenue | 13,026,735 | 250,200 | | | 1,852,589 | 15,129,524 |
| Compensated absences (Note 1J) | 590,073 | | | | | 590,073 |
| Long-term interfund payables (Note 7) | | | 32,933,176 | | | 32,933,176 |
| Total Liabilities | 16,608,039 | 392,460 | 33,159,024 | 1,216,206 | 2,502,126 | 53,877,855 |
| FUND BALANCES | | | | | | |
| Fund Balance (Note 1M) | | | | | | |
| Reserved for: | | | | | | |
| Encumbrances | 39,491 | 132,772 | 52,899 | 7,499,558 | 985,294 | 8,710,014 |
| Inventories | 131,483 | | | | | 131,483 |
| Prepaids | 280,927 | | | | 225 | 281,152 |
| Notes receivable | 203,831 | | | | | 203,831 |
| Long-term interfund receivables | 19,906,441 | | | | | 19,906,441 |
| Property held for development | | | 12,592,159 | | | 12,592,159 |
| Capital projects | | 3,521,349 | | | 873,317 | 4,394,666 |
| Restricted purposes | | | 728,663 | | 660,839 | 1,389,502 |
| Imprest cash funds | 5,680 | | | | 950 | 6,630 |
| Unreserved: | | | | | | |
| Designated for: | | | | | | |
| Capital projects | 1,500,000 | | | 17,502,063 | | 19,002,063 |
| Operating capital | 5,000,000 | | | | | 5,000,000 |
| Undesignated, reported in: | | | | | | |
| General Fund | 5,179,539 | | | | | 5,179,539 |
| Special Revenue Funds | | 1,802,291 | (29,015,955) | | (1,015,758) | (28,229,422) |
| Total Fund Balances (Deficits) | 32,247,392 | 5,456,412 | (15,642,234) | 25,001,621 | 1,504,867 | 48,568,058 |
| Total Liabilities and Fund Balances | $48,855,431 | $5,848,872 | $17,516,790 | $26,217,827 | $4,006,993 | $102,445,913 |

See accompanying notes to financial statements

## CITY OF DALY CITY
### Reconciliation of the
### GOVERNMENTAL FUNDS - BALANCE SHEET
### with the
### STATEMENT OF NET ASSETS
### JUNE 30, 2003

| | |
|---|---|
| Total fund balances reported on the Governmental Funds Balance Sheet | $48,568,058 |
| Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following: | |
| CAPITAL ASSETS | |
| Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds. | 69,911,434 |
| ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS | |
| Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets. | |
| Cash and investments | 11,656,002 |
| Accounts receivable | 59,702 |
| Prepaids | 77,367 |
| Inventories | 143,129 |
| Capital assets | 6,071,155 |
| Accounts payable | (209,158) |
| Accrued payroll | (77,805) |
| Accrued liabilities | (5,898) |
| Deposits payable | (757) |
| Accrued claims payable | (2,505,100) |
| Compensated absences | (583,298) |
| ACCRUAL OF NONCURRENT REVENUES AND EXPENSES | |
| Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities. | 14,182,878 |
| LONG TERM ASSETS AND LIABILITIES | |
| The assets and liabilities below are not due and payable in the current period and therefore are not reported in the funds: | |
| Long-term debt | (1,064,506) |
| Non-current portion of compensated absences | (5,808,333) |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | $140,414,870 |

See accompanying notes to financial statements



## CITY OF DALY CITY
### GOVERNMENTAL FUNDS
### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
### FOR THE YEAR ENDED JUNE 30, 2003

| | General | Gas Tax | Redevelopment Agency | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| REVENUES | | | | | | |
| Property tax | $10,577,813 | | $4,848,649 | | | $15,426,462 |
| Gas tax | | $2,226,372 | | | | 2,226,372 |
| Sales tax | 8,275,996 | 1,144,050 | | | | 9,420,046 |
| Utility users tax | 5,246,566 | | | | | 5,246,566 |
| Franchise fees | 2,281,204 | | | | | 2,281,204 |
| Other taxes | 8,018,938 | | | | | 8,018,938 |
| Licenses and permits | 1,710,137 | | | | | 1,710,137 |
| Fines and forfeitures | 2,468,498 | | | | | 2,468,498 |
| Rents and interest | 3,263,672 | 132,435 | 149,018 | $949,432 | $161,270 | 4,655,827 |
| Federal programs and grants | 18,367 | 4,481,374 | | 103,500 | 2,248,014 | 6,851,255 |
| Receipts from other agencies | 787,985 | 423,344 | | 2,043,779 | 5,317,300 | 8,572,408 |
| Charges and fees | 5,572,983 | 18,000 | | 452,922 | 1,279,612 | 7,323,517 |
| Miscellaneous | 434,198 | 21,649 | 6,285 | 806,289 | 549,646 | 1,818,067 |
| Total Revenues | 48,656,357 | 8,447,224 | 5,003,952 | 4,355,922 | 9,555,842 | 76,019,297 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General government | 3,668,450 | | | | | 3,668,450 |
| Public safety | 29,119,872 | | | | 169,990 | 29,289,862 |
| Public works | 5,327,270 | | | | 16,112 | 5,343,382 |
| Culture and recreation | 9,121,064 | | | | 1,774,420 | 10,895,484 |
| Economic and community development | 2,518,738 | | 818,961 | | 6,868,270 | 10,205,969 |
| Capital projects | | 2,814,593 | | 7,446,370 | | 10,260,963 |
| Debt service | | | | | | |
| Principal | | | | 95,542 | | 95,542 |
| Interest and fiscal charges | 6,834 | | 976,719 | 48,784 | | 1,032,337 |
| Total Expenditures | 49,762,228 | 2,814,593 | 1,795,680 | 7,590,696 | 8,828,792 | 70,791,989 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (1,105,871) | 5,632,631 | 3,208,272 | (3,234,774) | 727,050 | 5,227,308 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Sale of property | 774,194 | | | | | 774,194 |
| Transfers in (Note 7) | 5,600,362 | | | 7,238,176 | 760,225 | 13,598,763 |
| Transfers out (Note 7) | (4,981,091) | (1,655,520) | (306,452) | (39,453) | (2,583,663) | (9,566,179) |
| Total Other Financing Sources (Uses) | 1,393,465 | (1,655,520) | (306,452) | 7,198,723 | (1,823,438) | 4,806,778 |
| NET CHANGE IN FUND BALANCES | 287,594 | 3,977,111 | 2,901,820 | 3,963,949 | (1,096,388) | 10,034,086 |
| BEGINNING FUND BALANCES | | | | | | |
| As originally reported | 32,171,432 | 1,479,301 | 15,791,849 | 21,037,672 | 2,601,255 | 73,081,509 |
| GASB 34 implementation adjustment (Note 11) | (211,634) | | (34,335,903) | | | (34,547,537) |
| As adjusted | 31,959,798 | 1,479,301 | (18,544,054) | 21,037,672 | 2,601,255 | 38,533,972 |
| ENDING FUND BALANCES (DEFICITS) | $32,247,392 | $5,456,412 | ($15,642,234) | $25,001,621 | $1,504,867 | $48,568,058 |

See accompanying notes to financial statements

CITY OF DALY CITY
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

| | |
|---|---|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | $10,034,086 |
| Amounts reported for governmental activities in the Statement of Activities are different because of the following: | |
| CAPITAL ASSETS TRANSACTIONS | |
| Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. | |
| The capital outlay expenditures are therefore added back to fund balance. | 8,981,161 |
| Depreciation expense is deducted from fund balance (Depreciation expense is net of internal service fund depreciation of $1,241,574 which has already been allocated to serviced funds) | (2,282,070) |
| Retirements of capital assets | (372,159) |
| LONG TERM DEBT PROCEEDS AND PAYMENTS | |
| Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities. | |
| Repayment of debt principal is added back to fund balance | 95,542 |
| ACCRUAL OF NONCURRENT ITEMS | |
| The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds: | |
| Deferred revenue | (5,220,657) |
| Compensated absences | (370,286) |
| ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY | |
| Internal service funds are used to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these internal service funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities. | |
| Change in net assets of all internal service funds | 295,652 |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | $11,161,269 |

See accompanying notes to financial statements



CITY OF DALY CITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003

| | Budgeted Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | (Negative) |
| REVENUES: | | | | |
| Property tax | $10,599,545 | $10,869,545 | $10,577,813 | ($291,732) |
| Sales tax | 7,969,950 | 8,319,950 | 8,275,996 | (43,954) |
| Utility users tax | 5,415,390 | 5,415,390 | 5,246,566 | (168,824) |
| Franchise fees | 2,331,098 | 2,331,098 | 2,281,204 | (49,894) |
| Other taxes | 8,071,645 | 8,071,645 | 8,018,938 | (52,707) |
| Licenses and permits | 1,583,892 | 1,587,892 | 1,710,137 | 122,245 |
| Fines and forfeitures | 2,386,059 | 2,386,059 | 2,468,498 | 82,439 |
| Rents and interest | 1,836,477 | 2,465,939 | 3,263,672 | 797,733 |
| Federal programs and grants | 11,180 | 18,157 | 18,367 | 210 |
| Receipts from other agencies | 542,634 | 823,546 | 787,985 | (35,561) |
| Charges and fees | 6,072,644 | 6,205,847 | 5,572,983 | (632,864) |
| Miscellaneous | 116,038 | 304,235 | 434,198 | 129,963 |
| Total Revenues | 46,936,552 | 48,799,303 | 48,656,357 | (142,946) |
| EXPENDITURES: | | | | |
| Current Operations: | | | | |
| General Government | | | | |
| Legislative | | | | |
| Personnel services | 103,092 | 114,592 | 114,402 | 190 |
| Other services | 57,831 | 58,581 | 58,426 | 155 |
| Other charges | 12,400 | 8,900 | 8,299 | 601 |
| Total Legislative | 173,323 | 182,073 | 181,127 | 946 |
| Legal: | | | | |
| Personnel services | 604,449 | 587,449 | 587,366 | 83 |
| Other services | 123,731 | 243,731 | 243,369 | 362 |
| Other charges | 4,365 | 3,865 | 3,730 | 135 |
| Total Legal | 732,545 | 835,045 | 834,465 | 580 |
| Administrative | | | | |
| Personnel services | 715,512 | 1,224,057 | 1,223,156 | 901 |
| Other services | 1,139,675 | 1,101,714 | 1,030,236 | 71,478 |
| Capital outlay | 800 | 90,800 | 88,312 | 2,488 |
| Other charges | 528,829 | 323,240 | 311,154 | 12,086 |
| Total Administrative | 2,384,816 | 2,739,811 | 2,652,858 | 86,953 |
| Total General Government | 3,290,684 | 3,756,929 | 3,668,450 | 88,479 |
| Public Safety | | | | |
| Police: | | | | |
| Personnel services | 14,124,494 | 13,796,441 | 13,795,498 | 943 |
| Other services | 2,202,118 | 2,275,645 | 2,235,501 | 40,144 |
| Capital outlay | 14,815 | 125,282 | 78,916 | 46,366 |
| Other charges | 785,616 | 832,496 | 831,740 | 756 |
| Total Police | 17,127,043 | 17,029,864 | 16,941,655 | 88,209 |
| Fire: | | | | |
| Personnel services | 8,072,971 | 9,675,821 | 9,674,986 | 835 |
| Other services | 854,984 | 897,984 | 897,385 | 599 |
| Capital outlay | 21,800 | 22,600 | 21,999 | 601 |
| Other charges | 60,773 | 67,989 | 67,580 | 409 |
| Total Fire | 9,010,528 | 10,664,394 | 10,661,950 | 2,444 |
| Public Safety Communications | | | | |
| Personnel services | 1,093,384 | 1,161,384 | 1,160,648 | 736 |
| Other services | 333,074 | 350,656 | 350,033 | 623 |
| Capital outlay | 1,560 | 1,560 | 1,369 | 191 |
| Other charges | 3,741 | 4,741 | 4,217 | 524 |
| Total Public Safety Communications | 1,431,759 | 1,518,341 | 1,516,267 | 2,074 |
| Total Public Safety | 27,569,330 | 29,212,599 | 29,119,872 | 92,727 |

## CITY OF DALY CITY
## GENERAL FUND
## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
## BUDGET AND ACTUAL
## FOR THE YEAR ENDED JUNE 30, 2003

| | Budgeted Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | (Negative) |
| Public Works | | | | |
| Personnel services | 4,077,254 | 4,083,254 | 4,081,979 | 1,275 |
| Other services | 1,284,699 | 1,248,699 | 1,224,454 | 24,245 |
| Capital outlay | 1,000 | 1,000 | | 1,000 |
| Other charges | 21,066 | 21,066 | 20,837 | 229 |
| Total Public Works | 5,384,019 | 5,354,019 | 5,327,270 | 26,749 |
| Culture and Recreation | | | | |
| Library: | | | | |
| Personnel services | 1,677,610 | 1,699,610 | 1,699,305 | 305 |
| Other services | 754,604 | 751,687 | 751,484 | 203 |
| Other charges | 6,719 | 6,201 | 5,189 | 1,012 |
| Total Library | 2,438,933 | 2,457,498 | 2,455,978 | 1,520 |
| Parks and Recreation | | | | |
| Personnel services | 4,100,737 | 4,082,333 | 4,081,638 | 695 |
| Other services | 2,794,941 | 2,799,160 | 2,556,625 | 242,535 |
| Capital outlay | 7,947 | 7,947 | 7,428 | 519 |
| Other charges | 26,958 | 26,958 | 19,395 | 7,563 |
| Total Parks and Recreation | 6,930,583 | 6,916,398 | 6,665,086 | 251,312 |
| Total Culture and Recreation | 9,369,516 | 9,373,896 | 9,121,064 | 252,832 |
| Economic and Community Development | | | | |
| Personnel services | 1,840,099 | 1,793,660 | 1,793,056 | 604 |
| Other services | 554,195 | 746,037 | 696,794 | 49,243 |
| Capital outlay | 828 | 1,828 | 657 | 1,171 |
| Other charges | 35,033 | 37,433 | 28,231 | 9,202 |
| Total Economic and Community Development | 2,430,155 | 2,578,958 | 2,518,738 | 60,220 |
| Debt Service | | | | |
| Interest and fiscal charges | 2,250 | 7,130 | 6,834 | 296 |
| Total Expenditures | 48,045,954 | 50,283,531 | 49,762,228 | 521,303 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (1,109,402) | (1,484,228) | (1,105,871) | 378,357 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of property | 6,500 | 774,193 | 774,194 | 1 |
| Transfers in | 5,571,433 | 5,647,680 | 5,600,362 | (47,318) |
| Transfers out | (5,046,225) | (5,556,287) | (4,981,091) | 575,196 |
| Total Other Financing Sources (Uses) | 531,708 | 865,586 | 1,393,465 | 527,879 |
| NET CHANGE IN FUND BALANCES | ($577,694) | ($618,642) | 287,594 | $906,236 |
| BEGINNING FUND BALANCES | | | | |
| As originally reported | | | 32,171,432 | |
| GASB 34 implementation adjustment (Note 11) | | | (211,634) | |
| As adjusted | | | 31,959,798 | |
| ENDING FUND BALANCES | | | $32,247,392 | |

See accompanying notes to financial statements



## CITY OF DALY CITY
## GAS TAX SPECIAL REVENUE FUND
## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
## BUDGET AND ACTUAL
## FOR THE YEAR ENDED JUNE 30, 2003

| | Budgeted Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | (Negative) |
| REVENUES: | | | | |
| Gas tax | $2,020,266 | $2,020,266 | $2,226,372 | $206,106 |
| Sales tax | 1,238,779 | 1,238,779 | 1,144,050 | (94,729) |
| Interest | 120,000 | 120,000 | 132,435 | 12,435 |
| Federal programs and grants | 2,099,840 | 2,099,840 | 4,481,374 | 2,381,534 |
| Receipts from other agencies | 511,591 | 511,591 | 423,344 | (88,247) |
| Charges and fees | 500,000 | 518,000 | 18,000 | (500,000) |
| Miscellaneous | | 14,500 | 21,649 | 7,149 |
| Total Revenues | 6,490,476 | 6,522,976 | 8,447,224 | 1,924,248 |
| EXPENDITURES: | | | | |
| Capital projects | 7,313,027 | 7,345,527 | 2,814,593 | 4,530,934 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (822,551) | (822,551) | 5,632,631 | 6,455,182 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (1,702,838) | (1,702,838) | (1,655,520) | 47,318 |
| NET CHANGE IN FUND BALANCES | ($2,525,389) | ($2,525,389) | 3,977,111 | $6,502,500 |
| BEGINNING FUND BALANCES | | | 1,479,301 | |
| ENDING FUND BALANCES | | | $5,456,412 | |

See accompanying notes to financial statements

CITY OF DALY CITY
REDEVELOPMENT AGENCY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003

| | Budgeted Amounts | | | Variance with Final Budget |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | Positive (Negative) |
| REVENUES: | | | | |
| Property tax | $2,433,503 | $4,813,878 | $4,848,649 | $34,771 |
| Rents and interest | 83,500 | 118,500 | 149,018 | 30,518 |
| Miscellaneous | 900 | 900 | 6,285 | 5,385 |
| Total Revenues | 2,517,903 | 4,933,278 | 5,003,952 | 70,674 |
| EXPENDITURES: | | | | |
| Economic and Community Development: | | | | |
| Salaries and benefits | 256,748 | 259,248 | 255,730 | 3,518 |
| Services and supplies | 283,862 | 281,142 | 96,417 | 184,725 |
| ERAF shift | | 54,375 | 54,375 | |
| Other charges | 324,988 | 467,708 | 375,489 | 92,219 |
| Capital outlay | 1,120,115 | 1,120,115 | 36,950 | 1,083,165 |
| Total Economic and Community Development | 1,985,713 | 2,482,588 | 818,961 | 1,363,627 |
| Debt Service: | | | | |
| Interest and fiscal charges | 1,671,512 | 1,671,512 | 976,719 | 694,793 |
| Total Expenditures | 3,657,225 | 3,854,100 | 1,795,680 | 2,058,420 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (1,139,322) | 1,079,178 | 3,208,272 | 2,129,094 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of property | 1,000,000 | 1,000,000 | | (1,000,000) |
| Transfers out | | (306,452) | (306,452) | |
| Proceeds from long-term debt | 567,383 | 567,383 | | (567,383) |
| Total other financing sources (uses) | 1,567,383 | 1,260,931 | (306,452) | (1,567,383) |
| NET CHANGE IN FUND BALANCES | $428,061 | $2,340,109 | 2,901,820 | $561,711 |
| BEGINNING FUND BALANCES | | | | |
| As originally reported | | | 15,791,849 | |
| GASB 34 implementation adjustment (Note 11) | | | (34,335,903) | |
| As adjusted | | | (18,544,054) | |
| ENDING FUND BALANCES (DEFICIT) | | | ($15,642,234) | |

See accompanying notes to financial statements



CITY OF DALY CITY
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003

| | Business-type Activities-Enterprise Funds | | | | Governmental Activities- Internal Service Funds |
|---|---|---|---|---|---|
| | Water Utility | Sanitation District | Other Enterprise Funds | Totals | |
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and investments | $4,077,894 | $11,398,406 | $1,280,028 | $16,756,328 | $11,656,002 |
| Cash with fiscal agent | | 1,047,654 | | 1,047,654 | |
| Accounts receivable, net | 1,488,583 | 740,845 | 185,125 | 2,414,553 | 59,702 |
| Inventories | 456,325 | 1,155,353 | | 1,611,678 | 143,129 |
| Prepaids | | 74,617 | | 74,617 | 77,367 |
| Total Current Assets | 6,022,802 | 14,416,875 | 1,465,153 | 21,904,830 | 11,936,200 |
| Long-Term Assets: | | | | | |
| Advances to others | | | 44,597 | 44,597 | |
| Long-term interfund receivable | | 833,267 | | 833,267 | |
| Total Long-Term Assets | | 833,267 | 44,597 | 877,864 | |
| Capital Assets: | | | | | |
| Land | 839,856 | 233,547 | 1,789,146 | 2,862,549 | 333,343 |
| Buildings | 502,661 | 209,419 | 6,753,006 | 7,465,086 | 194,494 |
| Sewage facilities | | 45,125,607 | | 45,125,607 | |
| Wells and pump stations | 5,019,529 | | | 5,019,529 | |
| Water reservoirs | 7,308,827 | | | 7,308,827 | |
| Mains & subsurface lines | 10,381,684 | 15,773,723 | | 26,155,407 | |
| Equipment | 2,452,083 | 1,703,627 | 676,168 | 4,831,878 | 14,046,431 |
| Furniture and fixtures | 15,070 | 53,240 | | 68,310 | 16,633 |
| Construction in progress | 965,849 | 8,079,218 | | 9,045,067 | |
| Total Capital Assets | 27,485,559 | 71,178,381 | 9,218,320 | 107,882,260 | 14,590,901 |
| Less accumulated depreciation | 6,596,273 | 26,175,611 | 2,586,530 | 35,358,414 | 8,519,746 |
| Net Capital Assets | 20,889,286 | 45,002,770 | 6,631,790 | 72,523,846 | 6,071,155 |
| Total Assets | 26,912,088 | 60,252,912 | 8,141,540 | 95,306,540 | 18,007,355 |
| Current Liabilities: | | | | | |
| Accounts payable | 885,087 | 1,741,144 | 412,140 | 3,038,371 | 209,158 |
| Retentions payable | 24,099 | 202,940 | | 227,039 | |
| Accrued liabilities | | | | | 5,898 |
| Accrued payroll | 42,055 | 81,522 | | 123,577 | 77,805 |
| Compensated absences | 6,410 | 32,206 | | 38,616 | |
| Deposits payable | 52,230 | | | 52,230 | 757 |
| Total Current Liabilities | 1,009,881 | 2,057,812 | 412,140 | 3,479,833 | 293,618 |
| Long-Term Liabilities: | | | | | |
| Compensated absences (Note 1J) | 174,372 | 444,458 | | 618,830 | 583,298 |
| Accrued claims payable (Note 10) | | | | | 2,505,100 |
| Long-term interfund payable | | | 833,267 | 833,267 | |
| Long term debt (Note 5) | | | | | |
| Due within one year | | 1,635,000 | | 1,635,000 | |
| Due in more than one year | | 7,740,000 | | 7,740,000 | |
| Total Long-Term Liabilities | 174,372 | 9,819,458 | 833,267 | 10,827,097 | 3,088,398 |
| Total Liabilities | 1,184,253 | 11,877,270 | 1,245,407 | 14,306,930 | 3,382,016 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | 20,889,286 | 45,002,770 | 5,798,523 | 71,690,579 | 6,071,155 |
| Restricted for debt service | | 1,047,654 | | 1,047,654 | |
| Unrestricted (Note 1M) | 4,838,549 | 2,325,218 | 1,097,610 | 8,261,377 | 8,554,184 |
| Total Net Assets | $25,727,835 | $48,375,642 | $6,896,133 | $80,999,610 | $14,625,339 |

See accompanying notes to financial statements

CITY OF DALY CITY
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003

| | Business-type Activities-Enterprise Funds | | | | Governmental Activities- Internal Service Funds |
|---|---|---|---|---|---|
| | Water Utility | Sanitation District | Other Enterprise Funds | Totals | |
| OPERATING REVENUES | | | | | |
| Water sales | $10,202,528 | | | $10,202,528 | |
| Sewer service charges | | $12,541,647 | | 12,541,647 | |
| Connection charges | | 572,550 | | 572,550 | |
| Rental income | | | $869,306 | 869,306 | |
| Lease revenue | | | 375,000 | 375,000 | |
| Recycling revenue | | | 1,216,840 | 1,216,840 | |
| Charges to City departments | | | | | $8,901,339 |
| Other revenues | 547,780 | 1,474,471 | 162,026 | 2,184,277 | 571,175 |
| Total Operating Revenues | 10,750,308 | 14,588,668 | 2,623,172 | 27,962,148 | 9,472,514 |
| OPERATING EXPENSES | | | | | |
| Salaries and benefits | 1,773,434 | 3,827,366 | | 5,600,800 | 3,558,662 |
| Services and supplies | 1,061,566 | 3,914,765 | 167,730 | 5,144,061 | 2,027,980 |
| Water purchases | 2,427,792 | | | 2,427,792 | |
| Transfer station charges | | | 1,216,840 | 1,216,840 | |
| Utilities | 1,150,252 | 778,985 | 120,563 | 2,049,800 | 389,627 |
| Insurance | 95,978 | 231,532 | 13,812 | 341,322 | 1,136,312 |
| Claims / settlements | | | | | 2,300,936 |
| Depreciation | 850,591 | 1,618,627 | 312,054 | 2,781,272 | 1,241,574 |
| Other charges | 1,080,811 | 972,321 | 20,500 | 2,073,632 | 191,309 |
| Total Operating Expenses | 8,440,424 | 11,343,596 | 1,851,499 | 21,635,519 | 10,846,400 |
| Operating Income (Loss) | 2,309,884 | 3,245,072 | 771,673 | 6,326,629 | (1,373,886) |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Property taxes | | 939,013 | | 939,013 | |
| Gain (loss) on sale of capital assets | (26,391) | (91,379) | | (117,770) | (5,614) |
| Loss on refunding (Note 5) | | (616,046) | | (616,046) | |
| Grant reimbursement | | | | | 1,153,091 |
| Storm damage repair expenses | | | | | (99,204) |
| Interest income | 176,404 | 511,718 | 18,129 | 706,251 | 431,354 |
| Interest expense | | (155,530) | (45,888) | (201,418) | |
| Total Nonoperating Revenues (Expenses) | 150,013 | 587,776 | (27,759) | 710,030 | 1,479,627 |
| Income Before Transfers | 2,459,897 | 3,832,848 | 743,914 | 7,036,659 | 105,741 |
| Transfers in (Note 7) | | 941,738 | | 941,738 | 334,237 |
| Transfers out (Note 7) | (2,563,999) | (1,892,758) | (707,476) | (5,164,233) | (144,326) |
| Net transfers | (2,563,999) | (951,020) | (707,476) | (4,222,495) | 189,911 |
| Change in net assets | (104,102) | 2,881,828 | 36,438 | 2,814,164 | 295,652 |
| BEGINNING NET ASSETS | 25,831,937 | 45,493,814 | 6,859,695 | 78,185,446 | 14,329,687 |
| ENDING NET ASSETS | $25,727,835 | $48,375,642 | $6,896,133 | $80,999,610 | $14,625,339 |

See accompanying notes to financial statements



CITY OF DALY CITY
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003

| | Business-type Activities-Enterprise Funds | | | | Governmental Activities- Internal Service Funds |
|---|---|---|---|---|---|
| | Water Utility | Sanitation District | Other Enterprise Funds | Totals | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers | $10,729,484 | $14,674,906 | $2,649,374 | $28,053,764 | $9,454,335 |
| Payments to suppliers | (5,292,017) | (5,534,720) | (1,577,226) | (12,403,963) | (4,082,655) |
| Payments to employees | (1,761,454) | (3,764,530) | | (5,525,984) | (3,479,448) |
| Claims paid | | | | | (1,489,722) |
| Cash Flows from Operating Activities | 3,676,013 | 5,375,656 | 1,072,148 | 10,123,817 | 402,510 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Interfund receipts | | 115,701 | | 115,701 | |
| Interfund payments | | | (115,702) | (115,702) | |
| Interest paid | | | (45,888) | (45,888) | |
| Property tax | | 939,013 | | 939,013 | |
| Grant reimbursement | | | | | 1,153,091 |
| Storm damage repair expenses | | | | | (99,204) |
| Transfers in | | 941,738 | | 941,738 | 334,237 |
| Transfers out | (2,563,999) | (1,892,758) | (707,476) | (5,164,233) | (144,326) |
| Cash Flows from Noncapital Financing Activities | (2,563,999) | 103,694 | (869,066) | (3,329,371) | 1,243,798 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Acquisition of capital assets | (1,689,035) | (5,251,722) | | (6,940,757) | (1,116,452) |
| Proceeds from sale of capital assets | | | | | 31,198 |
| Issuance cost paid | | (238,084) | | (238,084) | |
| Proceeds from long term debt | | 10,475,000 | | 10,475,000 | |
| Payment to refunded debt escrow agent | | (11,247,962) | | (11,247,962) | |
| Principal payments on capital debt | | (1,100,000) | | (1,100,000) | |
| Interest paid | | (155,530) | | (155,530) | |
| Cash Flows from Capital and Related Financing Activities | (1,689,035) | (7,518,298) | | (9,207,333) | (1,085,254) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Interest | 176,404 | 511,718 | 18,129 | 706,251 | 431,354 |
| Net Cash Flows | (400,617) | (1,527,230) | 221,211 | (1,706,636) | 992,408 |
| Cash and investments at beginning of period | 4,478,511 | 13,973,290 | 1,058,817 | 19,510,618 | 10,663,594 |
| Cash and investments at end of period | $4,077,894 | $12,446,060 | $1,280,028 | $17,803,982 | $11,656,002 |
| Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities: | | | | | |
| Operating income (loss) | $2,309,884 | $3,245,072 | $771,673 | $6,326,629 | ($1,373,886) |
| Adjustments to reconcile operating income to cash flows from operating activities: | | | | | |
| Depreciation | 850,591 | 1,618,627 | 312,054 | 2,781,272 | 1,241,574 |
| Change in assets and liabilities: | | | | | |
| Receivables, net | (20,824) | 86,238 | 26,202 | 91,616 | (18,179) |
| Inventory | (18,438) | (41,848) | | (60,286) | |
| Other assets | | 171,077 | | 171,077 | (27,738) |
| Accounts and other payables | 542,820 | 233,654 | (37,781) | 738,693 | (309,689) |
| Accrued claims payable | | | | | 811,214 |
| Accrued payroll and compensated absences | 11,980 | 62,836 | | 74,816 | 79,214 |
| Cash Flows from Operating Activities | $3,676,013 | $5,375,656 | $1,072,148 | $10,123,817 | $402,510 |

See accompanying notes to financial statements

CITY OF DALY CITY

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2003

| | Agency Funds |
|---|---|
| ASSETS | |
| Cash and investments (Note 1F) | $2,903,235 |
| Receivables | 668,524 |
| Total Assets | $3,571,759 |
| LIABILITIES | |
| Accounts payable | $939,842 |
| Due to bondholders | 1,209,555 |
| Deposits payable | 1,422,362 |
| Total Liabilities | $3,571,759 |

See accompanying notes to financial statements

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2003

**Note 1.**
DESCRIPTION OF FUNDS AND SUMMARY OF ACCOUNTING POLICIES

The City of Daly City (City) was incorporated on March 22, 1911, and operates under a council-manager form of government. Daly City is a general law city, and provides the following services: public safety (police and fire), highways and streets, water, sanitary sewer, social services, library, recreation, public improvements, planning and zoning, and general administrative services.

The Basic Financial Statements include financial information for entities which are directly or indirectly governed by the City Council. The entities included are the City, the Daly City Redevelopment Agency, the North San Mateo County Sanitation District, and the Daly City Public Facilities Financing Corporation (see Note 2).

The accounting policies of the City conform with generally accepted accounting principles as they apply to governments. The following is a summary of the more significant policies.

### *A. BASIS OF PRESENTATION*

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The accompanying financial statements are presented on the basis set forth in Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB 34), No. 36, *Recipient Reporting for Certain Nonexchange Revenues, an Amendment of GASB Statement* No. 33, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures.*

These Statements require that the financial statements described below be presented.



***Government-wide Statements:*** The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and for each segment of the business-type activities of the City. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs, grants and contributions that are restricted to meeting the operational needs of a particular program and fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

***Fund Financial Statements:*** The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental, proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

### *B. MAJOR FUNDS*

GASB 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called nonmajor funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

**GENERAL FUND** is the general operating fund of the City. It is used to account for all financial resources traditionally associated with governments which are not required to be accounted for in a separate fund.

**GAS TAX SPECIAL REVENUE FUND** is used to account for gas tax monies allocated by the State to the City for the streets and roads program.

**REDEVELOPMENT AGENCY SPECIAL REVENUE FUND** is used to account for monies restricted for the purpose of eliminating blight in designated redevelopment project areas. The Redevelopment Agency was established in 1971 for the purpose of redeveloping certain portions of the City's older business areas. While the Redevelopment Agency is technically an administrative arm of the State, exercising State powers, it is governed and effectively controlled by the City Council.

**CAPITAL PROJECTS FUND** is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

The City reported the following enterprise funds as major funds in the accompanying financial statements:

**WATER UTILITY FUND** is used to account for activity related to providing residents with water service and billing for garbage collection service provided by Browning-Ferris Industries of California.

**SANITATION DISTRICT FUND** is used to account for activity related to providing residents with sanitary sewer services.

The City also reports the following fund types:

**Internal Service Funds.** The funds account for motor vehicles, central services, telephone, building maintenance, information services and self-insurance; all of which are provided to other departments on a cost-reimbursement basis.

**Fiduciary Funds.** Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the entity-wide financial statements, but are presented in separate fiduciary fund financial statements.



***C. PROPERTY HELD FOR DEVELOPMENT***

Property held for development is stated at the lower of historical cost or net realizable value (equal to agreed upon sales price if a disposition and development agreement has been reached with a developer).

***D. BASIS OF ACCOUNTING***

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *full accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within **sixty days** after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

Property tax and sales tax are considered measurable and available when in the hands of intermediary collecting governments and are recognized as revenue at that time. The primary revenue sources which are susceptible to accrual include taxes, rents, licenses, interest, grants and contributions. Fines and penalties and other revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

Proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. The City follows Financial Accounting Standard Board statements issued on or before November 30, 1989 which do not conflict with Governmental Accounting Standards Board statements.

*Nonexchange transactions*, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On an accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

### E. *BUDGETS, BUDGETARY ACCOUNTING AND ENCUMBRANCES*

The City adopts an annual budget before June 30, for all funds and component units other than the Agency Funds. Budgets are subject to public hearing before they are adopted by the City Council. Budgets are prepared on the basis of generally accepted accounting principles (GAAP basis).

The City is not legally required to prepare budgets for any of its funds, but does so as a matter of managerial policy. Budgets submitted to the City Council include both proposed appropriations and the means of financing them. The City Council approves total appropriations on a fund by fund basis.

The City Manager is authorized and directed to make any changes or transfers of appropriations within any Department of the City and from one Department to another as he deems necessary or feasible, as long as the total appropriations of the funds are not exceeded. Additional appropriations not included in the original budget resolutions require approval by the City Council. Budgeted amounts shown are as adopted and amended by the City Council. Individual amendments were not material in relation to the original appropriations. Budgets for the City's proprietary funds are considered as memorandum budgets used for the purpose of management control. These nonappropriated budgets are not included in the Basic financial statements.

The City uses an encumbrance system as an extension of normal budgetary accounting. Under this system purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as reservations of fund equity since they do not constitute expenditures or liabilities. Outstanding encumbrances at year end are automatically reappropriated the following year. Unencumbered and unexpended appropriations for other than capital outlay lapse at year-end. However, the Capital Projects Fund is not budgeted on a project-length basis. Only the budget estimated to be spent in the current fiscal year is appropriated, even if the project will continue into future fiscal years. The City prepares a five year capital plan, and each project year budget (GAAP Basis) is appropriated separately on an on-going basis.

### F. *CASH AND INVESTMENTS*

At June 30, 2003, the carrying amount of the City's deposits and certificates of deposit was $3,043,899 and the bank balance was $5,492,412. Of the bank balance $1,644,128 was insured by federal depository insurance or covered by collateral held by the City's agent in the City's name, and $3,848,284 was covered by collateral held in the pledging financial institutions' trust department or agent in the City's name, in accordance with Section 53652 of the California Government Code.

The City's investments of $77,851,438 at June 30, 2003 (excluding certificates of deposit and mortgage-backed securities) consist of funds on deposit with the Local Agency Investment Fund (State Treasurer's Pool) and the San Mateo County Investment Pool. The investment pools are not subject to risk categorization because they are not evidenced by securities that exist in physical or book entry form. Neither pool reflects the participant's deposits in the form of shares, therefore the fair value of the City's position in the pools is the same as the City's deposit balance.



The City has invested in mortgage-backed securities issued by the Government National Mortgage Association which are evidenced by specific identifiable securities instruments. The City categorizes securities instruments in ascending order to reflect the relative risk of loss on these instruments. This risk is called Credit Risk. The lower the number, the lower the risk. Of the three levels of risk prescribed by generally accepted accounting principles, the City's securities instruments are considered Category 1, because the City has possession of these securities instruments and they are in the City's name. The fair value of these securities instruments at June 30, 2003 was $1,598,307. Five of these securities instruments have original maturity terms greater than five years. During fiscal 2002, the City Council adopted a resolution which included authorization for the City Treasurer to invest up to $4 million in investments which, at the time of investment, have terms remaining to maturity in excess of 5 years.

The City's cash with fiscal agent of $1,047,654 at June 30, 2003 consists of $154 in mutual funds invested in United States Treasury securities and $1,047,500 in an investment agreement.

The City's cash with fiscal agent, as well as cash and investments recorded in the City's agency funds, are required to be expended for the payment of certificates of participation or assessment bonds. The expenditure of such cash and investments is governed by indenture agreements and other agency agreements. The California Government Code requires these monies to be invested in accordance with any applicable City ordinance, resolution or bond indenture, unless there are specific State statutes governing their investment. All these funds have been invested only as permitted by either the above Code or applicable City ordinance.

The proprietary funds' portion of the City's pooled investments is reported on the accompanying financial statements as Cash and Investments, similar to a demand deposit account, and is considered a cash equivalent used in the preparation of the statement of cash flows.

Investments are carried at fair value and were categorized as follows at June 30:

| | |
|---|---|
| Category 1: | |
| U.S. Government Agency Securities (Government National Mortgage Association) | $1,598,307 |
| Non-categorized investments: | |
| Local Agency Investment Fund | 25,674,162 |
| County of San Mateo Investment Pool | 52,177,276 |
| U.S. Treasury securities mutual fund | 154 |
| Investment agreement | 1,047,500 |
| Total Investments | 80,497,399 |
| Cash Deposits with Banks | 1,548,869 |
| Certificates of Deposit | 1,488,000 |
| Cash on hand | 7,030 |
| Total Cash and Investments | $83,541,298 |
| Financial Statement Presentation: | |
| City Cash and Investments: | |
| Cash and investments | $79,590,409 |
| Investments with fiscal agent | 1,047,654 |
| Total City Cash and Investments | 80,638,063 |
| Fiduciary Funds: | |
| Cash and investments | 2,903,235 |
| Total Cash and Investments | $83,541,298 |

The City of Daly City operates its investment activities under the prudent investor rule (Civil Code Sec. 2261, et seq.). This affords the City a broad spectrum of investment opportunities as long as the investment is deemed prudent and is allowable under current statutes of the State of California (Government Code Sec. 53600, et seq.).



Investments are allowed in the following media:

- Collateralized Certificates of Deposit
- United States Treasury notes, bonds, bills or certificates of indebtedness
- Registered state warrants or treasury notes or bonds of the State of California
- Bonds, notes, warrants or other evidences of indebtedness of any local agency within the State of California, including those of the City or of any agency or authority of the City
- Obligations issued by banks and guaranteed by a federal agency or United States government-sponsored enterprise
- Banker's acceptances
- Commercial paper
- Negotiable certificates of deposit or time deposits placed with commercial banks and/or savings and loan companies
- Mutual Funds
- Local Agency Investment Fund (State Treasurer's Pool)
- Repurchase or reverse repurchase agreements
- San Mateo County Treasurer's Pool
- Passbook Savings Accounts

The City's investment policy states that the "financial institution must have an office in California and that office must perform the transactions with the City". As of June 30, 2003, the City had $297,000 in a Certificate of Deposit with the First National Bank of Marin. The bank previously had an office in San Rafael, Marin County that closed and moved to Las Vegas, Nevada. The City intends to discontinue the deposit with the bank when the certificate of deposit matures in January 2004.

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

The City voluntarily invests 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 City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

### G. *INVENTORY*

Inventory is valued at cost, using the first-in, first-out method. For the General Fund, inventories consist of consumable supplies held for consumption, and do not constitute "available spendable resources", even though they are a component of net current assets. Such amounts are equally offset by a reservation of fund balance. For proprietary funds, inventories represent materials and supplies for operations. The consumption method of accounting is applied to inventories.

### H. *WATER UTILITY ACCOUNTS RECEIVABLE*

The City bills usage to water utility customers on a bimonthly basis. Each day's meter readings are usually billed on the next business day. At any given time, an average of one month's usage is unread and unbilled. These unbilled estimated usages have been recognized as revenue and receivables in the financial statements of the enterprise funds.

### I. *ADVANCES TO OTHER FUNDS AND AGENCIES*

In governmental funds, noncurrent portions of long-term interfund loans receivable (reported in "advances to" asset accounts) are equally offset by a reservation of fund balance which indicates that they do not constitute available spendable resources since they are not a component of net current assets. These advances accumulate interest annually and because interest revenue is not expected to be collected within the next year, the accumulated interest has been reflected as deferred revenue in the General Fund. Current portions of long-term interfund loans receivable (reported in "due from" asset accounts) are considered available spendable resources.

### J. *ACCUMULATED UNPAID VACATION, COMPENSATORY AND SICK LEAVE*

Accumulated unpaid employee benefits are accrued at year-end. If vacation or compensatory leave is not taken by employees during their employment, the City is obligated to make cash payments to them on termination or retirement at the salary rates then in effect. City employees receive from thirteen to twenty-eight days vacation each year.

Full-time City employees receive one working day of sick leave for each month of employment. Employees who terminate for reasons other than death, retirement or abolishment of position lose all accumulated sick leave. Upon death, retirement after the age of 50 and 5 years of service or abolishment of position the City is obligated to pay 50% of unused sick leave, up to 800 hours, at the salary rate then in effect. The value of vested sick leave liability for all employees qualified for retirement on June 30 of each year is accrued.

The City's liability for compensated absences is recorded in various governmental funds or proprietary funds as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as fund liabilities; the long term portion is recorded in the Statement of Net Assets.



The changes in liability for compensated absences were as follows:

| | Governmental Activities | Business Type Activities | Total |
|---|---|---|---|
| Balance July 1, 2002 | $6,252,685 | $613,088 | $6,865,773 |
| Additions | 5,142,551 | 612,952 | 5,755,503 |
| Payments | (4,413,532) | (568,594) | (4,982,126) |
| Balance June 30, 2003 | $6,981,704 | $657,446 | $7,639,150 |
| Current portion | $590,073 | $38,616 | $628,689 |

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

### K. *CLAIMS AND JUDGMENTS*

The City has recognized a liability for workers' compensation and general liability claims in the Self-Insurance Internal Service Fund. This liability reflects the costs of claims determined to be probable of assertion and measurable in amount.

### L. *PROPERTY TAX LEVY, COLLECTION, MAXIMUM RATES*

Article 13 of the California State Constitution provides for a maximum general property tax rate statewide of $1.00 per $100 of assessed value, and may be adjusted by no more than two percent per year unless the property is sold or transferred, in which case it is then assessed at sales price. Assessed value is calculated at 100% of sales price as defined by the above referenced Article 13.

The State Legislature has determined the method of distribution of receipts from the $1.00 tax levy among the county, cities, school districts and other districts. Counties, cities and school districts may levy such additional tax rate as is necessary to provide for voter-approved debt service. San Mateo County assesses properties, bills for, and collects property taxes on the following schedule.

| | SECURED | UNSECURED |
|---|---|---|
| Valuation dates | March 1 | March 1 |
| Lien/levy dates | January 1 | January 1 |
| Due Dates | 50% on November 1<br>50% on February 1 | July 1 |
| Delinquent as of | December 10<br>April 10 | August 31 |

The term "Unsecured" refers to taxes on property not secured by liens on real property. Property taxes levied are recorded as revenue and receivables, net of estimated uncollectible amounts, in the fiscal year of levy. Property taxes which cannot be recorded as current year revenues, in accordance with the modified accrual basis of accounting, have been recorded as deferred revenues.

### *M. RESERVATIONS AND DESIGNATIONS OF FUND EQUITY*

The term "reserve" is used to indicate that a portion of reported fund equity is legally restricted to a specific use or not available for appropriation or expenditure. The City Council or the City Manager will sometimes designate portions of unreserved fund equity based on tentative future spending plans. Such plans are subject to change, have not been legally authorized and may not result in expenditures. Unreserved undesignated portions of fund equity represent financial resources legally available for uses other than those tentatively planned.

The City has reserved and designated fund equity as follows:

Reserved for Encumbrances - to reflect outstanding contractual obligations for which goods and services have not been received.

Reserved for Prepaids, Inventories, Notes Receivable, Long-term Interfund Receivables and Property Held for Development - to reflect that prepaid expenditures, inventories, long-term notes receivable and land held for investment do not constitute available spendable resources in the governmental funds.

Reserved for Capital Projects - to account for developer in-lieu fees and other monies restricted by statute to the development and maintenance of City capital projects.

Reserved for Restricted Purposes - the City receives grants and other revenues legally restricted for certain functions.

Reserved for Imprest Cash Funds - these amounts represent revolving petty cash funds maintained in various City departments to facilitate small, nonroutine, purchases of goods.

Designated for Equipment Replacement - these monies are set aside according with the depreciation schedule for a specific piece of equipment. The reserve for equipment replacement increases generally in the same amount as depreciation charged in each of the internal service and enterprise funds and decreases when monies are used to buy replacement equipment.

Designated for Fire Apparatus - these monies are set aside for expenditures specifically for the replacement of fire equipment. Because fire equipment is a very expensive capital item, the City has chosen to designate the amount generally determined by the depreciation schedule for fire equipment for future needs.



Designated for Recycling - these monies are set aside for expenditures to reduce the amount of refuse by encouraging recycling of reusable materials

Designated for Possible Future Claims - the City has a self-insurance fund that is explained in Note 10. Monies have been set aside in this reserve in the event that the City will be found liable for future claims for personal injury or accident or other significant damage within the City.

Designated for Capital Projects - these funds represent amounts anticipated to be expended in the upcoming fiscal year for capital projects.

Designated for Operating Capital - these amounts represent estimates of the cash required for expenditures in various funds which are necessary to bridge the time period between year-end and the receipt of major revenues, such as property taxes and sewer service fees billed with property taxes.

At June 30, 2003, the following Enterprise Funds had fund equity designations:

| | Water Utility | Sanitation District | Civic Center | Transfer Station |
|---|---|---|---|---|
| Unrestricted, designated for: | | | | |
| Equipment replacement | $979,237 | $2,325,218 | $561,200 | $513,504 |
| Recycling | | | | 22,906 |
| Capital projects | 2,594,415 | | | |
| Unrestricted, undesignated | 1,264,897 | | | |
| Total unresricted net assets | $4,838,549 | $2,325,218 | $561,200 | $536,410 |

At June 30, 2003, the following Internal Service Funds had fund equity designations:

| | Motor Vehicles | Central Services | PBX | Information Services | Self-Insurance |
|---|---|---|---|---|---|
| Unrestricted, designated for: | | | | | |
| Equipment replacement | $2,167,282 | $122,938 | $354,118 | $1,824,690 | |
| Fire apparatus | 130,604 | | | | |
| Possible future claims | | | | | $4,065,225 |
| Unrestricted, undesignated | 47,280 | 18,665 | | | |
| Total unrestricted net assets | $2,345,166 | $141,603 | $354,118 | $1,824,690 | $4,065,225 |

**Note 2.**

REPORTING ENTITY

The City's Basic Financial Statements include the financial activities of the City, the Daly City Redevelopment Agency (Redevelopment Agency), the North San Mateo County Sanitation District, and the Daly City Public Facilities Financing Corporation. These entities are controlled by governing boards consisting of members of the City Council. Council members are financially accountable for these entities' operations and approve fees, debt issues and adopt budgets. Component unit reports for the Redevelopment Agency can be obtained from the City of Daly City, 333 - 90th Street, Daly City, California 94015-1895.

The Redevelopment Agency was established in 1971 for the purpose of developing certain portions of the City's older business areas, and is overseen by and dependent upon the City. While the Redevelopment Agency is a separate legal entity and technically an administrative arm of the State, exercising State powers, it is governed and effectively controlled by the City Council. The activities of the Redevelopment Agency are included with the Special Revenue Funds.

Effective July 1, 1985, the North San Mateo County Sanitation District became a subsidiary district of the City. The City set up an enterprise fund to account for the District's operations.

The activity of the Daly City Public Facilities Financing Corporation (the Corporation) is included in the Basic financial statements within the North San Mateo County Sanitation District Enterprise Fund because the City Council sits as the Board for this entity. The City established the Corporation to facilitate the issuance of Certificates of Participation to complete an expansion project for the North San Mateo County Sanitation District. The Corporation acts as a conduit for the leasing of the facilities of the Sanitation District (See Note 5).

**Note 3.**

COMMITMENTS AND CONTINGENCIES

At June 30, 2003, the City had made commitments of approximately $13.9 million for construction work, legal and consulting fees, and purchases of supplies and equipment.

**Note 4.**

CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.



All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City's policy is to capitalize all assets with costs exceeding $25,000 for infrastructure, $1,000 for all other classes of capital assets, and with useful lives exceeding two years.

With the implementation of GASB 34, the City has recorded all its public domain (infrastructure) capital assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems.

The City depreciates capital assets over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight-line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

| | | | |
|---|---|---|---|
| Buildings | 20-50 years | Sanitation Subsurface Lines | 50 years |
| Equipment, Furniture & Fixtures | 3-20 years | Water Mains | 50 years |
| Streets and Infrastructure | 28-60 years | Sewage Collection Facilities | 7-20 years |
| Wells and Pump Stations | 40-50 years | Sewage Treatment Facilities | 10-40 years |
| Water Reservoirs | 40-99 years | Sewage Disposal Facilities | 15-50 years |

The City capitalizes major asset purchases and improvements which increase the useful life of the related assets. Minor purchases and routine repair and maintenance costs are charged directly to expense.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

### *A. CAPITAL ASSET ADDITIONS AND RETIREMENTS*

Capital assets at June 30 comprise:

| | Balance June 30, 2002 | Additions | Retirements | Transfers | Balance June 30, 2003 |
|---|---|---|---|---|---|
| *Governmental activities* | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | $20,715,325 | $637,549 | ($364,619) | $55,846 | $21,044,101 |
| Construction in progress | 7,867,136 | 6,546,041 | | (3,697,174) | 10,716,003 |
| Total capital assets not being depreciated | 28,582,461 | 7,183,590 | (364,619) | (3,641,328) | 31,760,104 |
| Capital assets being depreciated: | | | | | |
| Buildings & improvements | 26,909,303 | | (110,440) | (107,474) | 26,691,389 |
| Streets & infrastructure | 50,054,902 | 1,581,264 | | 3,697,174 | 55,333,340 |
| Vehicles, equipment, furniture and fixtures | 16,679,762 | 1,305,259 | (1,167,671) | 51,628 | 16,868,978 |
| Park structures and improvements | 971,499 | 27,500 | | | 998,999 |
| Total capital assets being depreciated | 94,615,466 | 2,914,023 | (1,278,111) | 3,641,328 | 99,892,706 |
| Less accumulated depreciation for: | | | | | |
| Buildings & improvements | 12,604,613 | 919,216 | (106,341) | | 13,417,488 |
| Streets & infrastructure | 30,168,923 | 1,077,445 | | | 31,246,368 |
| Vehicles, equipment, furniture and fixtures | 10,362,741 | 1,493,683 | (1,127,419) | | 10,729,005 |
| Park structures and improvements | 244,060 | 33,300 | | | 277,360 |
| Total accumulated depreciation | 53,380,337 | 3,523,644 | (1,233,760) | | 55,670,221 |
| Net depreciable assets | 41,235,129 | (609,621) | (44,351) | 3,641,328 | 44,222,485 |
| Governmental activity capital assets, net | $69,817,590 | $6,573,969 | ($408,970) | | $75,982,589 |



| | Balance June 30, 2002 | Additions | Retirements | Transfers | Balance June 30, 2003 |
|---|---|---|---|---|---|
| ***Business-type activities:*** | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | $2,848,208 | $14,341 | | | $2,862,549 |
| Construction in progress | 6,223,535 | 5,284,953 | | ($2,463,421) | 9,045,067 |
| Total capital assets not being depreciated | 9,071,743 | 5,299,294 | | (2,463,421) | 11,907,616 |
| Capital assets being depreciated: | | | | | |
| Buildings | 7,384,060 | | | 81,026 | 7,465,086 |
| Sewage facilities | 45,800,136 | 121,951 | ($796,480) | | 45,125,607 |
| Wells & pump stations | 5,003,427 | 121,700 | (105,598) | | 5,019,529 |
| Water reservoirs | 7,334,927 | | (26,100) | | 7,308,827 |
| Mains & subsurface lines | 22,484,354 | 1,246,382 | | 2,424,671 | 26,155,407 |
| Equipment | 6,209,794 | 151,433 | (1,487,073) | (42,276) | 4,831,878 |
| Furniture and Fixtures | 107,421 | | (39,111) | | 68,310 |
| Total capital assets being depreciated | 94,324,119 | 1,641,466 | (2,454,362) | 2,463,421 | 95,974,644 |
| Less accumulated depreciation for: | | | | | |
| Buildings | 2,211,375 | 238,310 | | 34,378 | 2,484,063 |
| Sewage facilities | 21,969,813 | 1,122,876 | (709,323) | | 22,383,366 |
| Wells & pump stations | 1,725,698 | 163,412 | (98,968) | | 1,790,142 |
| Water reservoirs | 2,325.018 | 181,928 | (14,573) | | 2,492,373 |
| Mains & subsurface lines | 3,771,997 | 632,838 | | | 4,404,835 |
| Equipment | 2,826,744 | 436,507 | (1,474,615) | (34,378) | 1,754,258 |
| Furniture and Fixtures | 83,087 | 5,401 | (39,111) | | 49,377 |
| Total accumulated depreciation | 34,913,732 | 2,781,272 | (2,336,590) | | 35,358,414 |
| Net depreciable assets | 59,410,387 | (1,139,806) | (117,772) | 2,463,421 | 60,616,230 |
| Business-type activity capital assets, net | $68,482,130 | $4,159,488 | ($117,772) | | $72,523,846 |

### *B. CAPITAL ASSET CONTRIBUTIONS*

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. These contributions are accounted for as revenues at the time the capital assets are contributed.

### C. *DEPRECIATION ALLOCATION*

Depreciation expense is charged to functions and programs based on the usage of the related assets. The amounts allocated to each function or program are as follows:

| | |
|---|---|
| **Governmental Activities** | |
| General government | $15,879 |
| Public safety | 273,521 |
| Public works | 22,257 |
| Culture and recreation | 467,850 |
| Economic and community development | 15,703 |
| Streets and infrastructure | 1,083,265 |
| Nondepartmental | 403,595 |
| Capital assets held by the City's internal service funds charged to the various functions based on their usage of the assets | 1,241,574 |
| **Total Governmental Activities** | $3,523,644 |
| **Business-Type Activities** | |
| Water Utility | $850,591 |
| Civic Center | 268,349 |
| Transfer Station | 43,705 |
| Sanitation District | 1,618,627 |
| **Total Business-Type Activities** | $2,781,272 |



**Note 5**
LONG-TERM DEBT

Changes in Long-Term Debt for the fiscal year ended June 30, 2003, are as follows:

| | Balance June 30, 2002 | Additions | Retirements | Balance June 30, 2003 | Current Portion |
|---|---|---|---|---|---|
| *Governmental Activity Debt* | | | | | |
| 2002 Capital Lease | | | | | |
| 4.69%, due 2011 | $1,040,151 | | $95,542 | $944,609 | $100,023 |
| Line of Credit | | | | | |
| 5.7%, due 2006 | 119,897 | | | 119,897 | |
| **Total Governmental Activity** | 1,160,048 | | 95,542 | 1,064,506 | 100,023 |
| *Business-Type Activity Debt* | | | | | |
| 1992 Refunding Certificates of Participation | | | | | |
| 5%-5.375%, refunded 2002 | 10,870,000 | | 10,870,000 | | |
| 2002 Certificates of Participation | | | | | |
| 2%-2.5%, due serially to 2009 | | $10,475,000 | 1,100,000 | 9,375,000 | 1,635,000 |
| **Total Business-Type Activity** | 10,870,000 | 10,475,000 | 11,970,000 | 9,375,000 | 1,635,000 |
| **Total City Long-Term Obligations** | $12,030,048 | $10,475,000 | $12,065,542 | $10,439,506 | $1,735,023 |

On August 13, 2001, the City entered into a capital lease agreement totaling $1,184,477 to fund the Civic Center Energy Management Project to improve the lighting, heating and ventilation of the building. Principal and interest payments are due annually on August 13 until 2011. Debt service is repayable from Capital Project Fund resources.

As of June 30, 2003 the City had a bank line of credit bearing interest at 5.70 percent. Monthly interest payments vary and a final payment will be due on October 3, 2005. The initial $164,000 draw-down on the line was used to finance improvements to office space used in the City's Small Business Incubator Program. Under this Program, the City assists start-up companies by providing office space and secretarial and administrative services for a fee. Debt service is payable from rents collected from small businesses participating in the Program.

On September 24, 2002, the City issued, through a financing intermediary called the Daly City Public Facilities Financing Corporation, $10,475,000 of 2002 Certificates of Participation bearing interest at 2 percent to 2.5 percent to retire $10,870,000 of outstanding 1992 Refunding Certificates of Participation bearing interest at 5 percent to 5.375 percent. Principal is due annually on June 1. Interest is due semiannually on each June 1 and December 1, until June 1, 2009. Debt service is repayable from Sanitation District Enterprise Fund operating revenues. As a result, the 1992 Refunding Certificates of Participation are considered legally defeased and, as of September 24, 2002, were no longer an obligation of the City. The refunding resulted in an economic gain of $699,093, representing the present value of the $2,025,041 reduction in future debt service payments.

Annual debt service requirements are shown below for all long-term debt with specified repayment terms:

| | Governmental Activities | | Business-Type Activities | |
|---|---|---|---|---|
| Year ending June 30 | Principal | Interest | Principal | Interest |
| 2004 | $100,023 | $44,303 | $1,635,000 | $200,625 |
| 2005 | 104,714 | 39,612 | 1,670,000 | 167,925 |
| 2006 | 229,522 | 34,701 | 1,705,000 | 134,525 |
| 2007 | 114,767 | 29,559 | 1,740,000 | 100,425 |
| 2008 | 120,150 | 24,176 | 1,770,000 | 65,625 |
| 2009-2011 | 395,330 | 37,649 | 855,000 | 21,375 |
| | $1,064,506 | $210,000 | $9,375,000 | $690,500 |

During fiscal 2003 the City authorized a $4,500,000 note payable, guaranteed under the Department of Housing and Development's (HUD) Section 108 Loan Guarantee Program. Proceeds from the note will be used to finance the design and construction of the Bayshore Community Center. As of June 30, 2003, the City had not drawn down any of the funds available under the loan agreement.

**Note 6.**

SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City's nonmajor enterprise funds include the following segments:

**CIVIC CENTER** is used to account for rental activity of real property owned by the City in the Civic Center area.



Fiscal 2003 segment information is as follows:

**Condensed Statement of Net Assets**

| | Civic Center |
|---|---|
| Assets. | |
| Current assets | $585,646 |
| Advances to others | |
| Capital assets | 5,899,173 |
| Total assets | 6,484,819 |
| Liabilities: | |
| Current liabilities | 24,446 |
| Long-term interfund payable | 833,267 |
| Total liabilities | 857,713 |
| Net assets: | |
| Invested in capital assets, net of related debt | 5,899,173 |
| Unrestricted | (272,067) |
| Total net assets | $5,627,106 |

**Condensed Statement of Revenues, Expenses and Changes in Net Assets**

| | Civic Center |
|---|---|
| Charges for services | $869,306 |
| Other revenue | 106,176 |
| Depreciation expense | (268,349) |
| Other operating expenses | (312,445) |
| Operating income | 394,688 |
| Nonoperating revenues (expenses): | |
| Interest income | 18,129 |
| Interest expense | (45,888) |
| Transfers out | (301,595) |
| Change in net assets | 65,334 |
| Beginning net assets | 5,561,772 |
| Ending net assets | $5,627,106 |

**Condensed Statement of Cash Flows**

| | Civic Center |
|---|---|
| Noncapital financing activities | (301,595) |
| Net cash provided (used) by: | |
| Operating activities | $593,065 |
| Capital financing activities | (161,590) |
| Investing activities | 18,129 |
| Net increase (decrease) | 148,009 |
| Beginning cash and cash equivalents | 361,575 |
| Ending cash and cash equivalents | $509,584 |

**Note 7.**

## INTERFUND BALANCES

The Sanitation Enterprise Fund loaned $1.2 million, ($833,267 at June 30, 2003), to the Civic Center Enterprise Fund to finance construction of Civic Center North remodeling costs. This long-term interfund advance bears interest at 5.119 percent and is due in monthly installments including interest, with a final payment due on June 30, 2009. The payments are being made from Civic Center operating revenues.

Loans payable from the Redevelopment Agency to the General Fund have no scheduled repayment date. Management has prepared a cash flow projection of redevelopment activities through fiscal 2024. This projection indicates that funds should be available to repay the above loans, including interest, prior to the expiration of the project areas. Loans currently bear interest at 2.891 percent and this rate is adjusted annually based on the LAIF rate as defined in the agreement between the Agency and the City. The fiscal 2003 additions to loans payable amounting to $976,719 represent interest, as the terms of the agreement stipulate that any unpaid interest shall be added to the principal. During fiscal 2003, the Agency repaid the City $1,671,512. At June 30, 2003, the total amount of loans payable from the Agency to the General Fund was $32,933,176.



## INTERFUND TRANSFERS

Transfers between funds during the fiscal year ended June 30, 2003 were as follows:

| Fund Making Transfer | Fund Receiving Transfer | Amount Transferred |
|---|---|---|
| **General Fund:** | Doelger Senior Center Special Revenue Fund | $324,729 |
| | Peninsula Partnership Special Revenue Fund | 69,614 |
| | Federal Grants Special Revenue Fund | 59,430 |
| | Capital Projects Fund | 4,417,971 |
| | Motor Vehicles Internal Service Fund | 45,125 |
| | Central Services Internal Service Fund | 54,084 |
| | Information Services Internal Service Fund | 10,138 |
| **Special Revenue:** | | |
| Gas Tax | General Fund | 1,655,520 |
| AB 1600 Public Facility Fees | Capital Projects Fund | 2,425,879 |
| Peninsula Partnership Fund | Information Services Internal Service Fund | 16,576 |
| Federal Grants Fund | General Fund | 66,862 |
| | Motor Vehicles Internal Service Fund | 15,207 |
| | Information Services Internal Service Fund | 59,139 |
| Redevelopment Agency | Federal Grants Special Revenue Fund | 306,452 |
| **Capital Projects:** | | |
| Capital Projects Fund | General Fund | 9,385 |
| | Information Services Internal Service Fund | 30,068 |
| **Enterprise Fund:** | | |
| Water Utility | General Fund | 1,575,032 |
| | Sanitation District Enterprise Fund | 941,738 |
| | Motor Vehicles Internal Service Fund | 45,762 |
| | Central Services Internal Service Fund | 1,467 |
| Civic Center | Capital Projects Fund | 250,000 |
| | Building Maintenance Internal Service Fund | 51,595 |
| Transfer Station | General Fund | 405,881 |
| Sanitation District | General Fund | 1,887,682 |
| | Information Services Internal Service Fund | 3,609 |
| | Central Services Internal Service Fund | 1,467 |
| **Internal Service Fund:** | | |
| Building Maintenance | Capital Projects Fund | 144,326 |
| | | $14,874,738 |

The purpose of the majority of transfers is to reimburse a fund that has made an expenditure on behalf of another fund. General Fund transfers out typically represent an operating subsidy or in the case of grants, a match of another funds' expenditures.

INTERNAL BALANCES

Internal balances are presented in the entity-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

**Note 8.**

RETIREMENT PLAN

CALPERS Safety and Miscellaneous Employees Plans

Substantially all City employees are eligible to participate in pension plans offered by the California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan that acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees, and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) employee plans. Benefit provisions under all plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full-time employment and final compensation as defined in each plan. Benefits for Safety Plan members may not exceed 90% of final compensation. Funding contributions for these plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts.

The Plans' provisions and benefits in effect at June 30, 2003, are summarized below:

| | Safety | Miscellaneous | Redevelopment Agency Miscellaneous |
|---|---|---|---|
| Benefit vesting schedule | 5 years service | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life | monthly for life |
| Retirement age | 50 | 50 | 50 |
| Benefits, as a % of annual salary for each credited service year | 2.4%-3.0% | 1.426% - 2.418% | 1.092% - 2.418% |
| Required employee contribution rates | 9% | 7% | 7% |
| Required employer contribution rates | 5.108% | 0% | 0% |



CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this Method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 8.25% is assumed, including inflation at 3.50%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

The net assets of the City's Plans are commingled with the net assets of all CALPERS plans for investment purposes. The fair value of the net assets in the Plans changed as follows during the year ended June 30, 2002:

| | Safety | Miscellaneous | Redevelopment Agency Miscellaneous |
|---|---|---|---|
| Beginning Balance June 30, 2001 | $134,302,277 | $100,749,759 | $447,839 |
| Contributions received | 1,388,545 | 1,589,338 | |
| Benefits, Refunds and Miscellaneous Adjustments | (4,631,396) | (2,628,445) | (603) |
| Expected Investment Earnings Credited | 10,948,821 | 8,269,841 | 36,922 |
| Expected Actuarial Value of Assets as of June 30, 2002 | $142,008,247 | $107,980,493 | $484,158 |
| Fair Value of Assets as of June 30, 2002 | $111,456,255 | $84,739,487 | $394,122 |
| Actuarial Value of Assets as of June 30, 2002 | $122,601,881 | $93,213,436 | $433,534 |

Annual pension costs, representing the payment of contributions required by CALPERS, for the three fiscal years ended June 30, 2003, 2002 and 2001 amount to $3,268,107, $2,886,827 and $2,566,241 respectively. The City made these contributions as required, together with certain immaterial amounts required as the result of the payment of other additional employee compensation.

The Plans' actuarial value (which differs from fair value) and funding progress over the most recent three years available is set forth below at their actuarial valuation date of June 30:

***Safety Plan:***

| Valuation Date | Entry Age Accrued Liability | Value of Assets | Unfunded (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) Liability as % of Payroll |
|---|---|---|---|---|---|---|
| 2000 | $105,607,735 | $125,211,395 | ($19,603,660) | 118.6% | $12,539,105 | (156.3%) |
| 2001 | 116,439,374 | 134,302,277 | (17,862,903) | 115.3% | 13,460,996 | (132.7%) |
| 2002 | 129,247,025 | 122,601,881 | 6,645,144 | 94.9% | 14,734,682 | 45.1% |

***Miscellaneous Plan:***

| Valuation Date | Entry Age Accrued Liability | Value of Assets | Unfunded (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) Liability as % of Payroll |
|---|---|---|---|---|---|---|
| 2000 | $64,649,749 | $93,130,122 | ($28,480,373) | 144.1% | $18,329,765 | (155.4%) |
| 2001 | 76,853,616 | 100,749,759 | (23,896,143) | 131.1% | 19,873,926 | (120.2%) |
| 2002 | 100,554,045 | 93,213,436 | 7,340,609 | 92.7% | 23,149,084 | 31.7% |

***Miscellaneous Redevelopment Agency Plan:***

| Valuation Date | Entry Age Accrued Liability | Value of Assets | Unfunded (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) Liability as % of Payroll |
|---|---|---|---|---|---|---|
| 2000 | $103,186 | $426,022 | ($322,836) | 412.9% | - | N/A |
| 2001 | 105,780 | 447,839 | (342,059) | 423.4% | - | N/A |
| 2002 | 140,312 | 433,534 | (293,222) | 309.0% | - | N/A |

Audited annual financial statements and ten year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.



**Note 9.**

DEFERRED COMPENSATION PLAN

City employees may defer a portion of their compensation under a City sponsored deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Internal Revenue Service.

The laws governing deferred compensation plan assets require plan assets to be held by a trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

**Note 10.**

SELF-INSURANCE

The Self-Insurance Internal Service Fund was established as of January 1, 1979, to provide for payment of workers' compensation claims. At July 1, 1979, the Fund was expanded to consolidate essentially all of the City's risk management programs. Fund revenues consist of interest earnings, reimbursements of claims paid by the fund and charges to other funds. The latter is intended to match the charges for insurance premiums for coverage in excess of self-insured amounts, estimated payments resulting from self-insurance programs, operating expenses and the provision of reserves for pending and possible future claims.

The City has a self-insured retention for the first $250,000 for general and automobile liability claims and maintains a $10,000 deductible for property losses. Losses in excess of the retention up to $19,750,000 on general and automobile liability are covered by purchased excess insurance. The City purchases combined property, boiler and machinery and automobile comprehensive insurance covering all but the deductible on the full value of City property. Settlements have never exceeded insurance coverage. The City charges to expense the incurred liabilities for claims in cases where such amounts are reasonably determinable and where the likelihood of liability exists. Included are estimates for incurred but not reported claims, which are calculated based on claims experience. In addition, the City has reserved remaining net assets (which provision is not charged to expense) for possible future claims.

In February 2003, the City joined the California Public Entity Insurance Authority (CPEIA), a joint power authority which provides excess workers' compensation liability claims coverage above the City's self-insured retention of $350,000 per occurrence. Losses above the self-insured retention are pooled with excess reinsurance purchased to a $50,000,000 limit. CPEIA was established for the purpose of creating a risk management pool for all California public entities. CPEIA is governed by a Board of Directors consisting of representatives of its member public entities. During the fiscal year ended June 30, 2003, the City contributed $57,478 to CPEIA for current year coverage. Audited financial statements for CPEIA are available from CSAC-Excess Insurance Authority at 3017 Gold Canal Drive, Suite 300, Rancho Cordova, CA 95670.

The City's liability for uninsured claims including a provision for claims incurred but not reported was computed as follows based on claims experience for the years ended June 30, 2003 and 2002:

| | 2003 | 2002 |
|---|---|---|
| Beginning balance of claims payable | $1,693,886 | $1,300,931 |
| Increase in estimated claims liability | 2,300,936 | 2,117,922 |
| Claims paid | (1,489,722) | (1,724,967) |
| Ending balance of claims payable | $2,505,100 | $1,693,886 |

**Note 11.**

NET ASSETS

GASB 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

*Invested in Capital Assets, net of related debt* describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

*Unrestricted* describes the portion of Net Assets which is not restricted as to use.



GASB 34 IMPLEMENTATION

Pursuant to the requirements of GASB 34, as of July 1, 2002, the City removed an advance of $33,627,969 recorded in the General Long-Term Obligations Account Group and recorded it in the Redevelopment Agency Special Revenue Fund. The effect of this change was to eliminate liabilities of $33,627,969 in the General Long-Term Obligations Account Group, and record the liability and a reduction of fund balance in the Redevelopment Agency Special Revenue Fund. In addition the City also reduced investment in property held for redevelopment and beginning fund balance by $707,933.

As of July 1, 2002, the City recategorized $82,096 of deposits in the Special Deposit Agency Fund to the General Fund.

As of July 1, 2002, the City changed its method of measuring the current portion of compensated absences to conform to GASB 34 requirements. This change resulted in an increase of the General Fund compensated absences liability and a reduction of fund balances by $211,634.

Also, as required by GASB 34, as of July 1, 2002, the City closed contributed capital in the amount of $76,962 and $10,647,401 to beginning net assets recorded in Internal Service and Enterprise Funds, respectively.

**Note 12.**

CARTER/MARTIN SPECIAL ASSESSMENT DISTRICT

In fiscal 1985 the City authorized assessments for improvements of streets and water facilities, forming the Carter/Martin Special Assessments District (Carter/Martin). Carter/Martin issued $4,365,000 principal amount special assessment bonds in July 1985, and subsequently performed refinancing and reassessments of Carter/Martin in July 1987 and again in December 1993. Principal amount of the December 1993 refunding improvement bonds, issued under the 1915 Improvement Act, was $1,245,000 at June 30, 2003.

The City is not obligated in any manner for the special assessment debt, in that the bonds are not the general obligations of the City, nor is the credit or taxing power of the City pledged for payment of the bonds, and the City is under no obligation to advance funds in the event of default by a property owner. Therefore, the bonds are not included in the financial statements of the City. The City acts only as an agent for Carter/Martin, receiving special assessments collected by the County and forwarding the funds to the Carter/Martin bond paying agent, and this fiduciary responsibility is recorded in the City's Agency Fund.

**Note 13.**

LOANS AND NOTES RECEIVABLE

The City administers a housing rehabilitation program using Housing and Community Development Block Grant funds that is accounted for in the Community Block Grant Special Revenue Fund. Under this program, individuals with incomes below a certain level are eligible to receive low interest loans, secured by deeds of trust, for construction work on their homes. Although these loans and notes are expected to be repaid in full, their balance has been offset by deferred revenue as they are not expected to be repaid during the next fiscal year.

During the year ended June 30, 2003, the City made loans to six participants under this program and shows the following activity:

| | |
|---|---|
| Beginning Balance | $1,216,581 |
| New loans | 30,169 |
| Loan repayments | (340,807) |
| Ending Balance | $905,943 |

The City has a note receivable of $203,831 at June 30, 2003, due from the San Mateo Pre-Hospital Emergency Services Providers Group, a jointly governed organization established to provide paramedic services to constituents of member jurisdictions. The Group used proceeds of the loan to finance the acquisition and installation of communications equipment and has agreed to repay the note in monthly installments over a six-year term with the last installment due January 1, 2005. The balance outstanding on the note bears interest at the rate earned on the City's investments in the Local Agency Investment Fund for the prior year, plus one-half of one percent (4.052 percent at June 30, 2003). The interest rate is adjusted each July 1 based on the prior year LAIF rate. The Group has pledged all assets purchased with proceeds of the note as security.



**Note 14.**

DEVELOPMENT AGREEMENT

The Agency has a Disposition and Development Agreement with a developer under which the developer has constructed the first two phases of a four phase, $200 million project. Phases I and II consist of an eight-story office building with ground floor retail space, restaurants and shops surrounding a central event plaza, a three-story theater complex, and two parking structures. The Developer has obtained a $350,000 irrevocable letter of credit in favor of the Agency to act as the performance deposit required under the Agreement.

As of June 30, 2003, the remaining Hotel Phase parcels and Phase III parcels were still owned by the Agency. These parcels are to be sold to the Developer and used for future improvements required under the agreement including a hotel, a second office building with ground floor retail, additional parking, landscaping, and an elevated pedestrian bridge.

**Note 15.**

FUND DEFICIT

The Redevelopment Fund had a deficit amounting to $15,642,234 and the Building Maintenance Internal Service Fund had a deficit amounting to $164,828 at June 30, 2003. The deficits will be eliminated with future revenues.

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# City of Merced

Merced, California

*Comprehensive Annual Financial Report*

*For the year ended June 30, 2003*

PREPARED BY THE CITY OF MERCED, CALIFORNIA

FINANCE DEPARTMENT



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C&L
Caporicci & Larson
*Certified Public Accountants*

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Merced
Merced, California

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Merced, California (City), as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the City adopted statements of the Governmental Accounting Standards Board No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; and No. 38, *Certain Financial Statement Note Disclosures*.

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

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Costa Mesa, California 92626

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**San Diego**
600 "B" Street, Suite 1900
San Diego, California 92101

To the Honorable Mayor and Members of the City Council
of the City of Merced
Merced, California

In accordance with Government Auditing Standards, we have also issued a report dated September 12, 2003, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions, law, regulations, contracts, and grants.

The accompanying Required Supplementary Information, such as management's discussion and analysis, budgetary comparison information and other information as listed in the table of contents are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Caporicci & Larson

Oakland, California
September 12, 2003



## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Merced (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found in the introductory section of this report, and the City's Financial Statements, which follows this discussion. The City implemented Governmental Accounting Standards Board (GASB) Statement 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments for the first time this year.

### FINANCIAL HIGHLIGHTS

- The City's net assets as shown on the Statement of Net Assets increased by $3.7 million. The governmental net assets decreased by $1.9 million and the business-type net assets increased by $5.6 million.
- As shown on the Statement of Net Assets, the assets of the City exceeded its liabilities at the close of the fiscal year by $356 million.
- At the end of the current fiscal year, the unreserved fund balance for the general fund was $8 million, or 55% percent of the General Fund fund balance.
- The net increase to debt was $11.7 million. New debt issued during the year was $9 million in Tax Allocation bonds for the Redevelopment Agency of the City of Merced Project Area #2 activities and a $4 million HUD Section 108 loan for 204 multi-family housing units.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Merced's basic financial statements. The City of Merced's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other required supplementary information and other supplementary information.

**Government-wide Financial Statements**-Government-wide Financial Statements are designed to provide readers with a broad overview of the City of Merced's finances, in a manner similar to a private-sector business.

The focus is on both the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by fund type) and the component units. Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type. In the government-wide statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and compensated absence).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, parks, and capital outlay. The business-type activities of the City include an airport, water, wastewater and refuse services.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Redevelopment Agency (Agency) and a legally separate Public Financing Authority (Authority) for which the City is financially accountable. The financial information for these component units is blended with the City and reported in the governmental activities of the Government-wide Financial Statements and the Fund Financial Statements.

**Fund Financial Statements**-A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds**-Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.



The City maintains thirty eight individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Redevelopment Agency Debt Service Fund and the Redevelopment Agency Capital Project Fund, which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for all its funds. A budgetary comparison has been provided for the General Fund in the Required Supplementary Information to demonstrate compliance with the budget.

**Proprietary Funds**-The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City maintains nine individual enterprise funds. Information is presented separately in the Proprietary Statement of Net Assets and the Propriety Statement of Revenues, Expense and Changes in Fund Net Assets for the Wastewater System, Wastewater Improvement, Restricted Water-Wells, Water System and Refuse Collection Funds, which are considered major funds. Data from the other four funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary funds is provided in the form of combining statements elsewhere in this report. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Worker's Compensation, Liability Insurance, Unemployment, Employee Benefits, Fleet Management and Replacement, Facility Maintenance, Support Services and Personal Computer Maintenance funds. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the Government-wide Financial Statements. Individual fund data for the internal service funds is provided in the form of combining statements.

**Fiduciary Funds**-Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the Basic Financial Statements**-The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**- In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for the General Fund.

The combining statements referred to earlier in connection with non-major funds and internal service funds are presented following the Required Supplementary Information. Also included are budget comparisons for governmental funds other than the General Fund.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Since this is the City of Merced's first year reporting under Government Accounting Standards Board Statement (GASB) #34, the City is presenting data based on key information presented in the basic financial statements. This method is prescribed in GASB #34. The City will present comparative government-wide data for fiscal year ending June 30, 2004.

As noted earlier, net assets may serve over time as a useful indicator of a governments' financial position. In the case of the City, assets exceeded liabilities by $356 million at the close of the most recent fiscal year.

**City of Merced**
**Summary of Net Assets**
**As of June 30, 2003**

| | Governmental Activities | Business-type Activities | Total Government |
|---|---|---|---|
| Current and other assets | $ 89,912,633 | $ 36,095,751 | $126,008,384 |
| Capital assets | 270,690,232 | 38,038,366 | 308,728,598 |
| Total assets | 360,602,865 | 74,134,117 | 434,736,982 |
| | | | |
| Long-term liabilities | 38,839,061 | 5,452,542 | 44,291,603 |
| Other liabilities | 28,267,050 | 5,642,120 | 33,909,170 |
| Total liabilities | 67,106,111 | 11,094,662 | 78,200,773 |
| | | | |
| Net assets: | | | |
| Invested in capital assets, net of debt | 235,052,801 | 32,503,366 | 267,556,167 |
| Restricted | 35,314,733 | 409,189 | 35,723,922 |
| Unrestricted | 23,129,220 | 30,126,900 | 53,256,120 |
| Total net assets | $ 293,496,754 | $ 63,039,455 | $356,536,209 |

The largest portion of the City's net assets (75%) reflects its investment in capital assets (e.g., land and improvements, construction in progress, buildings and structures, machinery and equipment and improvements other than buildings, structures and land improvements), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.



Fifteen percent of the City's net assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of $53 million is the unrestricted net assets that may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

**Analysis of the City's Operations-**The following table provides a summary of the City's operations for the year ended June 30, 2003. As noted earlier, in the first year GASB #34 is implemented, the City is not required to present comparative data for the prior year.

**City of Merced**
**Changes in Net Assets**
**For the Fiscal Year Ended June 30, 2003**

| | Governmental Activities | Business-type Activities | Total Government |
|---|---|---|---|
| **Revenues** | | | |
| Program revenues: | | | |
| Charges for services | $ 15,537,206 | $ 23,277,800 | $ 38,815,006 |
| Operating grants and contributions | 7,533,162 | - | 7,533,162 |
| Capital grants and contributions | 191,735 | - | 191,735 |
| General revenues and transfers: | | | |
| Property taxes | 8,834,315 | - | 8,834,315 |
| Sales taxes | 9,799,975 | - | 9,799,975 |
| Other taxes | 3,739,270 | | 3,739,270 |
| Transfers | (553,224) | 531,449 | (21,775) |
| Other | 7,257,342 | 3,172,483 | 10,429,825 |
| Total revenues | 52,339,781 | 26,981,732 | 79,321,513 |
| | | | |
| **Expenses** | | | |
| Governmental activities: | | | |
| General government | 15,221,012 | - | 15,221,012 |
| Public Safety | 17,863,142 | - | 17,863,142 |
| Public Works | 3,752,106 | - | 3,752,106 |
| Parks | 3,407,203 | - | 3,407,203 |
| Other | 14,060,614 | - | 14,060,614 |
| Business-type activities: | | | |
| Wastewater system | - | 7,094,722 | 7,094,722 |
| Wastewater improvement | - | 280,877 | 280,877 |
| Restricted water-wells | - | 154,132 | 154,132 |
| Water system | - | 5,588,089 | 5,588,089 |
| Refuse collection | - | 7,650,496 | 7,650,496 |
| Other proprietary funds | - | 559,054 | 559,054 |
| Total expenses | 54,304,077 | 21,327,370 | 75,631,447 |
| **Increase in net assets** | $ (1,964,296) | $ 5,654,362 | $ 3,690,066 |

**Governmental Activities-** Governmental Activities decreased the City's net assets by $1.5 million. Revenues and transfers from governmental activities totaled $52.7 million. Taxes provided 42% of the revenue and charges for services provided 29% of the revenue received during the year.

The following table shows the cost of each of the City's major programs and the net cost of the programs. Net cost is the total cost less fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City's taxpayers by each of the programs.

**City of Merced**
**Net Cost of Governmental Activities**
**For the Fiscal Year Ended June 30, 2003**

| | Total Cost of Services | Net Cost of Services |
|---|---|---|
| General Government | $ 15,221,012 | $ 2,008,368 |
| Public Safety | 17,863,142 | 15,121,145 |
| Public Works | 3,752,106 | 1,640,533 |
| Parks | 3,407,203 | 1,722,332 |
| Other | 14,060,614 | 10,549,596 |
| Total | $ 54,304,077 | $ 31,041,974 |

The costs for all governmental activities during the year were $54.3 million, which is 72% of total expenses. The City's taxpayers paid for $31 million of these costs. Fees, grants and contributions funded the balance of the cost.

**Business-type Activities-**Business-type activities increased the City's net assets by $5.6 million. This increase consists of fees collected for future capital projects. The revenues and transfers from the business-type activities total $26.9 million. Program revenues of the City's business-type activities totaled $23.2 million. Expenses of business-type activities were $21.3 million.

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**-The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The City's governmental funds reported a combined fund balance at June 30, 2003 of $53.3 million, an increase of $10 million.



The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was $14.8 million and the unreserved, undesignated fund balance was $8 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total expenditures. The unreserved fund balance represents 35% of total General Fund expenditures.

The fund balance of the City's General Fund increased by $1 million during the fiscal year. The increase in the General Fund is attributable to growth related revenue such as property taxes, sales tax and CRIS fees and the City's unspent appropriations. The increase in the General Fund will be used to cover shortfalls that may occur due to the State's budget crisis.

Other changes in fund balances include the following:

Redevelopment Agency Debt Service fund-

- This major fund increased by $677,094 million. The increase is due to tax increment revenue received. This revenue will be used in future years to make the debt service payments.

Redevelopment Agency Capital Projects fund-

- This major fund increased by $3.3 million. At year end there were unspent debt proceeds received from a tax allocation bond which will be spent on Redevelopment projects in the near future.

Public Facilities Impact Fees Special Revenue fund-

- This fund is used to account for the facilities fees collected for the project categories of roadways, bridges and railroad crossings, traffic signals, fire, police; and parks, recreation and bikeways. This non-major fund increased by $1.5 million and will be used for future public facilities.

**Proprietary Funds**-The City's proprietary funds provide the same type of information found in the Government-wide Financial Statements, but in more detail.

The unrestricted net assets of the Governmental Activities Internal Service Funds was $10.3 million. The unrestricted net assets of all the other proprietary funds was $30.1 million. The total change in net assets for the Governmental Activities Internal Service Funds and all the other proprietary funds was $2.1 million and $5.6, respectively. Other factors concerning the finances of the Proprietary funds have been addressed in the discussion of the City's business-type activities.

## GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year the City Council approved budgetary revisions for supplemental appropriations, which increased appropriations in individual funds and transfers between funds.

The difference between the original budget and the final budget was an increase of $22.4 million. 95% of this increase is attributable to capital projects. In addition, the increase includes interfund transactions. The majority of the capital projects were in the Redevelopment Agency and were funded by debt proceeds, grants and transfers in. In addition, the following revenue sources were higher than anticipated; property tax, sales tax and other taxes collected; and development related revenues.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets**-The City of Merced's investment in capital assets for its governmental and business type activities as of June 30, 2003, amounted to $308.7 million. This investment in capital assets includes land and improvements, construction in progress, buildings and structures, machinery and equipment, improvements other than buildings, structures, and land improvement.

**City of Merced**
**Capital Assets**
**June 30, 2003**

| | Government Activities | Business-Type Activities | Total |
|---|---|---|---|
| Non-depreciable Assets: | | | |
| Land and improvements | $ 60,806,061 | $ 56,914 | $ 60,862,975 |
| Construction in process | 10,437,258 | 17,761,172 | 28,198,430 |
| Total nondepreciable assets | 71,243,319 | 17,818,086 | 89,061,405 |
| Depreciable Assets: | | | |
| Buildings and structures | 4,969,412 | 2,444,434 | 7,413,846 |
| Machinery and equipment | 24,036,835 | 3,851,933 | 27,888,768 |
| Improvements other than buildings, structures, and land improvemer | 45,768,489 | 36,186,949 | 81,955,438 |
| Infrastructure | 298,239,752 | | 298,239,752 |
| | 373,014,488 | 42,483,316 | 415,497,804 |
| Less accumulated depreciation | (173,567,575) | (22,263,036) | (195,830,611) |
| Total depreciable assets, net | 199,446,913 | 20,220,280 | 219,667,193 |
| **Total capital assets** | $ 270,690,232 | $ 38,038,366 | $ 308,728,598 |

The significant change to capital assets during the current fiscal year included the following:

- Phase III of the Wastewater Treatment Plant renovation project with over $7 million in construction costs.
- The purchase and construction of Well Site 10B for approximately $500,000.
- The development of Paulson School Park site with costs of $500,000.
- The purchase and renovation of the historic Merced Theatre for $750,000.

**Long-term debt**-At the end of the current fiscal year, the City had $46.9 million in outstanding debt consisting of tax allocation bonds, revenue bonds, improvement bonds, participation and development agreements, loans payable, loan guarantees payable and compensated absences. All of the debt was secured by specific revenue sources.



**City of Merced**
**Outstanding Debt**
**June 30, 2003**

| | Governmental Activities 2003 | Business-type Activities 2003 | Total 2003 |
|---|---|---|---|
| Tax allocation bonds payable | $ 31,612,825 | $ - | $ 31,612,825 |
| Participation and development agreements | 725,000 | - | 725,000 |
| Loan payable | 5,753,298 | - | 5,753,298 |
| Loan guarantee | 668,228 | - | 668,228 |
| Revenue bonds payable | - | 2,410,000 | 2,410,000 |
| Improvement bonds payable | - | 3,125,000 | 3,125,000 |
| Compensated absences | 2,226,854 | 447,542 | 2,674,396 |
| Total | $ 40,986,205 | $ 5,982,542 | $ 46,968,747 |

The City's total debt increased by $11.7 million or 31% during the current fiscal year. The increase was due to the issuance of $9 million in Tax Allocation bonds for the Redevelopment Agency and a $4 million HUD Section 108 loan.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The key assumptions in the revenue forecast for fiscal year 2003-04 are as follows:

- The City must be prepared for the impact of the State's budget deficit.
- All revenues due to the City of Merced from all sources will be received during the fiscal year 2003-2004.
- All current core services will continue to be delivered during the fiscal year 2003-2004.
- Conservative revenue projections were used to avoid presenting an unrealistic expectation of available funding.
- The City Council's priorities were identified as the General Plan update, water, wastewater and storm drainage, the University of California Merced, annexations, infrastructure and revenue protection and enhancement. These priorities were guides in preparation of the budget for the fiscal year 2003-2004.
- Water and wastewater rates will increase on January 1, 2004 and again every January until 2007.
- Refuse rates will be reviewed for recommendation of an increase in January based on the change in the CPI.

## REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Merced's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Officer, City of Merced, 678 West 18th Street, Merced, CA, 95340.



# BASIC FINANCIAL STATEMENTS

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# GOVERNMENT-WIDE FINANCIAL STATEMENTS

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# City of Merced
## Statement of Net Assets
## June 30, 2003

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash, cash equivalents and investments | $ 52,798,582 | $ 34,183,270 | $ 86,981,852 |
| Cash held by fiscal agent | 2,596,800 | 409,189 | 3,005,989 |
| Accounts receivable | 5,450,182 | | 5,450,182 |
| Interest receivable | 598,195 | 312,061 | 910,256 |
| Service charges receivable | | 2,345,355 | 2,345,355 |
| Due from other governments | 3,119,484 | 294,639 | 3,414,123 |
| Interfund balances | 2,143,783 | (1,900,000) | 243,783 |
| Prepaid items | 82,267 | | 82,267 |
| Inventory | 87,491 | 100,241 | 187,732 |
| Total current assets | 66,876,784 | 35,744,756 | 102,621,539 |
| Noncurrent assets: | | | |
| Land held for resale | 1,877,969 | - | 1,877,969 |
| Notes receivable | 21,333,189 | 89,386 | 21,422,575 |
| Interfund balances | (175,309) | 101,395 | (73,914) |
| Deferred charges | - | 160,215 | 160,215 |
| Subtotal noncurrent assets | 23,035,849 | 350,996 | 23,386,845 |
| Capital assets: | | | |
| Nondepreciable: | | | |
| Land and improvements | 60,806,061 | 56,914 | 60,862,975 |
| Construction in progress | 10,437,258 | 17,761,172 | 28,198,430 |
| Depreciable: | | | |
| Buildings and structures | 4,969,412 | 2,444,434 | 7,413,846 |
| Machinery and equipment | 24,036,835 | 3,851,933 | 27,888,768 |
| Improvements other than buildings, structures and land improvements | 45,768,489 | 36,186,949 | 81,955,438 |
| Infrastructure | 298,239,752 | | 298,239,752 |
| Gross capital assets | 444,257,807 | 60,301,402 | 504,559,209 |
| Less accumulated depreciation | (173,567,575) | (22,263,036) | (195,830,611) |
| Total capital assets, net | 270,690,232 | 38,038,366 | 308,728,598 |
| Total noncurrent assets | 293,726,081 | 38,389,362 | 332,115,443 |
| **Total assets** | 360,602,865 | 74,134,117 | 434,736,982 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | 602,492 | 2,339,336 | 2,941,828 |
| Other payables | 446,377 | | 446,377 |
| Deposits | 39,158 | 388,739 | 427,897 |
| Deferred revenue | 21,603,737 | 1,631,950 | 23,235,687 |
| Accrued interest payable | 155,354 | 609,633 | 764,987 |
| Long-term debt, due within one year | 2,147,144 | 530,000 | 2,677,144 |
| Other liabilities | 3,272,788 | 142,462 | 3,415,250 |
| Total current liabilities | 28,267,050 | 5,642,120 | 33,909,170 |
| Noncurrent liabilities: | | | |
| Tax allocation bonds payable | 30,352,825 | | 30,352,825 |
| Participation and development agreements | 575,000 | | 575,000 |
| Loan payable | 5,396,705 | | 5,396,705 |
| Loan guarantee | 607,480 | | 607,480 |
| Revenue bonds payable | | 2,125,000 | 2,125,000 |
| Improvement bonds payable | | 2,880,000 | 2,880,000 |
| Compensated absences | 1,907,051 | 447,542 | 2,354,593 |
| Total noncurrent liabilities | 38,839,061 | 5,452,542 | 44,291,603 |
| **Total liabilities** | 67,106,111 | 11,094,662 | 78,200,773 |
| **NET ASSETS** | | | |
| Invested in capital assets, net of related debt | 235,052,801 | 32,503,366 | 267,556,167 |
| Restricted for: | | | |
| Debt service | 1,832,968 | 409,189 | 2,242,157 |
| Capital projects | 20,870,876 | | 20,870,876 |
| Special projects and programs | 12,610,889 | | 12,610,889 |
| Total restricted | 35,314,733 | 409,189 | 35,723,922 |
| Unrestricted | 23,129,220 | 30,126,900 | 53,256,120 |
| **Total net assets** | $ 293,496,754 | $ 63,039,455 | $ 356,536,209 |

See accompanying Notes to Basic Financial Statements.

# City of Merced
## Statement of Activities
## For the year ended June 30, 2003

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Program Revenues: Total | Net (Expense) Revenue and Changes in Net Assets: Governmental Activities | Net (Expense) Revenue and Changes in Net Assets: Business-type Activities | Net (Expense) Revenue and Changes in Net Assets: Total |
|---|---|---|---|---|---|---|---|---|
| **Governmental activities:** | | | | | | | | |
| General government | $ 15,221,012 | $ 6,890,537 | $ 6,244,737 | $ 77,370 | $ 13,212,644 | $ (2,008,368) | $ | $ (2,008,368) |
| Public safety | 17,863,142 | 2,171,993 | 526,643 | 43,361 | 2,741,997 | (15,121,145) | | (15,121,145) |
| Public works | 3,752,106 | 1,932,135 | 108,434 | 71,004 | 2,111,573 | (1,640,533) | | (1,640,533) |
| Parks | 3,407,203 | 1,031,523 | 653,348 | | 1,684,871 | (1,722,332) | | (1,722,332) |
| Administrative shared expenditures | 1,046,432 | 3,511,018 | | | 3,511,018 | 2,464,586 | | 2,464,586 |
| Unallocated depreciation | 11,602,630 | | | | | (11,602,630) | | (11,602,630) |
| Interest on long-term debt | 1,411,552 | | | | | (1,411,552) | | (1,411,552) |
| **Total governmental activities** | 54,304,077 | 15,537,206 | 7,533,162 | 191,735 | 23,262,103 | (31,041,974) | | (31,041,974) |
| **Business-type activities:** | | | | | | | | |
| Wastewater system | 7,094,722 | 5,776,215 | | | 5,776,215 | | (1,318,507) | (1,318,507) |
| Wastewater improvement | 280,877 | 1,415,626 | | | 1,415,626 | | 1,134,749 | 1,134,749 |
| Restricted water-wells | 154,132 | 2,343,074 | | | 2,343,074 | | 2,188,942 | 2,188,942 |
| Water system | 5,588,089 | 5.680,757 | | | 5,680,757 | | 92,668 | 92,668 |
| Refuse collection | 7,650,496 | 6,894,531 | | | 6,894,531 | | (755,965) | (755,965) |
| Other proprietary funds | 559,054 | 1,167,597 | | | 1,167,597 | | 608,543 | 608,543 |
| **Total business-type activities** | 21,327,370 | 23,277,800 | | | 23,277,800 | | 1,950,430 | 1,950,430 |
| **Total government** | $ 75,631,447 | $ 38,815,006 | $ 7,533,162 | $ 191,735 | $ 46,539,903 | (31,041,974) | 1,950,430 | (29,091,544) |
| **General revenues and transfers:** | | | | | | | | |
| Taxes: | | | | | | | | |
| Property | | | | | | 8,834,315 | | 8,834,315 |
| Sales | | | | | | 9,799,975 | | 9,799,975 |
| Other | | | | | | 3,739.270 | | 3,739,270 |
| Total taxes | | | | | | 22,373,560 | | 22,373,560 |
| Interest and investment earnings | | | | | | 679,613 | 1,215,989 | 1,895,602 |
| Miscellaneous | | | | | | 5,745,068 | 1,956,494 | 7,701,562 |
| Gain (loss) on disposal of assets | | | | | | 832,661 | | 832,661 |
| Transfers | | | | | | (553,224) | 531,449 | (21,775) |
| **Total general revenues and transfers** | | | | | | 29,077,678 | 3,703,932 | 32,781,610 |
| **Changes in net assets** | | | | | | (1,964,296) | 3,654,362 | 3,690,066 |
| **Net Assets:** | | | | | | | | |
| Beginning of year, as restated | | | | | | 295,461,050 | 57,385,093 | 352,846,143 |
| End of year | | | | | | $ 293,496,754 | $ 63,039,455 | $ 356,536,209 |

See accompanying Notes to Basic Financial Statements.

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# FUND FINANCIAL STATEMENTS

# City of Merced
## Balance Sheet
## Governmental Funds
## June 30, 2003

| | General | Major Funds: Redevelopment Agency Debt Service | Major Funds: Redevelopment Agency Capital Projects | Other Governmental Funds | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash, cash equivalents and investments | $ 10,325,807 | $ 1,738,926 | $ 13,659,094 | $ 15,632,199 | $ 41,356,026 |
| Cash held by fiscal agent | | 2,554,482 | 42,318 | | 2,596,800 |
| Accounts receivable | 97,828 | | | 5,313,987 | 5,411,815 |
| Interest receivable | 393,332 | 8,436 | 25,224 | 78,968 | 505,960 |
| Due from other governments | 1,366,874 | 458,242 | | 1,290,801 | 3,115,917 |
| Due from other funds | 2,149,898 | | | 117,583 | 2,267,481 |
| Notes receivable | 97,249 | 4,000,000 | 2,178,321 | 15,057,619 | 21,333,189 |
| Inventory | 17,890 | | | | 17,890 |
| Land held for resale | | | 1,323,251 | 554,718 | 1,877,969 |
| Advances to other funds | 1,298,813 | | | 15,982 | 1,314,795 |
| Total assets | $ 15,747,691 | $ 8,760,086 | $ 17,228,208 | $ 38,061,857 | $ 79,797,842 |
| **LIABILITIES AND FUND BALANCES** | | | | | |
| **Liabilities:** | | | | | |
| Accounts payable | $ 211,137 | $ | $ 106,830 | $ 136,052 | $ 454,019 |
| Other payables | 416,659 | | | 29,718 | 446,377 |
| Deposits | | | 9,158 | 30,000 | 39,158 |
| Deferred revenue | 301,206 | 4,000,000 | | 17,302,531 | 21,603,737 |
| Due to other funds | | 91,648 | | 32,050 | 123,698 |
| Advances from other funds | | 3,453,619 | | 177,940 | 3,631,559 |
| Other liabilities | 1,756 | | | 98,457 | 100,213 |
| Total liabilities | 930,758 | 7,545,267 | 115,988 | 17,806,748 | 26,398,761 |
| **Fund Balances:** | | | | | |
| Fund balances | 14,816,933 | 1,214,819 | 17,112,220 | 20,255,109 | 53,399,081 |
| Total liabilities and fund balances | $ 15,747,691 | $ 8,760,086 | $ 17,228,208 | $ 38,061,857 | $ 79,797,842 |

See accompanying Notes to Basic Financial Statements.



# City of Merced
## Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets
## June 30, 2003

| | | |
|---|---|---|
| **Total Fund Balances - Total Governmental Funds** | | $ 53,399,081 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in Governmental Funds Balance Sheet. | | |
| Non-depreciable | $ 70,878,938 | |
| Depreciable | 356,879,379 | |
| Less accumulated depreciation | (161,240,939) | 266,517,378 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. | | |
| Tax allocation bonds payable, net | (31,612,825) | |
| Participation and development agreements | (725,000) | |
| Loan payable | (5,753,298) | |
| Loan guarantee | (668,228) | |
| Compensated absences | (1,990,148) | (40,749,499) |
| Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet. | | (155,354) |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds that are reported with governmental activities. | | 14,485,148 |
| **Net Assets of Governmental Activities** | | $ 293,496,754 |

See accompanying Notes to Basic Financial Statements.

## City of Merced

### Statement of Revenues, Expenditures and Changes in Fund Balances
### Governmental Funds
### For the year ended June 30, 2003

| | Major Funds | | | | |
|---|---|---|---|---|---|
| | General | Redevelopment Agency Debt Service | Redevelopment Agency Capital Projects | Other Governmental Funds | Total |
| **REVENUES:** | | | | | |
| Taxes | $ 17,299,802 | $ 4,991,156 | $ - | $ 82,602 | $ 22,373,560 |
| Licenses and permits | 46,741 | | | | 46,741 |
| Intergovernmental | 4,287,938 | | 77,370 | 7,600,598 | 11,965,906 |
| Service charges | 3,500,546 | 597,063 | | 7,356,975 | 11,454,584 |
| Fines, forfeitures and penalties | 41,543 | | | 917,686 | 959,229 |
| Other | 1,236,203 | 127,327 | 191,548 | 3,347,487 | 4,902,565 |
| Total revenues | 26,412,773 | 5,715,546 | 268,918 | 19,305,348 | 51,702,585 |
| **EXPENDITURES:** | | | | | |
| Current operating: | | | | | |
| General government | 3,083,093 | 784,453 | 671,915 | 6,684,404 | 11,223,865 |
| Public safety | 17,717,518 | | | 481,681 | 18,199,199 |
| Public works | | | | 3,651,120 | 3,651,120 |
| Parks | 1,601,708 | | | 1,860,533 | 3,462,241 |
| Administrative shared expenditures | | | | 1,046,432 | 1,046,432 |
| Total current operating | 22,402,319 | 784,453 | 671,915 | 13,724,170 | 37,582,857 |
| Capital outlay | 506,612 | | 11,006,194 | 3,238,388 | 14,751,194 |
| Debt service: | | | | | |
| Principal | | 1,240,748 | | 1,690,000 | 2,930,748 |
| Interest | | 1,339,288 | | 41,507 | 1,380,795 |
| Total expenditures | 22,908,931 | 3,364,489 | 11,678,109 | 18,694,065 | 56,645,594 |
| **REVENUES OVER (UNDER) EXPENDITURES** | 3,503,842 | 2,351,057 | (11,409,191) | 611,283 | (4,943,009) |
| **OTHER FINANCING SOURCES (USES):** | | | | | |
| Proceeds from debt | | 295,745 | 12,712,080 | 1,620,000 | 14,627,825 |
| Proceeds from sale of land | | | 1,000 | 810,990 | 811,990 |
| Transfers in | 792,744 | 163,853 | 2,768,618 | 8,742,706 | 12,467,921 |
| Transfers out | (3,287,015) | (2,133,561) | (765,225) | (6,949,935) | (13,135,736) |
| Total other financing sources (uses) | (2,494,271) | (1,673,963) | 14,716,473 | 4,223,761 | 14,772,000 |
| **Net change in fund balances** | 1,009,571 | 677,094 | 3,307,282 | 4,835,044 | 9,828,991 |
| **FUND BALANCES:** | | | | | |
| Beginning of year | 13,807,362 | 4,134,125 | 13,729,938 | 15,372,868 | 47,044,293 |
| Prior period adjustment | | (3,596,400) | 75,000 | 47,197 | (3,474,203) |
| Beginning of year, as restated | 13,807,362 | 537,725 | 13,804,938 | 15,420,065 | 43,570,090 |
| End of year | $ 14,816,933 | $ 1,214,819 | $ 17,112,220 | $ 20,255,109 | $ 53,399,081 |

See accompanying Notes to Basic Financial Statements



## City of Merced

### Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Government-Wide Statement of Activities
### For the year ended June 30, 2003

| | | |
|---|---|---|
| **Net Change in Fund Balances - Total Governmental Funds** | | $ 9,828,991 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Governmental funds report capital outlay as expenditures. However, in the Government-wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. | | 9,357,474 |
| Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds. | | (11,602,630) |
| Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments. | | |
| Long-term debt proceeds | $ (14,627,825) | |
| Principal payment | 2,930,748 | (11,697,077) |
| Interest expense on long-term debt is reported in the Government-Wide Statement of Activities, but they do not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in Governmental Funds. The following amount represents the change in accrued interest from prior year. | | (30,756) |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The net (expense) of the internal service funds is reported with governmental activities. | | 2,179,702 |
| **Change in Net Assets of Governmental Activities** | | $ (1,964,296) |

See accompanying Notes to Basic Financial Statements.

# City of Merced
## Statement of Net Assets
## Proprietary Funds
## June 30, 2003

| | Business-type Activities Enterprise Funds | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Wastewater System | Wastewater Improvement | Restricted Water-Wells | Water System | Refuse Collection | Other Non Major Business-type Funds | Total Business-type Funds | Governmental Activities Internal Service Funds |
| **ASSETS** | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash, cash equivalents and investments | $ 4,287,470 | $ 11,512,902 | $ 8,837,046 | $ 4,201,912 | $ 3,334,440 | $ 2,009,500 | $ 34,183,270 | $ 11,442,556 |
| Cash held by fiscal agent | 409,189 | | | | | | 409,189 | |
| Accounts receivable | | | | | | | | 38,367 |
| Interest receivable | 20,670 | 55,485 | 190,026 | 20,258 | 15,912 | 9,710 | 312,061 | 92,235 |
| Service charges receivable | 717,597 | 256,650 | 319,311 | 596,972 | 403,760 | 51,065 | 2,345,355 | |
| Prepaid items | | | | | | | | 82,267 |
| Due from other governments | 70,741 | | | | | 223,898 | 294,639 | 3,367 |
| Inventory | 2,611 | | | 97,630 | | | 100,241 | 69,601 |
| Total current assets | 5,508,278 | 11,825,037 | 9,346,383 | 4,916,772 | 3,754,112 | 2,294,173 | 37,644,755 | 11,728,593 |
| Noncurrent assets: | | | | | | | | |
| Notes receivable-private parties | 15,374 | 26,369 | 28,532 | 4,055 | | 15,056 | 89,386 | |
| Advances to other funds | 27,836 | 84,530 | 4,381,379 | 3,344 | | 4,240 | 4,501,329 | 2,141,455 |
| Deferred charges | 160,215 | | | | | | 160,215 | |
| Subtotal noncurrent assets | 203,425 | 110,899 | 4,409,911 | 7,399 | - | 19,296 | 4,750,930 | 2,141,455 |
| Capital assets: | | | | | | | | |
| Land and improvements | 28,821 | | | 10,295 | | 17,798 | 56,914 | |
| Construction in progress | 4,156,981 | 7,712,160 | 131,501 | 4,966,221 | 234,583 | 559,726 | 17,761,172 | 364,381 |
| Buildings and structures | 180,634 | | 1,428,231 | 640,717 | 15,093 | 179,759 | 2,444,434 | 30,170 |
| Machinery and equipment | 1,165,797 | | | 791,997 | 1,871,734 | 22,405 | 3,851,933 | 15,994,976 |
| Improvements other than buildings, structures, and land improvements | 14,702,647 | 1,263,916 | 1,119,505 | 9,019,292 | 7,089,751 | 2,991,838 | 36,186,949 | 109,963 |
| Less accumulated depreciation | (10,999,439) | (63,196) | (1,496,991) | (4,336,744) | (3,879,152) | (1,487,514) | (22,263,036) | (12,326,636) |
| Total capital assets | 9,235,441 | 8,912,880 | 1,182,246 | 11,091,778 | 5,332,009 | 2,284,012 | 38,038,366 | 4,172,854 |
| Total noncurrent assets | 9,438,866 | 9,023,779 | 5,592,157 | 11,099,177 | 5,332,009 | 2,303,308 | 42,789,296 | 6,314,309 |
| Total assets | 14,947,144 | 20,848,816 | 14,938,540 | 16,015,949 | 9,086,121 | 4,597,481 | 80,434,051 | 18,042,902 |
| **LIABILITIES** | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Accounts payable | 116,675 | 1,627,542 | | 193,602 | 169,586 | 231,931 | 2,339,336 | 148,473 |
| Deposits | 16,325 | | | 329,698 | 28,505 | 14,211 | 388,739 | |
| Deferred revenue | 636,958 | 6,419 | | 587,112 | 394,453 | 7,008 | 1,631,950 | |
| Due to other funds | 1,900,000 | | | | | | 1,900,000 | |
| Accrued interest payable | 425,309 | 147,420 | | | 36,904 | | 609,633 | |
| Long-term debt, due within one year | 530,000 | | | | | | 530,000 | |
| Other liabilities | 75,923 | | | 22,366 | 32,008 | 12,165 | 142,462 | 3,172,575 |
| Total current liabilities | 3,701,190 | 1,781,381 | | 1,132,778 | 661,456 | 265,315 | 7,542,120 | 3,321,048 |
| Noncurrent liabilities: | | | | | | | | |
| Advances from other funds | | 2,457,000 | | | 1,834,000 | 108,934 | 4,399,934 | |
| Revenue bonds payable | 2,125,000 | | | | | | 2,125,000 | |
| Improvement bonds payable | 2,880,000 | | | | | | 2,880,000 | |
| Compensated absences payable | 221,534 | | | 92,048 | 122,537 | 11,423 | 447,542 | 236,706 |
| Total noncurrent liabilities | 5,226,534 | 2,457,000 | | 92,048 | 1,956,537 | 120,357 | 9,852,476 | 236,706 |
| Total liabilities | 8,927,724 | 4,238,381 | | 1,224,826 | 2,617,993 | 385,672 | 17,394,596 | 3,557,754 |
| **NET ASSETS** | | | | | | | | |
| Invested in capital assets, net of related debt | 3,700,441 | 8,912,880 | 1,182,246 | 11,091,778 | 5,332,009 | 2,284,012 | 32,503,366 | 4,172,854 |
| Restricted | 409,189 | | | | | | 409,189 | |
| Unrestricted | 1,909,790 | 7,697,555 | 13,756,294 | 3,699,345 | 1,136,119 | 1,927,797 | 30,126,900 | 10,312,294 |
| Total net assets | $ 6,019,420 | $ 16,610,435 | $ 14,938,540 | $ 14,791,123 | $ 6,468,128 | $ 4,211,809 | $ 63,039,455 | $ 14,485,148 |

See accompanying Notes to Basic Financial Statements.

# City of Merced

## Statement of Revenues, Expenses and Changes in Net Assets

## Proprietary Funds

## For the year ended June 30, 2003

| | Business-type Activities Enterprise Funds | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Wastewater System | Wastewater Improvement | Restricted Water-Wells | Water System | Refuse Collection | Other Non Major Business-type Funds | Total Business-type Funds | Governmental Activities Internal Service Funds |
| **OPERATING REVENUES:** | | | | | | | | |
| Charges for services | $ 5,776,215 | $ 1,415,626 | $ 2,343,074 | $ 5,680,757 | $ 6,894,531 | $ 1,167,597 | $ 23,277,800 | $ 14,068,545 |
| **Total operating revenues** | 5,776,215 | 1,415,626 | 2,343,074 | 5,680,757 | 6,894,531 | 1,167,597 | 23,277,800 | 14,068,545 |
| **OPERATING EXPENSES:** | | | | | | | | |
| Personnel services | 1,711,418 | | | 1,150,523 | 1,565,205 | 173,154 | 4,600,300 | 2,091,229 |
| Materials, supplies and other services | 2,528,766 | 70,261 | | 2,859,395 | 4,889,763 | 177,253 | 10,525,438 | 3,201,195 |
| Depreciation | 1,155,136 | 63,196 | 154,132 | 591,197 | 384,188 | 177,847 | 2,525,696 | 1,426,932 |
| Administrative shared expenses | 380,960 | | | 329,371 | 341,329 | 28,624 | 1,080,284 | 411,186 |
| Costs applied-labor, materials, supplies and services | 581,143 | | | 657,603 | 433,107 | | 1,671,853 | 5,387,344 |
| **Total operating expenses** | 6,357,423 | 133,457 | 154,132 | 5,588,089 | 7,613,592 | 556,878 | 20,403,571 | 12,517,886 |
| **OPERATING INCOME (LOSS)** | (581,208) | 1,282,169 | 2,188,942 | 92,668 | (719,061) | 610,719 | 2,874,229 | 1,550,659 |
| **NONOPERATING REVENUES (EXPENSES):** | | | | | | | | |
| Gain (loss) on sale of equipment | | | | | | | | 20,671 |
| Interest and investment earnings | 119,942 | 364,793 | 498,699 | 109,949 | 83,210 | 39,396 | 1,215,989 | 357,758 |
| Interest and related expenses | (737,299) | (147,420) | | | (36,904) | (2,176) | (923,799) | |
| Other | 997,718 | | | 958,258 | 2,118 | (1,600) | 1,956,494 | 136,023 |
| **Total nonoperating revenues (expenses)** | 380,361 | 217,373 | 498,699 | 1,068,207 | 48,424 | 35,620 | 2,248,684 | 514,452 |
| **INCOME (LOSS) BEFORE OPERATING TRANSFERS** | (200,847) | 1,499,542 | 2,687,641 | 1,160,875 | (670,637) | 646,339 | 5,122,913 | 2,065,111 |
| **OPERATING TRANSFERS:** | | | | | | | | |
| Transfers in | | | | | | 631,782 | 631,782 | 161,062 |
| Transfers out | | | | (333) | | (100,000) | (100,333) | (46,471) |
| **Total operating transfers** | | | | (333) | | 531,782 | 531,449 | 114,591 |
| **Change in net assets** | (200,847) | 1,499,542 | 2,687,641 | 1,160,542 | (670,637) | 1,178,121 | 5,654,362 | 2,179,702 |
| **NET ASSETS:** | | | | | | | | |
| Beginning of year | 6,220,267 | 15,110,893 | 12,250,899 | 13,630,581 | 7,138,765 | 3,033,688 | 57,385,093 | 12,305,446 |
| End of year | $ 6,019,420 | $ 16,610,435 | $ 14,938,540 | $ 14,791,123 | $ 6,468,128 | $ 4,211,809 | $ 63,039,455 | $ 14,485,148 |

See accompanying Notes to Basic Financial Statements.

# City of Merced
## Statement of Cash Flows
## Proprietary Funds
## For the year ended June 30, 2003

| | Business-type Activities Enterprise Funds | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Wastewater System | Wastewater Improvement | Restricted Water-Wells | Water System | Refuse Collection | Other Non Major Business-type Funds | Total Business-type Funds | Governmental Activities Internal Service Funds |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | | | | | |
| Cash received from customers, including cash deposits | $ 5,716,660 | $ 1,149,890 | $ 2,023,763 | $ 5,769,762 | $ 6,933,080 | $ 918,996 | $ 22,512,151 | $ 14,030,459 |
| Cash paid to suppliers | (2,500,588) | 1,557,281 | (6,435) | (2,945,944) | (4,977,619) | 52,860 | (8,820,445) | (3,204,785) |
| Cash paid to employees | (1,711,418) | | | (1,150,523) | (1,565,205) | (173,154) | (4,600,300) | (2,091,229) |
| Cash paid related to quasi-external transactions | (962,103) | | | (986,974) | (774,436) | (28,624) | (2,752,137) | (5,798,530) |
| Cash receipts (payments) other | 49,363 | | | 6,831 | 13,284 | 2,235 | 71,713 | 332,717 |
| **Net cash provided (used) by operating activities** | 591,914 | 2,707,171 | 2,017,328 | 693,152 | (370,896) | 772,313 | 6,410,982 | 3,268,632 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:** | | | | | | | | |
| Advances from other funds | | | | | 834,000 | (31,745) | 802,255 | |
| Advances to other funds | 10,575 | 21,868 | 337,132 | 4,004 | | 1,828 | 375,407 | (757,850) |
| Transfers from other funds | | | | | | 631,782 | 631,782 | 161,062 |
| Transfers to other funds | | | | (333) | | (100,000) | (100,333) | (46,471) |
| Other | 997,718 | | | 958,258 | 2,118 | (1,600) | 1,956,494 | 136,023 |
| **Net cash provided (used) by noncapital financing activities** | 1,008,293 | 21,868 | 337,132 | 961,929 | 836,118 | 500,265 | 3,665,605 | (507,236) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:** | | | | | | | | |
| Proceeds on sale of fixed assets | | | | | | | | 20,671 |
| Acquisition and construction of fixed assets | (967,375) | (7,564,117) | (110,021) | (1,033,532) | (4,184,912) | (467,784) | (14,327,741) | (1,334,151) |
| Prior period adjustment | | | | | 3,918,599 | | 3,918,599 | |
| Principal payments of long-term debt | (505,000) | | | | | | (505,000) | |
| Interest payments | (311,990) | | | | | (2,176) | (314,166) | |
| Bond issuance costs | 29,913 | | | | | | 29,913 | |
| Compensated absences | 37,520 | | | 12,448 | 10,948 | 752 | 61,668 | 2,309 |
| **Net cash provided (used) by capital and related financing activities** | (1,716,932) | (7,564,117) | (110,021) | (1,021,084) | (255,365) | (469,208) | (11,136,727) | (1,311,171) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | | | | | |
| Investment earnings | 126,920 | 396,044 | 364,488 | 111,928 | 87,259 | 36,844 | 1,123,483 | 326,966 |
| Notes to private parties | 1,441 | 2,471 | 2,674 | 381 | | 1,927 | 8,894 | |
| **Net cash provided (used) by investing activities** | 128,361 | 398,515 | 367,162 | 112,309 | 87,259 | 38,771 | 1,132,377 | 326,966 |
| **Net increase (decrease) in cash and cash equivalents** | 11,636 | (4,436,563) | 2,611,601 | 746,306 | 297,116 | 842,141 | 72,237 | 1,777,191 |
| Cash and cash equivalents at beginning of year, including $409,187 in cash held by fiscal agents | 4,685,023 | 15,949,465 | 6,225,445 | 3,455,606 | 3,037,324 | 1,167,359 | 34,520,222 | 9,665,365 |
| Cash and cash equivalents at end of year, including $409,196 in cash held by fiscal agents | $ 4,696,659 | $ 11,512,902 | $ 8,837,046 | $ 4,201,912 | $ 3,334,440 | $ 2,009,500 | $ 34,592,459 | $ 11,442,556 |

See accompanying Notes to Basic Financial Statements.



(Continued)

# City of Merced
## Statement of Cash Flows
## Proprietary Funds, Continued
## For the year ended June 30, 2003

| | Business-type Activities – Enterprise Funds | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Wastewater System | Wastewater Improvement | Restricted Water Wells | Water System | Refuse Collection | Other Non Major Business-type Funds | Total Business-type Funds | Governmental Activities Internal Service Funds |
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:** | | | | | | | | |
| Operating income (loss) | $ (581,208) | $ 1,282,169 | $ 2,188,942 | $ 92,668 | $ (719,061) | $ 610,719 | $ 2,874,229 | $ 1,550,659 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | | | |
| Depreciation | 1,155,136 | 63,196 | 154,132 | 591,197 | 384,188 | 177,847 | 2,525,696 | 1,426,932 |
| Accounts receivable | | | | | | | | (38,367) |
| Service charges receivable | (74,036) | (256,630) | (319,311) | 25,536 | 16,433 | (51,065) | (659,093) | |
| Prepaid items | | | | | | | | (9,849) |
| Due from other governments | (959) | | | | | (203,409) | (204,368) | 281 |
| Inventories | 166 | | | 8,471 | | | 8,637 | (26,357) |
| Accounts payable | 28,012 | 1,627,542 | (6,435) | (95,020) | (87,856) | 230,113 | 1,696,356 | 32,616 |
| Deposits | (982) | | | 40,859 | 4,239 | 713 | 44,829 | |
| Deferred revenue | 16,422 | (9,086) | | 22,610 | 17,877 | 5,160 | 52,983 | |
| Other liabilities | 49,363 | | | 6,831 | 13,284 | 2,235 | 71,713 | 332,717 |
| Total adjustments | 1,173,122 | 1,425,002 | (171,614) | 600,484 | 348,165 | 161,594 | 3,536.753 | 1,717,973 |
| Net cash provided (used) by operating activities | $ 591,914 | $ 2,707,171 | $ 2,017,328 | $ 693,152 | $ (370,896) | $ 772,313 | $ 6,410,982 | $ 3,268,632 |



(Concluded)

# City of Merced
## Statement of Fiduciary Net Assets
## Fiduciary Funds
## June 30, 2003

| | Private Purpose Trust Funds | | | | | | |
|---|---|---|---|---|---|---|---|
| | Task Force Trust | Transit Benefit | Youth Programs Endowment | McComb's Trust | Wahneta Hall Trust | Agency Funds | Total |
| **ASSETS** | | | | | | | |
| Cash, cash equivalents and investments | $ 2,304 | $ 37,697 | $ 170,404 | $ 7,944 | $ 169,131 | $ 4,658,381 | $ 5,045,861 |
| Interest receivable | 11 | | 822 | 38 | 815 | 15,403 | 17,089 |
| Due from other governments | | | | | | 354,180 | 354,180 |
| Deposits | | | | | | 238,675 | 238,675 |
| Advances to other funds | | | | | | 4,666 | 4,666 |
| **Total assets** | 2,315 | 37,697 | 171,226 | 7,982 | 169,946 | 5,271,305 | 5,660,471 |
| **LIABILITIES** | | | | | | | |
| Other payables | | | | | | 351,953 | 351,953 |
| Deposits | | | | | | 1,391,507 | 1,391,507 |
| Due to bond holders | | | | | | 3,527,845 | 3,527,845 |
| Total liabilities | | | | | | 5,271,305 | 5,271,305 |
| **NET ASSETS** | | | | | | | |
| Held in trust for other purposes | $ 2,315 | $ 37,697 | $ 171,226 | $ 7,982 | $ 169,946 | $ | $ 389,166 |

See accompanying Notes to Basic Financial Statements.

## City of Merced
### Statement of Changes in Fiduciary Net Assets
### Fiduciary Funds
### For the year ended June 30, 2003

| | Private Purpose Trust Funds | | | | | |
|---|---|---|---|---|---|---|
| | Task Force Trust | Transit Benefit | Youth Programs Endowment | McComb's Trust | Wahneta Hall Trust | Total |
| **ADDITIONS:** | | | | | | |
| Investment Earnings | $ 761 | $ 16 | $ 4,177 | $ 257 | $ 4,371 | $ 9,582 |
| Transfers In | | | 61,774 | | | 61,774 |
| **Total Additions** | 761 | 16 | 65,951 | 257 | 4,371 | 71,356 |
| **DEDUCTIONS:** | | | | | | |
| General government | | | | 6,220 | 5,424 | 11,644 |
| Transfers Out | 40,000 | | | | | 40,000 |
| **Total Deductions** | 40,000 | - | - | 6,220 | 5,424 | 51,644 |
| Net change in fund balances | (39,239) | 16 | 65,951 | (5,963) | (1,053) | 19,712 |
| **NET ASSETS:** | | | | | | |
| Beginning of year | 41,554 | 37,681 | 105,275 | 13,945 | 170,999 | 369,454 |
| End of year | $ 2,315 | $ 37,697 | $ 171,226 | $ 7,982 | $ 169,946 | $ 389,166 |

See accompanying Notes to Basic Financial Statements.

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Merced, California, (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (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. Reporting Entity*

The City was incorporated April 1, 1889. The Charter for the City's government was ratified by electors on April 12, 1949, and approved by the legislature of the State of California on May 11 and May 12, 1949. The City operates under a Council-Manager form of government and provides the following services: safety (police and fire), highways and streets, water, refuse and wastewater, parks and recreation, planning and zoning, airport, and general administrative services.

The financial reporting entity, as defined by the Governmental Accounting Standards Board (GASB), consists of the primary government, the City, organizations for which the primary government is financially accountable, and any other organization 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 City Council acts as the governing body and is able to impose its will on the following organizations, establishing financial accountability:

- The City of Merced Redevelopment Agency
- The City of Merced Public Financing Authority

As a result, these organizations are considered component units of the City and are included within the financial statements of the City using the blended method. A separate financial statement for the Redevelopment Agency can be obtained from the City's Finance Department located at the City of Merced Civic Center.

The City of Merced Redevelopment Agency (Agency) was established pursuant to the State of California Health and Safety Code, Section 33000, entitled Community Redevelopment Law. Its purpose is to prepare and carry out plans for the improvement, rehabilitation and redevelopment of project areas within the territorial limits of the City.

The City of Merced Public Financing Authority (Authority) was re-created on January 1, 2003, by a City and Redevelopment Resolution. The Authority had originally been created in August 1987 but had expired by its terms. The Authority is a separate public entity and is to provide for the financing of all or a prescribed cost and expense of acquisition, construction and installation of authorized public capital improvements for the members through any financing procedures legally available to the members. All powers are vested in the governing board.

All entities included in this financial statement maintain June 30 as their fiscal year-end.

The City provides accounting and investing services for Merced Mariposa Task Force and Merced Somoto Sister City, whose funds are included in the City's pooled cash for investing purposes only. The City does not have the ability to exercise influence over them, therefore these entities are not reported in the accompanying financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### B. *Government-wide fund financial statements*

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or major individual funds (within the fund financial statements). Major funds are funds whose revenues, expenditures or expenses, assets, or liabilities are at least ten percent of the corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount for all governmental and enterprise funds for the same item. The general fund is always a major fund and any other government or enterprise fund may be reported as a major fund if the government believes that fund is particularly important to financial statement users.

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

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded in the accounting period in which the related liability is incurred.





## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### C. *Measurement Focus, Basis of Accounting and Financial Statement Presentation, Continued*

Property taxes, special assessments, sales tax, licenses, intergovernmental revenues, investment earnings, charges for services and fines and penalties associated with the current fiscal year are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal year. Property taxes attach as an enforceable lien on property. Secured and unsecured property taxes are levied on July 1. The unsecured and secured property tax lien date is January 1. Unsecured property taxes become delinquent on August 31. Secured property taxes are payable in two installments, on November 1 and February 1 of each year, and become delinquent on December 10 and April 10, respectively. The County of Merced, California (County) bills and collects the property taxes and remits them to the Agency according to a payment schedule established by the County. Agency property tax revenues are recognized when received in cash except at year-end when they are accrued pursuant to the modified accrual basis of accounting. The County is permitted by State law to levy property taxes at 1% of full market value (at time of purchase) and can increase property assessed value no more than 2% per year.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Redevelopment Agency Debt Service Fund is used to collect tax increment and disburse funds for payment of debt service, project costs, administration, and 20% Housing Set-A-Side.

The Redevelopment Agency Capital Project Fund is used for projects carried out within the Redevelopment Agency.

The government reports the following major proprietary funds:

The Wastewater System Fund is responsible for the treatment of industrial and domestic wastewater. The fund collects all user fees and disburses all expenditures for this purpose.

The Wastewater Improvement Fund is used to collect fees resulting from new growth. Funds will be used in the future to expand capacity of the wastewater treatment plant required due to growth.

The Restricted Water-Wells Fund is used to finance all growth related water system improvements funded through water facility charges. Water facility charges are paid by property owners who connect any building or premise to the City water system or who replace an existing water service connection with one of larger size.

The Water System Fund is used for the operation and maintenance of a water system consisting of well sites, deep well pumps, fluoridation facilities, distribution pipeline and elevated storage tanks.

The Refuse Collection Fund is used to collect and dispose of municipal solid waste for industrial, commercial and residential customers.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### C. *Measurement Focus, Basis of Accounting and Financial Statement Presentation, Continued*

Additionally, the government reports the following fund types:

Internal Service Funds are used to account for services provided to other departments of the government, or to other governments, on a cost reimbursement basis. The City has Internal Service Funds for Workers' Compensation Insurance, Liability Insurance, Unemployment Insurance, Employee Benefits, Fleet Management, Fleet Replacement, Facility Maintenance, Support Services and Personal Computer Maintenance.

The Private Purpose Trust Funds are used to account for resources legally held in trust for the Task Force Trust, Transit Benefit Trust, Youth Programs Endowment, McComb's Trust and the Wahneta Hall Trust.

The Agency Funds are used to account for resources held by the government in a purely custodial capacity.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total government column. In the Statement of Activities, internal service fund transactions have been eliminated. However, transactions between governmental and business-type activities have not been eliminated.

Amounts reported as program revenues include 1) charges to customers for services, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service 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 revenues and expenses.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.





## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### D. *Use of Restricted and Unrestricted Net Assets*

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

### E. *Encumbrances*

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of the formal budgetary process. Encumbrances outstanding at year-end are reported as reservations of fund balance since they represent commitments, which will be honored during the subsequent year. Encumbrances do not represent expenditures or liabilities.

### F. *Cash, Cash Equivalents, and Investments*

For purposes of reporting cash flows, the City considers each fund's share in the cash and investments pool to be cash and cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, 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.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

### G. *Receivables*

All receivables are shown net of an allowance for doubtful accounts. Service charges revenues (water, sewer and refuse collection) are recorded as billed to customers on a cyclical basis. All utility customers are billed monthly. Amounts unbilled at June 30 are recorded as a receivable and recognized as revenue.

### H. *Interfund Balances/Internal Balances*

Advances to and advances from other funds represent interfund loans in the fund financial statements. Advances between funds are offset by a fund balance reservation or by deferred revenue in the applicable governmental funds to indicate that they are not expendable available financial resources.

All other outstanding balances between funds are reported as due to and due from other funds. These are generally repaid within the following fiscal year.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-Wide Financial Statements as "internal balances."

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### I. Inventory

Inventory is valued at average cost, which approximates cost as determined on a first-in-first-out basis. Inventory in the General Fund consists of expendable supplies held for consumption by all departments of the City. The cost is recorded as an expenditure or expense in the appropriate fund at the time individual inventory items are withdrawn for use (consumption method). The General Fund inventory amount is equally offset by a fund balance reservation, which indicates that it does not constitute expendable available financial resources. Inventories in the proprietary funds are recorded at cost, which approximates market.

### J. Land Held for Resale

Land held for resale consists of land and project costs relating to property acquired or constructed which will be sold under terms of disposition and development agreements between the Agency and developers. The land held for resale is recorded at the lower of cost or estimated net realizable value. Reported amounts are fully reserved, which indicates that they do not constitute expendable available resources. In the Fund Financial Statements an amount equal to the carrying value of land is reserved in fund balance because such assets are not available to finance the City's current operations.

### K. Capital Assets

Capital assets, which include land and improvements, buildings and structures, improvements other than buildings, structures, and land improvements, machinery and equipment, construction in progress and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. City policy has set the capitalization thresholds for reporting capital assets at the following:

| | | |
|---|---|---|
| General capital assets | $ | 500 |
| Infrastructure capital assets | | 500 |

Depreciation has been provided on a straight-line basis over the following useful lives:

| | Years |
|---|---|
| Infrastructure | 10-40 |
| Buildings and structures | 15-20 |
| Improvement other than buildings | 15 |
| Machinery and equipment | 5 |

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the City has included all infrastructure in the 2002-03 basic financial statements.





## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### K. Capital Assets, Continued

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, water, and sewer systems, park land, and other similar items. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping and land. These subsystems were not delineated in the basic financial statements.

The City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City commissioned an appraisal of City owned infrastructure and property as of June 30, 2003. This appraisal determined the original cost, which is defined as historical cost or estimated historical cost if actual cost is not available. The accumulated depreciation was calculated from the date of construction/acquisition to the current date on a straight line basis. The book value can be computed by deducting the accumulated depreciation from the original cost.

### L. Compensated Absences

The City accounts for compensated absences in accordance with generally accepted accounting principles. In the Government-wide Financial Statements and Proprietary Financial Statements, which use the accrual basis of accounting, accrued compensated absences benefits are recorded as liabilities as vested and earned.

### M. Deferred Revenue

In the Government-Wide Financial Statements and Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are for revenues received but not yet earned and loans receivable.

### N. Long-Term Liabilities

In the Government-wide Financial Statements and Proprietary Funds Financial Statements the long-term debt and other financed obligations are reported as liabilities in the appropriate activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as expenditures.

In the Fund Financial Statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as expenditures.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### O. *Net Assets and Fund Equity*

**Government-Wide Financial Statements**

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

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

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

**Fund Financial Statements**

Fund Equity – Reservations and designations of fund balances of governmental funds and unrestricted net assets of proprietary funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

### P. *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Q. *Implementation of New GASB Pronouncements*

In fiscal year 2003, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*
- Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- Statement No. 38, *Certain Financial Statement Note Disclosures*

GASB Statement No. 34 is a new financial reporting requirement for State and Local Governments in the United States. The City has implemented this pronouncement and has restructured much of the information that it has presented in the past. The main goal is to make the reports more comprehensive and easier to understand and use.





## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

### Q. *Implementation of New GASB Pronouncements, Continued*

GASB Statement No. 37 addresses selected issues and amends GASB Statements No. 21, *Accounting for Escheat Property,* and No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* These Statements make selective changes including accounting for Escheat Property, Management's Discussion and Analysis, Capitalization of Construction-Period Interest, Modified Approach for Reporting Infrastructure, Program Revenues and Major Fund Criteria.

GASB Statement No. 38 establishes and modifies disclosure requirements related to Summary of Significant Accounting Policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.

## 2. CASH AND INVESTMENTS

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the Finance Officer invests to enhance interest earnings. The pooled interest earned is allocated to the funds based on month-end cash and investment balances in these funds.

### A. *Cash Deposits*

At June 30, 2003, the carrying amount of the City's cash deposits were comprised of the general checking account of $(164,545), petty cash of $2,291 and certificates of deposit of $15,000,000. Bank balances in the City's general checking account were $427,066 and were fully insured and collateralized with securities held by the pledging financial institutions in the City's name as discussed below. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name. The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to $100,000 by the Federal Deposit Insurance Corporation.

## 2. CASH AND INVESTMENTS, Continued

### *B. Investments*

The City is authorized by State statutes and in accordance with the City's Investment Policy (the Policy) to invest in the following:

- U.S. Treasury and U.S. Agency Issues
- Non-Negotiable Certificates of Deposit
- California Local Agency Investment Fund (LAIF)
- Government Bonds and Notes
- Passbook Savings
- Bankers Acceptances
- Commercial Paper (Corporations)
- Medium-Term Corporate Notes
- Repurchase Agreements
- Mutual Funds

The Policy, in addition to State statutes, establishes that funds on deposit in banks must be federally insured or collateralized and investments shall (1) have a maximum maturity not to exceed five years; (2) be laddered and based on cash flow forecasts; and (3) be subject to limitations to a certain percent of the portfolio for each of the authorized investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, investments are stated at fair value.

### *C. Risk Categories*

In accordance with GASB Statement No. 3, cash deposits and investments are categorized separately to give an indication of the level of risk assumed by the City. Cash deposits and investments not subject to such categorization under GASB Statement No. 3 are identified as "uncategorized." The City's cash deposits and investments are categorized in the following manner:

**Deposits**

Category 1 - Deposits which are insured by the FDIC or collateralized with securities and held by the City or its agent in the City's name.

Category 2 - Deposits which are collateralized and held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Deposits which are uninsured or uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name.





## 2. CASH AND INVESTMENTS, Continued

### *C. Risk Categories, Continued*

**Investments**

Category 1 - Investments which are insured, registered, held by the City or its agent in the City's name.

Category 2 - Investments which are uninsured or unregistered, but are held in the financial institution's trust department and are recorded in the City's name.

Category 3 - Investments which are uninsured or unregistered, and are held in the financial institution's trust department and are not recorded in the City's name.

Uncategorized - Certain cash deposits and investments are not subject to categorization under GASB Statement No. 3.

At June 30, 2003, the City's pooled cash and investments had no risk category 2 classification.

Pooled cash and investments, including cash with fiscal agent, were classified by risk categories as follows at June 30, 2003:

| | Category 1 | Category 3 | Uncategorized | Carrying Amount |
|---|---|---|---|---|
| **City Treasury:** | | | | |
| **Demand Deposits** | | | | |
| Cash deposits | $ 14,835,456 | $ | $ 2,292 | $ 14,837,748 |
| **Total Demand Deposits** | 14,835,456 | | 2,292 | 14,837,748 |
| **Investments** | | | | |
| U.S. Government Mutual Fund | 2,844,799 | | | 2,844,799 |
| Local Agency Investment Funds | | | 74,617,031 | 74,617,031 |
| **Total investments** | 2,844,799 | | 74,617,031 | 77,461,830 |
| **Total City Treasury** | 17,680,255 | | 74,619,323 | 92,299,578 |
| **Fiscal Agents:** | | | | |
| Securities of U.S. Government Agencies | | 3,005,989 | | 3,005,989 |
| **Total fiscal agents** | | 3,005,989 | | 3,005,989 |
| **Total cash and investments** | $ 17,680,255 | $ 3,005,989 | $ 74,619,323 | $ 95,305,567 |

**Reconciliation of total pooled cash and investments per the financial statements to amount reported under Governmental Accounting Standards Board Statement (GASB) No. 3:**

| | |
|---|---|
| Pooled Cash and Investments, per financial statements | $ 92,027,713 |
| Cash With Fiscal Agent, per financial statement | 3,005,989 |
| | 95,033,702 |
| Cash Balance of Merced - Mariposa Task Force | 255,224 |
| Cash Balance of Merced - Mariposa Task Federal Sharing | 15,755 |
| Cash Balance of Merced - Somoto Sister City | 886 |
| **Total cash and investments** | $ 95,305,567 |

## 2. CASH AND INVESTMENTS, Continued

### *C. Risk Categories, Continued*

The City's investments with Local Agency Investment Funds (LAIF) at June 30, 2003, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

*Structured Notes* are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

*Asset-Backed Securities*, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

As of June 30, 2003, the City had $74,617,032 invested in LAIF, which had invested 2.327% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.00284628 was used to calculate the fair value of the investments in LAIF.

### *D. Cash and Investments with Fiscal Agents*

The funds deposited with fiscal agents can be held in cash or invested in various securities. The fiscal agents can invest in securities as outlined in trust agreements, provided the investments are within the limits imposed by state statutes. These investments include federal securities, investment agreements, interest-bearing demand or time deposits, commercial paper rated "A" or better by Moody's, and money market mutual funds which are rated in the highest category by Moody's. At June 30, 2003, cash and investments with fiscal agents totaling $3,005,989 were recorded at fair value.

## 3. RECEIVABLES

*Government Wide Financial Statements*

At June 30, 2003, the government-wide financial statements show the following receivables net of allowances for uncollectible amounts:

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| Accounts receivable | $ 5,450,182 | | $ 5,450,182 |
| Interest receivable | 598,195 | 312,061 | 910,256 |
| Service charges receivable | | 2,345,355 | 2,345,355 |
| Due from other governments | 3,119,484 | 294,639 | 3,414,123 |
| Notes receivable | 21,333,189 | 89,386 | 21,422,575 |
| Total | $ 30,501,050 | $ 3,041,441 | $ 33,542,491 |





## 3. RECEIVABLES, Continued

*Fund Financial Statements*

At June 30, 2003, the fund financial statements show the following receivables:

### *A. Accounts Receivable*

Accounts receivable consisted of amounts accrued in the ordinary course of operations. The accounts receivable as of June 30, 2003, were as follows:

| | |
|---|---|
| Governmental Funds: | |
| General Fund | $ 97,828 |
| Nonmajor Governmental Funds | 5,313,987 |
| Total governmental funds | $ 5,411,815 |
| Internal Service Funds | $ 38,367 |

### *B. Interest Receivable*

Interest receivable consists of interest from investments pooled by the City, which is distributed among the funds according to their ending cash balances at the end of the accounting period. The interest receivable as of June 30, 2003, was as follows:

| | |
|---|---|
| **Governmental Funds:** | |
| General Fund | $ 393,332 |
| Redevelopment Debt Service Fund | 8,436 |
| Redevelopment Capital Projects Fund | 25,224 |
| Nonmajor Governmental Funds | 78,968 |
| **Total governmental funds** | 505,960 |
| **Proprietary Funds:** | |
| Wastewater System Fund | 20,670 |
| Wastewater Improvement Fund | 55,485 |
| Restricted Water-Wells Fund | 190,026 |
| Water System Fund | 20,258 |
| Refuse Collection Fund | 15,912 |
| Nonmajor Proprietary Funds | 9,710 |
| **Total proprietary funds** | 312,061 |
| **Internal Service Funds** | 92,235 |
| **Total** | 910,256 |
| **Fiduciary Funds:** | |
| Task Force Trust Fund | 11 |
| Youth Program Endowment Fund | 822 |
| McComb's Trust Fund | 38 |
| Wahneta Hall Trust Fund | 815 |
| Agency Funds | 15,403 |
| **Total fiduciary funds** | 17,089 |
| **Total interest receivable** | $ 927,345 |

## 3. RECEIVABLES, Continued

### C. *Service Charges Receivable*

The service charges receivable as of June 30, 2003, were as follows:

| | | |
|---|---|---|
| **Proprietary Funds:** | | |
| Wastewater System Fund | $ | 717,597 |
| Wastewater Improvement Fund | | 256,650 |
| Restricted Water-Wells Fund | | 319,311 |
| Water System Fund | | 596,972 |
| Refuse Collection Fund | | 403,760 |
| Nonmajor Proprietary Funds | | 51,065 |
| **Total proprietary funds** | **$** | **2,345,355** |

### D. *Due from Other Governments*

Intergovernmental receivables are incurred as a result of grants and other intergovernmental revenue the City has earned but not yet received. The due to other governments at June 30, 2003, was as follows:

| | | |
|---|---|---|
| **Governmental Funds:** | | |
| General Fund | $ | 1,366,874 |
| Redevelopment Debt Service Fund | | 458,242 |
| Nonmajor Governmental Funds | | 1,290,801 |
| **Total governmental funds** | | 3,115,917 |
| **Proprietary Funds:** | | |
| Wastewater System | | 70,741 |
| Nonmajor Proprietary Funds | | 223,898 |
| **Total proprietary funds** | | 294,639 |
| **Internal Service Funds** | | 3,567 |
| **Total** | | 3,414,123 |
| **Fiduciary Funds:** | | |
| Agency Funds | | 354,180 |
| **Total** | $ | 3,768,303 |





## 3. RECEIVABLES, Continued

### E. *Notes Receivable*

The notes receivable as of June 30, 2003, were as follows:

| | | |
|---|---|---|
| **Governmental Funds:** | | |
| General Fund | $ | 97,249 |
| Redevelopment Debt Service Fund | | 4,000,000 |
| Redevelopment Capital Projects Fund | | 2,178,321 |
| Nonmajor Governmental Funds | | 15,057,619 |
| **Total governmental funds** | | 21,333,189 |
| **Proprietary Funds:** | | |
| Wastewater System Fund | | 15,374 |
| Wastewater Improvement Fund | | 26,369 |
| Restricted Water-Wells Fund | | 28,532 |
| Water System Fund | | 4,055 |
| Nonmajor Proprietary Funds | | 15,056 |
| **Total proprietary funds** | | 89,386 |
| **Total** | $ | 21,422,575 |

## 4. INTERFUND TRANSACTIONS

### *Fund Financial Statements*

Due To, Due From

At June 30, 2003, the City had the following short-term interfund receivables and payables:

| | Due From Governmental Activities | | |
|---|---|---|---|
| **Due To** | General | Non-major Governmental Funds | Total |
| Governmental Activities: | | | |
| Non major funds | $ 6,115 | $ 117,583 | $ 123,698 |
| Business-type Activities: | | | |
| Wastewater System | 1,900,000 | | 1,900,000 |
| Non-major funds | 69,248 | | 69,248 |
| Fiduciary Funds | 174,535 | | 174,535 |
| **Total** | $ 2,149,898 | $ 117,583 | $ 2,267,481 |

## 4. INTERFUND TRANSACTIONS, Continued

### *Fund Financial Statements, Continued*

*Long-Term Advances*

At June 30, 2003, the City had the following interfund long-term advances:

| Advances from Other Funds | Advances to Other Funds: Governmental Activities: General | Governmental Activities: Nonmajor | Business-type Activities: Wastewater System | Business-type Activities: Wastewater Improvement | Business-type Activities: Restricted Water-wells | Business-type Activities: Water System | Business-type Activities: Nonmajor | Internal Service | Fiduciary Activities: Agency | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Governmental Activities: | | | | | | | | | | |
| Redevelopment Agency | | | | | | | | | | |
| Debt service | $ 1,239,497 | $ | $ | $ | $ 1,906,667 | $ | $ | $ 307,455 | $ | $ 3,453,619 |
| Nonmajor | 59,316 | 15,982 | 27,836 | 44,844 | 17,712 | 3,344 | 4,240 | | 4,666 | 177,940 |
| Business-type Activities: | | | | | | | | | | |
| Wastewater improvement | | | | | 2,457,000 | | | | | 2,457,000 |
| Refuse collection | | | | | | | | 1,834,000 | | 1,834,000 |
| Nonmajor | | | | 39,686 | | | | | | 39,686 |
| Total | $ 1,298,813 | $ 15,982 | $ 27,836 | $ 84,530 | $ 4,381,379 | $ 3,344 | $ 4,240 | $ 2,141,455 | $ 4,666 | $ 7,962,245 |

*Transfers*

At June 30, 2003, the City had the following operating transfers:

| Transfers Out | Transfers In: Governmental Activities: General | Governmental Activities: Redevelopment Agency Debt Service | Governmental Activities: Redevelopment Agency Capital Projects | Governmental Activities: Nonmajor Funds | Business Activities: Nonmajor Funds | Internal Service Funds | Fiduciary Funds | Total |
|---|---|---|---|---|---|---|---|---|
| Governmental Activities: | | | | | | | | |
| General | $ | $ | $ | $ 2,655,233 | $ 631,782 | $ | $ | $ 3,287,015 |
| Redevelopment Agency | | | | | | | | |
| Debt Service | | | 613,187 | 1,520,374 | | | | 2,133,561 |
| Redevelopment Agency | | | | | | | | |
| Capital Projects | | 98,225 | 616,000 | 51,000 | | | | 765,225 |
| Nonmajor | 792,745 | 65,628 | 1,539,431 | 4,369,332 | | 121,025 | 61,774 | 6,949,935 |
| Business-type Activities: | | | | | | | | |
| Water System | | | | 333 | | | | 333 |
| Nonmajor | | | | 100,000 | | | | 100,000 |
| Internal Service Funds | | | | 6,434 | | 40,037 | | 46,471 |
| Fiduciary Funds | | | | 40,000 | | | | 40,000 |
| Total | $ 792,745 | $ 163,853 | $ 2,768,618 | $ 8,742,706 | $ 631,782 | $ 161,062 | $ 61,774 | $ 13,322,540 |





## 5. LAND HELD FOR RESALE

*Government Wide Financial Statements*

At June 30, 2003, the government-wide financial statements show the following land held for resale:

| | Governmental Activities |
|---|---|
| Land held for resale | $ 1,877,969 |
| Total | $ 1,877,969 |

*Fund Financial Statements*

The land held for resale as of June 30, 2003, was as follows:

| | |
|---|---|
| Governmental Funds: | |
| Redevelopment Agency Capital Projects Fund | $ 1,323,251 |
| Nonmajor Funds | 554,718 |
| Total governmental funds | $ 1,877,969 |

## 6. CAPITAL ASSETS

### A. *Government-Wide Financial Statements*

At June 30, 2003, the City's capital assets consisted of the following:

| | Government Activities | Business-Type Activities | Total |
|---|---|---|---|
| Non-depreciable Assets: | | | |
| Land and improvements | $ 60,806,061 | $ 56,914 | $ 60,862,975 |
| Construction in process | 10,437,258 | 17,761,172 | 28,198,430 |
| Total nondepreciable assets | 71,243,319 | 17,818,086 | 89,061,405 |
| Depreciable Assets: | | | |
| Buildings and structures | 4,969,412 | 2,444,434 | 7,413,846 |
| Machinery and equipment | 24,036,835 | 3,851,933 | 27,888,768 |
| Improvements other than buildings, structures, and land improvements | 45,768,489 | 36,186,949 | 81,955,438 |
| Infrastructure | 298,239,752 | | 298,239,752 |
| | 373,014,488 | 42,483,316 | 415,497,804 |
| Less accumulated depreciation | (173,567,575) | (22,263,036) | (195,830,611) |
| Total depreciable assets, net | 199,446,913 | 20,220,280 | 219,667,193 |
| Total capital assets | $ 270,690,232 | $ 38,038,366 | $ 308,728,598 |

## 6. CAPITAL ASSETS, Continued

### A. *Government-Wide Financial Statements, Continued*

The following is a summary of capital assets for governmental activities:

| | Balance July 1, 2002 | Additions | Deletions | Prior Period Adjustment | Balance June 30, 2003 |
|---|---|---|---|---|---|
| Non-depreciable Assets: | | | | | |
| Land and improvements | $ 9,710,225 | $ | $ | $ 51,095,836 | $ 60,806,061 |
| Construction in progress | 17,715,444 | 4,183,387 | (8,875,590) | (2,585,983) | 10,437,258 |
| Total nondepreciable assets | 27,425,669 | 4,183,387 | (8,875,590) | 48,509,853 | 71,243,319 |
| Depreciable Assets: | | | | | |
| Buildings and structures | 3,516,698 | 2,197,714 | | (745,000) | 4,969,412 |
| Machinery and equipment | 22,580,889 | 1,655,591 | (199,645) | | 24,036,835 |
| Improvements other buildings, than buildings, structures, and land improvements | 50,135,446 | 2,670,194 | (6,816,143) | (221,008) | 45,768,489 |
| Infrastructure | | | | 298,239,752 | 298,239,752 |
| Total depreciable assets | 76,233,033 | 6,523,499 | (7,015,788) | 297,273,744 | 373,014,488 |
| | 103,658,702 | 10,706,886 | (15,891,378) | 345,783,597 | 444,257,807 |
| Less accumulated depreciation | (11,059,220) | (13,029,561) | 3,152,316 | (152,631,110) | (173,567,575) |
| Total governmental activities | $ 92,599,482 | $ (2,322,675) | $ (12,739,062) | $ 193,152,487 | $ 270,690,232 |

Governmental activities depreciation expense for capital assets for the year ended June 30, 2003 was $13,029,561, which includes $1,426,931 of internal service funds depreciation.





## 6. CAPITAL ASSETS, Continued

### A. *Government-Wide Financial Statements, Continued*

The following is a summary of capital assets for business-type activities:

| | Balance July 1, 2002 | Additions | Deletions | Prior Period Adjustment | Balance June 30, 2003 |
|---|---|---|---|---|---|
| Non-depreciable Assets: | | | | | |
| Land and improvements | $ 56,914 | $ | $ | $ | $ 56,914 |
| Construction in progress | 13,254,200 | 10,034,888 | (5,527,916) | | 17,761,172 |
| Total nondepreciable assets | 13,311,114 | 10,034,888 | (5,527,916) | | 17,818,086 |
| Depreciable Assets: | | | | | |
| Buildings and structures | 2,444,434 | | | | 2,444,434 |
| Machinery and equipment | 3,490,515 | 374,257 | (7,387) | (5,452) | 3,851,933 |
| Improvements other buildings, than buildings, structures, and land improvements | 24,946,173 | 5,527,915 | | 5,712,861 | 36,186,949 |
| Infrastructure | | | | | |
| Total depreciable assets | 30,881,122 | 5,902,172 | (7,387) | 5,707,409 | 42,483,316 |
| | 44,192,236 | 15,937,060 | (5,535,303) | 5,707,409 | 60,301,402 |
| Less accumulated depreciation | (17,955,917) | (2,525,695) | 7,387 | (1,788,811) | (22,263,036) |
| Total governmental activities | $ 26,236,319 | $ 13,411,365 | $ (5,527,916) | $ 3,918,598 | $ 38,038,366 |

Business-type activities depreciation expense for capital assets for the year ended June 30, 2003, were as follows:

| | |
|---|---|
| Wastewater System Fund | $ 1,155,136 |
| Wastewater Improvement Fund | 63,196 |
| Restricted Water-Wells Fund | 154,132 |
| Water System Fund | 591,197 |
| Refuse Collection Fund | 384,188 |
| Nonmajor Proprietary Funds | 177,846 |
| **Total depreciation expense** | $ 2,525,695 |

### B. *Fund Financial Statements*

The fund financial statements do not present general government capital assets but they are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

## 7. LONG-TERM DEBT

### A. *Government-Wide Financial Statements*

| | Government Activities | Business-Type Activities | Total |
|---|---|---|---|
| Long-term debt due within one year | $ 2,147,144 | $ 530,000 | 2,677,144 |
| Noncurrent portion of long-term debt: | | | |
| Tax allocation bonds payable | 30,352,825 | | 30,352,825 |
| Participation and development agreements | 575,000 | | 575,000 |
| Loan payable | 5,396,705 | | 5,396,705 |
| Loan guarantee | 607,480 | | 607,480 |
| Compensated absences | 1,907,051 | 447,542 | 2,354,593 |
| Revenue bonds payable | | 2,125,000 | 2,125,000 |
| Assessment bonds payable | | 2,880,000 | 2,880,000 |
| Total noncurrent portion of long-term debt | 38,839,061 | 5,452,542 | 44,291,603 |
| **Total long-term debt** | $ 40,986,205 | $ 5,982,542 | $ 46,968,747 |

*Governmental Activities*

Following is a summary of governmental activity long-term debt transactions during the fiscal year ended June 30, 2003:

| | Balance July 1, 2002 | Additions | Retirements | Balance June 30, 2003 | Due in more than one year | Due within one year |
|---|---|---|---|---|---|---|
| Tax Allocation Bonds | $ 23,785,000 | $ 9,007,825 | $ (1,180,000) | $ 31,612,825 | 30,352,825 | $ 1,260,000 |
| Participation and Development Agreements | 875,000 | | (150,000) | 725,000 | 575,000 | 150,000 |
| Loan Payable | 1,705,000 | 5,749,109 | (1,700,811) | 5,753,298 | 5,396,705 | 356,593 |
| Loan Guarantee | 728,976 | | (60,748) | 668,228 | 607,480 | 60,748 |
| Compensated Absences | 2,216,929 | 9,925 | | 2,226,854 | 1,907,051 | 319,803 |
| Total | $ 29,310,905 | $ 14,766,859 | $ (3,091,559) | $ 40,986,205 | $ 38,839,061 | $ 2,147,144 |





## 7. LONG-TERM DEBT, Continued

### A. *Government-Wide Financial Statements, Continued*

**Tax Allocation Bonds Payable**

Tax allocation bonds payable at June 30, 2003, consisted of the following:

| | |
|---|---|
| 1999 $25,000,000 Tax Allocation Bonds, Series A | $ 20,205,000 |
| 2001 $2,400,000 Tax Allocation Bonds, Series A | 2,400,000 |
| 2003 $9,007,825 Tax Allocation Bonds, Series A | 9,007,825 |
| Total | $ 31,612,825 |

<u>1999 $25,000,000 Tax Allocation Bonds, Series A</u>

1999 $25,000,000 Tax Allocation Bonds, Series A, Redevelopment Agency, $1,100,000 to $1,975,000 principal payable annually, interest at 3.50% to 4.75%, payable semi-annually, matures 2015, secured by tax revenues.

The annual debt service requirements for the 1999 $25,000,000 Tax Allocation Bonds are as follows:

| For the Years Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2004 | $ 1,220,000 | $ 828,032 | $ 2,048,032 |
| 2005 | 1,265,000 | 783,754 | 2,048,754 |
| 2006 | 1,310,000 | 735,936 | 2,045,936 |
| 2007 | 1,360,000 | 684,526 | 2,044,526 |
| 2008 | 1,410,000 | 629,806 | 2,039,806 |
| 2009-2013 | 7,970,000 | 2,208,154 | 10,178,154 |
| 2014-2016 | 5,670,000 | 406,261 | 6,076,261 |
| Total | $ 20,205,000 | $ 6,276,469 | $ 26,481,469 |

## 7. LONG-TERM DEBT, Continued

### *A. Government-Wide Financial Statements, Continued*

*2001 $2,400,000 Tax Allocation Bonds, Series A*

2001 $2,400,000 Tax Allocation Bonds, Series A, Redevelopment Agency, $40,000 to $80,000 of principal payable annually, interest at 5.00 to 5.60%, payable semi-annually, matures 2031, secured by tax revenues.

The annual debt service requirements for the 2001 $2,400,000 Tax Allocation Bonds are as follows:

| For the Years Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2004 | $ 40,000 | $ 132,098 | $ 172,098 |
| 2005 | 40,000 | 131,098 | 171,098 |
| 2006 | 40,000 | 128,098 | 168,098 |
| 2007 | 45,000 | 125,973 | 170,973 |
| 2008 | 45,000 | 123,723 | 168,723 |
| 2009-2013 | 245,000 | 583,587 | 828,587 |
| 2014-2018 | 325,000 | 510,810 | 835,810 |
| 2019-2023 | 430,000 | 404,827 | 834,827 |
| 2024-2028 | 580,000 | 262,811 | 842,811 |
| 2029-2032 | 610,000 | 72,738 | 682,738 |
| Total | $ 2,400,000 | $ 2,475,763 | $ 4,875,763 |

*2003 $9,007,825 Tax Allocation Bonds, Series A*

2003 $9,007,825 Tax Allocation Bonds, Series A, Redevelopment Agency, consisting of $1,485,000 Current Interest Bonds and $7,522,825 Capital Appreciation Bonds, $130,000 to $1,156,807 of principal payable annually, interest payable annually, matures 2023, secured by tax revenues. The interest rate on the Current Interest Bonds is 2.0% to 3.625%. The yield to maturity on the Capital Appreciation Bonds is 4.5% to 5.15%.

The annual debt service requirements for the 2003 $9,007,825 Tax Allocation Bonds are as follows:

| For the Years | Current Interest Bonds | | Capital Appreciation Bonds | | |
|---|---|---|---|---|---|
| Ending June 30, | Principal | Interest | Initial Amount | Accreted Interest | Value at Maturity |
| 2004 | $ | $ 43,133 | $ | $ | $ |
| 2005 | | 42,895 | | | |
| 2006 | | 42,895 | | | |
| 2007 | 130,000 | 41,595 | | | |
| 2008 | 135,000 | 38,945 | | | |
| 2009-2013 | 730,000 | 141,556 | | | |
| 2014-2018 | 490,000 | 26,227 | 5,142,956 | 5,407,044 | 10,550,000 |
| 2019-2023 | | | 2,379,869 | 3,950,131 | 6,330,000 |
| Total | $ 1,485,000 | $ 377,246 | $ 7,522,825 | $ 9,357,175 | $ 16,880,000 |





## 7. LONG-TERM DEBT, Continued

### *A. Government-Wide Financial Statements, Continued*

**Participation and Development Agreements**

Participation and Development Agreements at June 30, 2003, consisted of the following:

| | |
|---|---|
| 1997 $300,000 Disposition and Development Agreement | $ 150,000 |
| 1997 $800,000 Participation Agreement | 575,000 |
| Total | $ 725,000 |

*1997 $300,000 Disposition and Development Agreement*

1997 $300,000 Disposition and Development Agreement between the City of Merced Redevelopment Agency and a developer. The Agency agreed to pay an amount not to exceed $50,000 annually of the property tax increment for six years.

The annual debt service requirements for the 1997 $300,000 Disposition and Development Agreement are as follows:

| For the Years Ending June 30, | |
|---|---|
| 2004 | $ 50,000 |
| 2005 | 50,000 |
| 2006 | 50,000 |
| Total | $ 150,000 |

*1997 $800,000 Participation Agreement*

1997 $800,000 Participation Agreement between City of Merced Redevelopment Agency and a participant for financing of facilities and capital equipment. Assistance ranges from $50,000 to $100,000 for 8 years, not to exceed $800,000.

The annual debt service requirements for the 1997 $800,000 Participation Agreement are as follows:

| For the Years Ending June 30, | |
|---|---|
| 2004 | $ 100,000 |
| 2005 | 100,000 |
| 2006 | 100,000 |
| 2007 | 100,000 |
| 2008 | 100,000 |
| 2009 | 75,000 |
| Total | $ 575,000 |

## 7. LONG-TERM DEBT, Continued

### *A. Government-Wide Financial Statements, Continued*

**Loans Payable**

Loans payable at June 30, 2003, consisted of the following:

| | |
|---|---|
| 1998 $1,390,000 Loans Payable | $ 15,000 |
| 2003 $1,620,000 Loans Payable | 1,620,000 |
| 2003 $4,000,000 Loans Payable | 4,000,000 |
| 2003 $118,298 Real Estate Loan Payable | 118,298 |
| **Total** | $ 5,753,298 |

*1998 $1,390,000 Loan*

1998 $1,390,000 Contract for Loan Guarantee Assistance under Section 108 of the Housing and Community Development Act of 1974. The City agreed to pay for advances under this program. Principal payments are $130,000 annually. Interest is .2% above the London Interbank Offered Rates (LIBOR). At June 30, 2003, the rate was approximately 2.0975%. Maximum advance under this program is $2,600,000.

The annual debt service requirements for the loan payable are as follows:

| For the Years Ending June 30, | Principal | Total |
|---|---|---|
| 2004 | $ 15,000 | $ 15,000 |

*2003 $1,620,000 Loan*

2003 $1,620,000 loan for loan guarantees assistance under Section 108 of the Housing and Community Development Act of 1974. Principal payments are $130,000 annually. Interest is 2.0% to 6.5% payable quarterly.

The annual debt service requirements for the 2003 $1,620,000 loans payable are as follows:

| For the Years Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2004 | $ 130,000 | $ 64,820 | $ 194,820 |
| 2005 | 130,000 | 62,148 | 192,148 |
| 2006 | 130,000 | 58,671 | 188,671 |
| 2007 | 130,000 | 54,485 | 184,485 |
| 2008 | 130,000 | 49,772 | 179,772 |
| 2009-2013 | 650,000 | 164,139 | 814,139 |
| 2014-2018 | 320,000 | 22,365 | 342,365 |
| Total | $ 1,620,000 | $ 476,400 | $ 2,096,400 |





## 7. LONG-TERM DEBT, Continued

### *A. Government-Wide Financial Statements, Continued*

*2003 $4,000,000 Loans Payable*

2003 $4,000,000 loan for loan guarantees assistance under Section 108 of the Housing and Community Development Act of 1974. Principal payments are $200,000 annually. Interest is 2.0% to 6.5% payable semi-annually.

The annual debt service requirements for the 2003 $4,000,000 loans payable are as follows:

| For the Years Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2004 | $ | $ 84,593 | $ 84,593 |
| 2005 | 200,000 | 173,810 | 373,810 |
| 2006 | 200,000 | 170,860 | 370,860 |
| 2007 | 200,000 | 166,710 | 366,710 |
| 2008 | 200,000 | 161,330 | 361,330 |
| 2009-2013 | 1,000,000 | 694,740 | 1,694,740 |
| 2014-2018 | 1,000,000 | 461,810 | 1,461,810 |
| 2019-2023 | 1,000,000 | 196,200 | 1,196,200 |
| 2024-2028 | 200,000 | 5,690 | 205,690 |
| Total | $ 4,000,000 | $ 2,115,743 | $ 6,115,743 |

*2003 $129,109 Real Estate Purchase Agreement*

2003 $129,109 Real Estate Purchase Agreement for the purchase of property in a Redevelopment project area. Monthly payments are $1,626 for 120 months.

The annual debt service requirements for the 2003 $129,109 Real Estate Purchase Agreement are as follows:

| For the Years Ending June 30, | |
|---|---|
| 2004 | $ 19,512 |
| 2005 | 19,512 |
| 2006 | 19,512 |
| 2007 | 19,512 |
| 2008 | 19,512 |
| 2009-2012 | 20,738 |
| Total | $ 118,298 |

## 7. LONG-TERM DEBT, Continued

### A. *Government-Wide Financial Statements, Continued*

**Loan Guarantee**

*2001 $789,724 Debt Service Funding Agreement*

2001 $789,724 Debt Service Funding Agreement with Developer. Developer agrees to make the monthly payments to the City of Merced Redevelopment Agency for the repayment of its loan with a financial lender. The Redevelopment Agency guarantees the monthly payments to the lender. The Redevelopment Agency has a deposit of $60,748 to be used as a reserve. Payments are $5,062.33 for 156 months.

The annual debt service requirements for the Loan Payable are as follows:

| For the Years Ending June 30, | |
|---|---|
| 2004 | $ 60,748 |
| 2005 | 60,748 |
| 2006 | 60,748 |
| 2007 | 60,748 |
| 2008 | 60,748 |
| 2009-2013 | 303,740 |
| 2014-2016 | 60,748 |
| Total | $ 668,228 |

**Compensated Absences**

The City's liability for vested and unpaid compensated absences (accrued vacation and sick pay) governmental fund types is $2,226,854.

*Business-Type Activities*

Following is a summary of business-type activity long-term debt transactions during the fiscal year ended June 30, 2003:

| | Balance July 1, 2002 | Additions | Retirements | Balance June 30, 2003 | Due in more than one year | Due within one year |
|---|---|---|---|---|---|---|
| Revenue Bonds Payable | $ 2,680,000 | $ | $ (270,000) | $ 2,410,000 | $ 2,125,000 | $ 285,000 |
| Improvement Bonds Payable | 3,360,000 | | (235,000) | 3,125,000 | 2,880,000 | 245,000 |
| Compensated Absences | 385,874 | 61,668 | | 447,542 | 447,542 | - |
| Total | $ 6,425,874 | $ 61,668 | $ (505,000) | $ 5,982,542 | $ 5,452,542 | $ 530,000 |





## 7. LONG-TERM DEBT, Continued

### A. *Government-Wide Financial Statements, Continued*

**Revenue Bonds Payable**

1994 $4,520,000 Sewer Revenue Bonds, Wastewater System Fund, $85,000 to $370,000 principal payable annually, interest at 3.25% 4.75%, payable semi-annually, matures 2013, secured by wastewater revenues.

The annual debt service requirements for the Revenue Bonds Payable are as follows:

| For the Years Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2004 | $ 285,000 | $ 107,707 | $ 392,707 |
| 2005 | 300,000 | 93,813 | 393,813 |
| 2006 | 315,000 | 79,207 | 394,207 |
| 2007 | 335,000 | 63,769 | 398,769 |
| 2008 | 350,000 | 47,500 | 397,500 |
| 2009-2013 | 725,000 | 83,957 | 808,957 |
| 2014 | 100,000 | 2,375 | 102,375 |
| Total | $ 2,410,000 | $ 478,328 | $ 2,888,328 |

**Improvement Bonds Payable**

1999 $4,024,381 Improvement Bonds, North Merced Sewer Improvement Refunding Reassessment District, $264,381 to $430,000 principal payable annually, interest at 4.35% to 5.55% payable semi-annually, matures 2012, secured by assessments.

The annual debt service requirements for the Improvement Bonds Payable are as follows:

| For the Years Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2004 | $ 245,000 | $ 158,251 | $ 403,251 |
| 2005 | 265,000 | 145,940 | 410,940 |
| 2006 | 275,000 | 132,573 | 407,573 |
| 2007 | 285,000 | 118,430 | 403,430 |
| 2008 | 305,000 | 103,232 | 408,232 |
| 2009-2013 | 1,750,000 | 249,871 | 1,999,871 |
| Total | $ 3,125,000 | $ 908,297 | $ 4,033,297 |

**Compensated Absences**

The City accounts for compensated absences in the Enterprise Funds as a long-term liability as the benefits vest and are earned. The liability for the compensated absences at June 30, 2003, in the Enterprise funds was $447,542.

## 7. LONG-TERM DEBT, Continued

### B. *Fund Financial Statements*

The fund financial statements do not present general government long-term debt but it is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

### C. *Debt with no City Commitment*

The City of Merced has no legal liability with respect to the payment of any indebtness of the Liberty Park Refunding Assessment District, Fahrens Park Assessment District and the 16th Street Refunding Assessment District Series. The City acts solely as an agent for the bond holders in collecting and forwarding the special assessment. Accordingly, no liability for these bonds has been recorded in the City's general purpose financial statements. The principal amount of outstanding debt of the above Districts was $6,962,453 at June 30, 2003.

## 8. CLASSIFICATION OF NET ASSETS AND FUND BALANCE

In governmental funds, designations are presented as a component of fund balance as follows:

| | General Fund | Redevelopment Agency Debt Service | Redevelopment Agency Capital Projects | Other Governmental Funds | Total |
|---|---|---|---|---|---|
| **Reserved:** | | | | | |
| Encumbrances | $ 631,482 | $ | $ 3,467,826 | $ 2,611,517 | $ 6,710,825 |
| Petty cash | 1,950 | | | | 1,950 |
| Notes receivable | 97,249 | | 2,178,321 | 1,310,967 | 3,586,537 |
| Inventory | 17,890 | | | | 17,890 |
| Land held for resale | | | 1,323,251 | 554,718 | 1,877,969 |
| Advances to other funds | 1,239,497 | | | 15,982 | 1,255,479 |
| Child development | | | | 40,644 | 40,644 |
| Park planning zones | | | | 417,879 | 417,879 |
| Debt service | | 1,214,819 | | 618,149 | 1,832,968 |
| Total reserved | 1,988,068 | 1,214,819 | 6,969,398 | 5,569,856 | 15,742,141 |
| **Unreserved, Designated:** | | | | | |
| Contingencies | 4,000,000 | | | | 4,000,000 |
| Pump replacements | | | | 192,663 | 192,663 |
| Facilities development | | | | 1,428,661 | 1,428,661 |
| Future years | 749,545 | | | | 749,545 |
| Total unreserved, designated | 4,749,545 | | | 1,621,324 | 6,370,869 |
| Unreserved, Undesignated | 8,079,320 | | 10,142,822 | 13,063,929 | 31,286,071 |
| Total | $ 14,816,933 | $ 1,214,819 | $ 17,112,220 | $ 20,255,109 | $ 53,399,081 |





## 9. RISK MANAGEMENT

The City maintains internal service funds to account for the City's general liability insurance and workers' compensation insurance. All unpaid claims that were probable liabilities that occurred prior to the year-end and that were estimated based on actuarial studies or historical data were recorded in accordance with GASB No. 10. As of June 30, 2003, claims for general liability were $243,288, and workers' compensation were $2,890,647.

The Liability Insurance Fund is used to account for all general liability claims against the City, except for Property, Auto, and Airport. The fund provides for a maximum of $500,000 for each claim. The City purchases commercial insurance for claims in excess of the coverage provided in the fund. Settled claims have not exceeded the commercial claims in any fiscal year. The changes in the general claims liability were as follows:

| Year Ended June 30, | Claims Payable July 1 | Fiscal Year Claims and Changes in Estimates | Claims Payments | Claims Payable June 30 |
|---|---|---|---|---|
| 2001 | $ 149,956 | $ 966,496 | $ (586,809) | $ 529,643 |
| 2002 | 529,643 | 613,745 | (554,169) | 589,219 |
| 2003 | 589,219 | 263,136 | (609,067) | 243,288 |

The Workers' Compensation Insurance Fund is used to account for all workers' compensation claims against the City. The fund provides for a maximum of $250,000 for each claim. The City purchases commercial insurance for claims in excess of the coverage provided in the fund. Settled claims have not exceeded the commercial claims in any fiscal year. The changes in the workers' compensation claims liability were as follows:

| Year Ended June 30, | Claims Payable July 1 | Fiscal Year Claims and Changes in Estimates | Claims Payments | Claims Payable June 30 |
|---|---|---|---|---|
| 2001 | $ 1,915,228 | $ 573,669 | $ (422,411) | $ 2,066,486 |
| 2002 | 2,066,486 | 682,333 | (532,393) | 2,216,426 |
| 2003 | 2,216,426 | 1,364,028 | (689,807) | 2,890,647 |

## 10. RETIREMENT PLANS

### A. *Pension Plan*

Plan Description - The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy – Active plan members are required by state statute to contribute 7% for miscellaneous and 9% for safety employees of their annual covered salary. The required employee contribution was paid by the City. This amounted to $1,026,548 for the year ended June 30, 2003. The City employer is required to contribute for fiscal year 2002-2003 at an actuarially determined rate of 0.000% and 10.520% of annual covered payroll for miscellaneous and safety employees, respectively. See the Required Supplementary Information for the Schedule of Funding Progress.

Annual Pension Cost – For fiscal year 2002-2003, the City's annual pension cost was $756,595. The City's required and actual contributions were $728,326. The required contribution was determined as part of the June 30, 2001, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that range from 3.75% to 14.2% for miscellaneous and 3.75% to 11.59% for safety employees depending on age, service, and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2001, was 22 years for safety employees for prior and current service unfunded liability.

**THREE-YEAR TREND INFORMATION FOR PERS**

| Fiscal Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/2001 | $ 298,536 | 100% | $ 0 |
| 6/30/2002 | 84,699 | 100% | 0 |
| 6/30/2003 | 756,595 | 100% | 0 |

## 11. POST-RETIREMENT HEALTH CARE BENEFITS

Employees who retire from the City are eligible to receive health care benefits. Expenditures for post-retirement health care benefits are recorded when incurred and for fiscal year ended June 30, 2003 were $422,430 with 149 participants eligible to receive benefits.



City of Merced
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2003

## 12. SEGMENT INFORMATION FOR PROPRIETARY FUNDS

The City maintains enterprise funds, which are intended to be self-supporting through user fees charged for services to the public. Condensed Financial Segment Information as of and for the year ended June 30, 2003, is presented as follows:

| | Wastewater System | Wastewater Improvement | Restricted Water-Wells | Water System | Refuse Collection | Other Proprietary Funds | Total |
|---|---|---|---|---|---|---|---|
| Current assets | $ 5,508,278 | $ 11,825,037 | $ 9,346,383 | $ 4,916,772 | $ 3,754,112 | $ 2,294,173 | $ 37,644,755 |
| Capital assets, net | 9,235,441 | 8,912,880 | 1,182,246 | 11,091,778 | 5,332,009 | 2,284,012 | 38,038,366 |
| Other assets | 203,425 | 110,899 | 4,409,911 | 7,399 | | 19,296 | 4,750,930 |
| Current liabilities | 3,701,190 | 1,781,381 | | 1,132,778 | 661,456 | 265,315 | 7,542,120 |
| Long-term liabilities | 5,226,534 | 2,457,000 | | 92,048 | 1,956,537 | 120,357 | 9,852,476 |
| Amounts invested in capital assets, net of related debt | 3,700,441 | 8,912,880 | 1,182,246 | 11,091,778 | 5,332,009 | 2,284,012 | 32,503,366 |
| Restricted net assets | 409,189 | | | | | | 409,189 |
| Unrestricted net assets | 1,909,790 | 7,697,555 | 13,756,294 | 3,699,345 | 1,136,119 | 1,927,797 | 30,126,900 |
| Operating revenues | 5,776,215 | 1,415,626 | 2,343,074 | 5,680,757 | 6,894,531 | 1,167,597 | 23,277,800 |
| Operating expenses | 6,357,423 | 133,457 | 154,132 | 5,588,089 | 7,613,592 | 556,878 | 20,403,571 |
| Depreciation expense | 1,155,136 | 63,196 | 154,132 | 591,197 | 384,188 | 177,847 | 2,525,696 |
| Operating income (loss) | (581,208) | 1,282,169 | 2,188,942 | 92,668 | (719,061) | 610,719 | 2,874,229 |
| Nonoperating revenue | 1,117,660 | 364,793 | 498,699 | 1,068,207 | 85,328 | 39,396 | 3,174,083 |
| Nonoperating expenses | (737,299) | (147,420) | | | (36,904) | (3,776) | (925,399) |
| Transfers | | | | (333) | | 531,782 | 531,449 |
| Change in net assets | (200,847) | 1,499,542 | 2,687,641 | 1,160,342 | (670,637) | 1,178,121 | 5,654,362 |
| Beginning net assets | 6,220,267 | 15,110,893 | 12,250,899 | 13,630,581 | 7,138,765 | 3,033,688 | 57,385,093 |
| Ending net assets | 6,019,420 | 16,610,435 | 14,938,540 | 14,791,123 | 6,468,128 | 4,211,809 | 63,039,455 |
| Net cash provided (used) by: | | | | | | | |
| Operating activities | 591,914 | 2,707,171 | 2,017,328 | 693,152 | (370,896) | 772,313 | 6,410,982 |
| Noncapital financing activities | 1,008,293 | 21,868 | 337,132 | 961,929 | 836,118 | 500,265 | 3,665,605 |
| Capital and related financing activities | (1,716,932) | (7,564,117) | (110,021) | (1,021,084) | (255,365) | (469,208) | (11,136,727) |
| Investing activities | 128,361 | 398,515 | 367,162 | 112,309 | 87,259 | 38,771 | 1,132,377 |
| Beginning cash and cash equivalent balances and cash held with fiscal agent | 4,685,023 | 15,949,465 | 6,225,445 | 3,455,606 | 3,037,324 | 1,167,359 | 34,520,222 |
| Ending cash and cash equivalent balances and cash held with fiscal agent | 4,696,659 | 11,512,902 | 8,837,046 | 4,201,912 | 3,334,440 | 2,009,500 | 34,592,459 |

## 13. COMMITMENTS AND CONTINGENT LIABILITIES

*Litigation*

As of June 30, 2003, the City was a party to various lawsuits involving eminent domain and inverse condemnation proceedings. In the opinion of counsel, the anticipated ultimate liability for the acquisition of these properties will not exceed the City's appraisals. There are certain personal injury lawsuits which have been denied by the City Council. The outcome and eventual liability to the City, if any, in these cases is not known at this time. After reviewing these lawsuits with legal counsel, management estimates that the potential claims against the City, not covered by insurance, resulting from such litigation would not materially affect the financial statements of the City.

## 14. PRIOR PERIOD ADJUSTMENT

*Government-Wide Financial Statements*

The City has recorded the implementation of new GASB pronouncements to correct prior year accounting. Accordingly, the City's equity as of July 1, 2002 has been restated as follows:

| | Equity as previously Reported | Implementation of new GASB Pronouncements | Net Assets as Restated |
|---|---|---|---|
| Governmental Activities | $ 114,617,377 | $ 176,392,621 | $ 291,009,998 |
| Business-Type Activities | 49,547,896 | 3,918,598 | 53,466,494 |
| Total | $ 164,165,273 | $ 180,311,219 | $ 344,476,492 |

Equity as previously reported includes fund balances reported in governmental funds and internal service funds plus the general fixed assets and long-term debt account groups.

*Fund Financial Statements*

| | Equity as previously Reported | Implementation of new GASB Pronouncements | Fund Balance as Restated |
|---|---|---|---|
| Redevelopment Agency-Debt Service | $ 4,134,125 | $ (3,596,400) | $ 537,725 |
| Redevelopment Agency-Capital Projects | 13,729,938 | 75,000 | 13,804,938 |
| Other Non-major | 15,372,868 | 47,197 | 15,420,065 |
| Total governmental funds | $ 33,236,931 | $ (3,474,203) | $ 29,762,728 |



REQUIRED SUPPLEMENTARY INFORMATION

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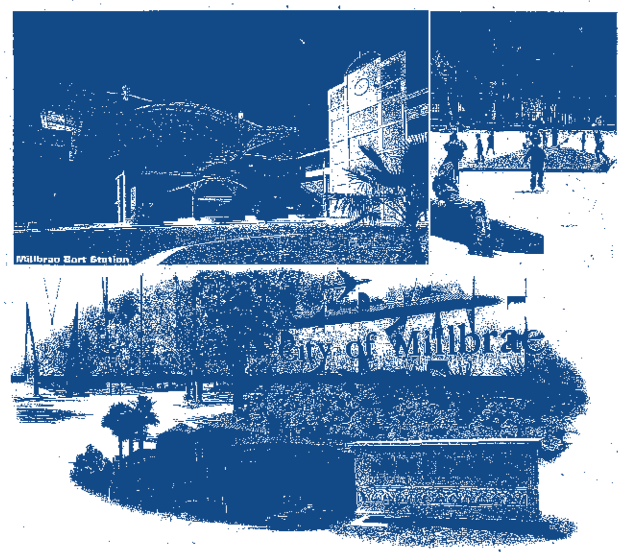
# City of Millbrae
# California

## Comprehensive Annual Financial Report




For the year ended
June 30, 2003

CITY OF MILLBRAE

Comprehensive Annual Financial Report
For the Year Ended June 30, 2003

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## INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS

To the City Council
City of Millbrae, California

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Millbrae as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards in the Untied States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the basic financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the basic 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 opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Millbrae at June 30, 2003 and the results of its operations and the cash flows, where applicable, thereof for the year then ended, in conformity with generally accepted accounting principles in the Untied States of America.

The basic financial statements referred to above follow the requirements of the Government Accounting Standards Board's Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, as discussed in Note 1 to the Basic Financial Statements.

Management's Discussion and Analysis and the budgetary comparison for the General Fund and major special revenue funds are required by the Government Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Our audit as made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Millbrae. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The statistical section listed in the Table of Contents was not audited by us, and we do not express an opinion on this information.

Maze + Associates

October 24, 2003


A Professional Corporation

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal 2003 is the first year the City is required to issue its financial statements in the format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34), which requires the City to provide this overview of its financial activities for the fiscal year. Please read it in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

### FISCAL 2003 FINANCIAL HIGHLIGHTS

The City was affected by the continuing economic slowdown and the State of California's budgetary crisis. The City of Millbrae's largest General Fund revenue, the Transient Occupancy Tax (Hotel Tax) decreased over 50% over a two-year period (from FY 2001 to FY 2003). This revenue source was impacted by the September 11, 2001 terrorist attack on the World Trade Center, the reduction in air travel, the longer-term reduction in business travel, the SARS epidemic, and the local, national and global economy. Sales tax revenue was also down, but only by a few percent. Property tax revenue continues to increase and the local housing market remains strong. In addition to the economic issues presented above, the State of California took budget actions deepening and compounding the City of Millbrae's fiscal challenges. The City's fourth largest revenue, Vehicle License Fees, are projected to decline by one-third, $400,000 due to the actions taken in the adoption of the FY 2003 State of California Budget. The City of Millbrae reduced its staffing levels by 18% within the General Fund, updated charges and fees to the public and between governmental funds, and transferred funds in order to address the loss in General Fund revenue. Financial highlights of the year include the following:

- The City's total net assets decreased $1 million during Fiscal 2003. At June 30, 2003, net assets totaled $24 million.
- Total City revenues, including program and general revenues, were $26 million, while total expenses were $27 million in fiscal 2003.
- Net assets in Governmental funds were $10 million, while net assets in business activities were $14 million.
- Governmental Program Revenues were $5 million.
- Governmental Program Expenses were $20 million in fiscal 2003.
- Revenues from Business-Type activities were $7.3 million in fiscal 2003.
- Expenses of Business-Type Activities were $6.8 million in fiscal 2003.
- General Fund revenues totaled $11 million and expenditures were $12 million, which represented a decrease of $1 million over the prior year amounts.
- General Fund balance of $1.3 million at the 2003 fiscal year end.

### OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:

1) Introductory section, which includes the Transmittal Letter and general information,
2) Management's Discussion and Analysis (this part),
3) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
4) Required Supplemental Information,
5) Combining statements for Non-major Governmental Funds,
6) Statistical information.

**The Basic Financial Statements**

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each the City's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the City's activities are grouped into Government Activities and Business-type activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

*The Government-wide Financial Statements*

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

- ***Governmental activities***—All of the City's basic services are considered to be governmental activities, including general government, public safety, highway and streets, culture and recreations, community development, and capital improvements. These services are supported by general City revenues such as taxes, and by specific program revenues such as building fees.

- The City's governmental activities include the activities of a separate legal entity, the City of Millbrae Redevelopment Agency, because the City is financially accountable for the Agency.

- ***Business-type activities***— All City's enterprise activities are reported here, including water, waste water treatment facility (sanitation), and Storm drain. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

The City-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.



*Fund Financial Statements*

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major funds. Major Funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of City's activities.

Fund Financial Statements include governmental, enterprise and internal service funds as discussed below.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Enterprise and Internal Service Fund financial statements are prepared on the full accrual basis, as in the past, and include all their assets and liabilities, current and long-term.

Since the City's Internal Service Funds provide goods and services only to the City's governmental and business-type activities, their activities are reported only in total at the Fund level. Internal Service Funds may not be Major Funds because their revenues are derived from other City Funds. These revenues are eliminated in the City-wide financial statements and any related profits or losses are returned to the Activities which created them, along with any residual net assets of the Internal Service Funds.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major funds that are Special Revenue Funds..

## FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the City's Governmental Activities (Tables 1, 2 and 3) and Business-Type Activities (Tables 4 and 5) presented in the City-wide Statement of Net Assets and Statement of Activities that follow.

*Governmental Activities*

**Table 1**
**Governmental Net Assets at June 30, 2003**
**(in Millions)**

| | Governmental Activities 2003 |
|---|---|
| Cash and investments | $22 |
| Other assets | 2 |
| Capital assets | 13 |
| **Total assets** | 37 |
| Long-term debt outstanding | 22 |
| Other liabilities | 5 |
| **Total liabilities** | 27 |
| Net assets: | |
| Invested in capital assets, net of debt | 7 |
| Restricted | 10 |
| Unrestricted | (7) |
| **Total net assets** | **$10** |

The City's net assets from governmental activities decreased 13% to $9.8 million in 2003 from $11.3 million in 2002. This decrease is the Change in Net Assets reflected in the Statement of Activities, as shown in Table 2, and is explained below:

- Cash and investments decreased $2.3 million, principally as a result of $1 million decrease in Library Capital Project Fund due to construction beginning April 2003, $0.7 million decrease in streets improvement grants funds, and $0.6 million decrease in Storm Relief Fund to close out grants and transfer funds to reimburse General Fund for administrative costs incurred for the project.

- Other assets decreased as a result of $1.7 million decrease in Due from Other Governmental Agencies as the grants receivable was reduced substantially at June 30, 2003 when the US 101 Millbrae Avenue Interchange Project was completed in 2003, a $0.3 million decrease in Due From Other Funds as the General Fund loan was written off this year, and a $0.2 million decrease in Accounts-Net as BART has paid the rents in full when the project was completed this year.

- Long-term debt decreased as no new debt was issued and annual debt principal payments were made.



- Other liabilities decreased $3.4 million primarily due to substantial reductions in accounts payable and deferred revenues due to the completion of US 101 Millbrae Avenue Interchange and Street Pavement Projects in fiscal year 2003.

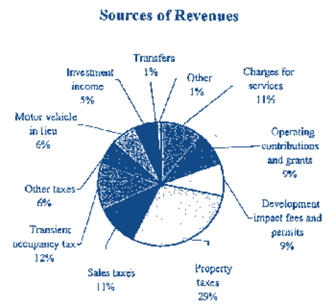
- Net assets invested in capital assets net of related debt totaled $6.7 million, consisting of $12.8 million of capital assets and $6.1 million of related debt.

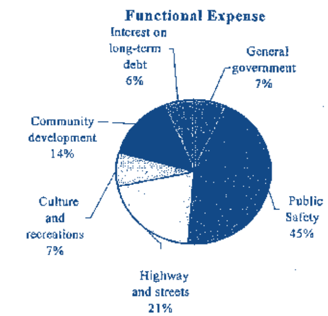
- Restricted net assets totaled $9.9 million, which includes $0.1 million restricted for capital projects, $1.4 million restricted for debt service, $7 million restricted for redevelopment, and $1.4 restricted for special revenue programs.

- Unrestricted net assets has a deficit of $6.9 million primarily due to long-term debt which does not require to use of current assets to be liquidated.

**Fiscal Year 2003 Government Activities**

(See Table 2)



As the Sources of Revenue Chart above shows, $5.4 million, or 29% of the City's Fiscal 2003 revenue, came from Property Taxes revenues. Sales Taxes and Transient Occupancy Tax accounted for $2 Million and $2.3 million respectively. The total general revenues of $13.4 million, accounted for 72% of the 2003 Governmental revenues.

The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are now added to the City's capital assets. In fiscal 2003, the City added $1.5 million in governmental capital assets, as shown in detail at Table 6.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Charges in Governmental Net Assets summarized below.

**Table 2**
**Changes in Governmental Net Assets**
**(in Millions)**

| | Governmental Activities 2003 |
|---|---|
| **Expenses** | |
| General government | $ 1.4 |
| Public Safety | 8.9 |
| Highway and streets | 4.1 |
| Culture and recreations | 1.5 |
| Community development | 2.9 |
| Interest on long-term debt | 1.3 |
| Total expenses | 20.1 |
| **Revenues** | |
| Program revenues: | |
| Charges for services | 2.0 |
| Operating contributions and grants | 1.6 |
| Developmental impact fees and permits | 1.6 |
| Total program revenues | 5.2 |
| General revenues: | |
| Taxes: | |
| Property taxes | 5.4 |
| Sales taxes | 2.0 |
| Transient occupancy tax | 2.3 |
| Other taxes | 1.1 |
| Motor vehicle in lieu | 1.2 |
| Investment income | 1.0 |
| Transfers | 0.1 |
| Other | 0.2 |
| Total general revenues | 13.4 |
| Total revenues | 18.6 |
| **Change in net assets** | $(1.5) |



**Government Activities**

Table 3 presents the net cost of each of the City's largest programs--general government, public safety, highway and streets, culture and recreation, community development, and interest on long-term debt. Net cost is defined as total program cost less the revenues generated by those specific activities.

**Table 3**
**Governmental Activities**
**(in Millions)**

| | Net (Expense) Revenue From Services 2003 |
|---|---|
| General government | ($1.0) |
| Public Safety | (7.9) |
| Highway and streets | (1.6) |
| Culture and recreation | (0.9) |
| Community Development | (2.2) |
| Interest on Long-term Debt | (1.3) |
| **Totals** | **($14.9)** |

- $7.9 million of program net expenses over revenues came from public safety and $2.2 million from community development, and the rest from other governmental programs.

*Business-type Activities*

**Table 4**
**Business-Type Net Assets**
**(in Millions)**

| | Business-Type Activities 2003 |
|---|---|
| Cash and investments | $1.87 |
| Other current assets | 1.46 |
| Internal balances | 1.09 |
| Capital assets and other | 12.46 |
| **Total assets** | **16.88** |
| Long-term debt outstanding | 1.47 |
| Other liabilities | 0.82 |
| **Total liabilities** | **2.29** |
| Net assets: | |
| Invested in capital assets, net of debt | 10.98 |
| Unrestricted | 3.61 |
| **Total net assets** | **$14.59** |

The net assets of Business-type Activities increased $0.5 million in fiscal 2003, primarily as a result of water and sewer rate increases and investment earnings.

**Table 5**
**Changes in Business-Type Net Assets**
**(in Millions)**

| | Business-Type Activities 2003 |
|---|---|
| Revenues from Business-type activities | $0.17 |
| Waste Water Treatment Facility (Sanitation) | 0.27 |
| Storm Drain | (0.10) |
| Total Business-type Activities | $0.34 |

Operating revenues of Business-type Activities increased $0.3 million in fiscal 2003, and these Activities as a whole were profitable. Net revenues over expenses were $0.17 million for Water Fund and $0.27 million for Sanitation Fund. The Storm Drain Fund experienced a net loss of $0.1 million. The Business-type Activities as whole ended with a gain of $0.34 million for the year.



However, as shown in the Statement of Cash Flows, the cash balances of most of these Funds decreased, primarily because an Inter-fund transfer of $0.5 million from the Sanitation Fund to cover other funds' cash deficits as June 30th and a transfer out of $0.1 million from Storm Drain Fund to repay the General Fund for prior years' General Fund subsidies.

**The City's Fund Financial Statements**

*Governmental Funds*

At June 30, 2003, the City's governmental funds reported combined fund balances of $19.6 million, which is a decrease of $1.7 million or 8% compared with the prior year. Part of this decrease occurred in the General Fund, which accounted for $0.5 million, while the Library Project Fund decreased $1.6 million and the Storm Relief Grant Fund decreased $0.7 million. The remainder was primarily in other non-Major funds, which increases offset with decreases at June 30, 2003.

Governmental fund revenues decreased $2.1 million this year to a new total of $19.4 million. The General Fund accounted for 15% of this decrease. Expenditures decreased $4.7 million this year to a new total of $21.9 million. Of this decrease, $0.9 million was in the General Fund, $2.8 million in the US 101 Millbrae Avenue Capital Project Funds, $0.2 million in the RDA Capital Project Funds, and the remainder was primarily in non-Major funds. Among the non-Major funds the Storm Relief Fund decreased $0.8 million and the Street Pavement Project Fund decreased $0.6 million. On the other hand, the Library Capital Project Fund expenditures increased $1.3 million and the RDA Debt Service Fund increased $0.2 million.

*Proprietary Funds*

Enterprise Fund net assets totaled $14.6 million at June 30, 2003, an increase of $0.6 million. Enterprise operating revenues were $7.3 million this year, up $0.3 million from last year. Contributions and net transfers declined to $0.1 million in fiscal 2003, down $0.09 million from the prior year.

Enterprise Fund operating expenses were $6.6 million in fiscal 2003, up $0.4 million from the prior year.

## *Analyses of Major Governmental Funds*

### General Fund

General Fund revenues decreased $0.3 million this fiscal year due to decreases in the transient occupancy tax and the property taxes. Transient occupancy tax decreased $0.5 million due to continued slowdown in the hotel industry. Property taxes decreased $0.1 million as major prior years' assessment appeals were settled and collected in fiscal year 2002. The City received a relatively large amount of 'Supplemental' and 'Prior Year Adjustments' taxes in 2002. On the other hand, the sales tax and the permits increased $0.1 million each. The remainder revenues netted with a $0.1 million increase.

General Fund expenditures reduced $0.9 million comparing to fiscal year 2002 as a result of an implementation of the General Fund budget balancing measures. General Government, Community Development, culture and recreations, and Highways and Streets expenditures decreased $1 million. The decrease was a result of more overhead costs being allocated to other funds and also personnel cost savings from vacancies. The vacant positions workloads were either shared among the existing City staff or handled by a part-time contracting staff. Capital equipment/project costs decreased $0.4 million due to a fire truck being replaced in fiscal year 2002 and no major capital purchase was authorized in 2003. Public Safety expenditures, on the other hand, were increased $0.5 million due to increased personnel and benefits costs, such as PERS, health, and other employee benefits. In fiscal year 2002 the COPS grant was phased out and the OTS grant funding reduced to 50% in January 2003. As a result the General Fund started to absorb these additional personnel costs in fiscal year 2003.

Transfers In increased $0.8 million and Transfers Out decreased $0.2 million to reflect the City Council's decisions of transferring savings from other funds and to reduce the amount of General Fund subsidy to other funds.

At June 30, 2003, the General Fund Balance comprised $1.3 million reserved almost entirely for encumbrances and advances to other funds with $0.2 million left for unreserved and undesignated fund balance. Only the unreserved portion represents available liquid resources, since the reserved portion is represented by non-cash assets or by open purchase orders.

### OTHER MAJOR GOVERNMENTAL FUNDS

### Redevelopment Agency Debt Service

The tax increment revenues increased $0.3 million in 2003 due to new properties coming on line in the Redevelopment Project Area before 2003. In fiscal year 2001 the Millbrae Redevelopment Agency re-negotiated its pass through agreements with the Millbrae Elementary School District (MESD) and with the San Mateo Union High School District (SMUHD). Neither of these districts were happy with their pass-through income. As a result, the Agency increased short-term income for both Districts at the expense of reducing each projected out year income. The MISD opted for the 2% per year inflation option. The accumulated step increase for the SMUHD was raised from 20% to 25% and in turn, the out year rate was reduced from 40% to 25%. These actions increased the Millbrae Redevelopment Agency's pass-through expenditures by $0.2 million in 2003. The Redevelopment Board approved transferring $2.1 million from the RDA Debt Service Fund, $1.7 million to the RDA Administration Operating Fund and $0.4 million to the RDA Capital Project Fund. These funds needed funding to keep operative. At June 30, 2003 the entire RDA Debt Service fund balance was reserved for debt service obligations. The outstanding Advance from Other Funds was $1.7 million at yearend.



### Redevelopment Agency Capital Projects Fund

The Redevelopment Agency Capital Projects Funds are composed of the RDA Administration Operating, the RDA Capital Project and the Housing Capital Project funds. There were minor capital outlay efforts in fiscal year 2003. Funds were provided for the US 101 Millbrae Avenue Interchange Project and the Waste Water Treatment Plant redesign. Otherwise, the Agency Board decided to hold projects due to the increase in required pass through payments. At June 30, 2003 the RDA Capital Projects fund balance was $4.9 million. A majority belonged to the Housing Capital Project Fund with an ending fund balance of $3.4 million.

### Library Capital Project

The Library Capital Project fund balance reserved $7.4 million for purchase order encumbrance obligations and $1.3 million was designated for other Library Project capital outlays. In fiscal year 2003 approximately $2 million was spent on the Library Project, $1.3 million for the construction costs and 0.7 million for the architectural service, a temporary library set up, and the various contractual services. The project began on April 1, 2003 and is expected completion in July 2004.

### US 101 Millbrae Avenue Capital Project

The US 101/Millbrae Avenue Capital Project is completed as June 30, 2003 with a few punch list items. Since the project costs were reimbursed in arrears, the portion of grant money, not received during the accrual period, was reflected as a receivable as well as deferred revenue. The deficit will be eliminated when reimbursement grants are received.

### Other Governmental Funds

These funds are not presented separately in the Basic Financial statements, but are individually presented as Supplemental Information.

## *Proprietary Funds*

### Water

Net assets of the Water Fund increased $0.4 million in the current year to a total of $6.9 million. This increase comprised $0.2 million in Operating Income, $0.07 million in non-operating revenues and $0.1 million in Transfers In from Sanitation Fund, which was used to pay for a portion of the Meter Project loan that is obligated by the Sanitation Fund.

Only $1.7 million of the $6.9 million in this Fund's Net Assets was unrestricted at the fiscal year end.

### Waste Water Treatment Facility (Sanitation)

The Sanitation Fund net assets increased $0.3 million in fiscal year 2003 to a total of $6.7 million. This increase comprised $0.5 million in Operating Income netted with a $0.2 million loss in Non-Operating and Transfers out.

A total of $1.9 million of the $6.7 million Sanitation Fund Net Assets was unrestricted at the fiscal year end.

### Storm Drain

The Storm Drain Fund net assets decreased $0.06 million as a result of a $0.04 million income before transfers netted with a Transfers Out of $0.1 million to the General Fund.

A total of $0.06 million of the $1.1 million Net Assets was unrestricted.

## CAPITAL ASSETS

At the end of fiscal 2003 the City had $ 12.8 million, net of depreciation, invested in a broad range capital assets used in governmental activities, as shown in Table 6 below (further detail may be found in Note 6 to the financial statements):

**Table 6**
**Capital Assets at Year-end**
**(in Millions)**

| | Government Activities | |
|---|---|---|
| | 2003 | 2002 |
| ***Governmental Activities:*** | | |
| Land | $1.38 | $2.44 |
| Land improvements | 0.86 | 0.0 |
| Buildings and improvements | 9.90 | 8.25 |
| Equipment | 2.95 | 3.19 |
| Automobiles and Trucks | 2.58 | 2.84 |
| Infrastructure | 1.35 | 1.12 |
| Less accumulated depreciation | (6.22) | (6.49) |
| Totals | $12.80 | $11.35 |
| ***Business-type Activities*** | | |
| Land | $0.0 | $0.38 |
| Land improvements | 0.38 | |
| Buildings | 4.88 | 4.90 |
| Equipment | 7.65 | 7.25 |
| Infrastructure | 14.35 | 14.23 |
| Automobiles and Trucks | .05 | .05 |
| Less accumulated depreciation | (14.86) | (14.29) |
| Totals | $12.45 | $12.52 |

The City depreciates all its capital assets via a straight - line depreciation method, which means the cost of the asset is divided by its expected useful life in years.



Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

### DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 7 to the financial statements.

**Table 7**
**Outstanding Debt**
**(in Millions)**

| | 2003 | 2002 |
|---|---|---|
| ***Governmental activities*** | | |
| Tax Allocation Bonds (issued by the Redevelopment Agency) | $ 5.13 | $ 5.23 |
| Certificates of Participation | 3.85 | 3.96 |
| Public Library Project Bonds | 10.6 | 10.6 |
| Storm Water District #1 Bonds | 0.06 | 0.09 |
| Natural Disaster Assistance Loan | 2.42 | 2.29 |
| | $ 22.06 | $ 22.17 |
| ***Business-type Activities*** | | |
| Water Revenue Bonds | $ | $0.22 |
| Wastewater COPs | 1.47 | 1.66 |
| | $1.47 | $1.88 |

### SPECIAL ASSESSMENT DISTRICT DEBT

At June 30, 2003, a total of $300,000 in special assessment district debt was outstanding for the Plaza Bay Special Assessment district. This debt is secured only by special assessments on the real property in the district issuing the debt, and is not the City's responsibility, although the City does act as this District's agent in the collection and remittance of assessments.

## ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to Christine Ma, Financial Services Manager, Finance Department of the City of Millbrae, at 621 Magnolia Avenue, Millbrae, California 94030.




## STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities are entirely new statements required by Government Accounting Standards Board Statement 34. Their purpose is to summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities differs considerably from those used in the past. It presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include the financial activities of the City, and the City of Millbrae Redevelopment Agency, which is legally separate but are component unit of the City because it is controlled by the City, which is financially accountable for the activities of this entity.

These new financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*; the term General Purpose Financial Statements is no longer used.

## CITY OF MILLBRAE
## STATEMENT OF NET ASSETS
## JUNE 30, 2003

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and investments (Note 3) | $20,851,282 | $1,867,855 | $22,719,137 |
| Cash with fiscal agent (Note 3) | 945,061 | | 945,061 |
| Receivables: | | | |
| Taxes | 629,981 | | 629,981 |
| Accounts - net | 337,410 | 1,455,666 | 1,793,076 |
| Accrued interest | 177,946 | | 177,946 |
| Due from other governmental agencies | 757,569 | | 757,569 |
| Loans (Note 5) | 833,470 | | 833,470 |
| Special assessments (Note 8) | 300,000 | | 300,000 |
| Internal balances (Note 4D) | (1,090,270) | 1,090,270 | |
| Prepaid items | 8,747 | | 8,747 |
| Bond issuance cost, net (Note 7) | | 11,416 | 11,416 |
| Capital assets, net of accumulated depreciation (Note 6) | 12,800,948 | 12,451,204 | 25,252,152 |
| Total Assets | 36,552,144 | 16,876,411 | 53,428,555 |
| **LIABILITIES** | | | |
| Accounts payable | 1,384,621 | 287,972 | 1,672,593 |
| Interest payable | | 29,516 | 29,516 |
| Deposits | 550,742 | 326,725 | 877,467 |
| Deferred revenue | 125,555 | | 125,555 |
| Compensated absences (Note 1G) | 1,955,383 | 172,619 | 2,128,002 |
| Accrued self-insurance (Note 11) | 400,754 | | 400,754 |
| Long-term debt (Notes 7 and 8) | | | |
| Portion due within one year | 420,000 | 230,900 | 650,900 |
| Portion due in more than one year | 21,939,056 | 1,238,068 | 23,177,124 |
| Total Liabilities | 26,776,111 | 2,285,800 | 29,061,911 |
| **NET ASSETS (Note 9)** | | | |
| Invested in capital assets, net of related debt | 6,705,756 | 10,982,236 | 17,687,992 |
| Restricted for: | | | |
| Capital projects | 138,263 | | 138,263 |
| Debt service | 1,374,264 | | 1,374,264 |
| Redevelopment | 7,035,045 | | 7,035,045 |
| Special revenue programs | 1,389,992 | | 1,389,992 |
| Total Restricted Net Assets | 9,937,564 | | 9,937,564 |
| Unrestricted | (6,867,287) | 3,608,375 | (3,258,912) |
| Total Net Assets | $9,776,033 | $14,590,611 | $24,366,644 |

See accompanying notes to financial statements



## CITY OF MILLBRAE
## STATEMENT OF ACTIVITIES
## FOR THE YEAR ENDED JUNE 30, 2003

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|---|---|---|---|---|---|---|
| unctions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| overnmental Activities: | | | | | | | |
| General government | $1,422,657 | $352,898 | $59,560 | | ($1,010,199) | | ($1,010,199) |
| Public safety | 8,924,390 | 547,113 | 495,996 | | (7,881,281) | | (7,881,281) |
| Highways and streets | 4,134,639 | 20,579 | 1,040,737 | $1,500,813 | (1,572,510) | | (1,572,510) |
| Culture and recreation | 1,481,946 | 517,700 | 43,262 | 50,000 | (870,984) | | (870,984) |
| Community development | 2,860,445 | 590,556 | | 34,448 | (2,235,441) | | (2,235,441) |
| Interest on long term debt | 1,335,269 | | | | (1,335,269) | | (1,335,269) |
| Total Governmental Activities | 20,159,346 | 2,028,846 | 1,639,555 | 1,585,261 | (14,905,684) | | (14,905,684) |
| usiness-type Activities: | | | | | | | |
| Municipal Water System | 3,037,160 | 3,204,827 | | | | $167,667 | 167,667 |
| Municipal Waste Water Treatment Facility | 3,453,783 | 3,723,529 | | | | 269,746 | 269,746 |
| Storm Drain | 320,361 | 225,642 | | | | (94,719) | (94,719) |
| Total Business-type Activities | 6,811,304 | 7,153,998 | | | | 342,694 | 342,694 |
| otal | $26,970,650 | $9,182,844 | $1,639,555 | $1,585,261 | (14,905,684) | 342,694 | (14,562,990) |
| eneral revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | | | | | 4,935,053 | | 4,935,053 |
| Incremental property tax | | | | | 451,370 | | 451,370 |
| Sales taxes | | | | | 1,976,221 | | 1,976,221 |
| Transient occupancy tax | | | | | 2,260,087 | | 2,260,087 |
| Other taxes | | | | | 1,104,296 | | 1,104,296 |
| Motor vehicle in lieu | | | | | 1,210,634 | | 1,210,634 |
| Rental income | | | | | 145,610 | | 145,610 |
| Investment earnings | | | | | 1,016,395 | 105,345 | 1,121,740 |
| Miscellaneous | | | | | 231,455 | 153,693 | 385,148 |
| ransfers | | | | | 100,000 | (100,000) | |
| Total general revenues and transfers | | | | | 13,431,121 | 159,038 | 13,590,159 |
| hange in Net Assets | | | | | (1,474,563) | 501,732 | (972,831) |
| et Assets-Beginning | | | | | 11,250,596 | 14,088,879 | 25,339,475 |
| et Assets-Ending | | | | | $9,776,033 | $14,590,611 | $24,366,644 |

See accompanying notes to financial statements

## *FUND FINANCIAL STATEMENTS*

GASB 34 revises the format of the Fund Financial Statements so that only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between Fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Account Groups.

## MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City in fiscal 2003. Individual non-major funds may be found in the Supplemental section.

### GENERAL FUND

The General Fund is established to account for the revenues and expenditures to carry out basic governmental activities of the City such as general government, public safety, public works, and parks and recreation. This fund accounts for all financial transactions not accounted for in the other funds.

### REDEVELOPMENT AGENCY DEBT SERVICE FUND

To account for the accumulation of resources for payment of principal and interest on Millbrae Redevelopment Agency debt. The Agency receives revenues from property tax increments

### REDEVELOPMENT AGENCY CAPITAL PROJECT FUND

To account for the Millbrae Redevelopment Agency's resources for administrative costs, capital projects and long-term debt obligation.

### LIBRARY CAPITAL PROJECTS FUND

To account for project costs funded by proceeds of the 2001 General Obligation Bonds.

### US 101/MILLBRAE AVE CAPITAL PROJECTS FUND

To account for grant moneys received for the US 101/Millbrae Avenue interchange improvement project.

CITY OF MILLBRAE
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003

| | General | Redevelopment Agency Debt Service Fund | Redevelopment Agency Capital Projects Fund | Library Capital Project | US 101 Millbrae Ave. Capital Project | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and investments (Note 3) | $312,122 | $1,508,349 | $4,926,467 | $9,342,096 | | $3,472,400 | $19,561,434 |
| Cash with fiscal agent (Note 3) | | 547,858 | | | | 397,203 | 945,061 |
| Receivables: | | | | | | | |
| Taxes | 598,906 | | | | | 31,075 | 629,981 |
| Accounts - net | 31,894 | | | | | 305,516 | 337,410 |
| Accrued interest | 6,526 | 171,420 | | | | | 177,946 |
| Due from other governmental agencies | 127,951 | | | | $377,662 | 251,956 | 757,569 |
| Loans (Note 5) | | | | | | 833,470 | 833,470 |
| Special assessments (Note 8) | | | | | | 300,000 | 300,000 |
| Advances to other funds (Note 4B) | 950,100 | | | | | 140,000 | 1,090,100 |
| Prepaid items | | | | | | 8,747 | 8,747 |
| Total Assets | $2,027,499 | $2,227,627 | $4,926,467 | $9,342,096 | $377,662 | $5,740,367 | $24,641,718 |
| LIABILITIES | | | | | | | |
| Accounts payable | $400,939 | | $34,469 | $627,288 | $6,163 | $198,014 | $1,266,873 |
| Due to other funds (Note 4A) | | | | | 184,593 | 305,677 | 490,270 |
| Deposits | 200,307 | | | | 100,000 | 250,435 | 550,742 |
| Deferred revenue | 125,555 | | | | 377,662 | 511,038 | 1,014,255 |
| Advances from other funds (Note 4B) | | $1,690,100 | | | | | 1,690,100 |
| Total Liabilities | 726,801 | 1,690,100 | 34,469 | 627,288 | 668,418 | 1,265,164 | 5,012,240 |
| FUND BALANCES | | | | | | | |
| Fund balance (Note 9) | | | | | | | |
| Reserved for: | | | | | | | |
| Encumbrances | 146,656 | | 147,423 | 7,382,833 | 30,201 | 261,863 | 7,968,976 |
| Debt service | | 537,527 | | | | 845,484 | 1,383,011 |
| Capital outlay | | | | 1,331,975 | | 1,630,116 | 2,962,091 |
| Advances, prepaids and loans receivable | 950,100 | | | | | | 950,100 |
| Unreserved: | | | | | | | |
| Designated | | | | | | | |
| Accrued vacation, sick leave | 53,942 | | | | | | 53,942 |
| Prior year operating budget carryovers | | | | | | 34,193 | 34,193 |
| Crestview Slide unreimbursed expenditures | 150,000 | | | | | | 150,000 |
| Capital outlay | | | 4,744,575 | | | 310,576 | 5,055,151 |
| Undesignated, Reported in: | | | | | | | |
| Special Revenue Funds | | | | | | 1,406,850 | 1,406,850 |
| Capital Projects Funds | | | | | (320,957) | (13,879) | (334,836) |
| Total Fund Balances (Deficit) | 1,300,698 | 537,527 | 4,891,998 | 8,714,808 | (290,756) | 4,475,203 | 19,629,478 |
| Total Liabilities and Fund Balances | $2,027,499 | $2,227,627 | $4,926,467 | $9,342,096 | $377,662 | $5,740,367 | $24,641,718 |

See accompanying notes to financial statements



CITY OF MILLBRAE
Reconciliation of the
GOVERNMENTAL FUNDS -- BALANCE SHEET
with the
STATEMENT OF NET ASSETS
JUNE 30, 2003

| | |
|---|---|
| Total fund balances reported on the governmental funds balance sheet | $19,629,478 |
| Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following: | |
| CAPITAL ASSETS | |
| Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds. (Note 6) | 11,974,456 |
| ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS | |
| Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets. | |
| Cash and investments | 1,289,848 |
| Capital assets | 826,492 |
| Accounts payable | (117,748) |
| Compensated absences | (14,368) |
| Accrued self-insurance | (400,754) |
| ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES | |
| Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities. | 888,700 |
| LONG TERM ASSETS AND LIABILITIES | |
| The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds: | |
| Long-term debt | (22,359,056) |
| Non-current portion of compensated absences | (1,941,015) |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | $9,776,033 |

See accompanying notes to financial statements

CITY OF MILLBRAE
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003

| | General | Redevelopment Agency Debt Service Fund | Redevelopment Agency Capital Projects Fund | Library Capital Project | US 101 Millbrae Ave. Capital Project | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|---|
| REVENUES | | | | | | | |
| Property tax | $2,495,646 | $1,805,482 | | | | $1,085,295 | $5,386,423 |
| Sales tax | 2,051,229 | | | | | | 2,051,229 |
| Transient occupancy tax | 2,260,087 | | | | | | 2,260,087 |
| Other taxes | 973,571 | | | | | 319,552 | 1,293,123 |
| Special assessments | | | | | | 174,448 | 174,448 |
| Licenses and permits | 334,554 | | | | | | 334,554 |
| Charges for services | 606,230 | | $50 | $3,525 | | 833,066 | 1,442,871 |
| Fines and forfeitures | 222,945 | | | | | | 222,945 |
| Use of money and property | 250,273 | 105,128 | 193,894 | 444,872 | $1,731 | 204,951 | 1,200,849 |
| Grants and intergovernmental | 1,368,442 | | | | 1,612,278 | 1,794,160 | 4,774,880 |
| Miscellaneous | 117,447 | | | | | 174,869 | 292,316 |
| Total Revenues | 10,680,424 | 1,910,610 | 193,944 | 448,397 | 1,614,009 | 4,586,341 | 19,433,725 |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| General government | 1,331,146 | | | | | | 1,331,146 |
| Public safety | 8,165,846 | | | | | 244,359 | 8,410,205 |
| Highways and streets | 991,302 | | | | | 862,128 | 1,853,430 |
| Culture and recreation | 877,270 | | | | | 1,064,443 | 1,941,713 |
| Community development | 422,060 | | 597,805 | | 44,347 | 212,993 | 1,277,205 |
| Payments to property tax pass throughs (Note 1F) | | 900,067 | | | | | 900,067 |
| Capital outlay | 15,539 | | 158,986 | 1,982,887 | 1,561,168 | 916,581 | 4,635,161 |
| Debt service | | | | | | | |
| Principal | | 95,000 | | | | 275,000 | 370,000 |
| Interest and fiscal charges | | 408,146 | | | | 803,064 | 1,211,210 |
| Total Expenditures | 11,803,163 | 1,403,213 | 756,791 | 1,982,887 | 1,605,515 | 4,378,568 | 21,930,137 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (1,122,739) | 507,397 | (562,847) | (1,534,490) | 8,494 | 207,773 | (2,496,412) |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Transfers in (Note 4C) | 1,429,548 | 101,112 | 2,160,000 | 3,257 | | 783,333 | 4,477,250 |
| Transfers (out) (Note 4C) | (780,964) | (2,160,000) | | | | (756,294) | (3,697,258) |
| Total Other Financing Sources (Uses) | 648,584 | (2,058,888) | 2,160,000 | 3,257 | | 27,039 | 779,992 |
| NET CHANGE IN FUND BALANCES | (474,155) | (1,551,491) | 1,597,153 | (1,531,233) | 8,494 | 234,812 | (1,716,420) |
| BEGINNING FUND BALANCES, AS ADJUSTED (NOTE 9) | 1,774,853 | 2,089,018 | 3,294,845 | 10,246,041 | (299,250) | 4,240,391 | 21,345,898 |
| ENDING FUND BALANCES | $1,300,698 | $537,527 | $4,891,998 | $8,714,808 | ($290,756) | $4,475,203 | $19,629,478 |

See accompanying notes to financial statements



CITY OF MILLBRAE
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

| | |
|---|---|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | ($1,716,420) |
| Amounts reported for governmental activities in the Statement of Activities are different because of the following: | |
| CAPITAL ASSETS TRANSACTIONS | |
| Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. | |
| The capital outlay expenditures are therefore added back to fund balance | 2,529,030 |
| Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of $196,217 which has already been allocated to serviced funds) | (478,379) |
| Retirements of capital assets | (228,086) |
| LONG TERM DEBT PROCEEDS AND PAYMENTS | |
| Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities. | |
| Repayment of debt principal is added back to fund balance | 370,000 |
| ACCRUAL OF NON-CURRENT ITEMS | |
| The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change): | |
| Deferred revenue | (894,253) |
| Compensated absences | (69,078) |
| Unpaid interest added to long-term debt | (124,059) |
| ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY | |
| Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities. | |
| Change in Net Assets - All Internal Service Funds | (863,318) |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | ($1,474,563) |

See accompanying notes to financial statements

## MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. The City has identified the funds below as major proprietary funds in fiscal 2003.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

### MUNICIPAL WATER SYSTEM FUND

To account for activities related to providing water service to the Millbrae residents.

### MUNICIPAL WASTE WATER TREATMENT FACILITY FUND

To account for services of the collection, treatment and administration of the City's sanitation system.

### STORM DRAIN FUND

To account for the resources and costs of maintenance and improvements of the City's storm drains.

## CITY OF MILLBRAE
## PROPRIETARY FUNDS
## STATEMENT OF NET ASSETS
## FOR THE YEAR ENDED JUNE 30, 2003

| | Business-type Activities-Enterprise Funds | | | | Governmental |
|---|---|---|---|---|---|
| | Municipal Water System | Municipal Waste Water Treatment Facility | Storm Drain | Totals | Activities-Internal Service Funds |
| **ASSETS** | | | | | |
| Cash and investments (Note 3) | $824,262 | $809,300 | $322,010 | $1,955,572 | $1,202,131 |
| Receivables: | | | | | |
| Accounts - net | 630,589 | 818,172 | 6,905 | 1,455,666 | |
| Due from other funds (Note 4A) | | 490,270 | | 490,270 | |
| Advances to other funds (Note 4B) | 650,000 | | | 650,000 | |
| Capital assets, net of accumulated depreciation (Note 6) | 5,208,423 | 6,243,990 | 998,791 | 12,451,204 | 826,492 |
| Bond issuance cost, net (Note 7) | | 11,416 | | 11,416 | |
| Total Assets | 7,313,274 | 8,373,148 | 1,327,706 | 17,014,128 | 2,028,623 |
| **LIABILITIES** | | | | | |
| Accounts payable | 220,795 | 56,486 | 10,691 | 287,972 | 117,748 |
| Interest payable | | 29,516 | | 29,516 | |
| Compensated absences (Note 1G) | 33,670 | 127,380 | 11,569 | 172,619 | 14,368 |
| Deposits | 113,917 | 18,455 | 194,353 | 326,725 | |
| Advances from other funds (Note 4B) | | | 50,000 | 50,000 | |
| Accrued self-insurance (Note 11) | | | | | 400,754 |
| Long-term debt (Note 7) | | | | | |
| Due within one year | | 230,900 | | 230,900 | |
| Due in more than one year | | 1,238,068 | | 1,238,068 | |
| Total Liabilities | 368,382 | 1,700,805 | 266,613 | 2,335,800 | 532,870 |
| **NET ASSETS (Note 9)** | | | | | |
| Invested in capital assets, net of related debt | 5,208,423 | 4,775,022 | 998,791 | 10,982,236 | 826,492 |
| Unrestricted | 1,736,469 | 1,897,321 | 62,302 | 3,696,092 | 669,261 |
| Total Net Assets | $6,944,892 | $6,672,343 | $1,061,093 | $14,678,328 | $1,495,753 |
| Some amounts reported for business-type activities in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included with business-type activities. | | | | (87,717) | |
| Net assets business-type activities | | | | $14,590,611 | |

See accompanying notes to financial statements



## CITY OF MILLBRAE
## PROPRIETARY FUNDS
## STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS
## FOR THE YEAR ENDED JUNE 30, 2003

| | Business-type Activities-Enterprise Funds | | | | Governmental |
|---|---|---|---|---|---|
| | Municipal Water System | Municipal Waste Water Treatment Facility | Storm Drain | Totals | Activities-Internal Service Funds |
| OPERATING REVENUES | | | | | |
| Water sales | $3,204,827 | | | $3,204,827 | |
| Sewer service fees | | $3,723,529 | | 3,723,529 | |
| Equipment rental | | | | | $600,060 |
| Interdepartmental charges | | | | | 1,028,888 |
| Storm drain fees | | | $225,642 | 225,642 | |
| Miscellaneous | 480 | 37,478 | 115,735 | 153,693 | |
| Total Operating Revenues | 3,205,307 | 3,761,007 | 341,377 | 7,307,691 | 1,628,948 |
| OPERATING EXPENSES | | | | | |
| Personnel services | 949,574 | 1,674,502 | 149,962 | 2,774,038 | 463,318 |
| Contractual services | 333,733 | 637,117 | 90,555 | 1,061,405 | 148,382 |
| Materials, supplies and other services | 328,131 | 442,562 | 16,373 | 787,066 | 102,801 |
| Water purchases | 1,105,128 | | | 1,105,128 | |
| Depreciation | 255,187 | 358,659 | 42,125 | 655,971 | 196,217 |
| Utilities | 29,174 | 168,384 | 6,062 | 203,620 | 1,060 |
| Insurance premiums and claims | | | | | 858,120 |
| Total Operating Expenses | 3,000,927 | 3,281,224 | 305,077 | 6,587,228 | 1,769,898 |
| Operating Income (Loss) | 204,380 | 479,783 | 36,300 | 720,463 | (140,950) |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Proceeds from sale of property | | | | | |
| Loss on disposal of capital assets | | (17,699) | | (17,699) | (175,404) |
| Interest revenue | 70,894 | 35,296 | (845) | 105,345 | 45,311 |
| Interest expense | (2,176) | (116,484) | | (118,660) | |
| Total Nonoperating Revenues (Expenses) | 68,718 | (98,887) | (845) | (31,014) | (130,093) |
| Income (Loss) Before Transfers | 273,098 | 380,896 | 35,455 | 689,449 | (271,043) |
| Transfers in (Note 4C) | 103,821 | | | 103,821 | |
| Transfers (out) (Note 4C) | | (103,821) | (100,000) | (203,821) | (679,992) |
| Net transfers | 103,821 | (103,821) | (100,000) | (100,000) | (679,992) |
| Change in net assets | 376,919 | 277,075 | (64,545) | 589,449 | (951,035) |
| BEGINNING NET ASSETS | 6,567,973 | 6,395,268 | 1,125,638 | 14,088,879 | 2,446,788 |
| ENDING NET ASSETS | $6,944,892 | $6,672,343 | $1,061,093 | 14,678,328 | $1,495,753 |
| Some amounts reported for business-type activities in the Statement of Activities are different because a portion of the net income of certain internal service funds is reported with the business-type activities which those funds service. | | | | (87,717) | |
| Change in net assets of business-type activities | | | | $14,590,611 | |

See accompanying notes to financial statements

CITY OF MILLBRAE
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003

| | Business-type Activities-Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Municipal Water System | Municipal Waste Water Treatment Facility | Storm Drain | Totals | Governmental Activities-Internal Service Funds |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers | $3,330,720 | $3,783,388 | $340,095 | $7,454,203 | $1,628,948 |
| Payments to customers | 10,670 | 2,200 | (88,103) | (75,233) | |
| Payments to suppliers | (1,843,374) | (1,235,176) | (103,528) | (3,182,078) | (211,025) |
| Payments to employees | (966,003) | (1,656,595) | (146,438) | (2,769,036) | (455,023) |
| Claims paid | | | | | (924,042) |
| Cash Flows from Operating Activities | 532,013 | 893,817 | 2,026 | 1,427,856 | 38,858 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Interfund payments | | (490,270) | | (490,270) | |
| Interfund receipts | | | | | 1,000,025 |
| Transfers in | 103,821 | | | 103,821 | |
| Transfers (out) | | (103,821) | (100,000) | (203,821) | (679,992) |
| Cash Flows from Noncapital Financing Activities | 103,821 | (594,091) | (100,000) | (590,270) | 320,033 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Acquisition of capital assets | (89,356) | (480,606) | (39,241) | (609,203) | 168,508 |
| Proceeds from long term debt | | | | | (175,404) |
| Principal payments on capital debt | (218,021) | (311,254) | | (529,275) | |
| Interest paid | (9,098) | (1,844) | | (10,942) | |
| Cash Flows from Capital and Related Financing Activities | (316,475) | (793,704) | (39,241) | (1,149,420) | (6,896) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Interest | 70,894 | 35,296 | (845) | 105,345 | 45,311 |
| Cash Flows from Investing Activities | 70,894 | 35,296 | (845) | 105,345 | 45,311 |
| Net Cash Flows | 390,253 | (458,682) | (138,060) | (206,489) | 397,306 |
| Cash and investments at beginning of period | 434,009 | 1,267,982 | 460,070 | 2,162,061 | 804,825 |
| Cash and investments at end of period | $824,262 | $809,300 | $322,010 | $1,955,572 | $1,202,131 |
| Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities: | | | | | |
| Operating income (loss) | $204,380 | $479,783 | $36,300 | $720,463 | ($140,950) |
| Adjustments to reconcile operating income (Loss) to cash flows from operating activities: | | | | | |
| Depreciation | 255,187 | 358,659 | 42,125 | 655,971 | 196,217 |
| Change in assets and liabilities: | | | | | |
| Receivables, net | 125,413 | 22,381 | (1,282) | 146,512 | |
| Accounts payable and other accrued expenses | (47,208) | 12,887 | 9,462 | (24,859) | 41,218 |
| Other accrued expenses | (16,429) | 17,907 | 3,524 | 5,002 | (57,627) |
| Refundable deposits | 10,670 | 2,200 | (88,103) | (75,233) | |
| Cash Flows from Operating Activities | $532,013 | $893,817 | $2,026 | $1,427,856 | $38,858 |

See accompanying notes to financial statements





## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Millbrae was incorporated as a general law city in 1948. The City operates under the Council-Administrator form of government and provides the following services: public safety (police and fire), highways and streets, sewer, water, recreation, public improvements, planning and zoning, building inspections, general administration services, and redevelopment.

The financial statements and accounting policies of the City conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

### A. *Reporting Entity*

The financial statements of the City of Millbrae include the financial activities of the City and the **Millbrae Redevelopment Agency.**

The Millbrae Redevelopment Agency is a separate government entity created in 1988 under the provisions of the Community Redevelopment Law (California Health and Safety Code) to assist in revitalizing of areas within the City of Millbrae which are determined to be in a declining condition. The Agency is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Agency. The Redevelopment Agency's financial activities have been aggregated and merged (termed "blended") with those of the City in the accompanying financial statements. Specifically they are included the Redevelopment Agency Housing Special Revenue Fund, the Redevelopment Agency Capital Project Fund, the Redevelopment Agency Debt Service Fund, and the General Fixed Assets and Long-Term Obligations Account Groups.

Financial statements for the Agency may be obtained from the City of Millbrae at 621 Magnolia Avenue, Millbrae, California, 94030.

### B. *Basis of Presentation*

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement* No. 33, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures.*

These Statements require that the financial statements described below be presented.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Government-wide Statements:*** The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

***Fund Financial Statements:*** The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental, proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

### *C. Major Funds*

GASB Statement 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:





NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**GENERAL FUND** - The General Fund is established to account for the revenues and expenditures to carry out basic governmental activities of the City such as general government, public safety, public works, and parks and recreation. This fund accounts for all financial transactions not accounted for in the other funds.

**REDEVELOPMENT AGENCY DEBT SERVICE FUND** - To account for the accumulation of resources for payment of principal and interest on Millbrae Redevelopment Agency debt. The Agency receives revenues from **property tax increments**

**REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND** - To account for the Millbrae Redevelopment Agency's resources for administrative costs, capital projects and long-term debt obligation

**LIBRARY CAPITAL PROJECT FUND** - To account for project costs funded by proceeds of the 2001 General Obligation Bonds.

**US 101/MILLBRAE AVE CAPITAL PROJECT FUND** - To account for grant moneys received for the US 101/Millbrae Avenue interchange improvement project.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

**MUNICIPAL WATER SYSTEM FUND** - To account for activities related to providing water service to the Millbrae residents.

**MUNICIPAL WASTE WATER TREATMENT FACILITY FUND** - To account for services of the collection, treatment and administration of the City's sanitation system

**STORM DRAIN FUND** - To account for the resources and costs of maintenance and improvements of the City's storm drains

The City also reports the following fund types:

**Internal Service Funds.** The funds account for garage services, worker's compensation, general liability and unemployment insurance; all of which are provided to other departments on a cost-reimbursement basis.

### *D. Basis of Accounting*

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property, sales, transient occupancy and franchise taxes, special assessments, licenses for services and interest revenue. Fines, permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The City follows statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

### E. *Revenue Recognition For Water and Sewer Enterprise Funds*

Revenues are recognized based on cycle billings rendered to customers. Revenues for services provided but not billed at the end of a fiscal period are accrued.

### F. *Property Tax*

State Constitution Article 13 provides for a maximum general property tax rate statewide of $1.00 per $100 of assessed value. At the time of transfer of ownership, assessed value is calculated at 100% of market value as defined by the above-referenced Article 13; otherwise assessed value is calculated as the lesser of 100% of market value or 2% over the prior year assessed value. The State Legislature has determined the method of distribution of receipts from a $1.00 tax levy among the counties, cities, school districts and other districts. Counties, cities and school districts may levy such additional tax rate as is necessary to provide for voter approved debt.







The County of San Mateo assesses properties and bills for and collects property taxes on behalf of the City on the schedule that follows:

| | Secured | Unsecured |
|---|---|---|
| Valuation Dates | March 1 | March 1 |
| Lien/Levy Dates | July 1 | March 1 |
| Due Dates | 50% on November 1<br>50% on February 1 | August 31 |
| Delinquent as of | December 10<br>April 10 | August 31 |

The term "unsecured" refers to taxes on personal property not secured by liens on real property.

Property tax revenues are recognized in the fiscal year for which the taxes have been levied, provided they become available. Available means due, or past-due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period, usually within 60-days of year end.

The Redevelopment Agency has property tax pass-through agreements executed in 1991 with the County of San Mateo, San Mateo County Office of Education, San Mateo County Community College District, San Mateo Union High School District, and Millbrae Elementary School District, the taxing agencies in existence when the Plan Area was formed. Under these agreements, the Agency passes through to these agencies a portion of the property tax increments it would otherwise have received. Increments totaling $900,067 have been passed through to these agencies during fiscal 2002-2003.

### G. *Compensated Absences*

Compensated absences comprise unpaid vacation and the vested portion of sick leave which are accrued as earned. The City's liability for compensated absences is recorded in various Governmental funds or Proprietary funds as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as fund liabilities; the long term portion is recorded in the Statement of Net Assets.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The changes of the compensated absences were as follows:

| | Governmental Activities | Business-Type | Total |
|---|---|---|---|
| Beginning Balance | $1,878,009 | $167,618 | $2,045,627 |
| Additions | 165,942 | 39,988 | 205,930 |
| Payments | (88,568) | (34,987) | (123,555) |
| Ending Balance | $1,955,383 | $172,619 | $2,128,002 |
| Current Portion | $14,368 | $172,619 | $186,987 |

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

### H. New Fund and Closed Fund

During fiscal 2003, the City established the Millbrae Station Area Developer Fee Special Revenue Fund to account for the fees to be collected from the developers of the Millbrae Station Area development project. The City also closed the Gas Tax County Capital Projects Fund during the year.

## NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

### A. *Budgeting Procedures*

In even numbered years, the City Administrator submits to the City Council a proposed biennial operating budget for the ensuing two fiscal years. The operating budget includes proposed expenditures and the means of financing them and is subjected to public hearings where comments are obtained for consideration. Council adopts the budget through passage of a budget resolution at which time the proposed expenditures become appropriations to the various City departments. The City Council controls the budget at the department level. The budget is effective the following July 1 and may be amended by subsequent Council resolutions. The City Administrator is authorized to transfer appropriations between line items within any department. Inter-departmental transfers in excess of $20,000 must be approved by the City Council. Expenditures may not exceed appropriations at the departmental level. All appropriations lapse at year end. Supplemental appropriations were adopted by City Council and have been included in the budget versus actual statements.

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all funds, except for Capital Project Funds, which are budgeted on project length basis, and Enterprise Funds.





## NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING (Continued)

### B. *Encumbrances*

The City uses an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of moneys are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are reappropriated in the following year. Unexpended appropriations lapse at year end and must be reappropriated in the following year.

### C. *Excess of Expenditures over Appropriations*

During fiscal 2003, the following funds incurred expenditures in excess of budget.

| Fund/Department | Amount in Excess of Appropriations |
|---|---|
| Redevelopment Agency Debt Service | |
| Payments to property tax pass throughs | $18,349 |

### D. *General Fund Finances*

The General Fund is heavily reliant on sales taxes and transient occupancy taxes which amounted to $2,051,229 and $2,260,87, respectively, for fiscal 2002-2003 and represent 19% and 21%, respectively, of total General Fund revenues. These revenue sources have declined $2.5 million or 37% since fiscal 2001-2000 as a result of 9/11 impacts on local travel to and from the neighboring San Francisco Airport and the continuing economic downturn affecting Silicon Valley.

Because of falling General Fund revenues, the City instituted a variety of cost cutting measures over the past two fiscal years. However actual expenditures for fiscal 2002-2003 totaled $11,803,163 and exceeded revenues and net transfers by $474,155. General Fund balance had declined to $1,300,698 at June 30, 2003.

Management projects net deficits in fiscal 2003-2004 and 2004-2005 of $200,000 and $2.0 million, respectively. These are due to a variety of cost increases, the most significant of which are contribution increases to the City's CALPERS defined benefit retirement plans.

To eliminate the projected deficits, the City is considering revenue raising and cost cutting alternatives and attempting to balance the General Fund for these subsequent fiscal years. These alternative are being presented to the Council for consideration and implementation.

## NOTE 3 - CASH AND INVESTMENTS

The City invests all funds, except cash with fiscal agents, in investment pools. The goal is to invest at the maximum yield, consistent with safety and liquidity, while individual funds can process payments for expenditures at any time. The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

### A. *Categorization of Credit Risk of Securities Instruments*

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to maximize security, the City employs the trust department of a bank as the custodian of all City managed investments, regardless of their form.

The City categorizes its individual securities instruments in ascending order to reflect the relative risk of loss of these instruments. This risk is called Credit Risk, the lower the number, the lower the risk. The three levels of risk prescribed by generally accepted accounting principles are described below:

*Category 1* - Securities instruments in this category are in the City's name and are in the possession of the trust department of the bank employed by the City solely for this purpose. The City is the registered owner of securities held in book entry form by the bank's trust department.

*Category 2* - Securities instruments and book entry form securities in this category are in the bank's name as the City's agent, but are held by its trust department in the City's name.

*Category 3* - Investments in this category include only City-owned securities instruments or book entry form securities which were not in the City's name or not held by the bank's trust department.

*Pooled Investments* - Pooled investments are not categorized because of their pooled, rather than individual, nature.

Investments are carried at fair value and were categorized as follows at June 30, 2003:

| | Cash and Investments | | |
|---|---|---|---|
| | Available for Operations | With Fiscal Agents | Total Fair Value |
| **Category 2 investments:** | | | |
| U.S. Government securities | | $74,900 | $74,900 |
| **Non-categorized investments:** | | | |
| Local Agency Investment Fund | $1,508,530 | | 1,508,530 |
| San Mateo County Investment Fund | 20,984,429 | | 20,984,429 |
| Mutual funds (U.S. Government securities) | | 870,161 | 870,161 |
| **Petty Cash** | 1,500 | | 1,500 |
| **Cash in banks and on hand** | 224,678 | | 224,678 |
| Total cash and investments | $22,719,137 | $945,061 | $23,664,198 |





## NOTE 3 - CASH AND INVESTMENTS (Continued)

The City does not allocate investments by fund. Each proprietary fund's portion of Cash and Investments Available for Operations is in substance a demand deposit available to finance operations, and is considered a cash equivalent in preparing the statement of cash flows.

### B. *Cash Deposits*

Cash in banks is entirely insured (category 1) or collateralized by an agent of the institution holding the deposit in the City's name (category 2). California law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for all municipal deposits. This collateral remains with the institution, but is considered to be held in the City's name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The carrying amount of the City's cash deposits was $224,678 at June 30, 2003. Bank balances before reconciling items were $836,664, of which $129,192 was insured (category 1), $707,472 was collateralized (category 2) as discussed above.

### C. *Authorized Investments*

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City

- Local Agency Investment Fund
- San Mateo County Investment Fund
- U.S. Treasury Bills
- U.S. Treasury Notes
- U.S. Treasury Bonds
- U.S. Government Agency Issues
- Banker's Acceptances
- Collateralized Certificates of Deposit with Banks or Savings & Loans.
- Negotiable Certificate of Deposit
- Commercial Paper
- Government Securities Fund
- Repurchase Agreements

The City did not enter into any reverse repurchase agreements during the year ended June 30, 2003.

### D. *Local Agency Investment Fund*

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 City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

## NOTE 3 - CASH AND INVESTMENTS (Continued)

### E. *San Mateo County Investment Fund*

The City is a voluntary participant in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the treasurer of the County of San Mateo. The City reports its investment in SMCIF at the fair value amount provided by SMCIF. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. Included in SMCIF's investment portfolio are U.S. Treasury Notes, obligations issued by agencies of the U.S. Government, LAIF, corporate notes, commercial paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

## NOTE 4 - INTERFUND TRANSACTIONS

### A. *Current Interfund Balances*

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2003 interfund balances were as follows:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| Municipal Waste Water Treatment Facility | US 101/Millbrae Ave Capital Projects | $184,593 |
| | Non-Major Governmental | 305,677 |
| | | $490,270 |

### B. *Advances (Long-term interfund receivable/payables)*

The City has an agreement with the Agency under which the City has agreed to advance up to $3,000,000 to the Agency to be used to fund legal services, special reports, public hearings, and general administrative expenditures of the Agency. Advances bear annual interest at the higher of 6% or the rate interest is earned on the City's investment in the Local Agency Investment Fund. Advances from the General Fund, Municipal Water System Enterprise Fund and Park Trust Special Revenue Fund to the Redevelopment Agency amounted to $1,690,100 as of June 30, 2003. The agreement does not specify a due date for repayment of advances.

At June 30, 2003 outstanding balances from the above advances were as follows:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General Fund | Redevelopment Agency Debt Service Fund | $900,100 |
| | Storm Drain Enterprise Fund | 50,000 |
| Non-Major Governmental | Redevelopment Agency Debt Service Fund | 140,000 |
| Municipal Water System Enterprise Fund | Redevelopment Agency Debt Service Fund | 650,000 |
| | | $1,740,100 |





## NOTE 4 - INTERFUND TRANSACTIONS (Continued)

### C. *Transfers Between Funds*

With Council approval, resources may be transferred from one City fund to another. Transfers between funds during the fiscal year ended June 30, 2003 were as follows:

| Fund Receiving Transfers | Fund Making Transfers | Amount Transferred | |
|---|---|---|---|
| **General Fund** | Non-Major Governmental Funds | 649,556 | C |
| | Storm Drain Enterprise Fund | 100,000 | C |
| | Internal Service Funds | 679,992 | C |
| **Redevelopment Agency Debt Service Fund** | Non-Major Governmental Funds | 101,112 | B |
| **Redevelopment Agency Capital Projects Fund** | Redevelopment Agency Debt Service Fund | 2,160,000 | A |
| **Library Capital Projects Fund** | Non-Major Governmental Funds | 3,257 | D |
| **Non-Major Governmental Fund** | General Fund | 780,964 | A,B |
| | Non-Major Governmental Funds | 2,369 | E |
| **Municipal Water System Enterprise Fund** | Municipal Waste Water System Enterprise Fun | 103,821 | B |
| | Total Interfund Transfers | $4,581,071 | |

The reasons for these transfers are set forth below:

A To fund development activities.
B To fund debt service payments.
C To reimburse the General Fund for costs incurred for the benefit of funds making the transfer.
D To transfer residual cost of issuance funds
E To match 50% of the Bullet Proof Vests Grant expenditures

### D. *Internal Balances*

Internal balances are presented in the Entity-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

## NOTE 5 - LOANS RECEIVABLE

The Low and Moderate Income First Time Home Buyer Program was established to provide mortgages for up to 20 employees of School Districts located within the City. In order to qualify participants must be employees of these Districts and they must be home buyers in low and moderate income housing developments who do not qualify for a home purchase without down payment assistance. These loans bear no interest nor require payments for the first ten years of the loan or until the participant ceases employment with the District, which ever is earlier. After that date the loans bear a negotiated interest rate and require monthly interest payments. The loans are secured by second deeds of trust, require the principal balance to be paid at the end of the thirty year term and must be repaid in full if the property is sold to a unqualified buyer. At June 30, 2003, First Time Home Buyer Loans in the amount of $833,470 were outstanding.

## NOTE 6 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City defines capital assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of three years.

GASB Statement 34 allows the City up to four years to record all its infrastructure assets at June 30, 2003. Historical values for infrastructure assets will be recorded in fiscal year 2004.

GASB Statement 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

| | |
|---|---|
| Water and Waste Water Mains, Lines and Trunks | 15-20 years |
| Buildings and Improvements | 50-65 years |
| Furniture, Fixtures and Equipment | 5-20 years |
| Automobiles and Trucks | 2-10 years |
| Infrastructure | 65 years |

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.





## NOTE 6 - CAPITAL ASSETS (Continued)

Changes in fixed assets during the year ended June 30, 2003 comprise:

| | Balance at June 30, 2002 | Additions | Retirements | Transfers | Balance at June 30, 2003 |
|---|---|---|---|---|---|
| **Governmental activities** | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | $2,441,933 | | | ($1,061,537) | $1,380,396 |
| Total capital assets not being depreciated | 2,441,933 | | | (1,061,537) | 1,380,396 |
| Capital assets being depreciated: | | | | | |
| Land Improvements | | $12,445 | ($135,097) | 982,512 | 859,860 |
| Building and Improvements | 8,246,859 | 1,989,437 | (416,330) | 80,065 | 9,900,031 |
| Furniture, Fixtures and Equipment | 3,185,882 | 62,553 | (294,594) | (1,040) | 2,952,801 |
| Automobiles and Trucks | 2,838,562 | 21,304 | (507,658) | 228,716 | 2,580,924 |
| Infrastructure | 1,121,265 | 453,093 | | (228,716) | 1,345,642 |
| Total capital assets being depreciated | 15,392,568 | 2,538,832 | (1,353,679) | 1,061,537 | 17,639,258 |
| Less accumulated depreciation for: | | | | | |
| Land Improvements | 570,325 | 35,588 | (91,328) | | 514,585 |
| Building and Improvements | 1,761,177 | 169,298 | (263,365) | | 1,667,110 |
| Furniture, Fixtures and Equipment | 1,658,496 | 207,118 | (263,243) | | 1,602,371 |
| Automobiles and Trucks | 1,997,913 | 223,456 | (329,347) | | 1,892,022 |
| Infrastructure | 503,482 | 39,136 | | | 542,618 |
| Total accumulated depreciation | 6,491,393 | 674,596 | (947,283) | | 6,218,706 |
| Net capital assets being depreciated | 8,901,175 | 1,864,236 | (406,396) | 1,061,537 | 11,420,552 |
| Governmental activity capital assets, net | $11,343,108 | $1,864,236 | ($406,396) | | $12,800,948 |

## NOTE 6 - CAPITAL ASSETS (Continued)

| | Balance at June 30, 2002 | Additions | Retirements | Transfers | Balance at June 30, 2003 |
|---|---|---|---|---|---|
| **Business-type activities** | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | $382,108 | | | ($382,108) | |
| Total capital assets not being depreciated | 382,108 | | | (382,108) | |
| Capital assets, being depreciated: | | | | | |
| Land Improvements | | | | 382,108 | $382,108 |
| Building and Improvements | 4,904,441 | | ($21,600) | | 4,882,841 |
| Furniture, Fixtures and Equipment | 7,248,185 | $488,885 | (91,884) | | 7,645,186 |
| Infrastructure | 14,225,326 | 120,318 | | | 14,345,644 |
| Automobiles and Trucks | 50,057 | | | | 50,057 |
| Total capital assets being depreciated | 26,428,009 | 609,203 | (113,484) | 382,108 | 27,305,836 |
| Less accumulated depreciation for: | | | | | |
| Land Improvements | 160,122 | 19,405 | | | 179,527 |
| Building and Improvements | 2,284,835 | 94,505 | (10,584) | | 2,368,756 |
| Furniture, Fixtures and Equipment | 4,008,446 | 346,625 | (85,201) | | 4,269,870 |
| Automobiles and Trucks | 14,680 | 6,256 | | | 20,936 |
| Infrastructure | 7,826,363 | 189,180 | | | 8,015,543 |
| Total accumulated depreciation | 14,294,446 | 655,971 | (95,785) | | 14,854,632 |
| Net capital assets being depreciated | 12,133,563 | (46,768) | (17,699) | 382,108 | 12,451,204 |
| Business-type activity capital assets, net | $12,515,671 | ($46,768) | ($17,699) | | $12,451,204 |





## NOTE 6 - CAPITAL ASSETS (Continued)

***A. Capital Asset Contributions***

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. GASB Statement 34 requires that these contributions be accounted for as revenues at the time the capital assets are contributed.

***B. Depreciation Allocation***

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

| | |
|---|---|
| ***Governmental Activities*** | |
| General Government | $93,083 |
| Public Safety | 249,531 |
| Highways and Streets | 56,482 |
| Culture and Recreation | 66,040 |
| Community Development | 13,243 |
| Capital assets held by the City's Internal Service Funds | 196,217 |
| **Total Governmental Activities** | $674,596 |
| ***Business-Type Activities*** | |
| Municipal Water System | $255,187 |
| Municipal Wastewater Treatment Facility | 358,659 |
| Storm Drain | 42,125 |
| **Total Business-Type Activities** | $655,971 |

## NOTE 7 - LONG TERM DEBT

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

The General Long Term Obligations Account Group provides accounting control over the principal of the City's general long term debt. This debt will be repaid only out of governmental funds but is not accounted for in these funds because this debt does not require an appropriation or expenditure in this accounting period.

Proprietary Fund (Enterprise) long-term debt is accounted for in the proprietary funds which will repay the debt because these funds are accounted for on the full-accrual basis in a similar manner to commercial operations.

The City's debt issues and transactions are summarized below and discussed in detail thereafter.

## NOTE 7 - LONG TERM DEBT (Continued)

### *A. Current Year Transactions and Balances*

| *Governmental Activity Debt:* | Original Issue Amount | Balance June 30, 2002 | Additions | Retirements | Balance June 30, 2003 | Current Portion |
|---|---|---|---|---|---|---|
| **General Obligation Bonds** | | | | | | |
| Storm Water District #1, | | | | | | |
| 1.0%, due 6/1/2005 | $675,000 | $90,000 | | $30,000 | $60,000 | $30,000 |
| Public Library Project | | | | | | |
| 5.12%-8.5%, due 8/1/2036 | 10,600,000 | 10,600,000 | | | 10,600,000 | 20,000 |
| **1999 Certificates of Participation** | | | | | | |
| 4.5-5.875%, due 3/1/2024 | 4,105,000 | 3,955,000 | | 105,000 | 3,850,000 | 105,000 |
| **Natural Disaster Assistance Loan** | | | | | | |
| 5.39%, due 6/9/2011 | 2,161,121 | 2,294,997 | $124,059 | | 2,419,056 | |
| **Redevelopment Agency Tax Allocation Bonds** | | | | | | |
| 4.7-6.0%, due 9/1/2018 | 6,500,000 | 5,225,000 | | 95,000 | 5,130,000 | 115,000 |
| Total Governmental Activity Debt | | $22,164,997 | $124,059 | $230,000 | $22,059,056 | $270,000 |
| | | | | | | |
| *Business-Type Activity Debt:* | | | | | | |
| Enterprise Funds: | | | | | | |
| **1998 Lease Purchase Financing- Water** | | | | | | |
| Meter Replacement Project, 5.08%, repaid 11/15/2002 | $989,677 | $218,021 | | $218,021 | | |
| **1997 Bank Loan- Sanitary Sewer Project,** | | | | | | |
| 5.56%, due 9/1/2008 | 2,743,700 | 1,811,300 | | 218,700 | $1,592,600 | $230,900 |
| Loss on refunding, net of amortization | | (147,562) | | (23,930) | (123,632) | |
| Total Business-Type Activity Debt | | $1,881,759 | | $412,791 | $1,468,968 | $230,900 |

### *B. Storm Water District No. 1 General Obligation Bonds*

The City issued City of Millbrae Municipal Storm Water District No. 1 Bonds in the principal amount of $675,000 in 1965. These bonds were issued to pay for the acquisition, construction and completion of the storm water improvements. Semi-annual interest payments due December 1 and June 1 and annual principal payments due June 1 are repayable from property taxes levied for that purposes.

### *C. Public Library Project General Obligation Bonds*

On August 7, 2001, the City issued 2001 General Obligation Bonds in the amount of $10,600,000. The Bond proceeds will be used to renovate, and construct an expansion area of the Millbrae Public Library. Semi-annual interest payments are due each February 1 and August 1, and principal will be due on August 1 repayable from General Fund revenues until August 1, 2036. These bonds are repayable from a voter approved tax levied for that purpose.





## NOTE 7 - LONG TERM DEBT (Continued)

### *D. 1999 Certificates of Participation*

On December 21, 1999 the City issued Certificates of Participation (COPs) in the amount of $4,105,000. COPs proceeds were used for financing the expansion and renovation of the police department, construction of a community room, funding a reserve fund, and payment for costs of issuing the COPs.

Interest payments due on March 1 and September 1 of each year and principal due on March 1 are repayable from General Fund revenue.

### *E. Natural Disaster Assistance Loan Agreement*

On June 9, 2001, the City obtained a loan from the Governor's Office of Emergency Services. The loan was used to repair and restore public facilities as a result of a landslide. Interest on the loan is 5.39% compounded annually. Principal and interest payments are deferred for 3 years with annual interest payments due commencing June 9, 2004. During fiscal 2002-2003, $124,059 in accumulated unpaid interest was added to principal.

### *F. Redevelopment Agency Tax Allocation Bonds*

On August 20, 1993 the Redevelopment Agency issued 1993 Tax Allocation Bonds. The proceeds were used for general redevelopment purposes to benefit the Redevelopment project area including certain downtown street and landscape improvements, affordable housing programs, the funding of a reserve fund, and the payment of costs of issuing the Bonds.

Interest payments due on March 1 and September 1 of each year and principal due on September 1 are repayable from tax increment revenues allocated to the Redevelopment Agency and certain other sources.

### *G. 1998 Lease Purchase Financing*

On November 1, 1997 the City of Millbrae entered into a Master Lease with Option to Purchase Agreement to fund the replacement of water meters with electronic read meters and the purchase of related software. Annual principal and interest is due November 15 and is repayable from Municipal Water System and Municipal Waste Water Treatment Facility Enterprise Funds.

### *H. 1997 Bank Loan*

The City of Millbrae previously financed the acquisition and construction of certain sanitary sewer system improvements through a Certificate of Participation (1989 COP) issued on August 1, 1989 in the original principal amount of $4,025,000.

## NOTE 7 - LONG TERM DEBT (Continued)

On May 1, 1997 the City obtained a 1997 Bank Loan in the principal amount $2,743,700. Proceeds from the loan were used to purchase US government securities which were placed in an irrevocable trust to provide for all future principal and interest on the 1989 COPs. The 1989 COPs were retired on September 1, 1998.

Under the 1997 Bank Loan, interest is accrued at a rate of 5.56% per year, interest is due September 1 and March 1 each year and the principal is due September 1. The loan matures on September 1, 2008.

### I. *Debt Service Requirements*

Annual debt service requirements are shown below:

| Year ending June 30: | Governmental Activities Principal | Governmental Activities Interest | Business-Type Activities Principal | Business-Type Activities Interest |
|---|---|---|---|---|
| 2004 | $270,000 | $762,506 | $230,900 | $82,129 |
| 2005 | 345,000 | 891,923 | 243,700 | 68,935 |
| 2006 | 340,000 | 884,122 | 257,200 | 55,010 |
| 2007 | 365,000 | 875,433 | 271,600 | 40,310 |
| 2008 | 405,000 | 865,329 | 286,600 | 24,792 |
| 2009-2013 | 5,229,056 | 3,859,735 | 302,600 | 8,412 |
| 2014-2018 | 3,970,000 | 3,023,713 | | |
| 2019-2023 | 3,120,000 | 2,445,164 | | |
| 2024-2028 | 2,255,000 | 1,735,155 | | |
| 2029-2033 | 2,775,000 | 1,131,030 | | |
| 2034-2036 | 2,985,000 | 318,391 | | |
| Total | $22,059,056 | $16,792,499 | $1,592,600 | $279,588 |

### J. *Debt With No City Commitment*

On September 1, 1997 the City sponsored the issuance of the City of Millbrae Residential Facility Revenue Bonds, Series 1997A which were issued in the aggregate principal amount of $30,000,000 to assist a developer in financing the cost of site acquisition, demolition and construction of a 158 unit assisted living facility and parking garage. The Bonds are payable solely out of the revenues from operating the facility and the project is pledged as security for the Bonds. The City has no legal or moral liability with respect to the payment of this debt. The outstanding principal balance at June 30, 2003 was $30,000,000.

## NOTE 8 - SPECIAL ASSESSMENT DEBT

The Plaza Bay Reassessment District exists in the City to provide improvements to properties located in the District. These improvements included street and traffic, sanitary sewer and water system improvements, and for acquisition of necessary rights of way and easements. Properties are assessed for the cost of improvements and these assessments are payable over the term of the debt issued to finance the improvements. The total amount of the assessment is recorded as a receivable and deferred revenue at the time the related debt is issued, and reduced as assessments are collected. The City is obligated to be the purchaser of last resort to repay this debt in the event of default by the district. At June 30, 2003 the District was in compliance with the repayment and other requirements of the debt issue.





## NOTE 8 - SPECIAL ASSESSMENT DEBT (Continued)

On August 4, 1986 the District issued Refunding Improvement Bonds in the aggregate principal amount of $1,638,000. Interest on the Bonds, varying between 4.75% and 7.75%, is payable March 2 and September 2 of each year, and principal is payable each September 2 until 2004. During the year ended June 30, 2003, the District retired $140,000 of principal.

Annual debt service requirements are shown below:

| Year ending June 30: | Principal | Interest |
|---|---|---|
| 2004 | $150,000 | $17,438 |
| 2005 | 150,000 | 5,813 |
| Total | $300,000 | $23,251 |

## NOTE 9 – NET ASSETS AND FUND BALANCES

GASB Statement 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

### A. *Net Assets*

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

*Invested in Capital Assets, net of related debt* describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

*Unrestricted* describes the portion of Net Assets which is not restricted to use.

## NOTE 9 – NET ASSETS AND FUND BALANCES (Continued)

### *B. Fund Balance /Net Assets Restatements*

During the fiscal year ended June 30, 2003 the City reviewed the purpose and use of all its funds. The recategorizations and restatements below, all of which took effect as of July 1, 2002, resulted from this review:

| | Governmental | Enterprise | Internal Service |
|---|---|---|---|
| Ending Fund Balance/Retained Earnings/ Net Assets as of June 30, 2002 | $22,810,379 | $13,221,942 | $2,301,362 |
| Write off interfund advance to the Workers' Compensation Fund | | | (331,000) |
| Trust Funds recategorized as Special Revenue Funds | 225,619 | | |
| Recategorize Redevelopment Agency interfund advance | (1,690,100) | | |
| Elimination of contributed capital from Implementation of GASB 34 | | 866,937 | 476,426 |
| Restated Beginning Fund Balance/ Net Assets as of July 1, 2002 | $21,345,898 | $14,088,879 | $2,446,788 |

Fund balances and retained earnings consist of reserved and unreserved amounts. Reserved fund balances and retained earnings represent amounts that are legally restricted to a specific use or are not available for appropriation of expenditure. The remainder is unreserved.

Portions of unreserved fund balance may be designated by the City Council or management for tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned. Such plans or intent are subject to change, have not been legally authorized, and may not result in expenditures.

Grants and transfers restricted for use as proprietary fund type capital expenditures are reflected as contributed capital upon expenditure of funds for capital assets.

### *C. Reservations*

Reserves for **advances to other funds, prepaids, and loans receivable** are the portions of fund balance that are not available for appropriation.

Reserve for **encumbrances** represents the portion of fund balance set aside for open purchase orders.

Reserve for **debt service** is the portion of fund balance legally restricted for the payment of principal and interest on long term obligations.





## NOTE 9 – NET ASSETS AND FUND BALANCES (Continued)

Reserve for **capital outlay** is the portion of fund balance or retained earnings legally restricted for use on capital outlay projects.

### *D. Designations*

Designated for **accrued vacation, sick leave** is the portion of fund balance to be used to pay for the estimated compensated absences.

Designated for **prior year operating budget carryovers** is the portion of fund balance to be used for 2002-2003 spent appropriations which have been approved by Council.

Designated for **Crestview Slide unreimbursed expenditures** is the portion of fund balance to be used to pay for the estimated costs which are projected to exceed State and insurance funds to repair water and sewer lines in the Crestview Drive area.

Designated for **capital outlay** is the portion of fund balance to be used for budgeted future capital outlay projects.

### *E. Fund Balance Deficits*

The Other Special Revenue Fund, Capital Improvements Capital Projects Fund, Street Pavement Project Grants Capital Projects Fund, U.S. 101/Millbrae Avenue Capital Project Funds, and Workers Compensation Internal Service Fund had deficit fund balances of $133,543, $9,540, $23,296, $290,756 and $2,965, respectively, at June 30, 2003. Future revenues are expected to eliminate these deficits.

## NOTE 10 - RETIREMENT BENEFITS

### *A. CALPERS Safety and Miscellaneous Employees Plans*

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS) an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the City must contribute these amounts. The Plans' provisions and benefits in effect at June 30, 2003, are summarized as follows:

## NOTE 10 - RETIREMENT BENEFITS (Continued)

| | Safety | Miscellaneous |
|---|---|---|
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 | 50 |
| Monthly benefits, as a % of annual salary | 2.0%-2.7% | 1.426%-2.418% |
| Required employee contribution rates | 9% | 7% |
| Required employer contribution rates | 8.880% | 1.168% |

All qualified permanent and probationary employees are eligible to participate in PERS. A credited service year is one year of full time employment. The City's labor contracts require it to pay the employees contributions as well as its own. These benefit provisions and all other requirements are established by state statute and City ordinance. Contributions necessary to fund PERS on an actuarial basis are determined by PERS and its Board of Administration.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this Method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 8.25% is assumed, including inflation at 3.5%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over 20 years. Investment gains and losses are accumulated as they are realized and 10 percent of the net balance is amortized annually.

Actuarially required contributions for fiscal years 2003, 2002 and 2001 were, $1,346,316, $1,176,078, and $1,095,531, respectively. The City made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation.





## NOTE 10 - RETIREMENT BENEFITS (Continued)

The Plans' actuarial value (which differs from market value) and funding progress over the most recent three years available is set forth below at their actuarial valuation date of June 30:

*Safety Plan:*

| Valuation Date | Actuarial Entry Age Accrued Liability | Actuarial Value of Assets | Unfunded (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) Liability as % of Payroll |
|---|---|---|---|---|---|---|
| 1999 | $29,079,904 | $31,050,800 | ($1,970,896) | 106.8% | $3,553,927 | (55.457%) |
| 2000 | 32,572,359 | 34,278,643 | (1,706,284) | 105.2% | 3,761,302 | (45.364%) |
| 2001 | 35,585,118 | 35,296,226 | 288,892 | 99.2% | 4,260,148 | 6.781% |

*Miscellaneous Plan:*

| Valuation Date | Actuarial Entry Age Accrued Liability | Actuarial Value of Assets | Unfunded (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) Liability as % of Payroll |
|---|---|---|---|---|---|---|
| 1999 | $17,188,927 | $21,116,727 | ($3,927,800) | 122.9% | $4,331,760 | (90.674%) |
| 2000 | 19,101,514 | 23,159,782 | (4,058,268) | 121.2% | 5,075,616 | (79.956%) |
| 2001 | 20,945,166 | 23,826,947 | (2,881,781) | 113.8% | 5,554,057 | (51.886%) |

PERS has reported that the value of the net assets in the Plan held for pension benefits changed as follows during the year ended June 30, 2001, the most recent available:

| | Safety | Miscellaneous |
|---|---|---|
| Beginning Balance, June 30, 2000 | $34,278,643 | $23,159,782 |
| Contributions Received | 702,171 | 420,973 |
| Benefits and Refunds Paid | (1,549,578) | (701,485) |
| Transfers and Miscellaneous Adjustments Paid During Fiscal 2000-2001 | 29,838 | (49,625) |
| Expected Investment Earnings Credited | 2,794,932 | 1,897,333 |
| Expected Actuarial Value of Assets, June 30, 2001 | $36,256,006 | $24,726,978 |
| Market Value of Assets, June 30, 2001 | $33,376,666 | $22,198,575 |
| Actuarial Value of Assets, June 30, 2001 | $35,296,226 | $23,826,947 |

Audited annual financial statements and ten year statistical comparison are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

## NOTE 10 - RETIREMENT BENEFITS (Continued)

### B. *Postemployment Heath Care Benefits*

The City pays a portion of insurance premiums to provide health care benefits for retired employees as required by bargaining unit agreements. City employees who retire after reaching age 50 with five years or more of service are eligible for benefits. The cost of retiree health care benefits is recognized as an expenditure as health care premiums are paid. During the year ended June 30, 2003 the City paid $158,447 on behalf of 45 retirees who were participating in the plan.

### C. *Deferred Compensation Plan*

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

## NOTE 11 - RISK MANAGEMENT

### A. *Insurance Coverage*

The City participates in Association of Bay Area Governments (ABAG) Plan Corporation, a non profit benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG Plan provides $10,000,000 of general liability coverage per occurrence and is responsible for paying claims in excess of the City's $100,000 deductible. For the year ended June 30, 2003, the City paid ABAG Plan $261,580 in premiums and did not receive a refund of premiums paid in prior years. ABAG Plan has not determined the value of the City's interest in its net assets. Financial statements may be obtained from ABAG Services, P.O. Box 2050, Oakland, CA 94694-2050.

The City has also purchased excess coverage insurance for worker's compensation claims from an independent commercial insurance company with $500,000 deductible. For the past three fiscal years, the amount of settlements did not exceed insurance coverage.

### B. *Liability for Uninsured Claims*

The City provides for the uninsured portion of claims and judgments in the Workers' Compensation and General Liability Internal Service Funds. Claims and judgments, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed above, the City has coverage for such claims, but it has retained the risk for the deductible, or uninsured portion of these claims.





## NOTE 11 - RISK MANAGEMENT (Continued)

The City's liability for uninsured claims is limited to workers' compensation and general liability claims, as discussed above, and was estimated by management based on prior years claims experience as follows:

| | Fiscal 2002-2003 | | | Fiscal |
|---|---|---|---|---|
| | Workers' Compensation Claims | General Liability Claims | Total | 2001-2002 Totals |
| Balance, beginning of year | $309,998 | $156,678 | $466,676 | $1,066,458 |
| Net change in: | | | | |
| Liability for current fiscal year claims | 69,913 | 76,420 | 146,333 | 326,382 |
| Liability for prior fiscal year claims and claims incurred but not reported (IBNR) | 290,044 | 61,596 | 351,640 | 46,810 |
| Claims paid | (359,957) | (203,938) | (563,895) | (972,974) |
| Balance, end of year | $309,998 | $90,756 | $400,754 | $466,676 |

## NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS

The City participates in the joint ventures discussed in Note 12 and below through formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each joint venture is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective joint venture, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these joint ventures are not the City's responsibility and the City does not have an equity interest in the assets of each joint venture except upon dissolution of the joint venture.

### A. *City/County Association of Governments of San Mateo County (C/CAG)*

City/County Association of Governments of San Mateo County was formed in 1990 between the County and various cities in San Mateo County to prepare, adopt, monitor and enforce state mandated plans for the management of traffic congestion, integrated solid waste, airport land use and hazardous waste. The City's contribution to C/CAG was $53,432 for the year ended June 30, 2003. Financial statements may be obtained by mailing a request to the City of San Carlos, 666 Elm Street, San Carlos, CA 94070.

### B. *Transportation System Management*

Transportation Systems Management (TSM) was established in 1991 by the Cities of South San Francisco, Brisbane, Colma, Daly City, Half Moon Bay, Millbrae, Pacifica and San Bruno for the purpose of mitigating traffic congestion. Financial statements for TSM may be obtained from Sam Trans, 401 Marina Boulevard, South San Francisco, CA 94080.

## NOTE 13 - CONTINGENT LIABILITIES AND COMMITMENTS

### A. *Contingent Liabilities*

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

The City participates in Federal and State grant programs. These programs have been audited by the City's independent auditors in accordance with the provisions of the Federal Single Audit Act of 1984 including 1996 amendments and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

### B. *Commitment*

As of June 30, 2003 the City has an outstanding construction contract of $7,934,446 for construction of the Millbrae Library. This project will be primarily funded by the proceeds of the 2001 General Obligation Bonds.



## MAJOR GOVERNMENTAL FUNDS, OTHER THAN GENERAL FUND AND SPECIAL REVENUE FUNDS

**General Fund** - The General Fund is established to account for the revenues and expenditures to carry out basic governmental activities of the City such as general government, public safety, public works, and parks and recreation. This fund accounts for all financial transactions not accounted for in the other funds.

**Redevelopment Agency Debt Service Fund** - To account for the accumulation of resources for payment of principal and interest on Millbrae Redevelopment Agency debt. The Agency receives revenues from property tax increments.

City of Monterey Park, California

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year ended June 30, 2003

Prepared by the Management Services Department

David Dong
Director of Management Services

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Moreland & Associates, Inc.
CERTIFIED PUBLIC ACCOUNTANTS

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September 19, 2003

The Honorable City Council of
the City of Monterey Park, California

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Monterey Park, California, as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Monterey Park's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Monterey Park, California, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



As discussed in Note 1 to the financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of Governmental Accounting Standards Board Statements Numbers 34 and 38 for the year ended June 30, 2003. This results in a change in the City's method of accounting and a change in the format and content of the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2003 on our consideration of the City of Monterey Park internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and other required supplementary information identified in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Moreland + Associates, Inc.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Introduction

The following discussion and analysis provides an overview of the financial activities for the City of Monterey Park for the fiscal year ended June 30, 2003. Please read this overview in conjunction with the transmittal letter, financial statements, and notes to the financial statements.

Government Accounting Standards Board Statement (GASB) No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" establishes new reporting requirements for state and local governments throughout the United States. The new requirements not only restructure the format of information traditionally presented in the annual report but also create new information that must be presented. The purpose of the new reporting model is to make annual reports more comprehensive and easier to understand.

The fiscal year ended 2002-03 is the first year for the City to transition into the new reporting format, therefore comparative data with the previous fiscal year is presented and discussed only when the information is available.

### Government-wide Financial Statements

The government-wide financial statements are designed to provide an overview of the City's financial activities in a manner similar to a private-sector company. Government-wide financial statements consist of the *statement of net assets* and the *statement of activities,* which are prepared using the economic resources measurement focus and the accrual basis of accounting. These statements provide both short-term and long-term information about the City's financial position, which is helpful in assessing the City's economic condition at the end of the fiscal year.

The *statement of net assets* presents all of the City's financial resources along with its capital assets and long-term obligations. The difference between the assets and the liabilities is reported as the net assets.

The *statement of activities* reports the gross and net costs of various activities carried out by the City and how the City's net assets changed during the fiscal year. This statement summarizes the cost of providing services by the City and includes all current year revenues and expenditures.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (i.e. governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (i.e. business-type activities). The governmental activities of the City include general government, public safety, community development, culture and recreation, highways and streets, health, debt service, and depreciation. The business-type activities reflect the City's water utility operations.



The government-wide financial statements include not only the City but also those legally separate entities for which the City is financially accountable. These entities include the Monterey Park Community Redevelopment Agency, the Monterey Park Housing Authority, and the Monterey Park Public Financing Authority. Financial information for these component units is reported as an integral part of the City.

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

<u>Governmental Funds</u>

Governmental funds are used to account for essentially the same governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Governmental funds are accounted for using the modified accrual basis of accounting, which provides a detailed view of the City's current financial resources and the City's ability to meet its current expenditure needs. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 22 individual governmental funds. Information is presented separately in the governmental fund *balance sheet* and in the *governmental fund statement of revenues, expenditures, and changes in fund balances* for General Fund, Grants Special Revenue Fund, Debt Service Fund, and Capital Projects Fund, which are reported as major funds. Information for the other 18 governmental funds are combined into a single column under Other Governmental Funds. Data for the non-major governmental funds is provided in the combining statements in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

<u>Proprietary Funds</u>

Proprietary funds use the accrual basis of accounting, which is the same method used by private businesses. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

The City maintains two different types of proprietary funds: enterprise fund and internal service fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water utility operations. Internal service fund is an accounting device used to accumulate and allocate costs internally among the City's various functions.

The City's uses internal service funds to account for its vehicle operation, workers compensation insurance, general liability insurance, separation benefits, and technology development. Because the internal service operations benefit both governmental and business-type functions, they have been proportionally allocated and included within the governmental and business-like activities in the government-wide financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in this report.

Fiduciary Funds

Fiduciary funds are used to account for activities when the City acts as a trust or fiduciary to hold resources for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's programs.

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. This section includes the City's General Fund and Grants Special Revenue Fund budget to actual comparison and funding in the City's obligation to provide pension benefits to employees.

**Other information**

Other supplementary information includes combining statements for governmental funds, internal service funds, and agency funds.

**Financial Highlights**

- The City's assets exceeded liabilities by $44.0 million.
- The City's total net assets increased by $3.3 million compared to last year. The net assets of governmental activities were up $2.2 million and the net assets of business-type activities were up $1.1 million.
- The general fund reported an unreserved and undesignated fund balance of $4.0 million, which meets the requirement of the City's Management and Budget Policies.
- The City's total debt increased by $12 million compared to last year due to the issuance of tax allocation refunding bonds and the participation in the Department of Housing and Urban Development Section 108 loan program.



**Government-wide Financial Analysis**

Net assets serves as a useful indicator of a government's financial position over time. As of June 30, 2003, the City's combined net assets (governmental and business-type activities) totaled $44.0 million, compared to $40.8 million last year. Net assets consist of three categories: invested in capital assets, restricted, and unrestricted.

The largest portion of the City's net assets, approximately $41.7 million, which reflects the City's investment in capital assets such as land, buildings, equipment, and infrastructure, net of accumulated depreciation and related debt for acquiring the capital assets. The City uses the capital assets to provide services to citizens; consequently, these assets are not available to fund the day-to-day activities. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, because the capital assets themselves cannot be used to pay these liabilities.

**Net Assets**
**Fiscal Year Ended June 30, 2003**
**(In thousands)**

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| Assets: | | | |
| Current | $ 56,622 | $ 3,593 | $ 60,215 |
| Non Current | | | |
| Capital Assets | 30,796 | 16,457 | 47,253 |
| Other Assets | 12,922 | | 12,922 |
| Total Assets: | $100,340 | $ 20,050 | $ 120,390 |
| Liabilities: | | | |
| Current | $ 5,460 | $ 2,452 | $ 7,912 |
| Long-term | 65,403 | 3,031 | 68,434 |
| Total liabilities: | $ 70,863 | $ 5,483 | $ 76,346 |
| Net Assets: | | | |
| Invested in Capital, Net of Related Debt | $28,474 | $13,267 | $41,741 |
| Restricted | 14,174 | 1,300 | 15,474 |
| Unrestricted | <13,171> | 0 | <13,171> |
| Total Net Assets | $ 29,477 | $ 14,567 | $ 44,044 |

As of June 30, 2003, the City's restricted net assets totaled $15.5 million. These are assets subject to external restrictions, constitutional provisions, or enabling legislation, which limit how these assets may be used.

Unrestricted net assets are assets available for use by the City for any legal purpose. As of June 30, 2003, the amount of the City's total unrestricted net assets was in a deficit balance of $13.2 million. The unrestricted net assets include significant long-term liabilities such as claims and judgments payable, compensated absences, bonds, lease obligations, and loans. Similar to other governmental entities, the City does not fund these long-term liabilities as they occur but instead will raise revenues and allocate resources during the annual budget process for the payments of these obligations as they come due. Under the current accounting standards, all of the City's liabilities must be presented in the balance sheet; however, the City's ability in raising revenues in the future does not qualify as an asset. This situation has resulted in a deficit amount in the unrestricted net assets. To interpret unrestricted net assets with regard to the City's economic health, it would be beneficial for the readers to focus on trends in that amount over time.

**Changes in Net Assets**
**Fiscal Year End June 30, 2003**
**(In thousands)**

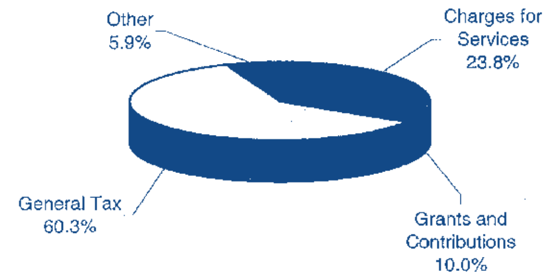
| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for Services | $ 11,911 | $ 6,718 | $ 18,629 |
| Grants & Contributions | 5,052 | 856 | 5,908 |
| General Revenues: | | | |
| Taxes | 30,223 | | 30,223 |
| Other | 2,945 | 12 | 2,957 |
| Total Revenues | 50,131 | 7,586 | 57,717 |
| Expenses: | | | |
| General Government | 3,766 | | 3,766 |
| Public Safety | 19,275 | | 19,275 |
| Comm. Development | 6,495 | | 6,495 |
| Culture and Recreation | 5,380 | | 5,380 |
| Highway/Streets | 5,596 | | 5,596 |
| Health | 4,588 | | 4,588 |
| Debt Service | 3,041 | | 3,041 |
| Water | | 6,297 | 6,297 |
| Total Expenses | 48,141 | 6,297 | 54,438 |
| Increase in Net Assets Before Transfers | 1,990 | 1,289 | 3,280 |
| Transfer In (Out) | 235 | (235) | 0 |
| Increase in Net Assets | 2,225 | 1,054 | 3,279 |
| Net Assets – 7/1/02 | 27,252 | 13,513 | 40,765 |
| Net Assets – 6/30/03 | $ 29,477 | $ 14,567 | $ 44,044 |



Governmental Activities Financial Analysis

Governmental activities increased the City's net assets by $2.2 million, which primarily resulted from the higher receipts this year in property tax, sales tax, and motor vehicle in-lieu tax. The following charts show the categories of the City's governmental revenues.

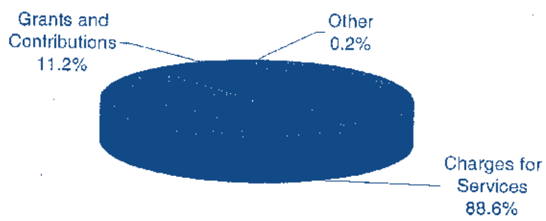
**Revenues - Governmental Activities**
**Fiscal Year Ended June 30, 2003**




Business-type Activities Financial Analysis

The business-type activities increased the City's net assets by $1.1 million. This increase was a result of higher water sale revenues. Also the City received a grant from the San Gabriel Basin Water Quality Authority and funds from the responsible parties for water clean-up programs. The following charts show the categories of the City's business-type revenues.

## Revenues - Business-Type Activities
## Fiscal Year Ended June 30, 2003




Governmental Funds Financial Analysis

Governmental Funds

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows and outflows during the fiscal year and balances of spendable resources at the end of the fiscal year. Such information is useful in assessing the City's financing requirements to meet the current needs. Unreserved fund balance may serve as a useful measure of the City's net resources available for appropriation.

As of June 30, 2003, the City's governmental funds reported a combined ending fund balance of $56.5 million, an increase of $12.4 million compared to the prior year. Of the total fund balance, $14.2 million has been dedicated for various commitments and therefore is not available for new spending or appropriation. The remaining $42.3 million of the fund balance is unreserved. However, $38.3 million of the unreserved fund balance has imposed designations to limit the use. The remaining $4.0 million is unreserved and undesignated fund balance that can be used for any legal purpose.

The General Fund is the main operating fund of the City, which finances the majority of the police, fire, recreation, parks maintenance, public works, library, community development, and general administrative services.

As of June 30, 2003, the fund balance of the General Fund, including reserved and unreserved fund balance, increased by $835,000 over the previous fiscal year. Property tax, sales tax, and the vehicle license tax were up slightly. However, due to the interest rate cuts by the Federal Reserve Board, the investment income was down for the year. The overall General Fund expenditures for the year were up 3% compared to last year. The increase was due primarily to the employee pay adjustments and the inflationary increase for goods and services.



As of June 30, 2003, unreserved and undesignated fund balance of the General Fund was $4.0 million, which meets the reserve requirement (10% of the General Fund revenue) per the City's Management and Budget Policies.

Grants Fund reports the activities of various grants that the City received from the Federal, State, and County agencies. Major grants include the Federal Transportation Grant, Community Development Block Grant, State Proposition 14 Library Grant, COPS Grant and Local Law Enforcement Block Grant, and the Section 108 Loan fund.

Debt Service Fund reflects the activities of the City's Redevelopment Agency tax allocation bonds. The fund balance in the Debt Service Fund consists the money held by the fiscal agents.

Capital Projects Fund accounts for the commercial and residential development activities of the City's Redevelopment Agency. Total fund balance of the capital project fund increased $10.0 million this fiscal year due to the infusion of the proceeds from the refunding bonds and the reimbursement from the Section 108 loan proceeds.
Other Governmental Fund consists of non-major special revenue funds. As of June 30, 2003, the fund balance of the other governmental fund totaled $13.5 million, approximately the same as last year. The fund balance has been designated for specific purpose by law or City policies.

Proprietary Funds

The City's proprietary fund reflects primarily its water utility operations. Please refer to the earlier discussion on the business-type financial analysis concerning the finances of the proprietary funds.

**General Fund Budgetary Highlights**

The originally adopted General Fund budget for this fiscal year was $24.8 million and the final amended budget was $24.9 million. Difference between the original budget and the final amended budget is relatively minor. The budget amendments are summarized as follows:

- $113,119 decrease in general government due to the re-appropriation of salary set-aside pending labor negotiations
- $158,344 increase in public safety due to the appropriation of salaries upon the completion of labor negotiations
- $70,457 increase in capital outlay for library expansion, emergency sewer clean-up and repairs, and the citywide web-site development
- $11,954 increase in community development due to the reclassification of the building inspector positions.

Funding of the net increase in appropriation was drawn from the existing general fund balance.

**Capital Asset Administration**

The City's capital assets, net of accumulated depreciation, for its governmental and business type activities as of June 30, 2003, totaled $47.3 million. The capital assets include land, buildings, improvements, machinery and equipment, parks, roads, traffic lights, and traffic signals.

**Capital Assets Net of Depreciation**
**Fiscal Year Ended June 30, 2003**
**(In thousands)**

| | Government Activities | Business-type Activities | Total |
|---|---|---|---|
| Land | $ 2,567 | $ 500 | $ 3,067 |
| Buildings | 8,862 | 237 | 9,099 |
| Improvements | 6,433 | 12,890 | 19,323 |
| Construction in Progress | 1,214 | 2,445 | 3,659 |
| Equipment | 4,153 | 385 | 4,538 |
| Infrastructure | 7,567 | | 7,567 |
| | $ 30,796 | $ 16,457 | $ 47,253 |

Major capital asset additions during the fiscal year include the following:

- Langley Senior Citizen Center expansion
- Land acquisition for library expansion
- La Loma and Highland reservoirs, treatment facilities, and various water improvements
- Final phase of Garvey Avenue improvement in the downtown area
- Various equipment and vehicles acquisition

**Debt Administration**

As of June 30, 2003, the City had no general bonded debt outstanding. The City's debt totaled $70.0 million, an increase of $12.0 million during the course of the fiscal year. The key factors of this increase included the issuance of $24.2 million tax allocation refunding bonds to refund the 1992 bonds (outstanding amount $19.2 million) and a $6.5 million Section 108 Loan from the U.S. Department of Housing and Urban Development.

**Outstanding Debt**
**Fiscal Year ended June 30, 2003**
**(In thousands)**

| | Government Activities | Business-type Activities | Total |
|---|---|---|---|
| Capital Leases | $ 2,322 | $ 3,189 | $ 5,511 |
| Tax Allocation Bonds | 34,910 | | 34,910 |
| Compensated Absences | 4,397 | 222 | 4,619 |
| Tax Increment Deferred Loans | 14,017 | | 14,017 |
| Section 108 Loan | 6,500 | | 6,500 |
| Claims and Judgments | 4,448 | | 4,448 |
| | $ 66,594 | $3,411 | $ 70,005 |



State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its total assessed valuation. The current debt limitation for the City is $560 million. Additional information on the City's long-term debt is discussed in the notes to the financial statements contained in this report.

**Economic Factors and Next Year's Budgets and Rates**

- The retail sale growth in the City averages 3.3%, which is above the California statewide average.
- The assessed valuation growth of the City is 6.0%, which is slightly below the growth rate of the Los Angeles County.
- This year California faced a $38 billion budget deficit and the adopted State Budget includes taking of local revenues. The City's estimated loss to the State is $740,000 from its general fund and $310,000 from its Community Redevelopment Agency.
- The City has implemented reductions in expenditures primarily in the area of general administrative support.
- The City has raised fees for building permits, plan checking, business license processing, fire permits, fire inspection, police services, parking fines, and community development services to ensure full cost recovery.
- The City will be adjusting its water and refuse service rates according to the changes in the Consumer Price Index to cover the increase in costs.

Due to the potential budget impact from the California State's budget problems, as part of the 2003-04 budget preparation process, the City Council authorized the formation of a Community Budget Taskforce to assist the City in prioritizing its budget balancing priorities. At the conclusion of the budget preparation, the City Council adopted a status quo budget as well as certain recommendations by the Taskforce to increase revenues and reduce expenditures. As a result, the City's 2003-04 budget is balanced and all essential services will be maintained.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all interested persons and organizations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Management Services Department, City of Monterey Park, 320 West Newmark Avenue, Monterey Park, CA 91754.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MONTEREY PARK
Statement of Net Assets
June 30, 2003

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| Assets | | | |
| Cash and investments | $ 49,581,258 | $ 2,509,724 | $ 52,090,982 |
| Cash and investments held by fiscal agents | 2,486,449 | | 2,486,449 |
| Accounts receivable, net | 4,711,065 | 892,214 | 5,603,279 |
| Internal balances | (190,853) | 190,853 | |
| Notes receivable, net | 1,658,467 | | 1,658,467 |
| Inventory | 34,578 | | 34,578 |
| Deferred charges | 1,080,128 | | 1,080,128 |
| Land held for resale | 10,183,415 | | 10,183,415 |
| Capital assets (net of accumulated depreciation) | 30,795,760 | 16,457,199 | 47,252,959 |
| Total assets | 100,340,267 | 20,049,990 | 120,390,257 |
| Liabilities | | | |
| Accounts payable | 1,748,903 | 1,713,427 | 3,462,330 |
| Accrued payroll | 734,933 | 44,856 | 779,789 |
| Interest payable | 658,893 | | 658,893 |
| Current claims and judgments payable | 1,779,172 | | 1,779,172 |
| Current capital lease obligations | 562,822 | 253,315 | 816,137 |
| Deposits and advances | 346,523 | 312,693 | 659,216 |
| Due to other governmental agencies | 779,910 | | 779,910 |
| Current bonds payable | 805,000 | | 805,000 |
| Current loan payable | 170,000 | | 170,000 |
| Long-term claims and judgments payable | 2,668,756 | | 2,668,756 |
| Long-term capital lease obligations | 1,759,115 | 2,936,355 | 4,695,470 |
| Bonds payable | 34,105,000 | | 34,105,000 |
| Compensated absences payable | 4,397,559 | 221,675 | 4,619,234 |
| Tax increment deferred loans | 14,016,742 | | 14,016,742 |
| Section 108 loan payable | 6,330,000 | | 6,330,000 |
| Total liabilities | 70,863,328 | 5,482,321 | 76,345,649 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 28,473,823 | 13,267,529 | 41,741,352 |
| Restricted | 14,174,449 | 1,300,140 | 15,474,589 |
| Unrestricted | (13,171,333) | | (13,171,333) |
| Total net assets | $ 29,476,939 | $ 14,567,669 | $ 44,044,608 |

See Accompany Notes to Financial Statement.

CITY OF MONTEREY PARK
Statement of Activities
For the Year Ended June 30, 2003

| | | Program Revenues | | | Net(Expense) Revenue and Changes in Net Assets | | |
|---|---|---|---|---|---|---|---|
| | | | | | Primary Government | | |
| Functions/Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | $ 3,766,150 | $ 1,331,238 | | | $ (2,434,912) | | $ (2,434,912) |
| Public safety | 19,275,515 | 2,564,364 | $ 287,853 | $ 25,370 | (16,397,928) | | (16,397,928) |
| Community development | 6,494,687 | 957,673 | 1,076,562 | | (4,460,452) | | (4,460,452) |
| Culture and recreation | 5,380,342 | 937,278 | 252,494 | 1,637,355 | (2,553,215) | | (2,553,215) |
| Highway and streets | 5,595,749 | 1,186,860 | 52,844 | 1,419,156 | (2,936,889) | | (2,936,889) |
| Health | 4,587,644 | 4,933,367 | | | 345,723 | | 345,723 |
| Interest and fiscal charges | 3,040,713 | | 299,729 | | (2,740,984) | | (2,740,984) |
| Total governmental activities | 48,140,800 | 11,910,780 | 1,969,482 | 3,081,881 | (31,178,657) | | (31,178,657) |
| Business-type activities: | | | | | | | |
| Water | 6,296,717 | 6,718,386 | | 855,628 | | $ 1,277,297 | 1,277,297 |
| Total primary government | $ 54,437,517 | $ 18,629,166 | $ 1,969,482 | $ 3,937,509 | (31,178,657) | 1,277,297 | (29,901,360) |
| General Revenues: | | | | | | | |
| Taxes | | | | | | | |
| Property | | | | | 13,296,203 | | 13,296,203 |
| Sales | | | | | 4,504,133 | | 4,504,133 |
| Vehicle in-lieu | | | | | 3,681,334 | | 3,681,334 |
| Utility users | | | | | 3,154,439 | | 3,154,439 |
| Other | | | | | 5,587,364 | | 5,587,364 |
| Business licenses | | | | | 909,816 | | 909,816 |
| Revenues from use of money and property | | | | | 1,414,928 | | 1,414,928 |
| Other | | | | | 617,980 | 11,779 | 629,759 |
| Gain/(loss) on sale of property | | | | | 2,798 | | 2,798 |
| Transfers | | | | | 234,987 | (234,987) | |
| Total general revenues and transfers | | | | | 33,403,982 | (223,208) | 33,180,774 |
| Changes in net assets | | | | | 2,225,325 | 1,054,089 | 3,279,414 |
| Net assets-beginning, as restated | | | | | 27,251,614 | 13,513,580 | 40,765,194 |
| Net assets-ending | | | | | $ 29,476,939 | $ 14,567,669 | $ 44,044,608 |

See Accompanying Notes to Financial Statements.

# FUND FINANCIAL STATEMENTS

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CITY OF MONTEREY PARK
Balance Sheet - Governmental Funds
June 30, 2003
(with comparative total for Year Ended June 30, 2002)

| | General | Special Revenue Grants | Debt Service | Capital Projects | Other Nonmajor Governmental Funds | Total Governmental Funds 2003 | Total Governmental Funds 2002 |
|---|---|---|---|---|---|---|---|
| Assets and Other Debits | | | | | | | |
| Cash and investments | $ 8,149,081 | $ 3,179,573 | | $ 16,835,114 | $ 14,077,641 | $ 42,241,409 | $ 30,070,526 |
| Cash and investments held by fiscal agents | | | $ 2,486,449 | | | 2,486,449 | 3,171,767 |
| Accounts receivable | 1,629,255 | 1,744,161 | 129,559 | 72,729 | 988,527 | 4,564,231 | 4,414,659 |
| Due from other funds | 1,763,121 | | | | | 1,763,121 | 1,749,836 |
| Notes receivable | 341,744 | 2,262,268 | | 1,714,774 | | 4,318,786 | 4,552,861 |
| Land held for resale | | | | 10,183,415 | | 10,183,415 | 9,356,018 |
| Advances to other funds | 375,000 | | | | | 375,000 | 375,000 |
| Total Assets and Other Debits | $ 12,258,201 | $ 7,186,002 | $ 2,616,008 | $ 28,806,032 | $ 15,066,168 | $ 65,932,411 | $ 53,690,667 |
| Liabilities and Fund Equity | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | $ 581,906 | $ 167,258 | $ 82,590 | $ 103,408 | $ 661,821 | $ 1,596,983 | $ 1,789,785 |
| Accrued payroll | 576,300 | 9,677 | | 14,509 | 117,663 | 718,149 | 543,606 |
| Deposits and advances | 345,780 | 743 | | | | 346,523 | 256,515 |
| Due to other funds | | 1,575,417 | | | 187,704 | 1,763,121 | 1,749,836 |
| Due to other governmental agencies | | 779,910 | | | | 779,910 | 799,117 |
| Deferred revenue | 341,744 | 2,721,970 | | 836,218 | | 3,899,932 | 4,058,781 |
| Advances from other funds | | | | | 375,000 | 375,000 | 375,000 |
| Total Liabilities | 1,845,730 | 5,254,975 | 82,590 | 954,135 | 1,342,188 | 9,479,618 | 9,572,640 |
| Fund Equity | | | | | | | |
| Fund balances: | | | | | | | |
| Reserved | | | | | | | |
| Encumbrances | 226,000 | 1,668,938 | | 53,648 | 2,042,448 | 3,991,034 | 24,030,999 |
| Land held for resale | | | | 10,183,415 | | 10,183,415 | |
| Unreserved | | | | | | | |
| Designated | 6,165,000 | 262,089 | 2,533,418 | 17,614,834 | 11,688,191 | 38,263,532 | 18,929,142 |
| Undesignated | 4,021,471 | | | | (6,659) | 4,014,812 | 1,157,886 |
| Total Fund Equity | 10,412,471 | 1,931,027 | 2,533,418 | 27,851,897 | 13,723,980 | 56,452,793 | 44,118,027 |
| Total Liabilities and Fund Equity | $ 12,258,201 | $ 7,186,002 | $ 2,616,008 | $ 28,806,032 | $ 15,066,168 | $ 65,932,411 | $ 53,690,667 |

See Accompanying Notes to Financial Statement.

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CITY OF MONTEREY PARK
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
For the Year Ended June 30, 2003

| | |
|---|---|
| Total fund balance of governmental funds in fund statements | $ 56,452,793 |
| Internal service funds are used by management to charge the costs of separation benefits, workers' compensation, vehicle, technology and general liability to individual funds. The assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. (Total net assets is $3,807,374 less the portion of the current year change in net assets allocated to Business-Type activities of $190,853). | 3,616,521 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. (Total governmental capital assets of $30,795,760 less internal service funds of $1,741,435 which has already been accounted in the reconciliation of internal service funds elimination). | 29,054,325 |
| Long term liabilities are not due and payable in the current period and therefore are not reported in the funds net of $5,147,425 included in reconciliation of internal service funds. | (61,446,741) |
| Interest on long term liabilities are not due and payable in the current period and therefore are not reported in the funds. | (658,893) |
| Deferred charges related to issuance of long term debt are recorded as expenditures in governmental fund statements. | 1,080,128 |
| Intergovernmental receivable not recognized in fund statement because it is unavailable. | 139,193 |
| Revenue earned but unavailable is recorded as deferred revenue in governmental fund statements ($729,894 earned in current year plus $509,719 earned in prior year). | 1,239,613 |
| Net assets of governmental activities | $ 29,476,939 |

See Accompanying Notes to Financial Statement.

CITY OF MONTEREY PARK

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2003

(with comparative total for Year Ended June 30, 2002)

| | General | Special Revenue Grants | Debt Service | Capital Projects | Other Governmental Funds | Total Governmental Funds 2003 | Total Governmental Funds 2002 |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Taxes | $ 17,641,698 | | $ 4,505,029 | $ 1,286,068 | $ 6,790,678 | $ 30,223,473 | $ 29,288,295 |
| Licenses and permits | 1,379,372 | | | | | 1,379,372 | 1,479,890 |
| Intergovernmental revenues | | $ 4,182,276 | | | | 4,182,276 | 4,857,933 |
| Charges for services | 4,073,049 | 1,327 | | | 6,355,096 | 10,429,472 | 10,043,408 |
| Revenues from use of money and property | 889,566 | 42,416 | 63,698 | 317,289 | 101,959 | 1,414,928 | 1,715,222 |
| Fines and forfeitures | 926,250 | | | | 85,503 | 1,011,753 | 969,059 |
| Other | 396,472 | | | 221,508 | | 617,980 | 425,799 |
| Total Revenues | 25,306,407 | 4,226,019 | 4,568,727 | 1,824,865 | 13,333,236 | 49,259,254 | $ 48,779,606 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| General government | 3,366,823 | | 115,086 | | 255,116 | 3,737,025 | 3,533,839 |
| Public safety | 14,794,256 | 202,183 | | | 3,199,448 | 18,195,887 | 17,592,638 |
| Community development | 1,754,569 | 888,584 | 1,057,606 | | 139,852 | 3,840,611 | 3,591,940 |
| Culture and recreation | 3,737,004 | 474,808 | | | 700,635 | 4,912,447 | 4,811,029 |
| Highways and streets | 591,551 | 194,009 | | | 3,174,165 | 3,959,725 | 3,769,825 |
| Health | | | | | 4,848,948 | 4,848,948 | 4,180,968 |
| Capital outlay | 56,417 | 2,088,969 | | 2,461,155 | 884,805 | 5,491,346 | 7,825,996 |
| Debt service: | | | | | | | |
| Principal retirement | 127,079 | 117,205 | 210,000 | | 138,449 | 592,733 | 1,470,355 |
| Interest and fiscal charges | 43,765 | 192,271 | 2,689,496 | | 25,704 | 2,951,236 | 2,887,757 |
| Cost of issuance | | 32,014 | 743,600 | | | 775,614 | |
| Total Expenditures | 24,471,464 | 4,190,043 | 4,815,788 | 2,461,155 | 13,367,122 | 49,305,572 | 49,664,347 |
| Excess (Deficiency) of Revenues Over Expenditures | 834,943 | 35,976 | (247,061) | (636,290) | (33,886) | (46,318) | (884,741) |
| Other Financing Sources (Uses): | | | | | | | |
| Transfers in | 250,000 | 3,148 | | 10,547,685 | 524,814 | 11,325,647 | 1,739,390 |
| Transfers out | (250,000) | (4,777,691) | (6,059,821) | (3,148) | | (11,090,660) | (1,565,602) |
| Proceeds from capital lease | | | | | | | 431,000 |
| Proceeds from sale of property | | | | | 2,798 | 2,798 | |
| Proceeds from tax increment deferred loan | | | 1,615,499 | | | 1,615,499 | 1,530,956 |
| Proceeds from Section 108 loan | | 6,500,000 | | | | 6,500,000 | |
| Issue of refunding bonds | | | 24,270,000 | | | 24,270,000 | |
| Payment to refunded bond escrow agent | | | (20,242,200) | | | (20,242,200) | |
| Total Other Financing Sources (Uses) | | 1,725,457 | (416,522) | 10,544,537 | 527,612 | 12,381,084 | 2,135,744 |
| Net Change in Fund Balances | 834,943 | 1,761,433 | (663,583) | 9,908,247 | 493,726 | 12,334,766 | 1,251,003 |
| Fund Balances, July 1 | 9,577,528 | 169,594 | 3,197,001 | 17,943,650 | 13,230,254 | 44,118,027 | 42,867,024 |
| Fund Balances, June 30 | $ 10,412,471 | $ 1,931,027 | $ 2,533,418 | $ 27,851,897 | $ 13,723,980 | $ 56,452,793 | $ 44,118,027 |

See Accompanying Notes to Financial Statement.

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CITY OF MONTEREY PARK
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2003

Amount reported for governmental activities in the statement of activities are different because:

| | |
|---|---|
| Net change in fund balance - total governmental funds | $ 12,334,766 |
| Internal service funds are used by management to charge the costs of separation benefits, workers' compensation, vehicle, technology and general liability to individual funds. The net revenue of certain activities of internal service fund is reported with governmental activities. | (569,064) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital assets ($2,613,334) exceed depreciation ($2,113,853). | 499,481 |
| In the fund statements, debt issuances in the amount of $32,385,499 were recorded as an other financing source and payment to the refunding Bond Agent ($20,242,200) was recorded as an other financing use. Bond issuance costs and discounts were recorded as expenditures ($755,350). Also principal debt repayment of ($592,733) was recorded as an expenditure. However, these transactions are not recorded in the Statement of Activities. Instead, these transactions are recorded as long-term debt payable in the Statement of Net Assets. | (10,795,216) |
| Amortization of Bond Issuance Costs, Bond Discounts, and Reacquisition Cost in excess of the Carrying Value of the refunded Bonds is not recorded in governmental fund statements. | (52,422) |
| Changes in compensated absenses which are not recognized due to timing issues in the governmental funds are charged to expenses in the statement of activities. | (44,515) |
| Interest on long term liabilities are not due and payable in the current period and therefore are not reported in the funds. | (16,791) |
| Deferred revenue not recognized in revenue in governmental fund statements because the revenue was not available within 60 days of close of fiscal year. | 869,086 |
| Change in net assets of governmental activities | $ 2,225,325 |

See Accompanying Notes to Financial Statement.

CITY OF MONTEREY PARK
Statement of Net Assets
Proprietary Funds
June 30, 2003
(with comparative total for Year Ended June 30, 2002)

| | Enterprise (Water Utility) | Internal Service | Total Proprietary Funds 2003 | Total Proprietary Funds 2002 |
|---|---|---|---|---|
| Assets | | | | |
| Current Assets: | | | | |
| Cash and investments | $ 2,509,724 | $ 7,339,849 | $ 9,849,573 | $ 11,051,278 |
| Accounts receivable | 892,214 | 7,641 | 899,855 | 983,146 |
| Inventory | | 34,578 | 34,578 | 37,678 |
| Total Current Assets | 3,401,938 | 7,382,068 | 10,784,006 | 12,072,102 |
| Capital assets, net of accumulated depreciation | 16,457,199 | 1,741,435 | 18,198,634 | 14,896,453 |
| Total Assets | 19,859,137 | 9,123,503 | 28,982,640 | 26,968,555 |
| Liabilities and Net Assets | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 1,713,428 | 151,920 | 1,865,348 | 349,979 |
| Accrued payroll | 44,856 | 16,784 | 61,640 | 51,380 |
| Claims and judgments payable-current | | 1,779,172 | 1,779,172 | 1,779,336 |
| Current capital lease obligations | 253,315 | 160,482 | 413,797 | 400,347 |
| Deposits and advances | 312,693 | | 312,693 | 301,324 |
| Total Current Liabilities | 2,324,292 | 2,108,358 | 4,432,650 | 2,882,366 |
| Non-current Liabilities: | | | | |
| Long-term claims and judgments payable | | 2,668,756 | 2,668,756 | 2,669,003 |
| Long-term capital lease obligations | 2,936,355 | 523,297 | 3,459,652 | 3,493,262 |
| Compensated absences payable | 221,674 | 15,718 | 237,392 | 224,760 |
| Total Non-current Liabilities | 3,158,029 | 3,207,771 | 6,365,800 | 6,387,025 |
| Total Liabilities | 5,482,321 | 5,316,129 | 10,798,450 | 9,269,391 |
| Net Assets: | | | | |
| Invested in capital assets, net of related debt | 13,267,529 | 1,057,656 | 14,325,185 | 11,002,844 |
| Restricted | 1,109,287 | | 1,109,287 | 3,654,226 |
| Unrestricted | | 2,749,718 | 2,749,718 | 3,042,094 |
| Total Net Assets | 14,376,816 | $ 3,807,374 | $ 18,184,190 | $ 17,699,164 |
| Adjustment to reflect the consolidation of internal service funds activities to related enterprise fund | 190,853 | | | |
| Net assets of business-type activities | $ 14,567,669 | | | |

See Accompanying Notes to Financial Statements.



CITY OF MONTEREY PARK
Statement of Revenues, Expenses and Changes in
Net Assets - Proprietary Fund
Year Ended June 30, 2003
(with comparative total for Year Ended June 30, 2002)

| | Enterprise (Water Utility) | Internal Service | Total Proprietary Funds 2003 | Total Proprietary Funds 2002 |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Charges for services | $ 6,563,079 | $ 3,935,576 | $ 10,498,655 | $ 9,820,714 |
| Meter installations | 155,307 | | 155,307 | 230,943 |
| Other revenue | 744,779 | 378,061 | 1,122,840 | 14,332 |
| Total Operating Revenues | 7,463,165 | 4,313,637 | 11,776,802 | 10,065,989 |
| Operating Expenses: | | | | |
| Water purchased | 658,676 | | 658,676 | 652,409 |
| Administration - water | 1,914,035 | | 1,914,035 | 1,956,235 |
| Commercial - water | 535,871 | | 535,871 | 528,395 |
| Production - water | 2,130,855 | | 2,130,855 | 1,761,111 |
| Distribution - water | 624,263 | | 624,263 | 576,265 |
| Depreciation | 623,870 | 374,669 | 998,539 | 1,016,582 |
| Vehicle expense | | 3,816 | 3,816 | 52,752 |
| Salaries and benefits | | 1,034,822 | 1,034,822 | 1,072,604 |
| Materials and supplies | | 434,269 | 434,269 | 539,753 |
| Insurance and claims | | 2,575,708 | 2,575,708 | 1,967,157 |
| Miscellaneous | | 254,467 | 254,467 | 244,060 |
| Total Operating Expenses | 6,487,570 | 4,677,751 | 11,165,321 | 10,367,323 |
| Operating Income | 975,595 | (364,114) | 611,481 | (301,334) |
| Nonoperating Income: | | | | |
| Gain (loss) on sale of surplus property | | (14,097) | (14,097) | (127) |
| Total Nonoperating Income (Loss) | | (14,097) | (14,097) | (127) |
| Net Income (Loss) Before Transfers and Capital Contribution | 975,595 | (378,211) | 597,384 | (301,461) |
| Capital contributions | 122,628 | | 122,628 | 227,797 |
| Transfers in | 15,013 | | 15,013 | 76,212 |
| Transfers out | (250,000) | | (250,000) | (250,000) |
| Total Transfers and Capital Contribution | (112,359) | | (112,359) | 54,009 |
| Changes in Net Assets | 863,236 | (378,211) | 485,025 | (247,452) |
| Net Assets, July 1, as restated | 13,513,580 | 4,185,585 | 17,699,165 | 17,946,617 |
| Net Assets, June 30 | $ 14,376,816 | $ 3,807,374 | $ 18,184,190 | $ 17,699,165 |
| Changes in Net Assets | $ 863,236 | | | |
| Adjustment to reflect the consolidation of internal service fund activities to related enterprise fund | 190,853 | | | |
| Changes in net assets of business-type activities | $ 1,054,089 | | | |

See Accompanying Notes to Financial Statements.

CITY OF MONTEREY PARK
Combined Statement of Cash Flows -
All Proprietary Fund Types
Year Ended June 30, 2003
(with comparative total for Year Ended June 30, 2002)

| | Enterprise (Water Utility) | Internal Service | Total Proprietary Funds 2003 | Total Proprietary Funds 2002 |
|---|---|---|---|---|
| Cash Flows from Operating Activities: | | | | |
| Cash receipts from customers | $ 6,575,724 | | $ 6,575,724 | $ 6,454,341 |
| Cash payments to suppliers for goods and services | (2,312,692) | $ (839,285) | (3,151,977) | (4,862,849) |
| Cash payments for insurance premiums and self-insurance claims | | (2,482,484) | (2,482,484) | (1,149,245) |
| Cash payments to employees for services | (1,984,548) | (995,454) | (2,980,002) | (3,030,998) |
| Other operating cash receipts | 744,779 | 369,805 | 1,114,584 | 7,354 |
| Cash receipts from interfund services provided | | 3,936,191 | 3,936,191 | 3,783,643 |
| Net Cash Provided by Operating Activities | 3,023,263 | (11,227) | 3,012,036 | 1,202,246 |
| Cash Flows from Noncapital Financing Activities: | | | | |
| Transfers in from other funds | 15,013 | | 15,013 | 76,212 |
| Transfers out to other funds | (250,000) | | (250,000) | (250,000) |
| Net Cash Provided by (Used for) Noncapital Financing Activities | (234,987) | | (234,987) | (173,788) |
| Cash Flows from Capital and Related Financing Activities: | | | | |
| Capital contributions | 122,628 | | 122,628 | 227,797 |
| Acquisition and construction of capital assets | (4,165,221) | (149,595) | (4,314,816) | (2,750,950) |
| Principal paid on lease financing | (208,009) | (153,338) | (361,347) | (331,947) |
| Proceeds from lease financing | 574,781 | | 574,781 | 1,588,834 |
| Net Cash Provided by (Used for) Capital and Related Financing Activities | (3,675,821) | (302,933) | (3,978,754) | (1,266,266) |
| Net Increase in Cash and Cash Equivalents | (887,545) | (314,160) | (1,201,705) | (237,808) |
| Cash and Cash Equivalents, July 1 | 3,397,269 | 7,654,009 | 11,051,278 | 11,289,086 |
| Cash and Cash Equivalents, June 30 | $ 2,509,724 | $ 7,339,849 | $ 9,849,573 | $ 11,051,278 |

(Continued)

See Accompanying Notes to Financial Statements.

CITY OF MONTEREY PARK
Combined Statement of Cash Flows -
All Proprietary Fund Types (Continued)
Year Ended June 30, 2003
(with comparative total for Year Ended June 30, 2002)

| | Enterprise (Water Utility) | Internal Service | Total Proprietary Funds 2003 | Total Proprietary Funds 2002 |
|---|---|---|---|---|
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities: | | | | |
| Operating income | $ 975,595 | $ (364,114) | $ 611,481 | $ (301,334) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities: | | | | |
| Interest income | | | | |
| Depreciation | 623,870 | 374,669 | 998,539 | 1,016,582 |
| Changes in assets and liabilities: | | | | |
| Decrease (increase) in accounts receivable | (142,662) | (7,641) | (150,303) | 179,349 |
| Decrease (increase) in inventory | | 3,102 | 3,102 | 9,198 |
| Increase (decrease) in accounts payable | 1,529,221 | (13,852) | 1,515,369 | (547,859) |
| Increase (decrease) in accrued payroll | 8,285 | 1,975 | 10,260 | (4,208) |
| Iecrease (decrease) in claims and judgments payable | | (411) | (411) | 826,568 |
| Increase (decrease) in compensated absences payable | 17,587 | (4,955) | 12,632 | 6,576 |
| Increase (decrease) in deposits | 11,367 | | 11,367 | 17,374 |
| Total Adjustments | 2,047,668 | 352,887 | 2,400,555 | 1,503,580 |
| Net Cash Provided by Operating Activities | $ 3,023,263 | $ (11,227) | $ 3,012,036 | $ 1,202,246 |

See Accompanying Notes to Financial Statements.

CITY OF MONTEREY PARK
Statement of Assets and Liabilities
All Agency Funds
June 30, 2003
(with comparative data for Year Ended June 30, 2002)

| | June 30, 2003 | June 30, 2002 |
|---|---|---|
| Assets: | | |
| Cash and investments | $ 1,644,639 | $ 1,182,398 |
| Liabilities: | | |
| Accounts payable | $ 25,750 | $ 14,768 |
| Deposits payable | 1,618,889 | 1,167,630 |
| Total Liabilities | $ 1,644,639 | $ 1,182,398 |



CITY OF MONTEREY PARK
Notes to Financial Statements
Year Ended June 30, 2003

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Description of Reporting Entity

The City of Monterey Park was incorporated May 29, 1916 under the general laws of the State of California and enjoys all the rights and privileges pertaining to "General Law" cities. The City is governed by an elected five-member board. As required by generally accepted accounting principles, the financial statements of the City of Monterey Park include the financial activities of the City (the primary government), the Monterey Park Redevelopment Agency, the Monterey Park Public Financing Authority, and the Monterey Park Housing Authority. These blended component units are discussed below and are included in the reporting entity because of the significance of their operational and financial relationship with the City.

Blended Component Units:

The Monterey Park Community Redevelopment Agency

The Community Redevelopment Agency of the City of Monterey Park (Agency) was formed in 1969 under provisions of the California Community Redevelopment Law. The primary purpose of the Agency is to encourage private redevelopment of property and to rehabilitate areas suffering from economic disuse. The Agency has two redevelopment project areas encompassing approximately 918 acres. The members of the City Council act as the governing body of the Agency. The Agency's financial data and activity are reported within the debt service and capital projects fund types. Upon completion, separate financial statements of the Agency can be obtained at City Hall.

The Monterey Park Public Financing Authority

The Monterey Park Public Financing Authority (Financing Authority) was organized in May 1989 under a joint exercise of power agreement to provide for the financing of public capital improvements for the City and the Monterey Park Community Redevelopment Agency. The members of the City Council act as the governing board of the Financing Authority.

The Monterey Park Housing Authority

The Monterey Park Housing Authority was established in September 1992 to provide affordable housing within the City. The members of the City Council act as the governing board of the Monterey Park Housing Authority.





### B. Government-wide and Fund Financial Statements

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

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

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

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

The government-wide, and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

The primary revenue sources susceptible to accrual are property taxes, sales taxes, highway user taxes, state gas tax subventions, franchise fees, transient occupancy tax, charges for services, and interest associated with the current fiscal period and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City's fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting as are the governmental funds explained above.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From this fund are paid the general operating expenses and capital improvement costs which are not paid through other funds.

The Grants Special Revenue Fund was established to account for the grants requiring segregated fund accounting. Financing is provided by federal, state and county agencies.

The Debt Service Fund was established to account for the accumulation of resources for, and the payment of, debt principal, interest and related costs of the Community Redevelopment Agency.

The Capital Projects Fund was established to account for financial resources segregated for the acquisition of and rehabilitation of capital facilities within the redevelopment project areas.

The City reports the following major proprietary funds:

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises and where the intent of the City is that the costs (expenses, including depreciation) of providing goods services to the general public on a continuing basis be financed or recovered primarily through user charges. The City accounts for its water utility in this fund.

Additionally, the City reports the following fund types:





Nonmajor Governmental Funds:

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

Proprietary Fund (Internal Service Funds):

The Internal Service Funds are utilized to finance and account for activities involved in rendering services to departments within the City. Costs of services are accumulated in these funds and charged to user departments as such costs are incurred. The City maintains five internal service funds for general liability claims, workers compensation claims, auto shop operations, separation benefits and technology development.

Fiduciary Funds:

The Agency Funds are used to account for money and property held by the City as trustee or custodian.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to members, customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Enterprise Fund, and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service 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 non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then use unrestricted resources as needed.

D. Property Taxes

Under California law, property taxes are assessed and collected by the counties at 1% of assessed value plus other increases approved by the voters. Property taxes collected go into a pool and are then allocated to the cities based on a predetermined formula. The City of Monterey Park accrues only those taxes which are received from the County of Los Angeles within 60 days after year-end.

| | |
|---|---|
| Lien date: | January 1 |
| Levy date: | June 30 |
| Due dates: | November 1, February 1 |
| Delinquent dates: | December 11, April 11 |

E. Budgetary Control and Accounting

The City adheres to the following general procedures in establishing the budgetary data reflected in the financial statements:

The annual budget adopted by the City Council serves as a guideline for operations of the City. It includes proposed expenditures and estimated revenues and is legally adopted for all General, Special Revenue, Debt Service and Capital Projects Fund Types. Budgeted expenditures are controlled at the fund level. Council approval is required for an increase or decrease in total appropriations.

Appropriated amounts are as originally adopted or as adjusted by the City Council throughout the year. During 2002-03 the City made the following budget amendments to increase the budget appropriations: General Fund $127,636, Grants Special Revenue Funds $1,552,680, Nonmajor Special Revenue Funds $1,638,454, Capital Projects Fund $308,109, and Debt Service Fund $103,188.

Budgets for the General, Special Revenue, Debt Service and Capital Projects Fund Types are adopted on a basis consistent with generally accepted accounting principles. The modified-accrual basis of accounting is employed in the preparation of the budget for these fund types. In addition, an operating plan is adopted for the Proprietary Funds.





The budget is formally integrated into the accounting system and employed as a management control device during the year for all governmental funds. At fiscal year-end, unexpended and unencumbered budget appropriations lapse. Encumbrances outstanding at year-end are carried into the following year for continuing appropriation.

Under Article XIII-B of the California Constitution (The Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations, and if certain proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or refunded to the taxpayers through revised tax rate or revised fee schedules. For the fiscal year ended June 30, 2003, based on calculations by City Management, proceeds of taxes did not exceed the appropriations limit.

F. Cash and Cash Equivalents

For purposes of the statements of cash flows, the City considers cash and all highly liquid investments with original maturities of three months or less from date purchased as cash and cash equivalents. In addition, funds invested in the City's cash management pool are considered cash equivalents.

G. Investments

Investments are stated at fair value (the value at which financial instruments could be exchanged between willing parties other than in a forced liquidation sale).

H. Inventories

Inventories held by the Internal Service Fund are recorded at cost on a first-in, first-out basis. The inventories consist primarily of repair parts, fuel and oil. The City uses the consumption method for inventory control.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (roads, sidewalks, drainage systems, lighting systems, etc.), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. These assets are valued at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of assts are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. The capitalization threshold for property, plant and equipment is $5,000 and for infrastructure assets is $200,000. Depreciation is recorded in the government-wide financial statements on a straight-line basis over the useful life of the assets as follows:

Depreciation is charged to operations, using a straight-line method based on the following average useful lives of the assets:

| | |
|---|---|
| Equipment | 5 to 20 years |
| Buildings | 40 to 50 years |
| Improvements | 10 to 50 years |
| Water meters | 20 years |
| Water mains | 40 to 75 years |
| Water hydrants | 40 years |
| Wells | 40 years |
| Other water equipment | 5 to 40 years |
| Infrastructure: | |
| Roadway | 25 years |
| Bridge | 40 years |
| Streetlight | 20 years |
| Traffic signal | 20 years |
| Sewer system | 50 years |

J. Land Held for Resale

Cost of project land held for resale is capitalized in the Capital Projects Fund at acquisition cost.

K. Compensated Absences

Compensated absences are accounted for in accordance with GASB Cod. Section C60. The cost of earned but unused vacation and sick leave, for which the City has a future obligation to pay, is recognized in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they become due and payable as a result of employee resignations or retirements.

L. Capitalization of Leases

Capitalizable leases have been treated in accordance with the Financial Accounting Standards Board Statement No. 13, "Accounting for Leases."

M. Claims and Judgments

The accrual for workers' compensation and general liability claims is based upon past experience which has been modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2003 is dependent on future developments, based on information from the plan administrators, City management believes that the aggregate accrual is adequate to cover such losses, including amounts for incurred but not reported claims (Note 11).





N. Other Postemployment Benefits

In addition to the pension benefits described in Note 10, the City provides postretirement medical insurance benefits, in accordance with contractual provisions in the Public Employees Medical and Hospital Care Act, to all vested employees who retire from the City. Currently, 183 retirees meet those eligibility requirements. The City contributes between $340 and $460 per month toward medical insurance coverage for retirees. For those retirees who are eligible for Medicare, the City contributes toward Medicare supplemental insurance coverage. Upon retirement, vested full-time employees may, at their own cost, convert group life insurance coverage to individual life insurance coverage.

Expenditures for postretirement medical insurance benefits are recognized as annual premiums and are paid on a pay-as-you-go basis. During the year, expenditures of $813,351 were recognized for postretirement medical insurance. Increases over the prior year of $94,792 were attributable mainly to increased monthly contributions for retirees.

Post employment benefits for employees that separate for reasons other than retirement are equivalent to those required under the provisions of COBRA and require no contribution by the City.

O. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

P. Comparative Data and Total Column

Comparative total data for the prior year have been presented in some of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e., presentation of prior year totals) data have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

Columns in the accompanying basic and fund financial statements for year ended June 30, 2002 are not necessary for a fair presentation of the financial statements in accordance with generally accepted accounting principles but are presented as additional analytical data. Such data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of these totals.

## 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2003 consisted of the following:

| | |
|---|---|
| Deposits | $ 2,350,871 |
| Pooled investments | 51,384,750 |
| Investments with fiscal agents | 2,486,449 |
| Total cash and investments | $56,222,070 |

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures.

Interest income earned on pooled cash and investments is allocated quarterly to the general fund, certain designated Special Revenue Funds and Capital Projects funds based on the month-end cash and investment balances. Proceeds obtained from long-term debt issuances including construction, lease payment and reserve fund balances are held by the City or by fiscal agents on behalf of the City and invested in the City's name. Interest income on proceeds of debt is credited directly to the related fund, as defined by the Bond Indenture.

Authorized Investments:

Under provisions of the City's investment policy and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

- Securities of the U.S. Government, or its agencies
- Certificates of deposit or time deposits
- Banker's acceptances
- Commercial paper
- Local agency investment fund deposits
- Repurchase agreements

Also, in accordance with bond indentures the City may also invest appropriate funds in money market funds and mutual funds.

Deposits

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a City's deposits.





California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total deposits. The City may waive collateral requirements for deposits which are fully insured up to $100,000 by federal depository insurance.

In accordance with GASB Statement 3, deposits are classified as to credit risk by three categories as follows:

Category 1: Insured or collateralized with securities held by the City or by its agent in the City's name.
Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
Category 3: Uncollateralized.

| | Category 1 | Category 2 | Category 3 | Amount |
|---|---|---|---|---|
| Deposits: | | | | |
| Bank balance | $ 104,491 | $ 3,798,256 | | $ 3,902,747 |
| Outstanding checks[1] | | | | (1,630,855) |
| Deposits in transit[1] | | | | 78,979 |
| | $ 104,491 | $ 3,798,256 | $ - | $ 2,350,871 |

Investments

Investments made by the City are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by three categories as follows:

Category 1: Insured or registered with securities held by the City or its agent in the City's name.
Category 2: Uninsured and unregistered with securities held by the counterparty's trust department or agent in the City's name.
Category 3: Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the City's name.

| | Category 1 | Category 2 | Category 3 | Fair Value |
|---|---|---|---|---|
| Investments: | | | | |
| Money Market[1] | | | | |
| U.S. Government Obligations | | | | $ 8,470 |
| State of California Local Agency Investment Fund[1][2] | | | | 51,376,280 |
| Total Pooled Investments | | | | 51,384,750 |

| | Category 1 | Category 2 | Category 3 | Fair Value |
|---|---|---|---|---|
| Investments with fiscal agents: | | | | |
| Money Market[1] - | | | | |
| U.S. Government Obligations | | | | 780,556 |
| State of California Local | | | | |
| Agency Investment Fund[1][2] | | | | 1,705,893 |
| Total Investments with Fiscal Agents | | | | 2,486,449 |
| Total Investments | $ | $ | $ | $ 53,871,199 |

(1) Not subject to categorization
(2) 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. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

## 3. RECEIVABLES

Receivables of the City as of June 30, 2003 were:





| | Governmental Funds | Proprietary Funds | Total |
|---|---|---|---|
| Accounts Receivables: | | | |
| Interest | $ 231,346 | | $ 231,346 |
| Property taxes | 362,658 | | 362,658 |
| Sales taxes | 739,600 | | 739,600 |
| Utility taxes | 394,620 | | 394,620 |
| Water sales | | $ 892,214 | 892,214 |
| Subvention and grants | 2,770,832 | | 2,770,832 |
| Others | 212,009 | | 212,009 |
| Total Accounts Receivable | 4,711,065 | 892,214 | 5,603,279 |
| Notes Receivable: | | | |
| Rental Rehabilitation (CRA) | 108,075 | | 108,075 |
| Rental Rehabilitation (Grants) (See Note 9) | 2,717 | | 2,717 |
| Residential Rehabilitation (CDBG) (See Note 9) | 48,014 | | 48,014 |
| SERA Program (See Note 9) | 431,633 | | 431,633 |
| Camino Real Loan | 878,556 | | 878,556 |
| Pacific Bridge Loan (See Note 9) | 297,547 | | 297,547 |
| First-Time Homebuyers | 584,248 | | 584,248 |
| Critical Maintenance | 143,894 | | 143,894 |
| Abajo del Sol Loan | 1,482,358 | | 1,482,358 |
| Monterey Park Senior Village | 341,744 | | 341,744 |
| Subtotal | 4,318,786 | | 4,318,786 |
| Less Allowance for Uncollectible Notes | (2,660,319) | | (2,660,319) |
| Total Notes Receivable | 1,658,467 | | 1,658,467 |
| Total Receivables | $ 6,369,532 | $ 892,214 | $ 7,261,746 |

Following is a detail of Notes Receivable:

A. The City has implemented a Rental Rehabilitation Program to assist owners of multi-unit rental properties with the rehabilitation of the premises for use by low/moderate income families through loans. The loans bears no interest during the term, and ten percent (10%) of the original loan amount will be forgiven by the City on each anniversary date on which the City deemed the rehabilitation improvements completed. The outstanding balance of loans made through the Rental Rehabilitation Loan Program at June 30, 2003 totaled $110,792 and has been recorded as notes receivable in the Grants Special Revenue Fund for $2,717 and Community Redevelopment Agency Capital Projects Fund for $108,075. The latter amount is offset with deferred revenue in the fund level financial statements and as an allowance for uncollectible notes in the government-wide statements.

B. The City provided low interest financing for the rehabilitation of residential sites within the City through the Community Development Block Grant program. The amount of outstanding loan balances at June 30, 2003 is $48,014 and has been recorded as notes receivable in the Grants Special Revenue Fund.

C. The City participated in the State Earthquake Rehabilitation Assistance (SERA) program to assist residents with the application and loan processes for residential repairs and rehabilitation following the October 1987 Whittier-Narrows earthquake. The outstanding balance of loans placed through the program is $431,633 at June 30, 2003 and has been recorded as notes receivable in the Grants Special Revenue Fund.

D. On April 19, 1993, the Monterey Park Redevelopment Agency and Camino Real Chevrolet have entered into a development assistance agreement. This agreement was extended in September 2002. Under the Agreement, the Monterey Park Redevelopment Agency provided a ten-year loan in the amount of $1,450,000 bearing interest at the rate based on the performance of Camino Real Chevrolet's sales tax per annum until paid. Principal and interest payments are due in monthly installments. The amount of outstanding loan balance at June 30, 2003 is $878,556 and has been recorded as notes receivable in the Capital Projects Fund.

E. In 1995, the Monterey Park Redevelopment Agency entered into a thirty-year loan agreement with Pacific Bridge Housing Corporation for the purpose of construction and renovation of a disabled adult affordable housing facility. In the agreement the Agency agreed to loan to Pacific Bridge Housing up to the maximum sum of $240,478 bearing interest at the rate of three percent per annum until paid. Principal and interest payments are due in annual installments commencing upon February 15 of the first full calendar year following the date of the initial occupancy of the facility and continuing annually thereafter on each successive February 15 through and including the date which is thirty (30) years after the Repayment Commencement Date. The amount of such annual installments payable by Borrower is based on the Annual Residential Receipt Installments as described in the agreement. During 1996-97 the loan was funded by the use of federal HOME Program funds, and is reported in the Grants Special Revenue Fund. At June 30, 2003, outstanding principal and interest are $240,478 and $57,069 respectively.

F. Beginning 1996-97, the City provided second mortgage loans through the First-Time Homebuyer Program to assist qualified first-time homebuyers to purchase residences. All second loans will be fixed at an interest rate of five percent (5%) and for a term of thirty (30) years. If the buyer retains the property for thirty (30) years, both principal and interest will be forgiven. At June 30, 2003, $584,248 is the amount of outstanding loan balances, and has been reported as notes receivable with an offset of deferred revenue in the Housing Capital Projects Fund in the fund level financial statements and as an allowance for uncollectible notes in the government-wide statements.





G. Beginning 1997-98, the City offered low interest rate loans through the Critical Maintenance Loan Program to assist low and moderate income homeowners for essential or emergency repairs. The loan is funded by the Monterey Park Redevelopment Agency's Housing Capital Projects Fund. At June 30, 2003, the amount of outstanding loan balance is $143,894 and has been reported as notes receivable with an offset of deferred revenue in the Housing Capital Projects Fund in the fund level financial statements and as an allowance for uncollectible notes in the government-wide statements.

H. In 1998, the Monterey Park Housing Authority and the Abajo del Sol, Limited Partnership have entered into a housing development agreement. Under the agreement, the Agency provided to the Developer a $1.2 million loan bearing interest at the rate of 5.1% percent per annum for the construction of 60 units of affordable housing for senior citizens. On or before March 15th of each year, the Borrower shall pay lender an amount equal to the applicable percentage of the Net Cash Flow attributable to the prior calendar year. The loan is funded by the Federal HOME Program Special Revenue Fund. At June 30, 2003, outstanding principal and interest being recorded as notes receivable are $1,200,000 and $282,358 respectively in the Grant Special Revenue Fund with an offset of deferred revenue in the fund level financial statements and as an allowance for uncollectible notes in the government-wide statements.

I. The City has entered into an agreement with the developers of Monterey Park Senior Village to defer the payment of entitlement and permit fees totaling $300,000 bearing interest at the rate of five and six-tenths percent per annum. The City will begin billing at the end of December 2003. At June 30, 2003, outstanding principal and interest balances are $300,000 and $41,744 respectively, and have been reported as notes receivable with an offset of deferred revenue in the General Fund in the fund level financial statements and as an allowance for uncollectible notes in the government-wide statements.

## 4. INTERFUND TRANSACTIONS

Individual interfund receivables and payables were as follows at June 30, 2003:

| | Due from Other Funds | Due to Other Funds |
|---|---|---|
| General Fund | $ 1,763,121 | |
| Special Revenue Funds - | | |
| Grants | | $ 1,575,417 |
| Nonmajor governmental funds | | 187,704 |
| | $ 1,763,121 | $ 1,763,121 |

The interfund balances resulted from reimbursable expenditures occurring while the revenues with which to reimburse those expenditures had not yet been received. All balances are expected to be reimbursed within the subsequent year.

Advances payable consists of loans from the General Fund to a non-major governmental fund in the amount of $375,000. The loan was made to the Park Facilities Fund in FY 98-99 to finance urgent parks projects. Repayment will be made in future years when sufficient Park Facilities Fees have been accumulated.

| | Advances to Other Funds | Advances from Other Funds |
|---|---|---|
| General Fund | $ 375,000 | |
| Special Revenue Funds - | | |
| Nonmajor governmental funds | | $ 375,000 |
| | $ 375,000 | $ 375,000 |

| | Transfers In | | | | | |
|---|---|---|---|---|---|---|
| | General Fund | Grants Fund | Community Redevelopment Agency Capital Projects Fund | Water Enterprise Fund | Nonmajor Governmental Fund | Total |
| **Transfers Out** | | | | | | |
| General Fund | | | | | $ 250,000 | $ 250,000 |
| Grants Fund | | | $ 4,487,864 | $ 15,013 | 274,814 | 4,777,691 |
| Debt Service Fund | | | 6,059,821 | | | 6,059,821 |
| Community Redevelopment Agency Capital Projects Fund | | $ 3,148 | | | | 3,148 |
| Water Enterprise Fund | $ 250,000 | | | | | 250,000 |
| | $ 250,000 | $ 3,148 | $ 10,547,685 | $ 15,013 | $ 524,814 | $ 11,340,660 |

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

## 5. LAND HELD FOR RESALE

At June 30, 2003, the Redevelopment Agency held title to several parcels slated for development. These have been recorded as land held for resale in the Capital Projects Fund in the amount of $10,183,415.

Land held for resale is generally acquired for redevelopment through the use of disposition and development agreements. These agreements provide for transfer of the property to developers after certain redevelopment obligations have been fulfilled. The amounts are offset by a reservation of fund balance.





## 6. CAPITAL ASSETS

A summary of changes in capital asset activity for the City's governmental activities for the year ended June 30, 2003 is as follows:

| | Balances at June 30, 2002 | Increases | Decreases | Balances at June 30, 2003 |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 2,566,768 | | | $ 2,566,768 |
| Construction in progress | 135,303 | $ 1,078,996 | | 1,214,299 |
| Total capital assets, not being depreciated | 2,702,071 | 1,078,996 | | 3,781,067 |
| Capital assets, being depreciated: | | | | |
| Buildings | 15,479,205 | | | 15,479,205 |
| Improvements | 7,150,731 | 700,261 | | 7,850,992 |
| Equipment | 12,192,788 | 537,596 | $ 328,667 | 12,401,717 |
| Infrastructure | 28,816,681 | 446,075 | | 29,262,756 |
| Total capital assets, being depreciated | 63,639,405 | 1,683,932 | 328,667 | 64,994,670 |
| Less accumulated depreciation for: | | | | |
| Buildings | 6,311,204 | 306,341 | | 6,617,545 |
| Improvements | 1,235,221 | 182,972 | | 1,418,193 |
| Equipment | 7,501,881 | 1,061,210 | 314,570 | 8,248,521 |
| Infrastructure | 20,757,720 | 937,998 | | 21,695,718 |
| Total accumulated depreciation | 35,806,026 | 2,488,521 | 314,570 | 37,979,977 |
| Total capital assets, being depreciated net | 27,833,379 | (804,589) | 14,097 | 27,014,693 |
| Governmental activities capital assets, net | $ 30,535,450 | $ 274,407 | $ 14,097 | $ 30,795,760 |

| | Balances at June 30, 2002 | Increases | Decreases | Balances at June 30, 2003 |
|---|---|---|---|---|
| **Business-type Activities:** | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $ 499,975 | | | $ 499,975 |
| Construction in progress | 85,375 | $ 2,368,089 | $ 8,706 | 2,444,758 |
| Total capital assets, not being depreciated | 585,350 | 2,368,089 | 8,706 | 2,944,733 |
| Capital assets, being depreciated: | | | | |
| Building | 293,254 | 7,726 | | 300,980 |
| Equipment | 1,343,474 | 12,800 | | 1,356,274 |
| Improvements | 18,855,762 | 1,785,313 | | 20,641,075 |
| Total capital assets, being depreciated | 20,492,490 | 1,805,839 | | 22,298,329 |
| Less accumulated depreciation for: | | | | |
| Building | 57,517 | 5,808 | | 63,325 |
| Equipment | 863,875 | 107,854 | | 971,729 |
| Improvements | 7,240,601 | 510,208 | | 7,750,809 |
| Total accumlated depreciation | 8,161,993 | 623,870 | | 8,785,863 |
| Total capital assets, being depreciated, net | 12,330,497 | 1,181,969 | | 13,512,466 |
| Business type activities capital assets, net | $ 12,915,847 | $ 3,550,058 | $ 8,706 | $ 16,457,199 |

Depreciation expense of $3,112,392 was charged to the following functions:

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| General Government | $ 205,174 | | $ 205,174 |
| Public Safety | 651,588 | | 651,588 |
| Community Development | 44,434 | | 44,434 |
| Culture and Recreation | 439,807 | | 439,807 |
| Street and Highways | 1,088,232 | | 1,088,232 |
| Health | 12,350 | | 12,350 |
| Water | | $ 670,807 | 670,807 |
| | $ 2,441,585 | $ 670,807 | $ 3,112,392 |





## 7. CAPITALIZED LEASE OBLIGATIONS

The City has entered into several noncancellable long-term leases for financing its transit bus, capital equipment, energy retrofit project, public safety communication system, centralized computer system, and City Hall carpeting replacements, included in governmental activities capital assets. The City has also entered lease agreements with Municipal Leasing Associates, San Gabriel Valley Municipal Water District and California Infrastructure and Economic Development Bank, to finance its ambulance and fire trucks replacements, water system energy retrofit program, water volatile organic chemicals treatment and La Loma and Highland Reservoirs project, and has recorded the transactions in the Shop Internal Service Fund and Water Fund, respectively. These leases are classified as capital leases for accounting purposes as defined under Financial Accounting Standards Board Statement No. 13, "Accounting for Leases" and therefore have been recorded at the present value of the future minimum lease payments at the date of inception of the leases. Future minimum lease payments under these capital leases are as follows:

| Fiscal Years | Water Enterprise Fund | Governmental Funds | Total |
|---|---|---|---|
| 2004 | $ 380,650 | $ 675,763 | $ 1,056,413 |
| 2005 | 381,276 | 675,762 | 1,057,038 |
| 2006 | 381,243 | 573,368 | 954,611 |
| 2007 | 359,460 | 471,750 | 831,210 |
| 2008 | 348,637 | 251,173 | 599,810 |
| 2009-2013 | 782,064 | 80,290 | 862,354 |
| 2014-2018 | 551,973 | | 551,973 |
| 2019-2023 | 550,648 | | 550,648 |
| 2024-2028 | 549,028 | | 549,028 |
| 2029-2031 | 328,494 | | 328,494 |
| | 4,613,473 | 2,728,106 | 7,341,579 |
| Less amount representing interest | 1,423,803 | 406,169 | 1,829,972 |
| Present value of future minimum lease payments | $ 3,189,670 | $ 2,321,937 | $ 5,511,607 |

## 8. LONG-TERM DEBT

**Governmental Activities**

Changes in long-term debt of the Governmental Activities for the year ended June 30, 2003 are as follows:

| | Balance at June 30, 2002 | Additions | Deletions | Balance at June 30, 2003 | Due Within One Year |
|---|---|---|---|---|---|
| 1992 Tax Allocation Refunding Bonds - A/G Redevelopment Project | $ 16,325,000 | | $ 16,325,000 | | |
| 1992 Subordinated Tax Allocation Refunding Bonds - A/G Redevelopment Project | 3,540,000 | | 3,540,000 | | |
| 1998 Tax Allocation Revenue Bonds - Merged Redevelopment Project | 10,850,000 | | 210,000 | $ 10,640,000 | $ 220,000 |
| 2002 Tax Allocation Bonds Atlantic-Garvey Redevelopment Project | | $ 24,270,000 | | 24,270,000 | 585,000 |
| Compensated absences payable | 4,357,999 | 45,434 | 5,874 | 4,397,559 | |
| Tax Increment Deferred Loan-Atlantic/Garvey Project | 2,201,483 | 314,169 | | 2,515,652 | |
| Tax Increment Deferred Loan-Merged Project | 10,199,760 | 1,301,330 | | 11,501,090 | |
| HUD Section 108 Loans payable | | 6,500,000 | | 6,500,000 | 170,000 |
| Claims and judgments payable (See Note 11) | 4,448,339 | 2,277,646 | 2,278,057 | 4,447,928 | 1,779,172 |
| Capital lease obligations (See Note 7) | 2,858,007 | | 536,070 | 2,321,937 | 562,822 |
| Total Governmental Activities Long-Term Debt | $ 54,780,588 | $ 34,708,579 | $ 22,895,001 | $ 66,594,166 | $ 3,316,994 |

## Tax Allocation Bonds

### 1998 Tax Allocation Revenue Bonds (Merged Project)

On October 14, 1998, the Monterey Park Public Financing Authority issued the 1998 Tax Allocation Revenue Bonds in the principal amount of $11,610,000. The proceeds were loaned to the Monterey Park Redevelopment Agency to advance refund the 1977 Freeway Bonds and to finance additional redevelopment





activities within its Merged Project Area. The bonds are secured by a pledge of the tax revenues from the Merged Project Area and were issued in denominations of $5,000, with interest rates ranging from 3.8% to 5.3%. Interest payments are payable semiannually on March 1 and September 1. Principal payments are due on March 1 of each year and continue until the year 2028. $10,640,000

Optional Redemption: The bonds due on or after March 1, 2009 are subject to optional redemption as a whole or in part by such maturities as the Authority may designate and by lot within a maturity, on any date on or after March 1, 2008, at the following respective redemption prices (expressed as percentages of the principal amount of Bonds to be redeemed) plus accrued interest to the redemption date:

| Redemption Period | Redemption Price |
|---|---|
| March 1, 2008 to February 28, 2009 | 101.0% |
| March 1, 2009 to February 28, 2010 | 101.5% |
| March 1, 2010, and thereafter | 100.0% |

### 2002 Tax Allocation Revenue Bonds (Atlantic-Garvey Project)

On August 22, 2002, the Monterey Park Redevelopment Agency issued $24,270,000 Tax Allocation Bonds Issue of 2002, for the Atlantic-Garvey Redevelopment Project No. 1. These Bonds were issued to redeem outstanding 1992 Refunding Bonds on September 1, 2002 and to finance improvements within Atlantic-Garvey Redevelopment Project No. 1 Project area. The bonds are secured by a pledge of the tax revenues from the Project area and were issued in denominations of $5,000, with interest rates ranging from 2.5% to 5.0%. Interest payments are payable semiannually on September 1 and March 1. Principal payments are made on September 1 of each year and continue until the year 2028. $24,270,000

Optional Redemption: The Bonds maturing on or before September 1, 2012, are not subject to optional redemption prior to maturity. The Bonds maturing on and after September 1, 2013, are subject to redemption, at the option of the Agency on any date on or after September 1, 2012, as a whole or in part, by such maturities as shall be determined by the Agency, and by lot within a maturity, from any available source of funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

Total Tax Allocation Bonds $34,910,000

Section 108 Loan Program

In August 2002, the City participated in the U.S. Department of Housing and Urban Development Section 108 Loan Guarantee Program and received note proceeds of $6,500,000. The City uses the proceeds for the development of the Market Place project. The annual debt service payments are funded through the City's Community Development Block Grant funds. Interest rates range from 1.75% to 6.12%. Interest payments are made semiannually on August 1 and February 1. Principal payments are made on August 1 of each year and continue until the year 2023. $6,500,000

Total Tax Allocation Bonds and Section 108 Loan Program $41,410,000

The summary of future debt service requirements on the tax allocation bonds and HUD Section 108 Loan is as follows:

| Year Ending June 30 | Tax Allocation Bonds | HUD Section 108 Loan | Total |
|---|---|---|---|
| 2004 | $ 2,356,788 | $ 502,576 | $ 2,859,364 |
| 2005 | 2,450,668 | 513,905 | 2,964,573 |
| 2006 | 2,452,232 | 520,777 | 2,973,009 |
| 2007 | 2,452,587 | 526,227 | 2,978,814 |
| 2008 | 2,451,775 | 530,422 | 2,982,197 |
| 2009-2013 | 12,239,978 | 2,713,548 | 14,953,526 |
| 2014-2018 | 12,197,112 | 2,771,401 | 14,968,513 |
| 2019-2023 | 12,159,827 | 2,783,792 | 14,943,619 |
| 2024-2028 | 10,090,521 | | 10,090,521 |
| Total Payments | 58,851,488 | 10,862,648 | 69,714,136 |
| Less Interest | 23,941,488 | 4,362,648 | 28,304,136 |
| Remaining Principal | $ 34,910,000 | $ 6,500,000 | $ 41,410,000 |





Tax Increment Deferred Loan - (Atlantic/Garvey Project)

On August 20, 1987, the Monterey Park Redevelopment Agency entered an agreement for reimbursement of tax increment funds with the County of Los Angeles (County). In the Agreement, the County agreed to loan its portion of the tax increment revenues received from the amended area (88 Annex) to the Agency at a 7% compound interest rate, beginning fiscal year 1989-90. The percentage distribution from the basic tax levy for the 88 Annex area for the County and the Agency is 43.7% and 56.3% respectively. The Agency will commence repayment of this loan annually beginning with the fiscal year in which the Agency's share of tax increment revenues (excluding Housing Fund contributions) from the 88 Annex area exceeds $800,000. $2,515,652

Tax Increment Deferred Loan - (Merged Project)

The Monterey Park Redevelopment Agency and the County Taxing Entities (the County of Los Angeles, the Los Angeles County Flood Control District, and the Los Angeles County Office of Education) entered into four agreements for reimbursement of the tax increment deferred amounts. In the Agreements, the County Taxing Entities agreed to loan their portions of the tax increment revenues received from the Southeast Project area, Freeway '99 Annex area, Central Commercial Project area, and Merged Monterey Pass Road area to the Agency at specified interest rates ranging from 0% to 7%. The percentage distribution from the basic tax levy and the repayment schedule of the deferred loans are also based on a specified formula for each taxing entity. $11,501,090

Current Refunding

In August 2002, the Monterey Park Redevelopment Agency issued $24,270,000 of Tax Allocations Bonds. The refunding was undertaken 1) to redeem the 1992 Refunding Bonds on September 1, 2002 and 2) to finance improvements within the Atlantic-Garvey Redevelopment Project No. 1. The Agency used the majority of the proceeds to refund the outstanding balance of the 1992 Bonds. A total of $20,242,200 was placed in escrow and invested in Federal Securities pending the September 1, 2002 maturity date of the 1992 bonds. The reacquisition price exceeded the net carrying amount of the old debt by $377,200. This amount is being netted against the new debt and amortized over the remaining life of the old debt which is shorter than that of the new debt. The transaction resulted in net economic gain of $1,860,358.

Arbitrage

The Tax Reform Act of 1986 substantially revised the treatment to be afforded to arbitrage earnings on invested bond proceeds and now requires the City to remit excess arbitrage earnings to the Internal Revenue Service. Certain of the City's debt and interest earned on the proceeds thereon fall under the requirements of the act. The City has made the necessary arbitrage rebate calculations. As of June 30, 2003, the Agency incurred no rebate liability for the 1998 Merged Bonds.

**Business Type Activities**

| | Balance June 30, 2002 | Additions | Deletions | Balance June 30, 2003 | Due Within One Year |
|---|---|---|---|---|---|
| Compensated Absences Payable | $ 204,087 | $ 17,588 | | $ 221,675 | |
| Capital Lease Obligations (See Note 7) | 3,056,493 | 341,186 | $ 208,009 | 3,189,670 | $ 253,315 |
| | $ 3,260,580 | $ 358,774 | $ 208,009 | $ 3,411,345 | $ 253,315 |

9. DUE TO OTHER GOVERNMENTAL AGENCIES

In the Grants Special Revenue Fund, an amount equal to the total outstanding balance of the identified loans receivable for the Rental Rehabilitation Program ($2,717), CDBG Residential Rehabilitation Program ($48,014), State Earthquake Rehabilitation Assistance (SERA) Program ($431,633) and the Pacific Bridge Housing Corporation loan ($297,547) described in Note 3 at June 30, 2003 has been recorded as Due to Other Governmental Agencies. As these notes are repaid, the repayment proceeds must be returned to the applicable government agency.

10. PENSION PLANS

A. Defined Benefit Pension Plans

1. California Public Employees' Retirement System Plan Description

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office - 400 P Street - Sacramento, CA 95814.





Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 0.0% for non-safety employees, and 15.529% for safety employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

For fiscal year 2002-2003, the City's annual pension cost was $2,762,251 and the City actually contributed $2,762,251. The required contribution was determined as part of the June 30, 2000, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%.

The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on a closed basis. The remaining amortization period at June 30, 2003, was 40 years for Miscellaneous Plan, and 31 years for Safety Plan.

TREND INFORMATION FOR PERS

Schedule of Employer Contributions ($ Amount in Thousands)

| Fiscal Year | Annual Required Contribution | Percentage Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/01 | $2,250 | 100% | 0 |
| 6/30/02 | $2,574 | 100% | 0 |
| 6/30/03 | $2,762 | 100% | 0 |

2. Massachusetts Mutual Retirement Plan (MMRP) – Defined Benefit Plan

Certain miscellaneous employees are covered by a retirement plan through the Massachusetts Mutual Life Insurance Company (Massachusetts Mutual), a single-employer pension plan. All miscellaneous employees who were employed prior to April 1, 1976 participated in the MMRP.

Miscellaneous employees under the age of 55 joined PERS on April 1, 1976. However, these employees still remain vested under the MMRP and are eligible to receive retirement benefits at the time of retirement. Miscellaneous employees over the age 55 (on or before April 1, 1976) could not participate in PERS and remain wholly in the MMRP. The MMRP was amended in 1976 to provide equivalent retirement benefits to all miscellaneous employees, whether totally vested in PERS, totally vested in the MMRP or partially vested in both plans. Eligibility requirements for the MMRP are the same as those for PERS. There are 87 individuals in the plan, all of whom are no longer employed by the City or are currently participating in PERS. The City's payroll for employees covered by the MMRP for the year ended June 30, 2003 was zero. The City does not issue a publicly available financial report for the MMRP.

Funding Policy

MMRP is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. Employer contributions were 7% and employee contributions were 7%; there were no current year employee contributions required. The annual required contribution for the current year was determined as part of the July 1, 2001, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.25% a year compounded annually; (b) projected salary increases of 2% a year, attributable to cost-of-living adjustment, (c) additional projected salary increases of 5% a year (includes inflation at 3%), attributable to seniority/merit; and (d) no postretirement benefit increases.

The actuarial value of assets was determined by estimate, since the actual accounting of the pension assets is done on a calendar year basis. Assets are assigned to the general investment account of the insurance company where investments are comprised mainly of bonds and mortgages. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2003, was 29 years.



CITY OF MONTEREY PARK
Notes to Financial Statements (Continued)
June 30, 2003

TREND INFORMATION FOR MMRP

Schedule of Employer Contributions for Last Six Years ($ Amount in Thousands)

| Fiscal Year | Annual Required Contribution | Percentage Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/98 | $ 141 | 100% | -0- |
| 6/30/99 | $ 141 | 100% | -0- |
| 6/30/00 | $ 141 | 100% | -0- |
| 6/30/01 | $ 180 | 100% | -0- |
| 6/30/02 | $ 180 | 100% | -0- |
| 6/30/03 | $ 180 | 100% | -0- |

B. Defined Contribution Pension Plan

Monterey Park Part-Time Retirement Plan

Plan Description

During the 1991-1992 fiscal year, the City established the Monterey Park Part-Time Retirement Plan , a defined contribution retirement plan, for all nonbenefitted, part-time employees in accordance with Internal Revenue Code Section 457, to conform to Section 3121(b)(7)(F) of the Internal Revenue Code added by the Omnibus Budget Reconciliation Act of 1990.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investments of the contributions.

All part-time, nonbenefitted employees of the City must participate in the plan. At June 30, 2003, 136 employees were participating in the plan. All contributions to the plan vest immediately. An employee who leaves the City is entitled to all contributions, including contributions made by the City, and earnings applied to the individual's account through the date of separation, less legally required income tax withholding. Participants that become full-time employees and enter the PERS retirement plan will have the amount in their individual accounts transferred from this plan into a Section 457, Deferred Compensation Plan, subject to all the rules governing Section 457 plans, including substantial penalties for withdrawal prior to the age of normal retirement. Contribution levels into the deferred compensation plan were established by City Council resolution at 4% and 3.5% for the City and nonbenefitted part-time employees, respectively.

During the year, total required and actual contributions amounted to $49,949 and covered payroll for the year ended June 30, 2003 totaled $1,248,725. The City contributed $49,949 (4.0% of current covered payroll) and employees contributed $43,705 (3.5% of current covered payroll). Total plan assets at June 30, 2003 were $405,100. Plan assets are held in trust for the exclusive benefit of participants and their beneficiaries and, therefore, are not included in the financial statements.

## 11. RISK MANAGEMENT

The City of Monterey Park is partially self-insured for Workers' Compensation, General Liability and Automobile Liability. The City is fully self-insured for unemployment insurance claims (reimbursable account with Employment Development Department). The Workers' Compensation Internal Service Fund and the General Liability Internal Service Fund were established to account for the collection of premiums from various City departments related to the City's insurance and self-insurance programs.

The City retains the risk for the first $350,000 of each Workers' Compensation claim and is a member of the Independent Cities Risk Management Authority for coverage up to $20 million per occurrence. The City retains the risk for the first $250,000 of each General Liability and Auto Liability claim and is a member of the Independent Cities Risk Management Authority for coverage up to $20 million per occurrence. The City also purchases commercial insurance for other risks of loss, including property loss, earthquake and flood, emergency vehicle physical damage and special events. There have been no significant changes in insurance coverage as compared to last year and the City has not experienced settlements in excess of insurance coverage during the past three fiscal years. Estimates for liabilities have been accrued in the Workers Compensation and General Liability Funds. These funds also include an estimate for incurred but not reported claims.

At June 30, 2003, total estimated claims payable were as follows:

| | |
|---|---|
| General Liability | $1,032,370 |
| Workers' Compensation | 3,415,558 |
| Total | $4,447,928 |

The Authority is comprised of 28 Southern California cities, and each member city has a representative on the governing board. The comprehensive general liability insurance includes monetary damages for personal liability, property damage and public officials' errors and omissions. Deposits made to the Authority are based on losses incurred by the insured, and rebates are possible if the losses are minimal.

A reconciliation of changes in the aggregate liabilities for claims for the current fiscal year and the prior year is as follows:





| | 2003 | 2002 |
|---|---|---|
| Claims liabilities - Beginning Balance | $ 4,448,339 | $ 3,621,771 |
| Incurred claims, representing the total of a provision for events of the current fiscal year and any change in the provision for events of prior fiscal years | 2,277,646 | 1,895,631 |
| Payments on claims attributable to events of both the current fiscal year and prior fiscal years | (2,278,057) | (1,069,063) |
| | $ 4,447,928 | $ 4,448,339 |

## 12. FUND DEFICITS AND BUDGET OVERAGES

At June 30, 2003, deficit net assets were reported for the Workers' Compensation Internal Service Funds, in the amounts of $2,536,475. City management intends to eliminate the deficit net assets of the Workers' Compensation Fund over time by increased charges to City departments. City management believes the present cash position of this fund is adequate to meet current needs.

Expenditures exceeded appropriations in the Debt Service Fund, Gas Tax Special Revenue Fund, and Maintenance District 93-1 Special Revenue Fund by $1,431,390, $52,596, and $5,980, respectively.

## 13. COMMITMENT

State law requires redevelopment agencies to set aside 20 percent of their tax increment revenues for low/mod housing. In 1997, the Monterey Park Redevelopment Agency approved a plan to set aside future tax increment revenue in addition to the regular 20 percent set aside requirements. The estimated amount of additional housing set aside obligations as of June 30, 2003 is $1,186,222.

A summary of the plan is presented below:

| Year Ending June 30 | Amount |
|---|---|
| 2024-2029 | $ 500,000 |
| 2030-2034 | 450,000 |
| 2035-2039 | 236,222 |
| Total | $ 1,186,222 |

14. CONTINGENCIES

The City and numerous other public entities have been served with one claim by several industrial defendants seeking contribution and indemnification under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) based on generalized allegations that the City is responsible for damages sought against the defendants based on its ownership and/or use of sewer and flood control pipelines as well as other actions. The City, among others, has entered into a settlement which provides contribution immunity under CERCLA to foreclose the complaint. The judge's approved consent decree of the settlement has been appealed. Based on the lack of data as to the value of the underlying suit and the percent of responsibility, if any, of the City, and the unknown potential for reversal of the approval of the consent decree, no estimate of the potential liability of the City can be made at this time. The City intends to defend the case vigorously and to appeal any adverse judgment.

15. Restatement of the Financial Statements and Changes in Accounting Policy

The City implemented GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments and GASB Statement No. 38, Certain Financial Statement Note Disclosures during the fiscal year ended June 30, 2003.

As a result of these changes, the June 30, 2002 net assets have been restated as follows:

| | Governmental Activities | Business-type Activities |
|---|---|---|
| Beginning fund equity, July 1, 2002 | $ 44,118,027 | $ 12,207,677 |
| Contributed capital | | 1,305,903 |
| Capital assets: | | |
| Capital assets previously reported in account group | 32,056,891 | |
| Infrastructure as of June 30, 2002 | 28,816,681 | |
| Accumulated depreciation on capital assets and Infrastructure as of June 30, 2002 | (32,318,728) | |
| Subtotal capital assets | 28,554,844 | |
| Long-term liabilities: | | |
| Long-term debt previously reported in account group | (49,474,460) | |
| Accrued interest payable | (642,102) | |
| Subtotal long-term liabilities | (50,116,562) | |
| Internal service fund allocation of beginning net assets | 4,185,585 | |
| Other miscellaneous timing differences | 509,720 | |
| Beginning net assets, July 1, 2002, restated | $ 27,251,614 | $ 13,513,580 |





1. California Public Employees' Retirement System (CALPERS):

Schedule of Funding Progress ($ Amount in Thousands)

| Actuarial Valuation Date | Actuarial Asset Value (a) | Entry Age Actuarial Accrued Liability (b) | Unfunded AAL (UAAL) [(b) - (a)] | Funded Ratio [(a)/(b)] | Covered Payroll (c) | UAAL as a % of Covered Payroll {(b)-(a)/(c)} |
|---|---|---|---|---|---|---|
| 06/30/00 | | | | | | |
| Misc. | $ 41,278 | $ 29,374 | $ (11,904) | 140.5% | $ 8,586 | (138.60) % |
| Safety | 72,738 | 72,343 | (395) | 100.5% | 7,856 | (5.03) % |
| Total | $ 114,016 | $ 101,717 | $ (12,299) | 112.0% | $ 16,442 | 75.0 % |
| 06/30/01 | | | | | | |
| Misc. | $ 42,486 | $ 32,224 | $ (10,262) | 132.0% | $ 9,229 | (111.20) % |
| Safety | 74,551 | 78,118 | 3,567 | 96.0% | 8,191 | 44.0 % |
| Total | $ 117,037 | $ 110,342 | $ (6,695) | 106.1% | $ 17,420 | 39.0 % |
| 06/30/02 | | | | | | |
| Misc. | $ 40,443 | $ 34,877 | $ (5,566) | 116.0% | $ 9,572 | (59.0) % |
| Safety | 69,905 | 84,837 | 14,932 | 83.0% | 8,319 | 180.0 % |
| Total | $ 110,348 | $ 119,714 | $ 9,366 | 93.0% | $ 17,891 | 53.0 % |

2. Massachusetts Mutual Retirement Plan (MMRP)::

Schedule of Funding Progress for Last Six Years ($ Amount in Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Entry Age Actuarial Accrued Liability (b) | Unfunded AAL (UAAL) [(b) - (a)] | Funded Ratio [(a)/(b)] | Covered Payroll (c) | UAAL as a % of Covered Payroll {(b)-(a)/(c)} |
|---|---|---|---|---|---|---|
| 7/01/97 | $ 5,338 | $ 7,353 | $ 2,015 | 72.6% | 0 | N/A |
| 7/01/98 | 5,209 | 7,333 | 2,124 | 71.0% | 0 | N/A |
| 7/01/99 | 5,007 | 7,337 | 2,330 | 68.3% | 0 | N/A |
| 7/01/00 | 4,827 | 7,499 | 2,672 | 64.4% | 0 | N/A |
| 7/01/01 | 4,786 | 7,645 | 2,859 | 62.6% | 0 | N/A |
| 7/01/02 | 4,509 | 7,455 | 2,946 | 61.0% | 0 | N/A |
| 7/01/03 | Information Not Available | | | | | |

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# CITY OF RIVERSIDE, CALIFORNIA
# COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2003

**Prepared by the Finance Department**
**Paul C. Sundeen, Finance Director**

**3900 Main Street, Riverside, California 92522 (909) 826-5660**

This report was printed on recycled stock

McGladrey & Pullen
Certified Public Accountants

**Independent Auditor's Report**

The Honorable Mayor and Members
of the City Council
City of Riverside
Riverside, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Riverside, California, (the City), as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used in the 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, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, the 2002 financial statements have been restated to correct the accounting for sales tax receivable, capital lease revenue and an overstatement of capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2003 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 2 to 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Riverside's basic financial statements. The combining and individual fund statements and schedules on pages 57 to 81 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and Statistical Section as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

September 30, 2003
Riverside, California



McGladrey & Pullen, LLP is a member firm of RSM International, an affiliation of separate and independent legal entities.

## Management's Discussion and Analysis

As management of the City of Riverside (the City), we offer this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on page v. of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements, compromised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains certain supplementary information.

**Government-wide financial statements**. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the excess of assets over liabilities reported as net assets. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business type activities*). The governmental activities of the City include general government, public safety, highways and streets, and culture and recreation. The business type activities of the City include Electric, Water, Sewer, Refuse, Public Parking, Airport and Transportation services.

The government-wide financial statements include the City and it's component units. The City's component units are the Riverside Redevelopment Agency, Riverside Public Financing Authority, Parking Authority of the City of Riverside, Riverside Municipal Improvements Corporation, and the Riverside Civic Center Authority. Although legally separate, these entities function for all practical purposes as departments of the City and therefore have been blended as part of the primary government.

Both the Governmental Activities and the Business Type Activities are presented on the accrual basis of accounting, a basis of accounting that differs from the modified accrual basis of accounting used in presenting governmental fund financial statements. Note 1.C. of the Notes to the Basic Financial Statements fully describe these bases of accounting. Proprietary funds, discussed below, also follow the accrual basis of accounting.

The government-wide financial statements can be found on pages 21-22 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary, and fiduciary.

***Governmental funds.*** *Governmental funds* are used to account for the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on balances of spendable resources available at the end of the fiscal year.

It is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Reconciliations to facilitate this comparison are provided for both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The major reconciling items relate to capital assets and debt. In the Governmental Funds, acquisitions of capital assets are treated as "expenditures" because upon purchase of a capital asset, cash used for the acquisition is no longer available for other purposes. The issuance of debt provides cash, which is now available for specified purposes. Accordingly, at the end of the fiscal year, the unreserved fund balances of the Governmental Funds reflect spendable resources available for appropriation by the City Council. Spendable balances are not presented on the face of the government-wide financial statements.



The City maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Redevelopment Agency Debt Service Fund, both of which are considered to be major funds. Data from the other seventeen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* and can be found on pages 57-67 in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 23-27 of this report.

**Proprietary funds**. The City maintains two different types of proprietary funds, enterprise and internal service funds. Enterprise funds are used to report the same functions presented as *business type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Electric, Water, Sewer, Refuse, Parking, Airport and for its Transportation services. *Internal service* funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for self-insured insurance programs, its central stores and for its fleet of vehicles. Because these services predominantly benefit governmental rather than business type functions, they have been included within *governmental activities* in the government-wide financial statements. Internal service funds are presented as proprietary funds because both enterprise and internal service funds follow the accrual basis of accounting.

Proprietary funds provide the same type of information as the government-wide financial statements (*business type activities*), only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water and Sewer operations, all of which are considered to be major funds of the City. The four remaining proprietary funds noted above are combined into a single, aggregated presentation. All internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major proprietary funds and the internal service funds is provided in the form of *combining statements* and can be found on pages 68-76 in this report.

The basic proprietary fund financial statements can be found on pages 28-32 of this report.

***Agency funds***. Agency funds are used to account for situations where the City's role is purely custodial. Agency funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All assets reported in Agency funds are offset by a liability; the accrual basis of accounting is used to recognize receivables and payables.

The Agency fund financial statement can be found on page 33 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 30 of this report.

**Government-wide Financial Analysis**

The following table presents a summarization of the City's assets, liabilities and net assets for its governmental and business type activities. As noted earlier, a government's net asset position may serve over time as a useful indicator of its financial position.

| | Governmental Activities | | Business type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Current and other assets | $297,208 | $ 290,699 | $325,506 | $ 328,863 | $ 622,714 | $ 619,562 |
| Capital assets, net | 481,547 | 475,773 | 651,665 | 618,263 | 1,133,212 | 1,094,036 |
| Total assets | 778,755 | 766,472 | 977,171 | 947,126 | 1,755,926 | 1,713,598 |
| Current liabilities | 52,907 | 51,925 | 33,148 | 33,620 | 86,055 | 85,545 |
| Long-term liabilities | 157,833 | 161,846 | 398,075 | 403,498 | 555,908 | 565,344 |
| Total liabilities | 210,740 | 213,771 | 431,223 | 437,118 | 641,963 | 650,889 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 471,380 | 481,019 | 323,094 | 316,351 | 794,474 | 797,370 |
| Restricted | 106,862 | 115,352 | 40,869 | 38,535 | 147,731 | 153,887 |
| Unrestricted | (10,227) | (43,670) | 81,985 | 155,122 | 171,758 | 111,452 |
| Total net assets | $568,015 | $ 552,701 | $545,948 | $ 510,008 | $1,113,963 | $ 1,062,709 |

The City's assets exceeded liabilities by $1,113,963 at June 30, 2003, an increase of $51,254 from June 30, 2002.

By far the largest portion of the City's net assets (71 percent) reflects its investment in capital assets (i.e., land, buildings, machinery, equipment and infrastructure), net of any related debt that is still outstanding used to acquire those assets and net of unspent bond proceeds and cash held in bond reserve accounts. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.



An additional portion of the City's net assets (13 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets ($171,758) may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, $181,985 is held by the business type activities; the governmental activities reflect a negative $10,227. The Riverside Redevelopment Agency (the Agency), a blended component unit of the City, represents $72,111 of negative unrestricted net assets for 2003 and was a negative $94,108 in the prior year. The remaining governmental activities of the City have positive unrestricted net assets of $61,884 in 2003 and $50,438 in 2002, mostly attributable to the City's General Fund.

The Agency exists to finance improvements that serve to remediate blight within the City. Often these activities do not result in a residual asset, but rather underwrite the cost of a development activity deemed beneficial in meeting the Agency's objectives. The resulting statement of net assets reflects the debt obligation to be repaid through future tax revenues, without an offsetting asset. While this is the routine functioning of such an entity, when blended with the City, its negative unrestricted net assets causes the governmental activities to report a negative position.

The government's total net assets increased by $51,254 during the current fiscal year, reflecting growth in both the governmental ($15,314) and business type ($35,940) activities. This is primarily due to continued investment by the City in its infrastructure, which is largely funded by grants and dedicated revenue sources. Lastly, business type unrestricted assets grew based on municipal service charges for service exceeding the current years operating expenditures.

The following condensed summary of activities of the City's governmental and business type operations for the period ended June 30, 2003 shows total net assets increasing by $51,254. The prior fiscal year is also presented for comparative purposes. Also included in the following analysis are revenue and expense graphs to aid the reader in their understanding of the results of the current year's activities.

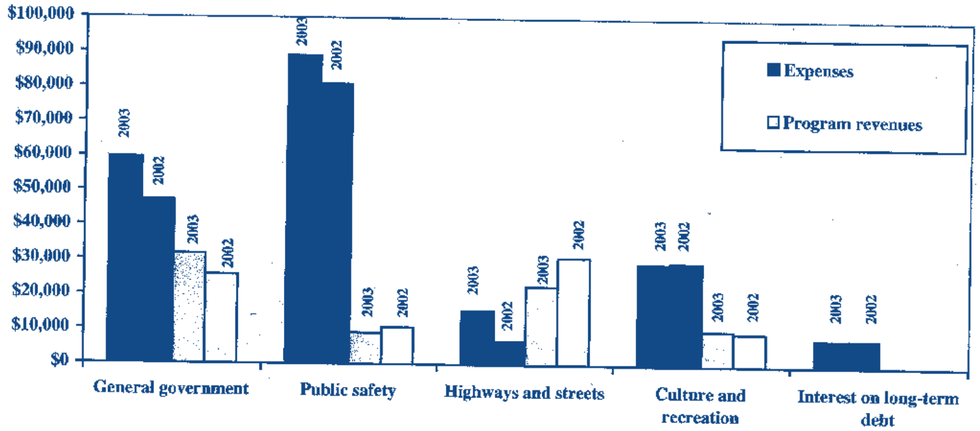
| | Governmental Activities | | Business Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | $58,273 | $ 49,682 | $269,498 | $ 278,515 | $ 327,771 | $ 328,197 |
| Operating Grants and Contributions | 12,716 | 7,257 | 3,663 | 2,992 | 16,379 | 10,249 |
| Capital Grants and Contributions | 2,144 | 19,528 | 4,976 | 1,877 | 7,120 | 21,405 |
| General Revenues: | | | | | | |
| Sales taxes | 41,691 | 38,806 | - | - | 41,691 | 38,806 |
| Property taxes | 33,584 | 29,471 | - | - | 33,584 | 29,471 |
| Other taxes and fees | 42,239 | 40,205 | - | - | 42,239 | 40,205 |
| Grants and contributions not restricted to specific programs | - | - | 15,972 | 12,638 | 15,972 | 12,638 |
| Other | 10,305 | 16,137 | 12,964 | 26,304 | 23,269 | 42,441 |
| Total revenues | 200,952 | 201,086 | 307,073 | 322,326 | 508,025 | 523,412 |
| Expenses: | | | | | | |
| General government | 59,530 | 47,245 | - | - | 59,530 | 47,245 |
| Public safety | 88,969 | 80,944 | - | - | 88,969 | 80,944 |
| Highways and streets | 15,625 | 6,819 | - | - | 15,625 | 6,819 |
| Culture and recreation | 29,236 | 29,607 | - | - | 29,236 | 29,607 |
| Interest on long-term debt | 7,696 | 7,727 | - | - | 7,696 | 7,727 |
| Electric | - | - | 186,917 | 215,131 | 186,917 | 215,131 |
| Water | - | - | 29,715 | 28,978 | 29,715 | 28,978 |
| Sewer | - | - | 20,053 | 19,214 | 20,053 | 19,214 |
| Refuse | - | - | 11,577 | 10,821 | 11,577 | 10,821 |
| Airport | - | - | 1,151 | 1,045 | 1,151 | 1,045 |
| Transportation | - | - | 2,110 | 1,735 | 2,110 | 1,735 |
| Public Parking | - | - | 1,392 | - | 1,392 | - |
| Total expenses | 201,056 | 172,342 | 252,915 | 276,924 | 453,971 | 449,266 |
| Increase in net assets before Transfers and Contributions | (104) | 28,744 | 54,158 | 45,402 | 54,054 | 74,146 |
| Transfers | 18,218 | 18,057 | (18,218) | (18,057) | - | - |
| Contributions | (2,800) | - | - | - | (2,800) | - |
| Increase in net assets | 15,314 | 46,801 | 35,940 | 27,345 | 51,254 | 74,146 |
| Net assets – beginning, as restated | 552,701 | 505,900 | 510,008 | 482,663 | 1,062,709 | 988,563 |
| Net assets – ending | $568,015 | $ 552,701 | $545,948 | $ 510,008 | $1,113,963 | $1,062,709 |



**Governmental activities.** Governmental activities increased the City's net assets by $15,314, accounting for 30 percent of the total growth in net assets. The prior fiscal period increased net assets by $46,462. Key elements of this year's increase in relation to the prior year are as follows:

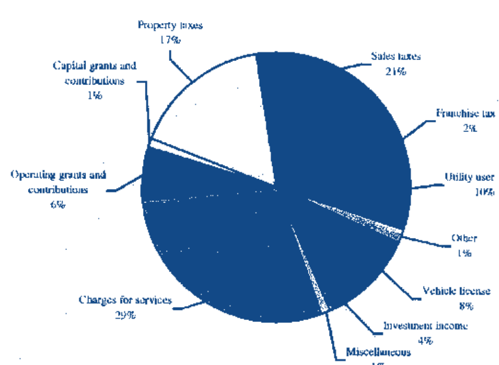
- Charges for services increased by $10,161 primarily as a result of increased revenue from building permits and related fees from builders accelerating projects to avoid Transportation Uniform Mitigation Fees associated with single family development that became effective May 27, 2003.
- Operating grants and contributions at $12,716 was $5,459 higher in fiscal year 2003 principally due to increased activity in the Housing and Development Fund. Several large projects were funded; increased payoffs of Community Development Block Grant loans occurred due to participants taking advantage of improved interest rates; and the fund received prior year funding due to delayed billings from the County.
- Capital grants and contributions decreased from $19,528 in 2002 to $2,144 in 2003. This decrease is primarily due to proceeds received in 2002 for: (1) financing of the Riverwalk Assessment District; (2) reimbursement from the State for the acquisition of the Citrus State Historical Park; and (3) reimbursement of project expenditures from the U.S. Department of Housing and Development for the Mission Village Project.
- Sales, property and other taxes and fees increased $9,032 in 2003 because of the strong local economy.
- Other general revenues decreased from $16,137 to $10,305 mainly due to a decrease in investment income resulting from lower interest rates and a decrease in miscellaneous refunds and reimbursements.
- While significant variances between years exist between the various expense functions, the total increase was $29 million. The more significant items accounting for the increase are: (1) public safety salaries and benefits, coupled with costs associated with the substantial technological improvements and increased training for police officers; (2) the impairment in value of a significant capital asset in conjunction with ongoing redevelopment efforts; (3) higher depreciation expense; and, (4) increased development related expenses.

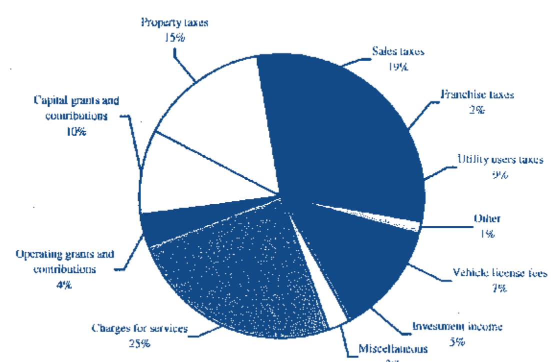
**Expenses and Programs Revenues – Governmental Activities – Fiscal Year Comparison**






**Revenues by Source – Governmental Activities – Fiscal Year Comparison**

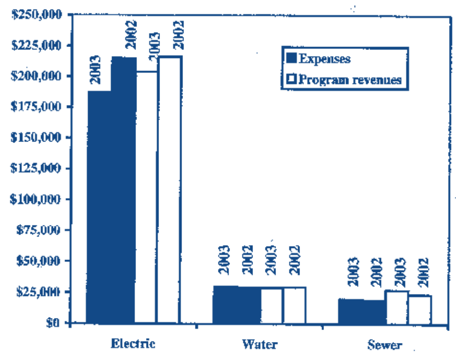


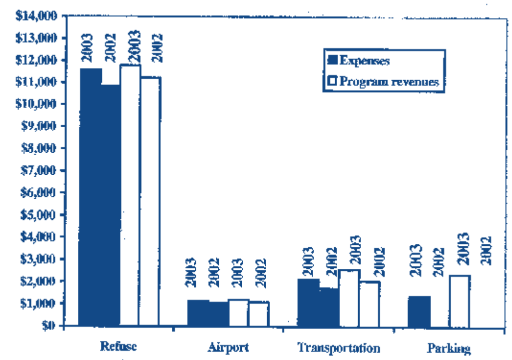



**Business type activities**. Business type activities increased the City's net assets by $35,940, accounting for 70 percent of the total growth in net assets. Net assets of the business type activities increased in the prior fiscal period by $27,345. Key elements of this year's increase in relation to the prior year are as follows:

- Total revenues decreased in 2003 to $307,073 from $322,326 in 2002 primarily due to a decrease in wholesale electric sales, which was offset in part by new transmission revenue in the Electric Fund. Also, in 2002, the Water fund received a one-time settlement of $7,900.
- Capital grants and contributions were higher in the current year than prior year by $3,334. The increase is mainly due to the transfer of parking structures from the General Fund to the newly created Parking Fund.

**Expenses and Programs Revenues – Business Type Activities – Fiscal Year Comparison**

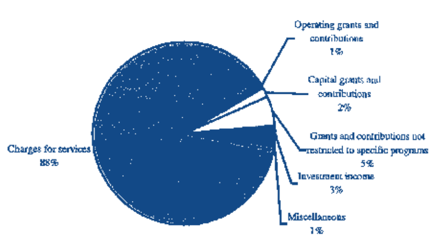


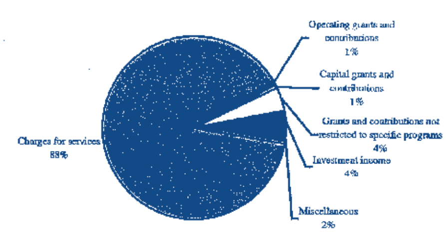



**Revenues by Source – Business Type Activities – Fiscal Year Comparison**

**2003**




**2002**



**Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

***Governmental funds.*** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $195,228, an increase of $9,760 in comparison with the prior year. Approximately three-quarters of this amount ($152,743) constitutes unreserved fund balance, which is available for spending at the City's discretion. However, $122,496 of that amount has been designated for specific capital projects and economic contingencies. The remainder of fund balance is reserved to indicate funds not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period ($20,726), 2) to pay debt service ($9,161), and 3) for a variety of other restricted purposes ($12,598).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was $67,376, of which $54,334 was designated for future operations and economic contingencies. The total fund balance reached $81,738.

The fund balance of the City's general fund increased by $2,184 during the current fiscal year. This is due to the continued strength of the local economy, which translates into development-oriented revenues and significant taxable sales. Revenues finished approximately $8.3 million above the original budgeted amounts. Departments budgeted allocations exceeded actual expenditures by approximately $57.6 million. It is important to note, however, that most of these expenditure savings are designated for capital projects and the spending authority is continued to the next fiscal year. These committed monies are reflected as a designation of fund balance. Also, an additional $1.1 million was set-aside in the economic contingency portion of the fund balance, increasing that balance to $22.5 million.

The Redevelopment debt service fund has a total fund balance of $8,394, all of which is reserved for the payment of debt service. A net decrease in the fund balance occurred during the current year ($1,561), as fewer funds were required to meet near term debt service payments.

***Proprietary funds.*** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.



Unrestricted net assets of the Electric, Water and Sewer operations at the end of the year amounted to $88,953, $15,853, and $78,054, respectively. The total growth in net assets for these funds was $12,382, $7,643 and $10,311, respectively, demonstrating the adequacy of the current rate structure for these funds.

**General Fund Budgetary Highlights**

The increase from the total original budgeted expenditures to the final amounted of $28,596 can be generally summarized as follows:

- The Administrative Services department added appropriations of $18,074, primarily to cover purchases of land for an airport clear zone, an airport fire station and a new police precinct facility. A bond issue will be completed during fiscal year 2003-04 to cover the costs to complete these projects;
- The Police department added appropriations of $3,604, primarily for grant funded operational charges;
- The Fire department added appropriations of $1,166, primarily for grant funded operational charges;
- The Park and Recreation department added appropriations of $3,062, primarily for grant funded improvement projects; and
- Other miscellaneous appropriations were added in the remaining departments throughout the year in the amount of $2,690.

**Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2003 amounted to $1,133,212 (net of accumulated depreciation). This investment includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's net investment in capital assets for the current fiscal year was $39,176 ($5,774 for governmental activities including internal service funds and $33,402 for business type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of street improvements ($15,587); a new branch library ($2,278); completion of the installation of four natural gas turbine generators by the Electric Utility ($45,552); Water Utility system upgrades ($32,476); and Sewer department upgrades ($2,230).

Construction in progress totaled $48,304 at June 30, 2003. Depreciation expense during the fiscal year was $17,441 for governmental activities and $24,531 for business type activities.

**City of Riverside's Capital Assets**
(net of depreciation)

| | Governmental Activities | | Business Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Land | $109,965 | $ 112,067 | $ 32,560 | $ 30,425 | $ 142,525 | $ 142,492 |
| Buildings and improvements | 48,757 | 55,233 | 136,243 | 138,439 | 185,000 | 193,672 |
| Improvements other than Buildings | 17,369 | 18,664 | 441,875 | 369,712 | 459,244 | 388,376 |
| Machinery and equipment | 13,983 | 16,011 | 9,097 | 9,043 | 23,080 | 25,054 |
| Infrastructure | 275,059 | 268,931 | - | - | 275,059 | 268,931 |
| Construction in progress | 16,414 | 4,867 | 31,890 | 70,644 | 48,304 | 75,511 |
| Total | $481,547 | $ 475,773 | $651,665 | $618,263 | $1,133,212 | $ 1,094,036 |

Additional information on the City's capital assets can be found in note 5 on page 36 of this report.



**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of $456,824. The total represents bonds secured solely by specified revenue sources (i.e., revenue bonds). At June 30, 2003, the City had no special assessment debt outstanding.

**City of Riverside's Long-Term Debt**

| | Governmental Activities | | Business Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| Lease/Revenue Bonds | $109,615 | $112,405 | $342,559 | $355,621 | $456,824 | $473,701 |
| Certificates of Participation | 4,650 | 5,150 | - | - | 4,650 | 5,150 |
| Special assessment debt with Government commitment | - | 135 | - | - | - | 135 |
| Notes Payable | 11,447 | 11,096 | 11,524 | 6,966 | 22,971 | 18,062 |
| Capital Leases | 5,517 | 6,430 | 498 | 571 | 6,015 | 7,001 |
| Compensated Absences | 26,604 | 26,630 | - | - | 26,604 | 26,630 |
| Water Acquisition Rights | - | - | 1,083 | 1,121 | 1,083 | 1,121 |
| Total | $157,833 | $161,846 | $355,664 | $364,279 | $518,147 | $531,800 |

The City's total debt decreased by $13,653 (2.6 percent) during the current fiscal year due to the issuance of $5,374 in new sewer department debt offset by scheduled debt service payments.

The City's Electric and Water Utilities maintain an "A+" and "AA", respectively, from Standard & Poors and Fitch for their revenue bonds.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total assessed valuation. The current debt limitation for the City is $1,782,778, all of which is excess because the City has no outstanding general obligation debt.

Additional information on the City's long-term debt can be found in note 7 on page 42 of this report

**State of California Issues That May Impact the City in Future Years**

Vehicle License Fees (VLF) Issue:

The State of California is facing significant deficits due to a number of factors, not the least of which include a slowdown in the State's economy and the effects of unfavorable long-term contracts entered into during the energy crisis of 2002. Current estimates of the State's budget shortfall for FYE 2004 range up to $10.2 billion, excluding any required state "backfill" for VLF. Since a significant portion of local government revenues come from the State, the current budget crisis in California could have a direct significant financial impact on all local governments, including the City of Riverside. The State's legislature have instituted many revenue enhancement Bills to try to narrow the budget shortfall, including raising the license fees paid by car owners by 200% effective October 1, 2003. This Bill caused a backlash of criticism from the public which, in turn, led to repealing the fee increase as a major issue in the October 7, 2003 California Governor recall election. On November 17, 2003, the State's new governor signed an executive order repealing the license fee increase retroactive to October 1, 2003.

The Governor wants both houses to approve a General Fund appropriation of approximately $3.2 billion to backfill lost local government revenue from the vehicle license fee, but the initial word is that the Senate's Democratic leadership is reluctant to fund a backfill for local government at the expense of General Fund supported programs.

The Legislative Analyst has issued her report on the current condition of the State's finances in which she predicts ongoing deficits of about $14 billion annually. The Governor has called for special sessions of the State legislature beginning November 18, 2003 to discuss the state's fiscal problems. At this time, the City's Management is not able to predict the ultimate effect that the reduction in VLF fees will have on the City's financial position or results of operations.

Seal Beach, California Proposition 13 Issue:

In November 2001, an Orange County Superior Court Judge ruled that the Orange County Assessor's Office violated Proposition 13 by increasing the taxable value of a Seal Beach, California residence by 4% in a single year (1998). County attorneys argued that the assessment was legal because it made up for years in which the property value did not increase. The county maintains it was merely "recapturing" the full tax value of the property, charging 2% for each of the years the property values did not rise. On December 12, 2002, the Superior Court certified class action status for this case and the Court and Tax Collector are currently addressing when and if notification to the taxpayers should be executed.

In 2002, two other local courts (Los Angeles and San Diego) ruled differently on this issue and both affirmed the current statewide practice of property assessment restoration (i.e.; the local courts differ on this issue). The property tax laws are applied on a statewide



basis and the contradicting ruling with two other local courts on the same legal issue requires a uniformity review at the appellate level. With this notice, the Court of Appeal will establish a briefing and hearing schedule and that process may take several months to complete. Based on the Court of Appeal's briefing schedule, the respondent is required to submit a reply brief by October 17, 2003. Then, the appellants will answer the respondent's reply brief by November 7, 2003. The Court of Appeal has scheduled a hearing on December 16, 2003. If the Judge's decision is upheld on appeal, it could have financial ramifications throughout the State of California. The City's management is unable to reasonably estimate the financial effect on the City, or on the Redevelopment Agency, if the Orange County Superior Court's decision is upheld since it would be dependent upon how the Court of Appeal decides to apply its ruling.

**Economic Factors and Next Year's Budget and Rates**

- The assessment roll for the City increased 7.5% between fiscal year 2003 and fiscal year 2004.
- Property taxes increased between fiscal year 2002 and 2003 by 14% due to new development and higher assessed property values.
- Employment in Riverside County is up 3.6% over the prior year and unemployment is down to 5.8% as of February 2003 as compared to 6.1% for February 2002.
- The voters of the City of Riverside passed Measure G in November 2003, whereby the City will incur up to $20 million of bonded indebtedness to replace outdated and substandard fire stations, upgrade training facilities and construct an emergency operations center. The debt is to be repaid from ad valorem taxes levied annually at a rate not to exceed $12 per $100,000 of property tax values.
- Effective November 1, 2003, the City electric rates will increase 3.1%. Rates will increase to help improve system reliability, ensure the financial stability of the Utility and help avoid large unplanned rate increases in the future.
- The required contribution rates as a percentage of payroll for the City's retirement program will be increasing effective July 1, 2004 as follows:
    - Miscellaneous Plan – 3.3% to 12.34%
    - Safety Plan – 15.8% to 31.2%

At the time of budget preparation for fiscal year 2004, the economic outlook for the City was considered to be very strong. The General Fund Budget for fiscal year 2004 of $149 million contemplates the use of approximately $4 million of the beginning fund balance.

**Request for information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 3900 Main Street City of Riverside, CA 92522.

City of Riverside
Statement of Net Assets
June 30, 2003
(amounts expressed in thousands)

| Assets: | Governmental Activities | Business type Activities | Total |
|---|---|---|---|
| Cash and investments | $ 205,357 | $ 135,099 | $ 340,456 |
| Receivables (net of allowances for uncollectibles) | 36,735 | 43,523 | 80,258 |
| Inventories | 2,415 | 0 | 2,415 |
| Nuclear material inventory | 0 | 1,150 | 1,150 |
| Prepaid items | 196 | 5,288 | 5,484 |
| Deferred charges | 0 | 34,688 | 34,688 |
| Internal balances | (4,296) | 4,296 | 0 |
| Land and improvements held for resale | 7,882 | 0 | 7,882 |
| Restricted assets: | | | |
| Cash and cash equivalents | 0 | 35,242 | 35,242 |
| Cash and cash equivalents at fiscal agent | 0 | 18,209 | 18,209 |
| Investments at fiscal agent | 20,994 | 47,391 | 68,385 |
| Other | 0 | 620 | 620 |
| Capital leases receivable | 27,925 | 0 | 27,925 |
| Capital assets (net of accumulated depreciation) | 481,547 | 651,685 | 1,133,212 |
| Total assets | 778,755 | 977,171 | 1,755,926 |
| | | | |
| Liabilities | | | |
| Accounts payable and other current liabilities | 14,314 | 20,054 | 34,368 |
| Accrued interest payable | 2,028 | 0 | 2,028 |
| Deferred revenue | 0 | 1,863 | 1,863 |
| Deposits | 18,200 | 3,262 | 21,462 |
| Current liabilities payable from restricted assets | 0 | 7,969 | 7,969 |
| Claims and judgments payable | 18,365 | 0 | 18,365 |
| Noncurrent liabilities: | | | |
| Due within one year | 13,701 | 18,380 | 32,081 |
| Due in more than one year | 144,132 | 379,695 | 523,827 |
| Total liabilities | 210,740 | 431,223 | 641,963 |
| | | | |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 471,380 | 323,094 | 794,474 |
| Restricted for: | | | |
| Capital projects | 85,788 | 0 | 85,788 |
| Debt service | 6,567 | 37,678 | 44,245 |
| Other purposes | 14,507 | 3,191 | 17,698 |
| Unrestricted | (10,227) | 181,985 | 171,758 |
| Total net assets | $ 568,015 | $ 545,948 | $ 1,113,963 |

The notes to the financial statements are an integral part of this statement.



City of Riverside
Statement of Activities
For the fiscal year ended June 30,2003
(amounts expressed in thousands)

| | | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|---|---|---|---|---|---|---|---|
| Functions/Programs | Expenses | Indirect Expenses Allocation | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business type Activities | Total |
| Governmental activities: | | | | | | | | |
| General government | $ 48,843 | $ 10,687 | $ 22,675 | $ 8,939 | $ 23 | $ (27,893) | | $ (27,893) |
| Public safety | 94,179 | (5,210) | 6,427 | 2,518 | 0 | (80,024) | | (80,024) |
| Highways and streets | 18,433 | (2,808) | 20,867 | 139 | 1,578 | 6,959 | | 6,959 |
| Culture and recreation | 31,905 | (2,669) | 8,304 | 1,120 | 543 | (19,269) | | (19,269) |
| Interest on long-term debt | 7,696 | | 0 | 0 | 0 | (7,696) | | (7,696) |
| Total governmental activities | 201,056 | 0 | 58,273 | 12,716 | 2,144 | (127,923) | | (127,923) |
| | | | | | | | | |
| Business type activities: | | | | | | | | |
| Electric | 186,917 | | 204,293 | 0 | 0 | | $ 17,376 | 17,376 |
| Water | 29,715 | | 28,637 | 0 | 0 | | (1,078) | (1,078) |
| Sewer | 20,053 | | 21,172 | 1,088 | 4,976 | | 7,183 | 7,183 |
| Refuse | 11,577 | | 11,795 | 0 | 0 | | 218 | 218 |
| Airport | 1,151 | | 1,046 | 150 | 0 | | 45 | 45 |
| Transportation | 2,110 | | 170 | 2,425 | 0 | | 485 | 485 |
| Public parking | 1,392 | | 2,385 | 0 | 0 | | 993 | 993 |
| Total business type activities | 252,915 | | 269,498 | 3,663 | 4,976 | | 25,222 | 25,222 |
| Total | $ 453,971 | | $ 327,771 | $ 16,379 | $ 7,120 | (127,923) | 25,222 | (102,701) |

| | Governmental Activities | Business type Activities | Total |
|---|---|---|---|
| General revenues: | | | |
| Taxes: | | | |
| Sales | 41,691 | 0 | 41,691 |
| Property | 33,584 | 0 | 33,584 |
| Utility users | 19,928 | 0 | 19,928 |
| Franchise | 3,811 | 0 | 3,811 |
| Other | 2,967 | 0 | 2,967 |
| Vehicle license fees | 15,533 | 0 | 15,533 |
| Grants and contributions not restricted to specific programs | 0 | 15,972 | 15,972 |
| Investment income | 8,064 | 9,115 | 17,179 |
| Miscellaneous | 2,241 | 3,849 | 6,090 |
| Transfers | 18,218 | (18,218) | 0 |
| Contributions | (2,800) | 0 | (2,800) |
| Total general revenues and transfers | 143,237 | 10,718 | 153,955 |
| Change in net assets | 15,314 | 35,940 | 51,254 |
| Net assets - beginning, as restated | 552,701 | 510,008 | 1,062,709 |
| Net assets - ending | $ 568,015 | $ 545,948 | $ 1,113,963 |

The notes to the financial statements are an integral part of this statement.

Balance Sheet
Governmental Funds
June 30, 2003
(amounts expressed in thousands)

| Assets: | General | Redevelopment Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| Cash and investments | $ 85,232 | $ 2,572 | $ 97,596 | $ 185,400 |
| Cash and investments at fiscal agent | 0 | 5,947 | 15,047 | 20,994 |
| Receivables (net) | | | | |
| Interest | 975 | 80 | 907 | 1,962 |
| Property taxes | 8,139 | 0 | 235 | 8,374 |
| Sales taxes | 8,011 | 0 | 0 | 8,011 |
| Utility billed | 492 | 0 | 0 | 492 |
| Accounts | 3,304 | 201 | 178 | 3,683 |
| Intergovernmental | 2,416 | 0 | 3,309 | 5,725 |
| Notes | 33 | 0 | 8,188 | 8,221 |
| Capital lease receivable | 0 | 27,925 | 0 | 27,925 |
| Prepaid items | 190 | 0 | 3 | 193 |
| Due from other funds | 8,860 | 0 | 930 | 9,790 |
| Advances to other funds | 3,715 | 229 | 102 | 4,046 |
| Land and improvements held for resale | 0 | 0 | 7,882 | 7,882 |
| Total assets | $ 121,367 | $ 36,954 | $ 134,377 | $ 292,698 |
| **Liabilities and fund balances** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ 2,726 | $ 530 | $ 3,401 | $ 6,657 |
| Accrued payroll | 5,652 | 0 | 213 | 5,865 |
| Retainage payable | 169 | 0 | 812 | 981 |
| Intergovernmental | 128 | 0 | 0 | 128 |
| Deferred revenue | 9,991 | 27,994 | 9,596 | 47,581 |
| Deposits | 18,012 | 0 | 169 | 18,181 |
| Due to other funds | 50 | 0 | 1,795 | 1,845 |
| Advances from other funds | 2,901 | 36 | 13,295 | 16,232 |
| Total liabilities | 39,629 | 28,560 | 29,281 | 97,470 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Encumbrances | 10,424 | 0 | 10,302 | 20,726 |
| Interfund receivable | 3,715 | 0 | 102 | 3,817 |
| Debt service | 0 | 8,394 | 767 | 9,161 |
| Prepaid items | 190 | 0 | 3 | 193 |
| Notes receivable | 33 | 0 | 673 | 706 |
| Land and improvements held for resale | 0 | 0 | 7,882 | 7,882 |
| Unreserved, designated for economic contingencies | 22,500 | 0 | 0 | 22,500 |
| Unreserved, designated for future operations | 25,434 | 0 | 68,162 | 93,596 |
| Unreserved, designated for liability insurance | 6,400 | 0 | 0 | 6,400 |
| Unreserved : | | | | |
| General fund | 13,042 | 0 | 0 | 13,042 |
| Special revenue funds | 0 | 0 | 3,667 | 3,667 |
| Capital projects funds | 0 | 0 | 12,306 | 12,306 |
| Permanent fund | 0 | 0 | 1,232 | 1,232 |
| Total fund balances | 81,738 | 8,394 | 105,096 | 195,228 |
| Total liabilities and fund balances | $ 121,367 | $ 36,954 | $ 134,377 | $ 292,698 |

The notes to the financial statements are an integral part of this statement.



CITY OF RIVERSIDE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2003
(amounts expressed in thousands)

| | | |
|---|---|---|
| Total fund balances - governmental funds | | $195,228 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | | |
| Capital assets net of accumulated depreciation used in governmental activities that are not current financial resources and, therefore, are not reported in the funds. | | 479,379 |
| Other long-term assets that do not meet the "availability" criteria for revenue recognition and therefore, are deferred in the funds. | | |
| Deferred Revenue-Governmental Funds | $ 47,581 | |
| Deferred Revenue-Internal Service Funds | 59 | 47,640 |
| Long-term liabilities, as listed below, are not due and payable in the current period and therefore are not reported in the funds. | | |
| Bonds Payable | $ (109,615) | |
| Accrued Interest Payable | (2,028) | |
| Certificates of Participation Payable | (4,650) | |
| Notes Payable | (11,447) | |
| Capital Leases Payable | (5,517) | |
| Compensated Absences | (26,083) | (159,340) |
| Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets. | | 5,108 |
| Net assets of governmental activities | | $568,015 |

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30,2003
(amounts expressed in thousands)

| | General | Redevelopment Debt Service | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| Revenues: | | | | |
| Taxes | $ 82,062 | $ 12,944 | $ 7,280 | $ 102,286 |
| Licenses and permits | 7,243 | 0 | 7,151 | 14,394 |
| Intergovernmental | 19,897 | 0 | 23,932 | 43,829 |
| Charges for services | 8,872 | 0 | 6 | 8,878 |
| Fines and forfeitures | 1,903 | 0 | 192 | 2,095 |
| Special assessments | 3,906 | 0 | 2,418 | 6,324 |
| Rental and investment income | 3,478 | 2,186 | 5,591 | 11,255 |
| Miscellaneous | 1,926 | 619 | 2,497 | 5,042 |
| Total revenues | 129,287 | 15,749 | 49,067 | 194,103 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 15,555 | 283 | 6,193 | 22,031 |
| Public safety | 96,487 | 0 | 0 | 96,487 |
| Highways and streets | 12,034 | 0 | 0 | 12,034 |
| Culture and recreation | 21,087 | 0 | 6,492 | 27,579 |
| Capital outlay | 0 | 0 | 39,098 | 39,098 |
| Debt service: | | | | |
| Principal | 0 | 2,694 | 1,160 | 3,854 |
| Interest | 0 | 7,371 | 414 | 7,785 |
| Repayment of advances | 0 | 616 | 0 | 616 |
| Total expenditures | 145,163 | 10,964 | 53,357 | 209,484 |
| Revenues over (under) expenditures | (15,876) | 4,785 | (4,290) | (15,381) |
| Other financing sources (uses): | | | | |
| Transfers in | 20,215 | 2,925 | 13,062 | 36,202 |
| Transfers out | (3,466) | (9,659) | (4,859) | (17,984) |
| Proceeds from issuance of long-term debt | 0 | 0 | 750 | 750 |
| Sale of capital assets | 1,311 | 0 | 3 | 1,314 |
| Advances from other funds | 0 | 388 | (307) | 81 |
| Total other financing sources (uses) | 18,060 | (6,346) | 8,649 | 20,363 |
| Net change in fund balances | 2,184 | (1,561) | 4,359 | 4,982 |
| Fund balances, as previously reported | 74,776 | 9,955 | 100,737 | 185,468 |
| Restatement | 4,778 | 0 | 0 | 4,778 |
| Fund balances, beginning, as restated | 79,554 | 9,955 | 100,737 | 190,246 |
| Fund balances, ending | $ 81,738 | $ 8,394 | $ 105,096 | $ 195,228 |

The notes to the financial statements are an integral part of this statement.



CITY OF RIVERSIDE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2003
(amounts expressed in thousands)

| | | |
|---|---|---|
| Net change in fund balances-total governmental funds | | $4,982 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, as listed below: | | |
| Capital Outlay | $ 22,232 | |
| Depreciation Expense | (16,721) | 5,511 |
| Revenues in the statement of activities that do not meet the "availability" criteria for revenue recognition and therefore are not reported as revenue in the funds. | | 561 |
| The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is listed below: | | |
| Principal repayments | $ 3,854 | |
| Interest payments | 89 | |
| Issuance of notes payable | (750) | |
| Capital lease financing | 962 | 4,155 |
| Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities. | | 105 |
| Change in net assets of governmental activities | | $ 15,314 |

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
For the fiscal year ended June 30,2003
(amounts expressed in thousands)

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Favorable (Unfavorable) Variance with Final Budget |
|---|---|---|---|---|
| Revenues: | | | | |
| Taxes | $ 75,490 | $ 75,490 | $ 82,062 | $ 6,572 |
| Licenses and permits | 5,599 | 5,599 | 7,243 | 1,644 |
| Intergovernmental | 23,986 | 29,329 | 19,897 | (9,432) |
| Charges for services | 6,193 | 6,362 | 8,872 | 2,510 |
| Fines and forfeitures | 1,335 | 1,335 | 1,903 | 568 |
| Special assessments | 3,530 | 3,880 | 3,906 | 26 |
| Rental and investment income | 3,678 | 3,788 | 3,478 | (310) |
| Miscellaneous | 1,217 | 1,977 | 1,926 | (51) |
| Total revenues | 121,030 | 127,760 | 129,287 | 1,527 |
| Expenditures: | | | | |
| General government: | | | | |
| Mayor | 315 | 327 | 295 | 32 |
| Council | 79 | 159 | 120 | 39 |
| Manager | 1,487 | 1,536 | 1,132 | 404 |
| Attorney | 332 | 328 | (122) | 450 |
| Clerk | 487 | 487 | 120 | 367 |
| Planning | 4,721 | 5,770 | 4,258 | 1,512 |
| Human Resources | 3,170 | 3,294 | 2,988 | 306 |
| General Services | 10,197 | 28,271 | 8,111 | 20,160 |
| Finance | 8,200 | 7,889 | 5,319 | 2,570 |
| Information System | 12,836 | 13,473 | 10,547 | 2,926 |
| Non-departmental | 16,080 | 16,641 | 9,411 | 7,230 |
| Sub-total | 57,904 | 78,175 | 42,179 | 35,996 |
| Allocated expenditures | (26,297) | (26,297) | (26,624) | 327 |
| Total general government | 31,607 | 51,878 | 15,555 | 36,323 |

continued

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Favorable (Unfavorable) Variance with Final Budget |
|---|---|---|---|---|
| Public safety: | | | | |
| Police | 62,566 | 66,170 | 62,723 | 3,447 |
| Fire | 30,047 | 31,213 | 27,124 | 4,089 |
| Animal regulation | 2,219 | 2,219 | 1,259 | 960 |
| Building and zoning inspection | 1,808 | 1,858 | 1,810 | 48 |
| Street lighting | 3,584 | 3,584 | 3,571 | 13 |
| Total public safety | 100,224 | 105,044 | 96,487 | 8,557 |
| Highways and streets | 13,577 | 14,020 | 12,034 | 1,986 |
| Culture and recreation | 28,817 | 31,879 | 21,087 | 10,792 |
| Total expenditures | 174,225 | 202,821 | 145,163 | 57,658 |
| Deficiency of revenue under expenditures | (53,195) | (75,061) | (15,876) | 59,185 |
| Other financing sources (uses): | | | | |
| Transfers in | 19,649 | 20,110 | 20,215 | 105 |
| Transfers out | 3,006 | 3,314 | (3,466) | (6,780) |
| Sales of capital assets | 35 | 1,235 | 1,311 | 76 |
| Total other financing sources (uses) | 22,690 | 24,659 | 18,060 | (6,599) |
| Net change in fund balances | (30,505) | (50,402) | 2,184 | 52,586 |
| Fund balance, as previously reported | 74,776 | 74,776 | 74,776 | 0 |
| Restatement | 0 | 0 | 4,778 | 4,778 |
| Fund balance, beginning, as restated | 74,776 | 74,776 | 79,554 | 4,778 |
| Fund balance, ending | $ 44,271 | $ 24,374 | $ 81,738 | $ 57,364 |

The notes to the financial statements are an integral part of this statement.



City of Riverside
Statement of Net Assets
Proprietary Funds
June 30, 2003
(amounts expressed in thousands)

| Assets | Electric | Water | Sewer | Other Enterprise Funds | Total Enterprise Funds | Governmental Activities-Internal Service Funds |
|---|---|---|---|---|---|---|
| Current assets: | | | | | | |
| Cash and investments | $ 47,244 | $ 20,320 | $ 63,742 | $ 3,793 | $ 135,099 | $ 19,957 |
| Receivables (net of allowances for uncollectibles) | | | | | | |
| Interest | 613 | 231 | 653 | 70 | 1,567 | 192 |
| Utility billed | 10,886 | 1,391 | 625 | 357 | 13,259 | 0 |
| Utility unbilled | 9,282 | 1,638 | 777 | 548 | 12,245 | 0 |
| Accounts | 11,082 | 731 | 1,757 | 187 | 13,757 | 0 |
| Intergovernmental | 586 | 156 | 184 | 1,105 | 2,031 | 75 |
| Notes | 0 | 0 | 664 | 0 | 664 | 0 |
| Nuclear materials inventory | 1,150 | 0 | 0 | 0 | 1,150 | 0 |
| Inventory | 0 | 0 | 0 | 0 | 0 | 2,415 |
| Prepaid items | 5,278 | 3 | 0 | 7 | 5,288 | 3 |
| Due from other funds | 50 | 0 | 0 | 0 | 50 | 0 |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | 3,010 | 0 | 3,709 | 3,191 | 9,910 | 0 |
| Cash and investments at fiscal agent | 48,706 | 16,894 | 0 | 0 | 65,600 | 0 |
| Revenue bond current debt service account | 13,588 | 4,632 | 0 | 0 | 18,220 | 0 |
| Revenue bond future debt service account | 7,112 | 0 | 0 | 0 | 7,112 | 0 |
| Other | 620 | 0 | 0 | 0 | 620 | 0 |
| Total current assets | 159,207 | 45,996 | 72,111 | 9,258 | 286,572 | 22,642 |
| Non-current assets: | | | | | | |
| Deferred charges | 27,704 | 1,405 | 227 | 5,352 | 34,688 | 0 |
| Advances to other funds | 21 | 62 | 12,199 | 0 | 12,282 | 3,605 |
| Capital assets: | | | | | | |
| Land | 5,839 | 14,510 | 3,048 | 9,163 | 32,560 | 0 |
| Buildings | 12,205 | 12,439 | 163,039 | 4,510 | 192,193 | 0 |
| Accumulated depreciation-buildings | (2,541) | (1,770) | (49,346) | (2,293) | (55,950) | 0 |
| Improvements other than buildings | 424,682 | 257,051 | 32,239 | 6,899 | 720,871 | 0 |
| Accumulated depreciation-improvements other than buildings | (188,232) | (81,387) | (6,671) | (2,706) | (278,996) | 0 |
| Machinery and equipment | 13,073 | 6,506 | 5,445 | 9,999 | 35,023 | 8,803 |
| Accumulated depreciation-machinery and equipment | (10,169) | (5,046) | (4,330) | (6,381) | (25,926) | (6,635) |
| Construction in progress | 17,462 | 9,802 | 0 | 4,626 | 31,890 | 0 |
| Total non-current assets | 300,044 | 213,572 | 155,850 | 29,169 | 698,635 | 5,773 |
| Total assets | 459,251 | 259,568 | 227,961 | 38,427 | 985,207 | 28,415 |

continued

City of Riverside
Statement of Net Assets
Proprietary Funds
June 30, 2003
(amounts expressed in thousands)

| Liabilities | Electric | Water | Sewer | Other Enterprise Funds | Total Enterprise Funds | Governmental Activities-Internal Service Funds |
|---|---|---|---|---|---|---|
| Current liabilities: | | | | | | |
| Accounts payable | 8,567 | 865 | 485 | 794 | 10,731 | 596 |
| Accrued payroll | 4,608 | 1,992 | 1,338 | 886 | 8,824 | 587 |
| Retainage payable | 307 | 152 | 0 | 0 | 459 | 21 |
| Intergovernmental | 39 | 1 | 0 | 0 | 40 | 0 |
| Claims and judgments | 0 | 0 | 0 | 0 | 0 | 18,365 |
| Deferred revenue | 803 | 278 | 277 | 505 | 1,863 | 59 |
| Deposits | 2,870 | 392 | 0 | 0 | 3,262 | 19 |
| Due to other funds | 0 | 0 | 0 | 4,335 | 4,335 | 3,660 |
| Capital leases-current | 0 | 0 | 42 | 17 | 59 | 0 |
| Water stock acquisitions-current | 0 | 150 | 0 | 0 | 150 | 0 |
| Total current liabilities | 17,214 | 3,830 | 2,142 | 6,537 | 29,723 | 23,307 |
| Current liabilities payable from restricted assets: | | | | | | |
| Revenue bonds | 10,780 | 4,010 | 2,800 | 0 | 17,590 | 0 |
| Accrued interest | 2,808 | 622 | 909 | 0 | 4,339 | 0 |
| Deferred revenue | 3,630 | 0 | 0 | 0 | 3,630 | 0 |
| Total current liabilities payable from restricted assets | 17,218 | 4,632 | 3,709 | 0 | 25,559 | 0 |
| Noncurrent liabilities: | | | | | | |
| Revenue bonds | 221,921 | 68,428 | 34,619 | 0 | 324,968 | 0 |
| Notes payable | 0 | 0 | 11,524 | 0 | 11,524 | 0 |
| Capital leases | 0 | 0 | 201 | 238 | 439 | 0 |
| Decommissioning liability | 38,144 | 0 | 0 | 0 | 38,144 | 0 |
| Water stock acquisitions | 0 | 933 | 0 | 0 | 933 | 0 |
| Advances from other funds | 0 | 0 | 0 | 3,701 | 3,701 | 0 |
| Landfill capping | 0 | 0 | 0 | 4,268 | 4,268 | 0 |
| Total noncurrent liabilities | 260,065 | 69,361 | 46,344 | 8,207 | 383,977 | 0 |
| Total liabilities | 294,497 | 77,823 | 52,195 | 14,744 | 439,259 | 23,307 |
| Net Assets | | | | | | |
| Invested in capital assets, net of related debt | 50,015 | 157,475 | 94,237 | 21,367 | 323,094 | 2,168 |
| Restricted for: | | | | | | |
| Debt service | 25,786 | 8,417 | 3,475 | 0 | 37,678 | 0 |
| Other purposes | 0 | 0 | 0 | 3,191 | 3,191 | 0 |
| Unrestricted | 88,953 | 15,853 | 78,054 | (875) | 181,985 | 2,940 |
| Total net assets | $ 164,754 | $ 181,745 | $ 175,766 | $ 23,683 | $ 545,948 | $ 5,108 |

The notes to the financial statements are an integral part of this statement.



City of Riverside
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the fiscal year ended June 30, 2003
(amounts expressed in thousands)

| | Electric | Water | Sewer | Other Enterprise Funds | Total Enterprise Funds | Governmental Activities-Internal Service Funds |
|---|---|---|---|---|---|---|
| Operating revenues: | | | | | | |
| Charges for services | $ 204,293 | $ 28,637 | $ 21,172 | $ 15,396 | $ 269,498 | $ 14,930 |
| Operating expenses: | | | | | | |
| Personal services | 11,118 | 5,457 | 5,664 | 4,025 | 26,264 | 2,445 |
| Contractual services | 2,095 | 1,100 | 1,045 | 3,490 | 7,730 | 106 |
| Maintenance and operation | 137,809 | 6,130 | 3,609 | 4,806 | 152,354 | 424 |
| General | 10,172 | 6,678 | 2,076 | 1,846 | 20,772 | 1,801 |
| Materials and supplies | 381 | 313 | 769 | 534 | 1,997 | 85 |
| Insurance | 389 | 250 | 270 | 297 | 1,206 | 10,690 |
| Depreciation and amortization | 13,516 | 5,554 | 4,405 | 1,056 | 24,531 | 719 |
| Total operating expenses | 175,480 | 25,482 | 17,838 | 16,054 | 234,854 | 16,270 |
| Operating income (loss) | 28,813 | 3,155 | 3,334 | (658) | 34,644 | (1,340) |
| Nonoperating income (expenses): | | | | | | |
| Operating grants | 0 | 0 | 1,088 | 2,575 | 3,663 | 0 |
| Interest income | 4,286 | 1,763 | 2,838 | 228 | 9,115 | 900 |
| Other | 1,306 | 1,670 | 236 | 124 | 3,336 | 530 |
| Gain on retirement of capital assets | 387 | 65 | 3 | 58 | 513 | 15 |
| Capital improvement fees | 0 | 0 | 4,976 | 0 | 4,976 | 0 |
| Interest expense and fiscal charges | (11,437) | (4,233) | (2,215) | (176) | (18,061) | 0 |
| Total nonoperating income (expenses) | (5,458) | (735) | 6,926 | 2,809 | 3,542 | 1,445 |
| Income before transfers and capital contributions | 23,355 | 2,420 | 10,260 | 2,151 | 38,186 | 105 |
| Capital contributions | 4,360 | 8,405 | 0 | 3,207 | 15,972 | 0 |
| Transfers In | 0 | 0 | 51 | 246 | 297 | 0 |
| Transfers out | (15,333) | (3,182) | 0 | 0 | (18,515) | 0 |
| Change In net assets | 12,382 | 7,643 | 10,311 | 5,604 | 35,940 | 105 |
| Total net assets - beginning | 152,372 | 174,102 | 165,455 | 18,079 | 510,008 | 5,003 |
| Total net assets - ending | $ 164,754 | $ 181,745 | $ 175,766 | $ 23,683 | $ 545,948 | $ 5,108 |

The notes to the financial statements are an integral part of this statement.

City of Riverside
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2003
(amounts expressed in thousands)

| | Electric | Water | Sewer | Other Enterprise Funds | Total Enterprise Funds | Governmental Activities-Internal Service Funds |
|---|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | | |
| Cash received from customers and users | $ 197,139 | $ 28,776 | $ 21,247 | $ 14,855 | $ 262,017 | $ 14,938 |
| Cash paid to employees for services | (11,194) | (5,550) | (5,764) | (4,094) | (26,602) | (2,375) |
| Cash paid to other suppliers of goods or services | (143,065) | (14,819) | (7,426) | (9,510) | (174,820) | (11,746) |
| Other receipts | 1,306 | 1,100 | (493) | 3,438 | 5,351 | 70 |
| Net cash provided by operating activities | 44,186 | 9,507 | 7,564 | 4,689 | 65,946 | 887 |
| Cash flows from noncapital financing activities: | | | | | | |
| Transfers in | 0 | 0 | 51 | 246 | 297 | 0 |
| Transfers out | (15,333) | (3,182) | 0 | 0 | (18,515) | 0 |
| Operating grants | 0 | 0 | 1,088 | 1,973 | 3,061 | 0 |
| Non-operating revenue | 0 | 570 | 0 | 0 | 570 | 0 |
| Net cash provided (used) by noncapital financing activities | (15,333) | (2,612) | 1,139 | 2,219 | (14,587) | 0 |
| Cash flows from capital and related financing activities: | | | | | | |
| Purchase of fixed assets | (19,870) | (20,945) | (2,700) | (6,041) | (49,556) | (982) |
| Purchase of nuclear fuel | (903) | 0 | 0 | 0 | (903) | 0 |
| Proceeds from the sale of fixed assets | 567 | 81 | 3 | 58 | 709 | 15 |
| Proceeds from long-term loans | 0 | 0 | 5,375 | 0 | 5,375 | 0 |
| Principal paid on long-term obligations | (7,850) | (3,895) | (3,585) | (16) | (15,346) | 0 |
| Interest paid on long-term obligations | (11,206) | (2,889) | (2,229) | (176) | (16,500) | 0 |
| Capital improvement fees | 0 | 0 | 4,976 | 0 | 4,976 | 0 |
| Contributed capital | 2,254 | 4,919 | 0 | 155 | 7,328 | 0 |
| Net cash provided (used) for capital and related financing activities | (37,008) | (22,729) | 1,840 | (6,020) | (63,917) | (967) |
| Cash flows from investing activities: | | | | | | |
| Purchase of investments | (3,235) | (33) | 0 | 0 | (3,268) | 0 |
| Income from investments | 4,275 | 1,867 | 2,723 | 231 | 9,096 | 899 |
| Advances to other funds | 0 | 0 | 0 | (1,236) | (1,236) | 0 |
| Payments received on interfund payables | 0 | 22 | 2,052 | 0 | 2,074 | 486 |
| Net cash provided (used) by investing activities | 1,040 | 1,856 | 4,775 | (1,005) | 6,666 | 1,385 |
| Net change in cash and cash equivalents | (7,115) | (13,978) | 15,318 | (117) | (5,892) | 1,305 |
| Cash and cash equivalents, beginning (including $38,515 for Electric and $22,784 for Water in restricted accounts) | 83,545 | 51,663 | 52,133 | 7,101 | 194,442 | 18,652 |
| Cash and cash equivalents, ending (including $29,186 for Electric and $17,365 for Water in restricted accounts) | $ 76,430 | $ 37,685 | $ 67,451 | $ 6,984 | $ 186,550 | $ 19,957 |
| Schedule of noncash financing and investing activities: | | | | | | |
| Contribution in aid | $ 2,106 | $ 3,486 | $ 0 | $ 3,052 | $ 8,644 | $ 0 |

continued



City of Riverside
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2003
(amounts expressed in thousands)

continued

| | Electric | Water | Sewer | Other Enterprise Funds | Total Enterprise Funds | Governmental Activities-Internal Service Funds |
|---|---|---|---|---|---|---|
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Operating Income | $ 28,813 | $ 3,155 | $ 3,334 | $ (658) | $ 34,644 | $ (1,340) |
| Other receipts | 1,306 | 1,100 | 236 | 124 | 2,766 | 530 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | | |
| Depreciation and amortization | 13,516 | 5,554 | 4,405 | 1,056 | 24,531 | 719 |
| Amortization (burn) of nuclear fuel | 4,514 | 0 | 0 | 0 | 4,514 | 0 |
| (Increase) decrease in utility billed receivable | (276) | 124 | 29 | 27 | (96) | 0 |
| (Increase) in utility unbilled receivable | (1,133) | (59) | (25) | (101) | (1,318) | 0 |
| (Increase) decrease in accounts receivable | (5,013) | 206 | 253 | (98) | (4,652) | 3 |
| (Increase) decrease in intergovernmental receivable | (490) | (137) | (184) | (360) | (1,171) | 12 |
| Decrease in notes receivable | 0 | 0 | 310 | 0 | 310 | 0 |
| (Increase) decrease in prepaid items | (907) | (3) | 7 | (6) | (909) | (3) |
| (Increase) in nuclear materials inventory | (53) | 0 | 0 | 0 | (53) | 0 |
| (Increase) in inventory | 0 | 0 | 0 | 0 | 0 | (201) |
| Increase (decrease) in accounts payable | 1,842 | (321) | 338 | 172 | 2,031 | 102 |
| Increase (decrease) in accrued payroll | (76) | (93) | (100) | (69) | (338) | 70 |
| Increase (decrease) in retainage payable | (704) | (161) | 0 | 0 | (865) | 21 |
| (Decrease) in intergovernmental | (50) | (8) | 0 | 0 | (58) | 0 |
| Increase (decrease) in deferred revenue | (149) | 77 | (1,039) | 363 | (748) | (401) |
| Increase in deposits | (243) | 73 | 0 | 0 | (170) | 14 |
| Increase (decrease) in due to other funds | 0 | 0 | 0 | 4,335 | 4,335 | (252) |
| Increase in claims and judgments | 0 | 0 | 0 | 0 | 0 | 1,613 |
| Increase in decommissioning liabilitity | 3,289 | 0 | 0 | 0 | 3,289 | 0 |
| (Decrease) in landfill capping | 0 | 0 | 0 | (96) | (96) | 0 |
| Net cash provided by operating activities | $ 44,186 | $ 9,507 | $ 7,564 | $ 4,689 | $ 65,946 | $ 887 |

The notes to the financial statements are an integral part of this statement.

City of Riverside
Statement of Fiduciary Net Assets
Fiduciary Fund-Agency Fund
June 30, 2003
(amounts expressed in thousands)

| | Assessment Districts |
|---|---|
| Assets: | |
| Cash and investments | $ 7,703 |
| Cash and investments at fiscal agent | 8,283 |
| Interest receivable | 76 |
| Property tax receivables | 252 |
| Total assets | $ 16,314 |
| | |
| Liabilities: | |
| Accounts payable | $ 1 |
| Deposits | 10 |
| Held for bond holders | 16,303 |
| Total liabilities | $ 16,314 |

The notes to the financial statements are an integral part of this statement.





1. Summary of Significant Accounting Policies

The City of Riverside (City) was incorporated on October 11, 1883 as a Charter City and operates under a Council-Manager form of Government. The more significant accounting policies reflected in the financial statements are summarized as follows:

A. Reporting Entity

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units are legally separate entities. In substance, they are part of the City's operations and their data is combined with that of the City's. The City has no component units which meet the criteria for discrete presentation. All of the City's component units have a June 30 year end.

Blended Component Units

Riverside Redevelopment Agency (Redevelopment Agency) was established in 1971 by the City. The Redevelopment Agency's primary purpose is to eliminate blighted areas in the City by encouraging commercial development. City Council members serve as the Redevelopment Agency's directors and have full accountability for fiscal matters.

Riverside Public Financing Authority (Public Financing Authority) was organized in December 1987 by the City and the Redevelopment Agency. The purpose of the Public Financing Authority is to provide financing for public capital improvements to the City or the Redevelopment Agency. City Council members serve as the Public Financing Authority's directors and have full accountability for fiscal matters.

Parking Authority of the City of Riverside (Parking Authority) was established in 1972 to provide parking facilities throughout the City. The City Council is the governing body of the Parking Authority and ex-officio board members include the Mayor, Mayor Pro-Tempore, City Clerk, City Treasurer and the City Attorney.

Riverside Municipal Improvements Corporation (Municipal Improvements Corporation) was created in 1978 and operates under provisions of the Nonprofit Public Benefit Corporation Law of the State of California. The Municipal Improvements Corporation's primary purpose is to provide financing assistance by obtaining land, property and equipment on behalf of the City. The Directors are appointed by the City Council and receive no compensation.

Riverside Civic Center Authority (Civic Center Authority) was created in 1971 by a Joint Exercise of Powers Agreement between the City and Riverside County for the purpose of providing financing for the construction of City Hall and the Riverside Convention Center. The Civic Center Authority is governed by a five-member commission, three appointed by the City and two by the County. The Civic Center Authority's property is leased to the City and, upon termination of the Agreement, all property will automatically vest with the City. At the present, all outstanding debt has been retired and dissolution is underway.

Complete financial statements for each of the individual component units except the Riverside Municipal Improvement Corporation (which does not generate a financial statement) may be obtained from the City's Finance Department, 3900 Main Street, Riverside, California, 92522.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. Interfund activity has been removed from these statements except for utility charges, as this would distort the presentation of function costs and program revenues. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Indirect expenses are allocated to the various functions based on a proportionate utilization of the services rendered. Such allocations consist of charges for accounting, human resources, information technology and other similar support services.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied and become an enforceable lien on the property. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. An allowance for doubtful accounts is maintained for the utility and other miscellaneous receivables.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, special assessments, sales taxes, franchise taxes, licenses, charges for services, amounts due from other governments and interest associated with the current fiscal period are all considered to be susceptible to accrual. Other revenue items such as fines and permits are considered to be measurable and available only when cash is received by the government, and are therefore not susceptible to accrual.

The government reports the following major governmental funds:

The General fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Redevelopment Agency's debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the Redevelopment Agency.

The government reports the following major proprietary funds:

The Electric fund accounts for the activities of the City's electric distribution operations.

The Water fund accounts for the activities of the City's water distribution operations.

The Sewer fund accounts for the activities of the City's sewer systems.

Additionally, the government reports the following fund types:

Internal service funds account for the central stores, central garage, and the three self-insured risks of workers compensation, unemployment and public liability on a cost reimbursement basis.

The agency fund is used to account for no-commitment debt issued to finance various improvements within the city.

Pronouncements regarding accounting and financial reporting issued by the Financial Accounting Standards Board prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Significant interfund activity has been eliminated from the government-wide financial statements with the exception of charges between the City's electric, water, sewer and refuse functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.





Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The sewer fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service 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 non-operating revenues and expenses.

D. Cash and Investments

The City values its cash and investments in accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31)," which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the statement of net assets/balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value. All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered cash equivalents. Cash and investments held on behalf of proprietary funds by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the Statement of Cash Flows.

E. Restricted Cash and Investments

Certain proceeds of Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Additionally, unspent proceeds received from the City's landfill capping surcharge are also recorded as restricted assets.

F. Land and Improvements Held for Resale

Land and improvements held for resale are generally acquired under Developer Disposition Agreements in the normal course of Redevelopment Agency activity. The Developer Disposition Agreements provide for transfer of property to developers after certain redevelopment obligations have been fulfilled. This property is carried at cost until an event occurs to indicate a lower net realizable value.

G. Inventory

Supplies are valued at cost using the first-in/first-out (FIFO) method. Costs are charged to user departments when consumed rather than when purchased.

H. Prepaid Items

Payments to vendors for services benefiting future periods are recorded as prepaid items and expenditures are recognized when items are consumed.

I. Capital Assets and Nuclear Fuel

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets ( e.g., roads, bridges, sidewalks, right of way, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. 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 costs 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 other than land are depreciated using the straight line method.

Nuclear Fuel

The Electric Utility amortizes the cost of nuclear fuel to expense using the "as burned" method. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one mill per kilowatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Company, on a quarterly basis.

J. Compensated Absences

City employees receive 10 to 25 vacation days a year based upon length of service. A maximum of two years' vacation accrual may be accumulated and unused vacation is paid in cash upon separation.

City employees generally receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, certain employees or their estates receive a percentage of unused sick leave paid in a lump sum based on longevity.

The liability associated with these benefits is reported in the government-wide statements. Vacation and sick leave of proprietary funds is recorded as an expense and as a liability of those funds as the benefits accrue to employees.

K. Long-Term Obligations

Long-Term Debt

In the government-wide financial statements and proprietary fund-types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, government fund types recognize bond issuance costs as expenditures during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

Decommissioning

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Each year the Electric Utility recognizes an expense in the amount of the contribution to the trust account. The funding will occur over the useful life of the generating plant.

Amounts held in the trust account are classified as restricted assets in the accompanying balance sheet. To date, the Electric Utility has set aside $38,144 in cash and investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. Based on a cost estimate completed by Southern California Edison and approved by the California Public Utilities Commission, the Electric Utility plans to set aside approximately $1,600 per year to fund this obligation. Decommissioning is expected to commence around the year 2014.

L. Claims and Judgments Payable

Claims and judgments payable are recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Such claims, including an estimate for claims incurred but not reported at year end, are recorded as liabilities in the appropriate internal service fund.

M. Fund Equity

In the fund financial statements, reserves represent those portions of fund equity not available for appropriation or legally segregated for a specific future use. Designated fund balances represent amounts identified by management or the governing board for the future use of financial resources.





N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation.

The City first applied restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Interfund Transactions

Interfund transactions are accounted for as revenues and expenditures or expenses. Transactions which constitute reimbursements are eliminated in the reimbursed fund and accounted for as expenditures or expenses in the fund to which the transaction is applicable.

During the year, transactions occur between individual funds for goods provided or services rendered. Related receivables and payables are classified as "due from/to other funds" on the accompanying fund level statements. The noncurrent portion of long-term interfund loans receivable are reported as interfund receivables/payables and, for governmental fund types, are equally offset by a fund balance reserve to indicate that the receivable does not constitute available expendable financial resources. Interfund payables also include accrued interest which has been off-set by deferred revenue.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

P. Deferred Revenues

Governmental and proprietary funds report deferred revenue on their balance sheets. Deferred revenues arise in governmental funds when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to meeting all eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The majority of the City's governmental fund deferred revenue for June 30, 2003 relates to unearned revenue on a capital lease. See Note 4.

Q. Property Tax Calendar

Under California law, general property taxes are assessed for up to 1% of the property's assessed value. General property taxes are collected by the counties along with other special district taxes and assessments and voter approved debt. General property tax revenues are collected and pooled by the county throughout the fiscal year and then allocated and paid to the county, cities and school districts based on complex formulas prescribed by State statutes.

Property taxes are calculated on assessed values as of January 1 for the ensuing fiscal year. On July 1 of the fiscal year the levy is placed and a lien is attached to the property. Property taxes are due in two installments. The first installment is due November 1 and is delinquent on December 10. The second installment is due February 1 and is delinquent on April 10. Property taxes receivable represent current and prior years' uncollected tax levies, adjusted for uncollectable amounts.

R. Use of Estimates

The preparation of 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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures. Specifically, the City has made certain estimates and assumptions relating to the collectability of its receivables, the valuation of property held for resale, the useful lives of capital assets and the ultimate outcome of claims and judgments. Actual results may differ from those estimates and assumptions.

(amounts expressed in thousands)

S. Implementation of new accounting principles

Government Accounting Standards Board (GASB) issued Statement No. 40, Deposit and Investment Risk Disclosures. The Statement amends GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements, to address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, the Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. The City will be required to implement this Statement for the fiscal year ending June 30, 2005.

2. Legal Compliance - Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all departments within the general, special revenue and capital project funds. Formal budgets are not employed for debt service funds because payments are specified by debt indenture provisions. The permanent fund is not budgeted.

During the period December through February of each fiscal year, department heads prepare estimates of required appropriations for the following fiscal year. These estimates are compiled into a proposed operating budget which includes a summary of proposed expenditures and financial resources and historical data for the preceding fiscal year. The operating budget is presented by the City Manager to the City Council for review. Public hearings are conducted to obtain citizen comments. The City Council generally adopts the budget during one of its June meetings.

The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations at the departmental level within a fund.

3. Deposits and Investments

Cash and investments at fiscal year end consist of the following:

| | |
|---|---|
| Investments | $346,894 |
| Cash and investments at fiscal agent | 94,877 |
| | 441,771 |
| Cash | 36,507 |
| | $478,278 |

The amounts are reflected in the government-wide statement of net assets:

| | |
|---|---|
| Cash and investments | $340,456 |
| Restricted cash and cash equivalents | 35,242 |
| Restricted cash and cash equivalents at fiscal agent | 18,209 |
| Restricted investments at fiscal agent | 68,385 |
| Total per statement of net assets | 462,292 |
| Agency cash and investments | 15,986 |
| | $478,278 |

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures, which are administered by outside agencies.

Interest income earned on pooled cash and investments is allocated monthly to funds based on the beginning and month-end cash balances. Interest income from cash and investments held at fiscal agents is credited directly to the related account. At year end, cash deposits in the City's bank accounts had a general ledger balance of $17,623; actual cash in the account was $1,662 due to a timing difference for deposits in transit and other outstanding items. The bank balance was covered by federal depository insurance for the first $100 or by collateral held in the pledging bank's trust department in the name of the City. At June 30, 2003, the City maintained $83 in operating cash in the City's vault.





Authorized Investments

Under provisions of the City's investment policy, and in accordance with California Government Code Section 53601, the City Treasurer may invest or deposit in the following types of investments:

Securities of the U.S. Government, or its agencies
Small Business Administration Loans
Negotiable Certificates of Deposit
Bankers Acceptances
Commercial Paper of "prime" quality
Local Agency Investment Fund (State Pool) Deposits
Passbook Savings Account Demand Deposits
Repurchase Agreements
Mutual Funds
Medium-Term Corporate Notes

Credit Risk, Carrying Amount and Market Value of Investments

Investments are classified in three categories of custodial credit risk as follows: Category 1 - insured or collateralized with securities held by the City or its agent in the City's name; Category 2 - collateralized with securities held by the pledging financial institution's trust department or agent in the City's name; Category 3 - uncollateralized.

All City investments subject to custodial credit risk are insured or registered, or securities held by the City or its agent in the City's name (category 1).

The City participates in a voluntary external investment pool, LAIF, which is managed by the State Treasurer. LAIF has oversight provided by the Local Agency Investment Advisory Board. The Board consists of five members as designated by state statute. The Chairman of the Board is the State Treasurer or his designated representative.

Investment in pools managed by other governments or in mutual funds are not required to be categorized by custodial credit risk.

Pooled investments by custodial credit risk at fair value consisted of the following at June 30, 2003:

| | |
|---|---|
| Categorized: | |
| U.S. Federal Agency Obligations: | |
| Federal National Mortgage Association | $ 45,427 |
| Federal Home Loan Bank | 86,528 |
| Federal Home Loan Mortgage Corporation | 69,070 |
| Federal Farm Credit Bank | 10,671 |
| Medium Term Notes | 69,320 |
| Taxable Municipal Notes | 4,416 |
| Investments at Fiscal Agent: | |
| Federal National Mortgage Association | 1,255 |
| Federal Home Loan Bank | 41,248 |
| | 327,935 |
| Uncategorized: | |
| State of California Local Agency Investment Fund (1)(2) | 61,462 |
| Investments at Fiscal Agent (2): | |
| Money Market Funds | 29,202 |
| Investment Agreements | 21,296 |
| Cash | 1,876 |
| | 113,836 |
| Total Investments | $441,771 |

(1) Not subject to categorization.
(2) Fair value of the City's position in the pool is not the same as the value of its pool shares.

The majority of the City's investment instruments are highly rated Federal agency or corporate securities with minimal credit risk. It is the City's intention to hold all securities to maturity because the portfolio is highly liquid and well diversified.

(amounts expressed in thousands)

4. Capital Lease Receivable

The Redevelopment Agency has a direct financing lease arrangement with the State of California (the State) for a twelve story office building. The lease term is for thirty years and the State takes ownership of the facility at the conclusion of that term. The lease calls for semi-annual payments equivalent to the debt service owed by the Redevelopment Agency on the lease revenue bonds issued for the purchase and renovation of the building. The future minimum lease payments to be received are as follows:

| | |
|---|---|
| 2004 | $ 2,199 |
| 2005 | 2,221 |
| 2006 | 2,249 |
| 2007 | 2,273 |
| 2008 | 2,298 |
| Thereafter | 43,669 |
| Total Due | 54,909 |
| Less: amount applicable to interest | (26,984) |
| Total capital lease receivable | $27,925 |

5. Capital Assets

The following is a summary of changes in the capital assets during the fiscal year ended June 30, 2003.

| Governmental activities: | Beginning Balance, as Restated | Additions | Deletions/ Transfers | Ending Balance |
|---|---|---|---|---|
| Undepreciable Capital Assets: | | | | |
| Land | $112,067 | $ - | $ (2,102) | $109,965 |
| Construction in progress | 4,867 | 12,550 | (1,003) | 16,414 |
| Depreciable Capital Assets: | | | | |
| Buildings and Improvements | 79,892 | 2,772 | (9,973) | 72,691 |
| Improvements other than Buildings | 40,194 | 347 | (325) | 40,216 |
| Machinery and Equipment | 51,006 | 3,067 | (2,245) | 51,828 |
| Infrastructure | 396,507 | 15,588 | - | 412,095 |
| Subtotal | 684,533 | 34,324 | (15,648) | 703,209 |
| Less accumulated depreciation for: | | | | |
| Buildings and Improvements | (24,659) | (1,429) | 2,154 | (23,934) |
| Improvements other than Buildings | (21,530) | (1,642) | 325 | (22,847) |
| Machinery and Equipment | (34,995) | (4,910) | 2,060 | (37,845) |
| Infrastructure | (127,576) | (9,460) | - | (137,036) |
| Subtotal | (208,760) | (17,441) | 4,539 | (221,662) |
| Governmental activities capital assets, net | $ 475,773 | $ 16,882 | $(11,109) | $ 481,547 |

| Business type activities: | Beginning Balance | Additions | Deletions/ Transfers | Ending Balance |
|---|---|---|---|---|
| Undepreciable Capital Assets: | | | | |
| Land | $ 30,425 | $ 2,135 | $ - | $ 32,560 |
| Construction in progress | 70,644 | 61,487 | (100,241) | 31,890 |
| Depreciable Capital Assets: | | | | |
| Buildings and Improvements | 188,410 | 3,783 | - | 192,193 |
| Improvements other than Buildings | 631,261 | 90,058 | (448) | 720,871 |
| Machinery and Equipment | 32,576 | 2,877 | (430) | 35,023 |
| Subtotal | 953,316 | 160,340 | (101,119) | 1,012,537 |
| Less accumulated depreciation for: | | | | |
| Buildings and Improvements | (49,971) | (4,403) | (1,576) | (55,950) |
| Improvements other than Buildings | (261,549) | (17,375) | (72) | (278,996) |
| Machinery and Equipment | (23,533) | (2,555) | 162 | (25,926) |
| Subtotal | (335,053) | (24,333) | (1,486) | (360,872) |
| Business type activities capital assets, net | $ 618,263 | $136,007 | $(102,605) | $ 651,665 |

Estimated useful lives used to compute depreciation are as follows:

| | |
|---|---|
| Buildings and Improvements | 30-50 years |
| Improvements other than Buildings | 20-99 years |
| Machinery and Equipment | 3-15 years |
| Infrastructure | 20-100 years |

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

| | |
|---|---|
| Governmental activities: | |
| General government | $ 1,565 |
| Public Safety | 3,467 |
| Highways and streets, including depreciation of general infrastructure assets | 9,987 |
| Culture and recreation | 2,422 |
| Total depreciation expense – governmental activities | $17,441 |





| | |
|---|---|
| Business type activities: | |
| Electric | $13,516 |
| Water | 5,554 |
| Sewer | 4,405 |
| Refuse | 452 |
| Special Transportation | 245 |
| Airport | 238 |
| Public Parking | 121 |
| Total depreciation and amortization expense - business type activities | $24,531 |

6. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. Internal service funds have been established to account for and finance the uninsured risks of loss. Property insurance coverage has a limit of $25,000, with a deductible of $250. Earthquake and flood coverage has a deductible of 5% for earthquake and 2% for flood and a $15,000 limit. Workers' compensation insurance coverage has a limit of $25,000 with a deductible of $3,000 per occurrence. There were no claims settled during fiscal year 2003 above the self-insured amounts. There was a single claim settled in 2002 above the self-insured amount, related to a worker's compensation claim. At June 30, 2003, the City was self-insured for general liability up to $750 and carried a commercial insurance policy for claims in excess of the self-insured amount up to $15,000 per occurrence. As of July 1, 2003, due to current market conditions in obtaining commercial general liability insurance, the City has opted to become fully self-insured for general liability claims. To mitigate the risk associated with potential large claims, the City has designated $6,400 of the unreserved general fund balance at June 30, 2003.

All funds of the City participate in the Risk Management program and make payments to the Internal Service Funds based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. Interfund premiums are accounted for as quasi - external transactions and are therefore recorded as revenues of the Internal Service Funds in the fund financial statements.

Changes in the funds' claims liability amounts in fiscal years 2003 and 2002 are:

| | Workers' Compensation | Unemployment Compensation | Public Liability | Total |
|---|---|---|---|---|
| Balance, July 1, 2001 | $ 8,293 | $ 79 | $ 6,062 | $14,434 |
| Add: Claims incurred | 2,732 | - | 3,348 | 6,080 |
| Less: Claim Payments | (1,538) | (3) | (2,221) | (3,762) |
| Balance, June 30, 2002 | 9,487 | 76 | 7,189 | 16,752 |
| Add: Claims estimate | 3,276 | - | 4,119 | 7,395 |
| Less: Claim Payments | (2,410) | - | (3,372) | (5,782) |
| Balance, June 30, 2003 | $10,353 | $ 76 | $ 7,936 | $18,365 |

7. Long-Term Obligations

Changes in Long-Term Obligations: The following is a summary of changes in long-term obligations during the fiscal year:

Governmental Activities:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Redevelopment Agency bonds | $111,880 | $ - | $ (2,265) | $109,615 | $ 2,400 |
| Lease Revenue Bonds: Parking Authority | 525 | - | (525) | - | - |
| Riverside Municipal Improvements Corporation Certificates of Deposit | 5,150 | - | (500) | 4,650 | 530 |
| Assessment bonds | 135 | - | (135) | - | - |
| Capital leases | 6,430 | - | (913) | 5,517 | 1,004 |
| Notes Payable | 11,096 | 750 | (399) | 11,447 | 353 |
| Compensated Absences | 26,630 | 10,107 | (10,133) | 26,604 | 9,348 |
| Total | $161,846 | $10,857 | $(14,870) | $157,833 | $13,701 |

Fiscal Year Ended June 30, 2003 (amounts expressed in thousands)

Business type activities:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Revenue Bonds | $355,621 | $ - | $(13,062) | $342,559 | $17,590 |
| Loans Payable | 6,966 | 5,374 | (816) | 11,524 | 580 |
| Capital Leases | 571 | - | (73) | 498 | 60 |
| Water Stock Acquisition Rights | 1,121 | - | (38) | 1,083 | 150 |
| Total | $364,279 | $5,374 | $(13,989) | $355,664 | $18,380 |

Advance Refundings:

In prior years the City and the Redevelopment Agency defeased certain Revenue and Tax Allocation Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's or the Redevelopment Agency's financial statements. At fiscal year end $4,330 of bonds outstanding are considered defeased.

Long-Term Obligations at June 30, 2003:
Revenue Bonds:

| | Principal Outstanding |
|---|---|
| **Electric** | |
| $118,550 1993 Electric Revenue Refunding Bonds: $92,245 serial bonds, 4.10% to 8.25%, due in annual installments from $5,120 to $8,005 through October 1, 2010; $26,305 term bonds, 5.0%, due October 1, 2013 | $81,380 |
| $4,100 1994 Electric Revenue Bonds (FARECAL Pool): $2,105 serialbonds,4.75% to 6.0%, due in annual installments from $115 to $220 through June 1, 2010; $1,995 term bonds, 6.0%, due June 1, 2017 | 3,310 |
| $98,730 1998 Electric Revenue Bonds (partial refunding issue): $63,165 serial bonds, 4.25% to 5.38%, due in annual installments from $4,650 to $7,085 through October 1, 2013; $35,565 term bonds, 5%, due October 1, 2022 | $ 98,730 |
| $47,215 2001 Electric Revenue Bonds; 2.9% to 5.25%, due in annual installments from $2,855 to $4,750 through October 1, 2016. | 47,215 |
| Subtotal | 230,635 |
| Add: Unamortized bond premium | 2,066 |
| | $232,701 |
| **Water** | |
| $69,840 1991 Water Revenue Bonds: $25,050 serial bonds, 4.25% to 9.0%, due in annual installments from $2,260 to $3,100 through October 1, 2002; $25,900 Capital Appreciation bonds 6.65% to 7.0%, due in annual installments from $3,235 to $3,240 from October 1, 2003 to October 1, 2010; (portion not refunded) | $ 25,900 |
| $4,710 1994 Water Revenue Bonds (FARECAL Pool); $2,420 serial bonds, 4.75% to 5.90%, due in annual installments from $135 to $255 through June 1, 2010; $2,290 term bonds, 6.0% due June 1, 2017 | 3,795 |
| $30,965 1998 Water Revenue Bonds, (partial refunding issue): $15,055 serial bonds, 4.0% to 5.0%, due in annual installments from $205 to $4,055 through October 1, 2013; $15,910 term bonds, 5%, due October 1, 2027 | 29,720 |
| $20,000 2001 Water Revenue Bonds; 2.6% to 5.0%, due in annual installments from $345 to $1,230 through October 1, 2031 | 19,655 |
| Subtotal | 79,070 |
| Less: Unamortized bond discount | (6,632) |
| | $72,438 |





| | Principal Outstanding |
|---|---|
| **Sewer** | |
| $49,145 1993 Sewer Revenue Refunding Serial Bonds: 4.0% to 7.0%, due in annual installments from $335 to $4,745 through August 1, 2012 | $ 37,040 |
| Add: Unamortized bond premium | 380 |
| | 37,420 |
| Total Revenue Bonds | $342,559 |

Remaining revenue bond debt service payments will be made from revenues of the Electric, Water, and Sewer Utility Enterprise Funds. Annual debt service requirements to maturity are as follows:

| | Electric Utility Fund | | | Water Utility Fund | | |
|---|---|---|---|---|---|---|
| Fiscal Year | Principal | Interest | Total | Principal | Interest | Total |
| 2004 | $ 10,780 | $ 11,123 | $ 21,903 | $ 4,010 | $ 2,628 | $ 6,638 |
| 2005 | 14,140 | 10,579 | 24,719 | 4,045 | 2,597 | 6,642 |
| 2006 | 14,775 | 9,940 | 24,715 | 4,075 | 2,565 | 6,640 |
| 2007 | 15,475 | 9,241 | 24,716 | 4,115 | 2,530 | 6,645 |
| 2008 | 16,225 | 8,495 | 24,720 | 4,155 | 2,492 | 6,647 |
| 2009-2013 | 89,715 | 29,379 | 119,094 | 21,775 | 11,415 | 33,190 |
| 2014-2018 | 52,475 | 9,187 | 61,662 | 17,940 | 6,461 | 24,401 |
| 2019-2023 | 17,050 | 2,216 | 19,266 | 6,300 | 3,981 | 10,281 |
| 2024-2028 | - | - | - | 8,080 | 2,194 | 10,274 |
| 2029-2032 | - | - | - | 4,575 | 472 | 5,047 |
| Premium (Discount) | 2,066 | - | 2,066 | (6,632) | - | (6,632) |
| Total | $232,701 | $90,162 | $322,863 | $72,438 | $37,335 | $109,773 |

| | Sewer Utility fund | | |
|---|---|---|---|
| Fiscal Year | Principal | Interest | Total |
| 2004 | $ 2,800 | $ 2,097 | $ 4,897 |
| 2005 | 2,970 | 1,937 | 4,907 |
| 2006 | 3,120 | 1,780 | 4,900 |
| 2007 | 3,285 | 1,584 | 4,869 |
| 2008 | 3,515 | 1,346 | 4,861 |
| 2009-2013 | 21,350 | 2,950 | 24,300 |
| Premium | 380 | - | 380 |
| Total | $37,420 | $11,695 | $49,115 |

| Redevelopment Agency Bonds: | Principal Outstanding |
|---|---|
| $24,810 1994 Downtown/Airport Project Area, Series A Tax Exempt bonds, $4,085 serial bonds, 4.60% to 6.00%, due in annual installments from $90 to $610 through October 1, 2009; $5,250 term bonds, 6.00%, due in annual installments from $675 to $1,090 through October 1, 2015; $13,140 term bonds, 6.375%, due in annual installments from $1,190 to $2,155 through October 1, 2023; $2,335 term bonds, 6.50%, due a single installment on October 1, 2024 | $23,815 |
| $13,285 1991 Public Financing Authority Revenue Bonds, Series A, Multiple Project Areas: $1,470 serial revenue bonds 7.15% to 7.6%, due in annual installments from $100 to $145 through February 1, 2003; and $4,175 term bonds, 8.0%, due in annual installments from $155 to $450 through February 1, 2018 (portion not refunded) | 595 |
| $31,600 1993 Tax Allocation Refunding Bonds, Downtown/Airport Project Area: $6,975 serial bonds 4.0% to 5.40%, due in annual installments from $155 to $1,015 through August 1, 2008; and $24,190 term bonds, 5.625%, due in annual installments from $1,070 to $2,300 through August 1, 2023 | 29,575 |
| $4,305 1994 Downtown/Airport Project Area, Series B Taxable bonds: $45 term bonds, 7.50%, due in annual installments from $5 to $25 through October 1, 1999; $295 term bonds, 8.30%, due in annual installments from $35 to $75 through October 1, 2004; $470 term bonds, 8.65%, due in annual installments from $80 to $110 through October 1, 2009; $3,495 term bonds, 8.80%, due in annual installments from $120 to $395 through October 1, 2024 | 4,110 |

(amounts expressed in thousands)

| | Principal Outstanding |
|---|---|
| $12,090 1994 Public Financing Authority, Tax Allocation Refunding Bonds, Multiple Project Areas issued through the Association of Bay Area Government Bond Pool: 4.7% to 6.4%, due in annual installments from $175 to $840 through December 1, 2024 | $10,435 |
| $17,025 1999 University Corridor/Sycamore Canyon Merged Project Area, Tax Allocation Bonds, Series A: 3.4% to 4.7% due in annual installments from $40 to $570 through August 1, 2014; $4,810 term bonds at 4.75% due August 1, 2021; and $6,010 term bond sat 5.0% due August 1, 2027 | 16,290 |
| $6,055 1999 University Corridor/Sycamore Canyon Merged Project Area, Subordinate Tax Allocation Bonds, Series B: 4.5% to 5.5% due in annual installments from $35 to $190 through September 1, 2013; $1,135 term bonds at 5.5% due September 1, 2018; and $3,020 term bonds at 5.625% due September 1, 2027 | 5,810 |
| $20,395 1999 Casa Blanca Project Area, Tax Allocation Bonds, Series A: 3.4% to 4.7% due in annual installments from $455 to $780 through August 1, 2014; $2,565 term bonds at 4.75% due August 1, 2017; $4,035 term bonds at 4.75% due August 1,2021; and $4,870 term bonds at 5.0% due August 1, 2025. | 18,985 |
| Total Redevelopment Agency Bonds | $109,615 |

Remaining debt service will be paid by the Redevelopment Agency Debt Service Funds from future property tax revenues. Annual debt service requirements to maturity are as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2004 | $ 2,400 | $ 6,086 | $ 8,486 |
| 2005 | 2,525 | 5,969 | 8,494 |
| 2006 | 2,690 | 5,843 | 8,533 |
| 2007 | 2,835 | 5,705 | 8,540 |
| 2008 | 3,015 | 5,556 | 8,571 |
| 2009-2013 | 18,160 | 25,064 | 43,224 |
| 2014-2018 | 24,700 | 19,125 | 43,825 |
| 2019-2023 | 33,330 | 10,813 | 44,143 |
| 2024-2028 | 19,960 | 1,791 | 21,751 |
| Total | $109,615 | $85,952 | $195,567 |

| | Principal Outstanding |
|---|---|
| Riverside Municipal Improvements Corporation Certificates of Participation: | |
| $6,360 1999 Municipal Improvements Corporation Certificates of Participation: 6.0% to 7.6%, due in annual installments from $310 to $815 through April 1, 2010 | $4,650 |

Remaining certificates of participation debt service payments will be made from unrestricted revenues of the Debt Service Funds. Annual debt service requirements to maturity are as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2004 | $ 530 | $ 346 | $ 876 |
| 2005 | 570 | 308 | 878 |
| 2006 | 610 | 267 | 877 |
| 2007 | 660 | 221 | 881 |
| 2008 | 705 | 172 | 877 |
| 2009-2010 | 1,575 | 181 | 1,756 |
| Total | $4,650 | $1,495 | $6,145 |





| | Principal Outstanding |
|---|---|
| Contracts: | |
| Enterprise Funds: | |
| Water stock acquisition rights payable on demand to various water companies, renewable through 2004 | $1,083 |

Notes Payable:
These notes payable have been issued to promote development and expansion within the City's redevelopment areas.

Redevelopment Agency

| | Principal Outstanding |
|---|---|
| Housing and Community Development fund, non-interest bearing note payable due in annual installments of $20, through 2005 | $ 40 |
| Pepsi Cola Bottling Company of Los Angeles, 10.5%, payable in net annual installments of $341, including principal and interest through June 2020 | 2,987 |
| HUD Section 108 loan for University Village, 5.36% to 7.66%, payable in semi-annual installments beginning August 1, 1996 of $272 to $425 through August 1, 2015 | 3,385 |
| HUD Section 108 loan for Mission Village Project, 6.15% to 6.72%, payable in semi-annual installments beginning August 1, 1999 of $110 to $420 through August 1, 2018 | 4,285 |
| Note payable to California Housing Finance Agency, interest at 3%, payable in annual installments of $88 through 2013, for housing projects. | 750 |
| Total notes payable – Redevelopment Agency | $11,447 |

Remaining notes payable debt service payments will be made from unrestricted revenues of the Redevelopment Agency. Annual debt service requirements to maturity are as follows:

| | Redevelopment Agency | | |
|---|---|---|---|
| Fiscal Year | Principal | Interest | Total |
| 2004 | $ 419 | $ 843 | $ 1,262 |
| 2005 | 443 | 819 | 1,262 |
| 2006 | 463 | 791 | 1,254 |
| 2007 | 496 | 762 | 1,258 |
| 2008 | 531 | 730 | 1,261 |
| 2009-2013 | 3,298 | 3,064 | 6,362 |
| 2014-2018 | 3,321 | 1,809 | 5,130 |
| 2019-2023 | 1,197 | 947 | 2,144 |
| 2024-2028 | 1,279 | 430 | 1,709 |
| Total | $11,447 | $10,195 | $21,642 |

Notes Payable:
Sewer Fund

| | Principal Outstanding |
|---|---|
| Sewer Fund Loan from State of California for Cogeneration project, 2.336%, payable in net annual installments of $339,474, beginning January 29, 2003 through January 29, 2022 | $ 5,153 |
| Sewer Fund Loan from State of California for Headworks project, 1.803%, payable in net annual installments of $477,387, beginning November 6, 1999 through November 6, 2018 | 6,371 |
| Total loans payable | $11,524 |

Fiscal Year Ended June 30, 2003 (amounts expressed in thousands)

Remaining notes payable debt service payments will be made from unrestricted revenues of the Sewer Fund. Annual debt service requirements to maturity are as follows:

| Fiscal Year | Sewer Fund Principal | Interest | Total |
|---|---|---|---|
| 2004 | $ 576 | $ 240 | $ 816 |
| 2005 | 589 | 227 | 816 |
| 2006 | 601 | 215 | 816 |
| 2007 | 613 | 203 | 816 |
| 2008 | 625 | 191 | 816 |
| 2009-2013 | 3,318 | 762 | 4,080 |
| 2014-2018 | 3,668 | 412 | 4,080 |
| 2019-2022 | 1,534 | 299 | 1 833 |
| Total | $11,524 | $2,549 | $14,073 |

Capital Leases:

The City leases various equipment through capital leasing arrangements in the governmental and proprietary fund types. These activities are recorded for both governmental and business-type activities in the government-wide financial statements. The assets and related obligations under leases in governmental funds are not recorded in the fund statements. For proprietary funds, the assets and their related liabilities are reported directly in the fund. Amortization applicable to proprietary assets acquired through capital lease arrangements is included with depreciation for financial statement presentation. The assets acquired through capital leases are as follows:

| Asset | Governmental Activities | Business-Type Activities |
|---|---|---|
| Buildings | $ 8,660 | $868 |
| Equipment | 804 | - |
| Subtotal | 9,464 | 868 |
| Less: Accumulated Depreciation | (1,174) | (51) |
| Total | $ 8,290 | $817 |

The future minimum lease obligations as of June 30, 2003 were as follows:

| Years Ending June 30, | Governmental Activities | Business-type Activities |
|---|---|---|
| 2004 | $1,064 | $ 73 |
| 2005 | 994 | 73 |
| 2006 | 921 | 73 |
| 2007 | 881 | 73 |
| 2008 | 721 | 92 |
| 2009-2011 | 1,629 | 177 |
| Total Minimum lease payments | 6,210 | 561 |
| Less: Amount representing interest (rates ranging from 2.5% to 9%) | (693) | (63) |
| Total capital lease payable | $5,517 | $498 |

The following are legally required debt service cash reserves. These amounts, at a minimum, are held by the City or fiscal agents at June 30, 2003:

| | |
|---|---|
| General Long-Term Obligations | |
| Redevelopment Agency | $5,931 |
| Riverside Municipal Improvements Corporation | 636 |
| Total legally required debt service reserves | $6,567 |
| Enterprise Funds | |
| Electric | $25,786 |
| Water | 8,417 |
| Sewer | 3,475 |
| Total reserve for revenue bond retirement | $37,678 |

Debt service reserves at June 30, 2003 are as follows:

| | |
|---|---|
| General Long-Term Obligations | |
| Redevelopment Agency | $8,394 |
| Riverside Municipal Improvements Corporation | 721 |
| General Fund Debt Service | 46 |
| Total reserve for debt service | $9,161 |





Following are required and actual debt service ratios for the year ended June 30, 2003. The ratio measures operating income in relation to debt service.

| | Minimum Debt Service Ratio Required | Actual Debt Service Ratio |
|---|---|---|
| Electric Fund | 1.25 | 2.9 |
| Water Fund | 1.25 | 2.6 |
| Sewer Fund | 1.25 | 2.2 |

There are also a number of limitations and restrictions contained in Assessment Bond indentures. The City believes they are in compliance with all significant limitations and restrictions.

8. Other Long-Term Obligations

Assessment Districts Bonds (Not obligations of the City)

The payment of these bonds is secured by valid assessment liens upon certain lands in each district and are not direct liabilities of the City. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the City has no duty to pay those delinquencies out of any other available funds. The City acts solely as an agent for those paying assessments and the bondholders. Collection of property assessments and payment of the Assessment District Bonds are reflected only in the Agency Funds. The Assessment District Bonds applicable to this category outstanding at fiscal year end were:

| | Principal Outstanding |
|---|---|
| $30,795 1989 Improvement Bonds, Canyon Springs Assessment District Refunding Bonds: 6.9% to 7.35% due in annual installments from $1,040 to $2,745 through September 2, 2011 | $ 11,280 |
| $8,946 1991 Bonds of Community Facilities District No. 90-2, Tyler Mall: 5.75% to 6.9%, serial and capital appreciation bonds due in annual installments from $670 to $1,195 through September 2, 2011 | $ 3,774 |
| $4,417 1992 Series B Improvement Bonds, Sycamore Canyon Business Park Assessment District No. 1: 6.5% to 8.5% due in annual installments from $112 to $420 through September 2, 2012 | 2,985 |
| $6,342 1999 Auto Center Assessment District Improvement Bonds; 4.3% to 5.4% due in annual installments of $137 to $430 through September 2, 2024 | 5,905 |
| $14,325 2001 Highlander CFD 90-1 Refunding Bonds; 3.75% to 5.5% due in annual installments of $725 to $1,355 through September 2, 2015 | 13,600 |
| $10,198 2001 Riverwalk Assessment District Improvement Bonds; 4.0% to 6.375% due in annual installments of $208 to $770 through September 2, 2026 | 10,198 |
| $16,730 2001 Public Financing Authority Refunding Bonds, Series A (Orangecrest and Mission Grove); 3% to 4.75% due in annual installments from $800 to $1,425 through September 2, 2016 | 15,415 |
| $1,620 2001 Public Financing Authority Refunding Bonds, Series B (Orangecrest and Mission Grove); 4.0% to 5.75% due in annual installments from $80 to $145 through September 2, 2016 | 1,510 |
| Total Assessment Districts Bonds | $64,667 |

(amounts expressed in thousands)

Conduit Debt Obligations

Mortgage Revenue Bonds outstanding of $27,410 and Industrial Development Revenue Bonds of $7,000 are not included in the accompanying financial statements. These bonds are special obligations of third parties and payable solely from and secured by a pledge of the receipts received from the acquired mortgage loans and certain other reserve funds and related monies. The bonds are not payable from any other revenues or assets of the City or Redevelopment Agency. Neither the faith and credit nor the taxing power of the City, the Redevelopment Agency, the State of California or any political subdivision thereof is pledged to the payment of the principal and interest on the bonds.

9. Interfund Assets, Liabilities and Transfers

Due From/To Other Funds:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General | Housing and Community Development | $ 557 |
| | NPDES Storm Drain | 244 |
| | Special Capital Improvements | 64 |
| | Airport | 3,314 |
| | Transportation | 364 |
| | Central Stores | 3,660 |
| Electric | General | 50 |
| RDA – Capital Projects | RDA – Special Revenue | 930 |
| | | $9,183 |

Advances To/From Other Funds:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| General | RDA – Capital Projects | $ 3,679 |
| | RDA – Debt Service | 36 |
| Special Gas Tax | General | 3 |
| Storm Drain | General | 15 |
| Capital Outlay | General | 84 |
| Sewer | General | 1,204 |
| | RDA – Capital Projects | 7,331 |
| | Airport | 396 |
| | Refuse | 3,268 |
| Workers' Compensation | General | 1,283 |
| | RDA – Capital Projects | 2,285 |
| Public Liability | Airport | 37 |
| RDA – Debt Service | General | 229 |
| Electric | General | 21 |
| Water | General | 62 |
| | | $19,933 |





Transfers In/Out:

| Transfer In Fund | Transfer Out Fund | Amount |
|---|---|---|
| General | Electric | $15,333 |
| | Water | 3,182 |
| | Special Designation | 1,700 |
| Library | General | 2,777 |
| Citrus Grove Management | General | 189 |
| RDA – Special Revenue | General | 200 |
| | RDA – Capital Projects | 109 |
| Storm Drain | General | 3 |
| RDA – Debt Service | Housing and Community Development | 200 |
| | RDA – Special Revenue | 2,697 |
| | RDA – Capital Projects | 28 |
| RDA – Capital Projects | RDA – Debt Service | 9,659 |
| | Riverside Municipal Improvements Corporation | 125 |
| Airport | General | 96 |
| Refuse | General | 150 |
| Sewer | General | 51 |
| | | $36,499 |

10. Expenses/Expenditures in Excess of Appropriations and Deficit Fund Balances/Retained Earnings

The Special Designations and NPDES Storm Drain Funds incurred $6 and $75, respectively, in expenditures against no current year appropriation. These expenditures relate to the writeoff of uncollectible accounts receivable. Allowance for uncollectible accounts is an unbudgeted item.

Deficit fund balance/net assets exist in the NPDES Storm Drain ($247), the Central Stores ($1,923), and the Public Liability ($1,116) funds at fiscal year end. The NPDES Storm Drain fund is fully funded by County receipts. Funds to recover the deficit will be received in the subsequent period. The continuing deficit in the Central Stores fund is being reduced based on a rate increase implemented in a prior year. Management's analysis shows that continuing cost control together with the rate increase will eliminate the deficit over the next few years. The Public Liability fund's claims expense in the current year, including the accrued liability based on the actuary's estimate of future payments on claims, exceeded the charges to other funds in the current year. Rates are adjusted as needed.

11. Litigation

The City is a defendant in various lawsuits arising in the normal course of operations. City management, based in part on the opinion of outside legal counsel, does not believe that the ultimate resolution of these matters will have a material affect on the financial position or results of operations of the City. Management also believes that adequate reserves exist in the internal service funds to cover outstanding lawsuits.

On January 1, 2003, the City became a Participating Transmission Owner with the California Independent System Operator (ISO), entitling the City to receive compensation for use of its transmission facilities committed to the ISO's operational control. The compensation is based upon the City's Transmission Revenue Requirement (TRR) as approved by the Federal Energy Regulatory Commission (FERC). The California Investor Owned Utilities (IOU's), the California Department of Water Resources (CDWR), and the CPUC, among others, objected to various aspects of the City's TRR at the FERC. The City and the objecting parties submitted a settlement agreement for filing. The settlement agreement disposes of all City TRR issues except for CDWR's and CPUC's contention that the City is not entitled to its TRR for the majority of the transmission facilities committed to the ISO's control. These TRR issues are not expected to be resolved until 2004. If the City does not prevail in this litigation, up to $5,300 of transmission revenue may have to be refunded to the ISO for the fiscal year ended June 30, 2003.

Fiscal Year Ended June 30, 2003 (amounts expressed in thousands)

12. City Employees Retirement Plan

(A) Plan Description. The City of Riverside contributes to the California Public Employees Retirement System (CalPERS), an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

(B) Funding Policy. Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the fiscal year 2002-2003 rate was 0.000% for non-safety employees, and 4.99% for safety employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

(C) Annual Pension Cost. For 2003, the City's annual pension cost of $12,196 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.75% per year compounded annually, attributable to inflation, and (c) 3.5% expected long term inflation. The actuarial value of CalPERS assets was determined using techniques that smooth the affects of short-term volatility in the market value of investments over a four-year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of the unfunded actuarial liability ends by June 30, 2011.

Three-year trend information for CalPERS:

| Fiscal Year June 30, | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 2001 | $9,027 | 100% | $0 |
| 2002 | 8,600 | 100% | $0 |
| 2003 | 12,196 | 100% | $0 |

Schedule of funding for CalPERS (unaudited):

| Plan | Actuarial Valuation Date | Entry Age Normal Actuarial Accrued Liability (AAL) | Acturarial Value of Assets | Unfunded/ (Overfund ed Actuarial Accrued Liability (UAAL) | % Funded Ratio | Annual Covered Payroll | UAAL as a % of Covered Payroll |
|---|---|---|---|---|---|---|---|
| Misc. | 6/30/00 | 384,489 | 517,907 | (133,418) | 134.7 | 61,785 | (215.9) |
| Safety | 6/30/00 | 307,349 | 349,102 | (41,753) | 113.6 | 31,902 | (130.9) |
| Misc. | 6/30/01 | 466,437 | 534,615 | (68,178) | 114.6 | 67,342 | (101.2) |
| Safety | 6/30/01 | 346,247 | 355,583 | (9,337) | 102.7 | 36,805 | (25.4) |
| Misc. | 6/30/02 | 498,057 | 507,610 | (9,553) | 101.9 | 72,257 | (13.2) |
| Safety | 6/30/02 | 381,311 | 328,395 | 52,916 | 86.1 | 41,038 | 128.9 |

13. Commitments and Contingencies

A. Long-Term Electric Utility Commitments

Intermountain Power Agency

The City's Electric Utility has entered into a Power Purchases Contract with the Intermountain Power Agency (IPA) for delivery of electric power. The City's share of IPA power is equal to 7.6%, or approximately 133.7 megawatts, of the generation output of IPA's 1,755 megawatt coal-fueled generating station, located in Central Utah. The contract expires in 2027 and the debt fully matures in 2024.

The contract constitutes an obligation of the Electric Utility to make payments solely from operating revenues and requires payment of certain minimum charges, which are based on debt service requirements. Such payments are considered a cost of production and are quantified below.

Southern California Public Power Authority

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency. SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility





participates in projects developed by SCPPA, the Electric Utility is obligated for its proportionate share of the project cost. The projects and the Electric Utility's proportionate share of SCPPA's obligations are as follows:

| Project | Percent Share | Entitlement |
|---|---|---|
| Palo Verde Nuclear Generating Station | 5.40% | 11.7MW |
| Southern Transmission System | 10.20% | 195.0MW |
| Hoover Dam Uprating | 31.91% | 30.0MW |
| Mead – Phoenix Transmission | 4.00% | 12.0MW |
| Mead – Adelanto Transmission | 13.50% | 118.0MW |

Terms of Take or Pay Commitments

As part of the take or pay commitments with IPA and SCPPA, the Electric Utility has agreed to pay its share of current and long-term obligations. Payment for these obligations will be made from operating revenues received during the year that payment is due. A long-term obligation has not been recorded on the accompanying financial statements for these commitments. Interest rates on the outstanding debt associated with the take or pay obligations range from 4.1% to 5.7%. The following schedule details the amount of principal and interest which is due and payable by the Electric Utility for each project in the fiscal year indicated.

| | IPA | SCPPA | | | | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | Inter-mountain Power Project | Palo Verde Nuclear Generating Project | Trans-mission System Project | Hoover Dam Uprating | Mead–Phoenix Trans-mission | Mead-Adelanto Trans-mission | Total |
| 2004 | $ 6,093 | $ 4,320 | $ 6,907 | $ 708 | $ 156 | $ 1,651 | $ 19,835 |
| 2005 | 25,443 | 4,332 | 6,724 | 708 | 156 | 1,651 | 39,014 |
| 2006 | 25,941 | 1,535 | 6,968 | 708 | 156 | 1,651 | 36,959 |
| 2007 | 25,931 | 1,535 | 7,192 | 704 | 272 | 2,956 | 38,590 |
| 2008 | 25,594 | 1,535 | 6,693 | 704 | 271 | 2,951 | 37,748 |
| Thereafter | 345,878 | 9,101 | 113,491 | 6,976 | 3,533 | 38,001 | 556,980 |
| Total | $454,880 | $62,358 | $147,975 | $10,508 | $4,544 | $48,861 | $729,126 |

Take-or-pay commitments expire upon final maturity of outstanding bonds for each project. Final fiscal year maturities are as follows:

| Project | Final Maturity Date |
|---|---|
| Intermountain Power Project | 2024 |
| Palo Verde Nuclear Generating System | 2017 |
| Southern Transmission System | 2023 |
| Hoover Dam Uprating | 2018 |
| Mead-Phoenix Transmission | 2020 |
| Mead-Adelanto Transmission | 2020 |

In addition to debt service, Riverside's entitlement requires the payment for fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for 2002 and 2003 fiscal years are as follows:

| Fiscal Year | IPA | PV | STS | MAP | MPP | Hoover | Total |
|---|---|---|---|---|---|---|---|
| 2002 | $17,832 | $2,040 | $1,607 | $209 | $45 | $99 | $21,832 |
| 2003 | 18,819 | 2,355 | 1,320 | 157 | 44 | 87 | 22,782 |

B. Other Commitments

Power Purchase Agreements:

The City has executed five firm power purchase agreements. The agreements are with Deseret Generation and Transmission Cooperative (Deseret) of Murray, Utah; CDWR; and Bonneville Power Administration (BPA). The minimum annual obligations under each of these contracts are shown in the table below.

Minimum Obligations 2003-2004

| Supplier | Capacity | Energy | Total |
|---|---|---|---|
| Deseret | $3,463 | $1,811 | $5,274 |
| CDWR II | 505 | - | 505 |
| CDWR IV | 658 | - | 658 |
| BPA | 1,865 | - | 1,865 |
| | $6,491 | $1,811 | $8,302 |

The agreement with Deseret is for five megawatts of capacity and associated energy from January 1, 1992, through December 31, 1994, then increasing to 52 megawatts of capacity and associated energy through December 31, 2009. A notice of termination of the power purchase agreement was provided to Deseret effective March 31, 1998, resulting in litigation which was settled on July 31, 1999. Under the terms of the settlement agreement, the notice of termination was rescinded and the power purchase agreement was amended to reflect substantial price reductions after fiscal year 2002 through the term of the agreement in 2009. In exchange, the Electric Utility paid Deseret $25 million from reserves, which is reflected on the Balance Sheet as Unamortized purchase power. On July 1, 2002, the Electric Utility began to amortize the related price reductions, and will continue to amortize over the remaining term of the agreement using the straight-line method. As of June 30, 2003, unamortized purchased power was $25,056 and the Electric Utility had recorded amortization of $3,341.

(amounts expressed in thousands)

There are two separate agreements with CDWR. The two agreements, CDWR III and IV are for the purchase of 23 and 30 megawatts of capacity and associated energy from May through October. CDWR III and CDWR IV are for a period of 15 years beginning June 1, 1996, subject to termination.

An agreement with Bonneville Power Administration (BPA) is for a purchase of firm capacity and associated energy of 23 megawatts in the summer and 16 megawatts in the winter for a period of twenty years ending February 1, 2011. A second agreement with BPA was executed in 1996 and is for the purchase of firm capacity (50 megawatts during the summer months and 13 megawatts during the winter months) and associated energy beginning April 30, 1996 for twenty years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 and 15 magawatts, respectively, for the remainder of the second agreement.

On July 8, 2003, and June 6, 2003, the City Council and Public Utilities Board, respectively, adopted the Renewable Portfolio Standard to increase procurement of renewable resources to reach a target of 20 percent of the Utility's energy from renewable sources by 2015. The contracts in the following table were executed as part of compliance with this standard. The Electric Utility has agreements with the Automated Power Exchange and Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio. In the current year, renewable resources provided 13 percent of the retail energy requirements, approximately 10% of the total power supply.

Long-term renewable power purchase agreements:

| Supplier | Type | Maximum Contract | Contract Expiration | Estimated Annual Cost for 2004 |
|---|---|---|---|---|
| Milliken Genco | Landfill Gas | 2.5MW | 12/31/2007 | $ 1,044 |
| Mid Valley Genco | Landfill Gas | 2.5MW | 12/31/2007 | 1,089 |
| Riverside County (Badlands Landfill) | Landfill Gas | 1.2MW | 10/10/2003 | 386 |
| Wintec | Wind | 1.3MW | 4/30/2018 | 77 |
| Salton Sea | Geothermal | 20.0MW | 5/31/2013 | 10,153 |
| Total | | 27.5MW | | $12,749 |

Construction Commitments:

As of June 30, 2003, the Electric Utility had major construction commitments of approximately $3,680 with respect to unfinished capital projects, of which $1,500 is expected to be funded by others, $1,100 by bonds and $1,100 by rates.

As of June 30, 2003, the Water Utility had major construction commitments of approximately $4,626 with respect to unfinished capital projects, of which $1,877 is expected to be funded by others and $2,749 is expected to be funded by bond proceeds.

C. Jointly Governed Organizations

On November 1, 1980, The City of Riverside joined with the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale, Pasadena, and Imperial Irrigation District to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of the Authority is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. The Authority is governed by a Board of Directors which consists of one representative for each of the members. During the 2003 fiscal year, the Electric Utility paid approximately $20,324 to SCPPA under various take-or-pay contracts, which are described in greater detail in Note 13A. These payments are reflected as a component of purchased power in the financial statements.





On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (Agency) by a Joint Powers Agreement under the laws of the State of California. The city of Anaheim joined the Agency on July, 1 1996. The primary purpose of the Agency is to take advantage of economies of scale resulting from the five cities acting in concert. The Agency has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. The Agency is governed by a Board of Directors (the Board), which consists of one representative for each of the members. The term of the Joint Powers Agreement is fifty years. On April 5, 2001 the Board placed the Agency in an inactive status, effective June 30, 2001. It can only be reactivated with authorization from the Agency Board.

On July 1, 1993, the City of Riverside joined with the cities of Anaheim, Colton, Compton, Healdsburg, Los Angeles, Palo Alto, Pasadena, Redding, the North Marin Water District, the Northern California Power Agency, the Sacramento Municipal Utility District, and Turlock Irrigation District to create the Financing Authority for Resource Efficiency of California (FARECal). The City of Santa Cruz joined in 1994, and Trinity Public Utility District joined in 1996, and the cities of Azusa and Victorville joined in 2002. The primary purpose of FARECal is to issue bonds and use the proceeds to promote, advance, encourage and participate in conservation, reclamation and other programs that are designed to utilize energy or water resources more efficiently. FARECal is administered by a Board of Directors currently represented by the cities of Anaheim, Colton, Palo Alto, Pasadena, and the North Marin Water District and Trinity Public Utility District. The Electric Utility's portion of the FARECal debt and utility plant assets is recorded in the accompanying financial statements.

D. Jointly-Owned Utility Project

Pursuant to the Settlement Agreement with Southern California Edison (SCE) dated August 4, 1972, the City was granted the right to acquire a 1.79% ownership interest in San Onofre Nuclear Generating Station (SONGS) Units 2 and 3. Pursuant to the Settlement Agreement, SCE agreed to provide the necessary transmission service to deliver the output of SONGS to Riverside. SCE and the City entered into the SONGS Participation Agreement which sets forth the terms and conditions under which the City, through the Electric Utility, participates in the ownership and output of SONGS. Other participants in this project include SCE, 75.05 percent; San Diego Gas and Electric Company, 20.00 percent; and the City of Anaheim, 3.16 percent. Maintenance and operation of SONGS remains the responsibility of SCE, as operating agent for the City.

There are no separate financial statements for the jointly-owned utility plant since each participant's interest in the utility plant and operating expenses is included in their respective financial statements. The Electric Utility's share of the capitalized construction cost and operating expenses is included in the Electric Utility's financial statements. As of June 30, 2003, Riverside's 1.79% share of the capitalized construction costs for SONGS totaled $128,483 with accumulated depreciation of $87,309. The Electric Utility made provisions during fiscal year 2003 for nuclear fuel burn of $1,173 and for future decommissioning cost of $1,581 (See Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

As a participant in the SONGS, the Electric Utility could be subject to assessment of additional insurance premiums in the event of a nuclear incident at San Onofre or any other licensed reactor in the United States.

E. Contingencies

To comply with certain State and local regulations, the City is funding the costs of closure and "final capping" of the Tequesquite landfill located in the City. This area, comprised of approximately 120 acres, operated as a "Class II Sanitary Landfill" until its closure in 1985. During its operation, the landfill did not accept hazardous waste and no clean up and abatement or cease and desist orders have been issued to the City.

The estimated costs as determined by an independent consultant and updated by the City's Engineering Department are associated with flood control upgrades, remediation of possible ground water contamination and control of methane gas. There is the potential for these estimates to change due to inflation, deflation, technology, or change in application laws or regulations. To fund the cost, the City imposed a landfill capping surcharge on customers effective August 1, 1988. The minimum unamortized estimated cost of $5,551 is recorded as a deferred charge in the accompanying financial statements of the Refuse Fund and is being amortized on a straight line basis over the remaining post closure period, currently 28 years. The estimated cost of meeting the State's requirements was increased by 2.2 million during 2002 based on the engineer's annual review of closure and post-closure maintenance costs. Additionally, payments made during the year of $96 reduced that liability to its

Fiscal Year Ended June 30, 2003 (amounts expressed in thousands)

June 30, 2003 balance of $4,268 as reflected in the balance sheet of the Refuse Fund.

Note 14. Restatement of Net Assets/Fund Balance:

The City's Net Assets for Governmental Activities and Fund Balance at June 30, 2002 have been restated to record additional sales tax revenue due from the State, elimination of deferred revenue associated with a capital lease receivable and reversal of a duplicate entry for land recorded in capital assets.

The restatements had the following effect on the Net Assets for Governmental Activities:

| | |
|---|---|
| Beginning, as previously reported | $521,262 |
| Accrued sales tax receivable | 5,784 |
| Elimination of deferred revenue associated with a capital lease receivable | 27,925 |
| Duplicate entry for land | (2,270) |
| Beginning, as restated | $552,701 |

The restatements had the following effect on Beginning Fund Balance:

| | |
|---|---|
| General Fund: | |
| Beginning, as previously reported | $74,776 |
| Accrued Sales Tax Receivable | 4,778 |
| Beginning, as restated | $79,554 |

The restatements had an immaterial effect on the Statement of Activities and Statement of Revenues, Expenses and Changes in Fund Balance for the year ended June 30, 2002.

Note 15. Subsequent Events

Subsequent to June 30, 2003, four bond issues were completed to take advantage of improved interest rates and/or realize debt service savings. The bond issues were as follows:

On July 8, 2003, the Redevelopment Agency issued the Lease Revenue Refunding Bonds 2003 Series A for $26,255 and 2003 Series B for $4,810 to advance refund $27,925 of the 1994 Downtown/Airport Project Area, Series A and B Bonds;

On July 29, 2003, the Redevelopment Agency issued the Series 2003 Merged Project Area Tax Allocation and Refunding Bonds totaling $40,435 to advance refund $29,575 of the 1993 Tax Allocation Refunding Bonds, Merged Project Area and provide $10,805 for new projects;

On July 30, 2003, $1,200, of Special Tax Bonds (no City obligation) were sold for the Sycamore Canyon Community Facilities District 92-1 to acquire or construct certain environmental improvements;

On July 31, 2003, the Electric Utility issued the 2003 Electric Refunding Revenue Bonds totaling $75,405 to advance refund $75,410 of the 1993 Electric Refunding Revenue Bonds and $3,310 of the 1994 FARECal Bonds.

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# APPENDIX E

## DEFINITION OF CERTAIN TERMS AND SUMMARY OF TRUST AGREEMENT AND LOCAL AGENCY TRUST AGREEMENTS

The following summary discussion of selected features of the Trust Agreement and the Local Agency Trust Agreements are made subject to all of the provisions of such documents and to the discussion of such documents contained elsewhere in this Official Statement. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the Bonds are referred to the complete text of the Trust Agreement and the Local Agency Trust Agreement, copies of which are available upon request from Wells Fargo Bank, National Association, Corporate Trust Services, 707 Wilshire Blvd., 17th Floor, Los Angeles, CA 90017.

## TRUST AGREEMENT DEFINITIONS

"Accreted Value" means, with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Bond, plus interest accrued thereon from its date compounded on each Interest Payment Date (through and including the Maturity Date of such Bond) at the "original issue yield" for such Bond; provided, that the Accreted Value on any date other than an Interest Payment Date shall be calculated by straight line interpolation of the Accreted Values as of the immediately preceding and succeeding Interest Payment Date. The term "original issue yield" means, with respect to any particular Bond, the yield to maturity of such Bond from the initial date of delivery thereof calculated on the basis of semiannual compounding on each Interest Payment Date.

"Act" means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, as amended) and all laws amendatory thereto or supplemental thereto.

"Aggregate Principal Amount" means, as of any date of calculation, the principal amount or Accreted Value, respectively, of the Bonds referred to.

"Authority" means the California Statewide Communities Development Authority, or its successors and assigns.

"Authorized Authority Representative" means any member of the Commission of the Authority.

"Authorized Denominations" means (a) as to Bonds issued as Current Interest Bonds, $5,000 principal amount or any integral multiple thereof; and (b) as to Capital Appreciation Bonds, $5,000 Maturity Amount or any integral multiple thereof.

"Bond Fund" means the Bond Fund established pursuant to the Trust Agreement.

"Bond Insurer" means Ambac Assurance Corporation, or any successor thereto as assignee thereof.

"Bond Insurance Policy" means the financial guaranty insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"Bonds" means the 2004 Series A-1 Bonds and 2004 Series A-2 Bonds issued pursuant to the Trust Agreement.

"Business Day" means any day other than a Saturday or Sunday or day upon which the Trustee is authorized by law to remain closed.

"Capital Appreciation Bonds" means Bonds the interest on which is payable at maturity and compounded on each Interest Payment Date through and including the Maturity Dates thereof as specified in the Accreted Value Table for such Bonds attached as an exhibit to the Trust Agreement.

"Certificate of the Authority" means an instrument in writing signed by an Authorized Authority Representative or such officer's designee, or by any other officer of the Authority duly authorized by the Commission of the Authority in writing to the Trustee for that purpose. If and to the extent required by the provisions of the Trust Agreement, each Certificate of the Authority shall include the statements provided for therein.

"Closing Date" means the date on which the Bonds are delivered to the Original Purchaser of the Bonds.

"Corporate Trust Office" means such corporate trust office of the Trustee as may be designated from time to time by written notice from the Trustee to the Authority, initially being Los Angeles, California. The Trustee may designate in writing to the Authority and the Holder such other office or agency from time to time for purposes of registration, transfer, exchange, payment or redemption of Bonds.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the Bonds or Obligations, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, fees and expenses of the underwriter, fees and charges for preparation, execution and safekeeping of the Bonds or Obligations, premiums for bond insurance, if any, and any other cost, charge or fee in connection with the original execution and delivery of the Bonds or Obligations.

"Costs of Issuance Fund" means the Costs of Issuance Fund established in the Trust Agreement.

"Current Interest Bonds" means those Bonds issued in Authorized Denominations of $5,000 and any integral multiple thereof, the interest on which is payable on each Interest Payment Date.

"Defeasance Securities" means:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation); and

(2) Obligations of or obligations guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States, including (without limitation):

- U.S. Treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration

- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

"Holder" means any person who shall be the registered owner of any Outstanding Bond.

"Independent Certified Public Accountant" means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State or a comparable successor, appointed and paid by the Authority, and who, or each of whom --

(a) is in fact independent according to the Statement of Auditing Standards No. 1 and not under the domination of the Authority;

(b) does not have a substantial financial interest, direct or indirect, in the operations of the Authority; and

(c) is not connected with the Authority as a member, officer or employee of the Authority, but who may be regularly retained to audit the accounting records of and make reports thereon to the Authority.

"Interest Account" means the account by that name established in the Trust Agreement.

"Interest Payment Date" means each June 1 and December 1, commencing December 1, 2004, which are the dates upon which interest is due on the Bonds (or, with respect to Capital Appreciation Bonds, compounded), as set forth in the Trust Agreement.

"Local Agencies" means the California local agencies listed in the Trust Agreement and their successors and assigns.

"Local Agency Obligations" or "Obligations" means the taxable pension obligation bonds issued by the Local Agencies in the respective aggregate principal amounts described in the Trust Agreement.

"Local Agency Trust Agreements" means the respective trust agreements, dated as of June 1, 2004, by and between each Local Agency and Wells Fargo Bank, National Association, as trustee, pursuant to which the Obligations are issued, as such may be supplemented or amended from time to time.

"Local Agency Trustee" means the trustee under each of the Local Agency Trust Agreements.

"Maturity Amount" means the Accreted Value of any Capital Appreciation Bond on its Maturity Date.

"Maturity Date" means the maturity date of the Bonds.

"Original Purchaser of the Bonds" means the original purchaser of the Bonds designated in the Trust Agreement.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Trust Agreement) all Bonds except:

- Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

- Bonds paid or deemed to have been paid within the meaning of provided for in the Trust Agreement; and

- Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the Authority pursuant to the Trust Agreement.

"Permitted Investments" means any of the following as approved by the Bond Insurer:

(1) Defeasance Securities;

(2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank;

(3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC)

- Obligations of the Resolution Funding Corporation (REFCORP)

- Senior debt obligations of the Federal Home Loan Bank System

- Senior debt obligations of other Government Sponsored Agencies approved by the Bond Insurer;

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating on their short-term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and which mature not more than three hundred sixty (360) calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank):

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than two hundred seventy (270) calendar days after the date of purchase;

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

(7) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's and S&P or any successors thereto; or

(B) (i) which are fully secured as to interest and principal and redemption premiums, if any, by an escrow consisting only of cash or obligations described in paragraph (2) of the definition of Defeasance Securities, which escrow may be applied only to the payment of such interest and principal and redemption premiums, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premiums, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P;

(9) Investment agreements approved in writing by the Bond Insurer (supported by appropriate opinions of counsel);

(10) The Local Agency Investment Fund (as that term is defined in Section 16429.1 of the Government Code of the State, as such Section may be amended or recodified from time to time); and

(11) Other forms of investments (including repurchase agreements) approved in writing by the Bond Insurer.

The value of the above investments shall be determined as follows:

(a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns, or Lehman Brothers;

(b) As to certificates of deposit and bankers' acceptances, the face amount thereof, plus accrued interest thereon; and

(c) As to any investment not specified above, the value thereof established by prior agreement among the Authority, the Trustee and the Bond Insurer.

"Principal Account" means the account by that name established in the Trust Agreement.

"Principal Amount" means (a) as to any Current Interest Bond, the principal amount thereof, or (b) as to any Capital Appreciation Bond, the Maturity Amount thereof.

"Principal Payment Date" means a date on which principal is due on the Bonds as set forth in the Trust Agreement.

"Proceeds Fund" means the fund by that name established pursuant to the Trust Agreement.

"Rating Agencies" means Moody's Investors Service, Inc. and Standard & Poor's Rating Services, a division of McGraw Hill Companies, Inc., or, in the event that Moody's Investors Service, Inc. or Standard & Poor's Rating Services no longer maintains a rating on the Bonds, any other nationally recognized bond rating agency then maintaining a rating on the Bonds, but, in each instance, only so long as Moody's Investors Service, Inc., Standard & Poor's Rating Services or other nationally recognized rating agency then maintains a rating on the Bonds.

"Record Date" means the fifteenth day of the month preceding each Interest Payment Date.

"State" means the State of California.

"Supplemental Trust Agreement" means any trust agreement then in full force and effect which has been duly executed and delivered by the Authority and the Trustee amendatory of the Trust Agreement or supplemental thereto; but only if and to the extent that such Supplemental Trust Agreement is specifically authorized thereunder.

"System" means the California Public Employees' Retirement System.

"Term Bonds" means Bonds which are payable on or before their specified Maturity Dates from sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified Maturity Dates.

"Trust Agreement" means the Trust Agreement, dated as of June 1, 2004, between the Authority and the Trustee, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Trust Agreements executed pursuant to the provisions of the Trust Agreement.

"Trustee" means Wells Fargo Bank, National Association, or its successors or assigns or any other association or corporation which may at any time be substituted in its place as provided in the Trust Agreement.

"2004 Series A Bonds" means all Bonds of that designation of the Authority authorized by and at any time Outstanding pursuant to the Trust Agreement and executed, issued and delivered in accordance thereto.

"Written Request of the Authority" means an instrument in writing signed by an Authorized Authority Representative or such officer's designee, or by any other officer of the Authority duly authorized by the Commission of the Authority in writing to the Trustee for that purpose.

## SUMMARY OF THE TRUST AGREEMENT

Establishment of Funds and Deposit of Proceeds of Bonds

The Trustee shall establish and maintain under the Trust Agreement, in trust, the Costs of Issuance Fund, the Proceeds Fund, the Bond Fund, the Interest Account and the Principal Account. The proceeds received from the sale of the Bonds are to be deposited in the Costs of Issuance Fund and the Proceeds Fund.

Use of Money in the Costs of Issuance Fund and the Proceeds Fund

( ) The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee, to pay the Costs of Issuance of Obligations upon receipt of (i) a Request of an Authorized Authority Representative, which Request shall be sequentially numbered, stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund and (ii) an original invoice or invoices or evidence of the Local Agency's, Authority's or Original Purchaser's payment of an invoice when such requisition is in reimbursement thereof. On December 1, 2004, or on such earlier date upon Request of an Authorized Authority Representative, amounts, if any, remaining in the Costs of Issuance Fund (and not required to pay identified Costs of Issuance) shall be transferred as directed by the Authority.

( ) All moneys in the Proceeds Fund shall be credited to each of the Local Agencies initially in amounts set forth in the Trust Agreement. Moneys in the Proceeds Fund shall be disbursed on the Closing Date for the 2004 Series A Bonds to the Pension System and in the amounts set forth in the Trust Agreement relating to such Local Agency, pursuant to a Request of an Authorized Authority Representative.

Use of Money in the Bond Fund

The Trustee shall deposit the money contained in the Bond Fund at the following respective times in the following respective accounts (each of which is established pursuant to the Trust Agreement) in the manner and priority thereinafter provided, and the money in each of such funds shall be disbursed only for the purposes and uses thereinafter authorized:

( ) Interest Account. The Trustee shall deposit, on each Interest Payment Date in the Interest Account, that amount of money representing the interest due and payable on the Bonds on such date; and such money shall be used by the Trustee solely for the purpose of paying interest on the Bonds on such date.

( ) Principal Account. The Trustee, on the Principal Payment Date, shall deposit in the Principal Account that amount of money representing the principal becoming due and payable on the Bonds on such Principal Payment Date. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal or Accreted Value of the Bonds on the Principal Payment Date.

The Trustee shall establish and maintain within the Principal Account a separate subaccount for the Term Bonds of each series and maturity, designated as the "____ Sinking Account" (the "Sinking Account"), inserting therein the series and maturity (if more than one such account is established for such series) designation of such Bonds. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Trustee shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Trust Agreement; provided that, at any time prior to giving such notice of such redemption, the Trustee may upon the Written Request of the Authority, apply moneys in such Sinking Account to the purchase for cancellation of Term Bonds of such series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account), as may be directed by the Authority, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Bonds upon redemption by application of such Mandatory Sinking Account Payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Trustee has purchased Term Bonds of such series and maturity with moneys in such Sinking Account, such Bonds so purchased shall be applied, to the extent of the full principal amount or Accreted Value thereof, as applicable, to reduce said mandatory sinking account payment.

Moneys held in the Bond Fund, the Principal Account or the Interest Account on each Interest Payment Date after the payment by the Trustee of all of the principal of and interest on the Bonds shall be (i) returned by the Trustee to each Local Agency (other than a Local Agency which is in default in the payment of the principal of and interest on its Obligation) in an amount equal to the proportion of the amount initially received from each Local Agency and deposited in the Bond Fund over all amounts received from all Local Agencies and deposited in the Bond Fund multiplied by the remaining balance in the Bond Fund, or (ii) applied by the Trustee as otherwise directed by the Authority.

Investments

Any money held by the Trustee at any time in any Fund created under the Trust Agreement shall, to the fullest extent practicable, be invested as directed in writing by an Authorized Authority Representative in Permitted Investments which will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement under the Trust Agreement. In the absence of any written direction from the Authority, the Trustee shall invest any money held in any Fund created under the Trust Agreement in Permitted Investments identified in clause (6) of the definition thereof which will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement thereunder. The amounts held in the Proceeds Fund will be accounted for separately for the respective Local Agencies. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may at its sole discretion, for the purpose of any such investment, commingle any of the money held by it under the Trust Agreement. The Trustee shall not be liable or responsible for any loss suffered in connection with any such deposit or investment made by it under the terms of and in accordance with this section. The Trustee may present for redemption or sell any such deposit or investment whenever it shall be necessary in order to provide money to meet any payment of the money so deposited or invested, and the Trustee shall not be liable or responsible for any losses resulting from any such deposit or investment presented for redemption or sold. Any interest or profits on such deposits and investments received by the Trustee shall be credited to the fund, account or subaccount from which such investment was made.

Punctual Payment and Performance

The Authority will punctually pay the interest on and the principal of and redemption premiums, if any, to become due on every Bond issued under the Trust Agreement in strict conformity with the terms thereof and of the Bonds, and will faithfully observe and perform all the agreements and covenants to be observed or performed by the Authority contained therein and in the Bonds.

Additional Debt

The Authority expressly reserves the right to enter into one or more other agreements or Indentures for any of its purposes, and reserves the right to issue other obligations for such purposes.

The Trustee

Wells Fargo Bank, National Association shall serve as the Trustee for the Bonds for the purpose of receiving all money which the Authority is required to deposit with the Trustee under the Trust Agreement and for the purpose of allocating, applying and using such money as provided therein and for the purpose of paying the interest on and principal of and redemption premiums, if any, on the Bonds presented for payment at the Corporate Trust Office of the Trustee with the rights and obligations provided therein. The Authority agrees that it will at all times maintain a Trustee having a corporate trust office in Los Angeles or San Francisco, California.

The Authority may at any time, unless there exists any Event of Default as defined in the Trust Agreement, remove the Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto by an instrument in writing; provided that any such successor shall be a bank or trust company doing business and having a corporate trust office in Los Angeles or San Francisco, California, having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars ($50,000,000) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee may at any time resign by giving written notice of such resignation to the Authority and by mailing to the Holders notice of such resignation. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only upon the acceptance of appointment by the successor Trustee. If, within thirty (30) days after notice of the removal or resignation of the Trustee no successor Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required by the Trust Agreement.

The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default that may have occurred, perform such duties and only such duties as are specifically set forth in the Trust Agreement and no implied duties or obligations shall be read into the Trust Agreement. The Trustee shall, during the existence of any Event of Default (that has not been cured), exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

Amendment of the Trust Agreement

The Trust Agreement and the rights and obligations of the Authority and of the Holders may be amended at any time by a Supplemental Trust Agreement which shall become binding when the written consents of the Holders of a majority in Aggregate Principal Amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal of or redemption premium, if any, or extend the time of payment on any Bond without the express written consent of the Holder of such Bond, or (2) reduce the percentage of Bonds required for the written consent to any such amendment.

The Trust Agreement and the rights and obligations of the Authority and of the Holders may also be amended at any time by a Supplemental Trust Agreement which shall become binding upon adoption without the consent of any Holders, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel, for any purpose that will not materially adversely affect the interests of the Holders, including (without limitation) for any one or more of the following purposes:

( ) to add to the agreements and covenants required in the Trust Agreement to be performed by the Authority other agreements and covenants thereafter to be performed by the Authority, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved therein to or conferred therein on the Authority;

( ) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement and in any Supplemental Trust Agreement or in regard to questions arising thereunder which the Authority may deem desirable or necessary and not inconsistent therewith;

( ) to modify, amend or add to the provisions therein or in any Supplemental Trust Agreement to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statutes thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by such statute or similar statute; or

( ) to modify, amend or supplement the Trust Agreement and any Supplemental Trust Agreement in any manner that does not materially adversely affect the interest of Holders of Bonds.

The Trustee shall not be required to enter into or consent to any Supplemental trust agreement which, in the sole judgment of the Trustee, may adversely affect the rights, obligations, powers, privileges, indemnities and immunities provided the Trustee therein.

Amendment by Mutual Consent

The provisions of the Trust Agreement shall not prevent any Holder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

Action on Default

If any default in the payment of principal of or interest on an Obligation or any other "Event of Default" defined in a Local Agency Trust Agreement shall occur and be continuing, then such default shall constitute an "Event of Default" under the Trust Agreement, and in each and every such case during the continuance of such Event of Default the Trustee or the Owners of not less than a majority in aggregate principal amount of Bonds at the time Outstanding shall, upon notice in writing to such Local Agency, exercise the remedies provided to the owner of the Obligation then in default or under the Local Agency Trust Agreement pursuant to which it was issued which are necessary or desirable to collect the principal of the Obligation and the interest thereon to maturity.

Non-Waiver

A waiver by the Trustee of any default under the Trust Agreement or breach of any obligation thereunder shall not affect any subsequent default thereunder or any subsequent breach of an obligation thereunder or impair any rights or remedies on any such subsequent default thereunder or on any such subsequent breach of an obligation thereunder. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default thereunder shall impair any such right or remedy or shall be construed to be a waiver of any such default thereunder or an acquiescence therein, and every right or remedy conferred upon the Trustee by applicable law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee, the Authority or the Local Agencies, the Authority, the Trustee and the Local Agencies shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Notwithstanding anything to the contrary, no waiver by the Trustee of any default under the Trust Agreement or breach of any obligation thereunder with respect to any Local Agency shall be effective without the prior written consent of the Bond Insurer.

Remedies Not Exclusive

No remedy conferred in the Trust Agreement upon or reserved therein to the Trustee is intended to be exclusive and all remedies shall be cumulative and each remedy shall be in addition to every other remedy given thereunder or now or thereafter existing under applicable law or equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other applicable law.

Discharge of Bonds

(a) If the Authority shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding Bonds the interest thereon and the principal thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated therein and therein, and shall pay or provide for the payment of all fees and expenses of the Trustee, then all agreements, covenants and other obligations of the Authority to the Holders of such Bonds thereunder shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, the Trustee shall pay over or deliver to the Authority all money or securities held by it pursuant thereto which are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds.

(b) Any Outstanding Bonds shall prior to the Maturity Date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (1) in case any of such Bonds are to be redeemed on any date prior to their Maturity Date, the Authority shall have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice in accordance with the Trust Agreement, (2) there shall have been deposited with the

Trustee either (A) money in an amount which shall be sufficient or (B) Defeasance Securities which are not subject to redemption prior to maturity (including any such Defeasance Securities issued or held in book-entry form on the books of the Authority or the Treasury of the United States of America), the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, in the opinion of an Independent Certified Public Accountant, to pay when due the interest to become due on such Bonds on and prior to the Maturity Date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, on such Bonds, and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Holders of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this section and stating the Maturity Date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Bonds.

Consents and Rights of Bond Insurer

While the Bond Insurance Policy is in effect, the Authority and the Trustee agree to comply with the following provisions:

(a) Any provision of the Trust Agreement expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer under the Trust Agreement without the prior written consent of the Bond Insurer.

(b) Unless otherwise provided in this section, the Bond Insurer's consent shall be required in addition to the consent of the Holders of the Bonds, when required, for the following purposes: (i) the removal of the Trustee and selection and appointment of any successor Trustee; and (ii) the initiation or approval of any action not described in (i) above that requires the consent of the Holders of the Bonds.

(c) Anything contained in the Trust Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default thereunder, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Bonds or the Trustee for the benefit of the Holders of the Bonds thereunder, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default.

## LOCAL AGENCY TRUST AGREEMENTS
## DEFINITIONS

"Accreted Value" means, with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Local Agency Bond, plus interest accrued thereon from its date compounded on each Interest Payment Date (through and including the maturity date of such Bond) at the "original issue yield" for such Local Agency Bond; provided, that the Accreted Value on any date other than an Interest Payment Date shall be calculated by straight line interpolation of the Accreted Values as of the immediately preceding and succeeding Interest Payment Date. The term "original issue yield" means, with respect to any particular Local Agency Bond, the yield to maturity of such Local Agency Bond from the initial date of delivery thereof calculated on the basis of semiannual compounding on each Interest Payment Date.

"Act" means Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California.

"Additional Local Agency Bonds" means all Bonds of the Local Agency authorized by and at any time Outstanding pursuant to the Local Agency Trust Agreement and executed, issued and delivered in accordance therewith.

"Aggregate Principal Amount" means, as of any date of calculation, the principal amount or Accreted Value of the Local Agency Bonds referred to.

"Auction Rate Securities" means all Local Agency Bonds issued in such mode prior to their fixed rate conversion date, if any.

"Authorized Representatives" means the authorized representatives of the Local Agency pursuant to the Local Agency Trust Agreement.

"Business Day" means any day other than a Saturday or Sunday or day upon which the Trustee is authorized by law to remain closed.

"Capital Appreciation Local Agency Bonds" means Local Agency Bonds the interest on which is payable at maturity and compounded on each Interest Payment Date through and including the maturity dates thereof as specified in the Accreted Value Table for such Local Agency Bonds attached to the Local Agency Trust Agreement as or in a similar exhibit to a Supplemental Local Agency Trust Agreement.

"Certificate of the Local Agency" means an instrument in writing signed by any one of the Authorized Representatives of the Local Agency or such officer's designee, or by any other officer of the Local Agency duly authorized by the legislative branch of the Local Agency in writing to the Trustee for that purpose. If and to the extent required by the provisions of the Local Agency Trust Agreement each Certificate of the Local Agency shall include the statements provided for in the Local Agency Trust Agreement.

"Closing Date" means the date on which the Local Agency Bonds are delivered to the Authority.

"Corporate Trust Office" means such corporate trust office of the Local Agency Trustee as may be designated from time to time by written notice from the Trustee to the Local Agency, initially being Los Angeles, California. The Local Agency Trustee may designate in writing to the Local Agency and the Holder such other office or agency from time to time for purposes of registration, transfer, exchange, payment or redemption of Local Agency Bonds.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Local Agency and related to the Local Agency Bonds, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, fees and expenses of the underwriter, fees and charges for preparation, execution and safekeeping of the Local Agency Bonds, premiums for bond insurance, if any, and any other cost, charge or fee in connection with the original execution and delivery of the Local Agency Bonds.

"Costs of Issuance Fund" means the Costs of Issuance Fund established in Local Agency Trust Agreement.

"Fiscal Year" means the twelve-month period terminating on June 30 of each year, or any other annual accounting period thereafter selected and designated by the Local Agency as its Fiscal Year in accordance with applicable law.

"Fixed Rate" means a rate of interest that does not change during a specific term, without adjustment, resetting or variation due to the effects of marketing, remarketing or indices.

"Holder" means any person who shall be the registered owner of any Outstanding Local Agency Bond.

"Index Local Agency Bonds" means those Local Agency Bonds which bear interest at an Index Rate.

"Index Rate" means the interest rate on Index Bonds established according to LIBOR, as provided in the Local Agency Trust Agreement.

"Independent Certified Public Accountant" means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State or a comparable successor, appointed and paid by the Local Agency, and who, or each of whom:

> ( ) is in fact independent according to the Statement of Auditing Standards No. 1 and not under the domination of the Local Agency;
>
> ( ) does not have a substantial financial interest, direct or indirect, in the operations of the Local Agency; and
>
> ( ) is not connected with the Local Agency as a member, officer or employee of the Local Agency, but who may be regularly retained to audit the accounting records of and make reports thereon to the Local Agency.

"Interest Account" means the account by that name established in the Local Agency Trust Agreement.

"Interest Payment Date" means each June 1, and December 1, commencing December 1, 2004, which are the dates upon which interest is due on the Local Agency Bonds (or, with respect to Capital Appreciation Local Agency Bonds, compounded), or such other date designated in a Supplemental Local Agency Trust Agreement.

"LIBOR" on any date of determination for any Auction Rate Period, means:

(i) subject to clause (ii) below, (A) for any Standard Auction Rate Period or any Special Auction Rate period of fewer than 49 days, the offered rate for deposits in U.S. dollars for a one-month period which appears on Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a London Business Day, then on the next preceding London Business day (the "calculation date") and (b) for any Special Auction Rate period of (i) 49 or more but fewer than 70 days, such rates for deposits in U.S. dollars for a two-month period; (ii) 70 or more but fewer than 85 days, the arithmetic average of such rates for deposits in U.S. dollars for two-and three-month periods; (iii) 85 or more but fewer than 120 days, such rate for deposits in U.S. dollars for a three-month period; (iv) 120 or more but fewer than 148 days, the arithmetic average of such rates for deposits in U.S. dollars for three- and six-month periods; (v) 148 or more but fewer than 180 days, such rate for deposits in U.S. dollars for a six-month period; (vi) 180 or more but fewer than 225 days, the arithmetic average of such rates for deposits in U.S. dollars for six- and nine-month periods; (vii) 225 or more but fewer than 290 days, such rate for deposits in U.S. dollars for a nine-month period; (viii) 290 or more but fewer than 325 days, the arithmetic average of such rates for deposits in U.S. dollars for nine-month and one-year periods; and (ix) 325 days or more, such rate for deposits in U.S. dollars for a one-year period; or

(ii) if, on any calculation date, no rate appears on Telerate Page 3750 as specified in clause (i) above, the arithmetic average of the offered quotations of four major banks in the London interbank market, selected by the Market Agent for deposits in U.S. dollars for the respective periods specified in clause (i) above to prime banks in the London interbank market at approximately 11:00 a.m., London time, on such calculation date and in a principal amount of not less than $1,000,000 that is representative of a single transaction in such market at such time, unless fewer than two such quotations are provided, in which case, the arithmetic average of the rates quoted at approximately 11:00 a.m., New York time, on the date next preceding such calculation date by three major banks in the City of New York, selected by the Market Agent, for loans in U.S. dollars to leading European banks in a principal amount of not less than $1,000,000 that is representative of a single transaction in such market at such time.

"Local Agency" means the Local Agency participating in the issuance of the Local Agency Bonds.

"Local Agency Act" means Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California.

"Local Agency Bonds" means the 2004 Series A Local Agency Bonds and all Additional Local Agency Bonds.

"Local Agency Bond Fund" means the Local Agency Bond Fund established pursuant to the Local Agency Trust Agreement.

"Local Agency Trust Agreement" means the Trust Agreement, dated as of June 1, 2004, between the Local Agency and the Trustee, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Local Agency Trust Agreements executed pursuant to the provisions of the Local Agency Trust Agreement.

"Local Agency Trustee" means Wells Fargo Bank, National Association, or any other association or corporation which may at any time be substituted in its place as provided in the Local Agency Trust Agreement.

"Maturity Amount" means the Accreted Value of any Capital Appreciation Bond on its maturity date.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Local Agency.

"Original Purchaser of the Local Agency Bonds" means the original purchaser of the Local Agency Bonds designated in the Local Agency Trust Agreement.

"Outstanding," when used as of any particular time with reference to Local Agency Bonds, means (subject to the provisions of the Local Agency Trust Agreement) all Local Agency Bonds except:

( ) Local Agency Bonds theretofore cancelled by the Local Agency Trustee or surrendered to the Local Agency Trustee for cancellation;

( ) Local Agency Bonds paid or deemed to have been paid within the meaning of the Local Agency Trust Agreement; and

( ) Local Agency Bonds in lieu of or in substitution for which other Local Agency Bonds shall have been executed, issued and delivered by the Local Agency pursuant to the Local Agency Trust Agreement.

"Permitted Investments" means any of the following as approved by the Bond Insurer:

(1) Defeasance Securities;

(2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank;

(3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC)

- Obligations of the Resolution Funding Corporation (REFCORP)

- Senior debt obligations of the Federal Home Loan Bank System

- Senior debt obligations of other Government Sponsored Agencies approved by the Bond Insurer;

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating on their short-term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and which mature not more than three hundred sixty (360) calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank):

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than two hundred seventy (270) calendar days after the date of purchase;

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

(7) Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's and S&P or any successors thereto; or

(B) (i) which are fully secured as to interest and principal and redemption premiums, if any, by an escrow consisting only of cash or obligations described in paragraph (2) of the definition of Defeasance Securities, which escrow may be applied only to the payment of such interest and principal and redemption premiums, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premiums, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P;

(9) Investment agreements approved in writing by the Bond Insurer (supported by appropriate opinions of counsel);

(10) The Local Agency Investment Fund (as that term is defined in Section 16429.1 of the Government Code of the State, as such Section may be amended or recodified from time to time); and

(11) Other forms of investments (including repurchase agreements) approved in writing by the Bond Insurer.

The value of the above investments shall be determined as follows:

(a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns, or Lehman Brothers;

(b) As to certificates of deposit and bankers' acceptances, the face amount thereof, plus accrued interest thereon; and

(c) As to any investment not specified above, the value thereof established by prior agreement among the Authority, the Trustee and the Bond Insurer.

"Principal Account" means the account by that name established in the Local Agency Trust Agreement.

"Principal Payment Date" means a date on which principal is due on the Local Agency Bonds as set forth in the Local Agency Trust Agreement.

"Qualified Swap Agreement" or "Swap Agreement" means (i) any ISDA Master Swap Agreement, by and between the Local Agency and a Qualified Swap Provider, which includes Schedule A thereto and the applicable Commitment, (a) that is entered into by the Local Agency with an entity that is a Qualified Swap Provider at the time the arrangement is entered into; (b) which provides that the Local Agency shall pay to such entity an amount based on the interest accruing at a Fixed Rate on an amount equal to the principal amount of Outstanding Local Agency Bonds covered by such Swap Agreement, if any, and that such entity shall pay to the Local Agency an amount based on the interest accruing on a principal amount equal to the then-Outstanding principal amount of the affected Local Agency Bonds, at a variable rate of interest computed according to a formula set forth in the Swap Agreement (which need not be the same formula by which the Auction Rate, if applicable, is calculated) or that one shall pay to the other any net amount due under such arrangement; and (c) which has been designated in writing to the Local Agency Trustee in a Certificate of the Local Agency as a Qualified Swap Agreement with respect to the affected Local Agency Bonds.

"Qualified Swap Provider" means with respect to the counterparty under any other Swap Agreement meeting the requirements of the definition thereof, a financial institution approved by the Local Agency, and (A) the long-term, unsecured and unsubordinated obligations of which are rated at the time of execution of the related Qualified Swap Agreement by at least one Rating Agency as described in clause (i) below and by at least one other Rating Agency as described in clause (ii) below: (i) at least "Aa3" by Moody's or "AA-" by S&P or Fitch and (ii) not lower than "A2" by Moody's or "A" by S&P or Fitch"; or (B) the obligations of which under the particular Qualified Swap Agreement and any Swap Policy related thereto are unconditionally guaranteed by a bank or non-bank financial institution, the long-term, unsecured and unsubordinated obligations of which are rated at the time of execution of the Qualified Swap Agreement by at least one Rating Agency as described in clause (i) above and by at least one other rating agency as described in clause (ii) above.

"Rating Agencies" means Moody's Investors Service, Inc. and Standard & Poor's Corporation, or, in the event that Moody's Investors Service, Inc. or Standard & Poor's Corporation no longer maintains a rating on the Local Agency Bonds, any other nationally recognized bond rating agency then maintaining a rating on the Local Agency Bonds, but, in each instance, only so long as Moody's Investors Service, Inc., Standard & Poor's Corporation or other nationally recognized rating agency then maintains a rating on the Local Agency Bonds.

"Record Date" means the fifteenth day of the month preceding each Interest Payment Date, or such other date designated in a Supplemental Local Agency Trust Agreement.

"Retirement Law" means the Public Employees' Retirement Law commencing with Section 20000 of the Government Code of the State of California, as amended.

"Serial Local Agency Bonds" means Local Agency Bonds for which no sinking fund payments are provided.

"State" means the State of California.

"Surplus Account" means the account by that name established in the Local Agency Trust Agreement.

"Supplemental Local Agency Trust Agreement" means any trust agreement then in full force and effect which has been duly executed and delivered by the Local Agency and the Local Agency Trustee amendatory thereof or supplemental to the Local Agency Trust Agreement; but only if and to the extent that such Supplemental Local Agency Trust Agreement is specifically authorized under the Local Agency Trust Agreement.

"Swap Payments" means any of the periodic payments due from the Local Agency pursuant to the terms of a Qualified Swap Agreement.

"System" means the California Public Employees' Retirement System.

"Term Local Agency Bonds" means Local Agency Bonds which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Local Agency Bonds on or before their specified maturity dates.

"Written Request of the Local Agency" means an instrument in writing signed by any one of the Authorized Representatives of the Local Agency or such officer's designee, or by any other officer of the Local Agency duly authorized by the legislative branch of the Local Agency in writing to the Local Agency Trustee for that purpose.

## SUMMARY OF THE LOCAL AGENCY TRUST AGREEMENTS

Local Agency Bond Fund; Deposits to Local Agency Bond Fund

( ) In order to meet the Local Agency's obligations under the Retirement Law, the Local Agency shall deposit or cause to be deposited with the Local Agency Trustee on or before August 1 of each Fiscal Year (or such other date as provided in a Supplemental Trust Agreement) the amount which, together with moneys transferred pursuant to the Local Agency Trust Agreement, is sufficient to pay the Local Agency's debt service obligations on the Local Agency Bonds payable during such Fiscal Year.

In establishing the amounts of the Local Agency's obligations on the Local Agency Bonds to be prepaid in each Fiscal Year, (i) (A) the debt service for Auction Rate Securities with an Auction Rate Period of less than 360 Rate Period Days shall be prepaid at the actual average interest rate for the immediately preceding Fiscal Year plus 200 basis points (2.00%), and if such information is not available for the full immediately preceding Fiscal Year, then the debt service for such Auction Rate Securities shall be prepaid at the average one-month LIBOR plus 200 basis points (2.00%) for the immediately preceding Fiscal Year; the debt service for Index Local Agency Bonds not subject to a Qualified Swap Agreement shall be prepaid at the average one-month LIBOR in effect during the immediately preceding Fiscal Year, plus 200 basis points (2.00%), or (B) the debt service for Auction Rate Securities with an Auction Rate Period of 360 Rate Period Days or longer not subject to a Qualified Swap Agreement shall be prepaid at the actual interest rate in effect for such Auction Rate Securities; and (ii) the debt service for all other Local Agency Bonds then Outstanding shall be prepaid at (A) the rate prescribed under the applicable Qualified Swap Agreement, if any, for Auction Rate Securities and Index Local Agency Bonds subject to a Qualified Swap Agreement, and (B) the actual interest rate in effect for Fixed Rate Local Agency Bonds.

( ) All amounts payable by the Local Agency under the Local Agency Trust Agreement shall be promptly deposited by the Local Agency Trustee upon receipt thereof in a special fund designated as the "Local Agency Bond Fund" which fund is created and shall be held in trust by the Local Agency Trustee.

Allocation of Moneys in Local Agency Bond Fund

On or before each Interest Payment Date or date fixed for redemption of Local Agency Bonds, the Local Agency Trustee shall transfer from the Local Agency Bond Fund, in immediately available funds, for deposit into the following respective accounts (each of which is created and which the Local Agency Trustee shall maintain in trust separate and distinct from the other funds and accounts established under the Local Agency Trust Agreement), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of funds sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any account subsequent in priority:

(a) Interest Account,

(b) Principal Account, and

(c) Surplus Account.

All money in each of such accounts shall be held in trust by the Local Agency Trustee and shall be applied, used and withdrawn only for the purposes authorized in this section.

(a) Interest Account. On or before each Interest Payment Date, the Local Agency Trustee shall set aside from the Local Agency Bond Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest becoming due and payable on all Outstanding Local Agency Bonds on such Interest Payment Date.

No deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Local Agency Bonds on such Interest Payment Date.

All money in the Interest Account shall be used and withdrawn by the Local Agency Trustee solely for the purpose of paying the interest on the Local Agency Bonds as it shall become due and payable (including accrued interest on any Local Agency Bonds purchased or redeemed prior to maturity).

(b) Principal Account. On or before each Principal Payment Date, the Local Agency Trustee shall set aside from the Local Agency Bond Fund and deposit in the Principal Account an amount of money equal to the amount of all sinking fund payments required to be made on such Principal Payment Date into the respective sinking fund accounts for all Outstanding Term Local Agency Bonds and the principal amount or Accreted Value of all Outstanding Serial Local Agency Bonds maturing on such Principal Payment Date.

No deposit need be made in the Principal Account if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Serial Local Agency Bonds maturing by their terms on such Principal Payment Date plus the aggregate amount of all sinking fund payments required to be made on such Principal Payment Date for all Outstanding Term Local Agency Bonds.

The Local Agency Trustee shall establish and maintain within the Principal Account a separate subaccount for the Term Local Agency Bonds of each series and maturity, designated as the "____ Sinking Account" (the "Sinking Account"), inserting therein the series and maturity (if more than one such account is established for such series) designation of such Local Agency Bonds. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Local Agency Trustee shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Local Agency Bonds of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Local Agency Trust Agreement; provided that, at any time prior to giving such notice of such redemption, the Local Agency Trustee may upon the Written Request of the Local Agency, apply moneys in such Sinking Account to the purchase for cancellation of Term Local Agency Bonds of such series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account), as may be directed by the Local Agency, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Local Agency Bonds upon redemption by application of such Mandatory Sinking Account Payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Local Agency Trustee has purchased Term Local Agency Bonds of such series and maturity with moneys in such Sinking Account, such Local Agency Bonds so purchased shall be applied, to the extent of the full principal amount or Accreted Value thereof, as applicable, to reduce said mandatory sinking account payment.

All money in the Principal Account shall be used and withdrawn by the Local Agency Trustee solely for the purpose of paying the principal or Accreted Value of the Local Agency Bonds, as applicable, as they shall become due and payable, whether at maturity or redemption, except that any money in any sinking fund account shall be used and withdrawn by the Local Agency Trustee only to purchase or to redeem or to pay Term Local Agency Bonds for which such sinking fund account was created.

( ) Surplus Account. On the Business Day following the last Interest Payment Date of each Fiscal Year, or on such other date as provided in a Supplemental Trust Agreement, any moneys remaining in the Local Agency Bond Fund shall be deposited by the Local Agency Trustee in the Surplus Account. So long as no Event of Default has occurred and is continuing, moneys deposited in the Surplus Account shall be transferred by the Local Agency Trustee to or upon the order of the Local Agency, as specified in a Written Request of the Local Agency.

Deposit and Investments of Money in Accounts and Funds

All money held by the Local Agency Trustee in any of the accounts or funds established pursuant to the Local Agency Trust Agreement shall be invested in Permitted Investments at the Written Request of the Local Agency. If no Written Request of the Local Agency is received, the Local Agency Trustee shall invest funds held by it in Permitted Investments described in clause 6 of the definition thereof. Such investments shall, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement under the Local Agency Trust Agreement. All interest, profits and other income received from any money so invested shall be deposited in the Local Agency Bond Fund. The Local Agency Trustee shall have no liability or responsibility for any loss resulting from any investment made or sold in accordance with the provisions of the Local Agency Trust Agreement, except for any loss due to the negligence or willful misconduct of the Local Agency Trustee. The Local Agency Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charge therefor.

Additional Local Agency Bonds

The Local Agency may at any time issue Additional Local Agency Bonds on a parity with the Local Agency Bonds, but only subject to the following specific conditions, which are made conditions precedent to the issuance of any such Additional Local Agency Bonds:

(a) The Local Agency shall be in compliance with all agreements and covenants contained in the Local Agency Trust Agreement.

(b) The issuance of such Additional Local Agency Bonds shall have been authorized pursuant to the Act and shall have been provided for by a Supplemental Local Agency Trust Agreement which shall specify the following:

(0) The purpose for which such Additional Local Agency Bonds are to be issued; provided that such Additional Local Agency Bonds shall be applied solely for (i) the purpose of satisfying any obligation of the Local Agency to make payments to the System pursuant to the Retirement Law relating to pension benefits accruing to the System's members, and/or for payment of all costs incidental to or connected with the issuance of Additional Bonds for such purpose, and/or (ii) the purpose of refunding any Local Agency Bonds then Outstanding, including payment of all costs incidental to or connected with such refunding;

(0) Whether such Local Agency Bonds are current interest fixed rate bonds, listed securities, index bonds, auction rate securities, variable rate bonds, tender option bonds, capital appreciation bonds or bonds bearing interest at such other interest rate modes as may be set forth in a Supplemental Local Agency Trust Agreement;

(0) The authorized principal amount and designation of such Additional Local Agency Bonds;

(0) The date and the maturity dates of and the sinking fund payment dates, if any, for such Additional Local Agency Bonds;

(0) The interest payment dates for such Additional Local Agency Bonds;

(0) The denomination or denominations of and method of numbering such Additional Local Agency Bonds;

(0) The redemption premiums, if any, and the redemption terms, if any, for such Additional Local Agency Bonds;

(0) The amount, if any, to be deposited from the proceeds of sale of such Additional Local Agency Bonds in the Interest Account hereinafter referred to; and

(0) Such other provisions (including the requirements of a book-entry Bond registration system, if any) as are necessary or appropriate and not inconsistent with the Local Agency Trust Agreement.

Procedure for the Issuance of Additional Local Agency Bonds

At any time after the sale of any Additional Local Agency Bonds in accordance with the Act, the Local Agency shall execute such Additional Local Agency Bonds for issuance under the Local Agency Trust Agreement and shall deliver them to the Trustee, and thereupon such Additional Local Agency Bonds shall be delivered by the Trustee to the purchaser thereof upon the Written Request of the Local Agency, but only upon receipt by the Local Agency Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Local Agency Bonds by the Local Agency Trustee:

(a) An executed copy of the Supplemental Trust Agreement authorizing the issuance of such Additional Local Agency Bonds;

(b) A Written Request of the Local Agency as to the delivery of such Additional Local Agency Bonds;

(c) An Opinion of Counsel to the effect that (1) the Local Agency has executed and delivered the Supplemental Local Agency Trust Agreement, and the Supplemental Local Agency Trust Agreement is valid and binding upon the Local Agency and (2) such Additional Local Agency Bonds are valid and binding obligations of the Local Agency;

(d) A Certificate of the Local Agency stating that all requirements of the Local Agency Trust Agreement have been complied with and containing any other such statements as may be reasonably necessary to show compliance with the conditions for the issuance of such Additional Local Agency Bonds contained in the Local Agency Trust Agreement;

(e) Such further documents, money or securities as are required by the provisions of the Supplemental Local Agency Trust Agreement providing for the issuance of such Additional Local Agency Bonds.

Additional Debt

The Local Agency expressly reserves the right to enter into one or more other agreements or indentures for any of its purposes, and reserves the right to issue other obligations for such purposes.

The Local Agency Trustee

Wells Fargo Bank, National Association shall serve as the Local Agency Trustee for the Local Agency Bonds for the purpose of receiving all money which the Local Agency is required to deposit with the Local Agency Trustee under the Local Agency Trust Agreement and for the purpose of allocating, applying and using such money as provided therein and for the purpose of paying the interest on and principal of and redemption premiums, if any, on the Local Agency Bonds presented for payment at the Corporate Trust Office of the Local Agency Trustee with the rights and obligations provided in the Local Agency Trust Agreement. The Local Agency agrees that it will at all times maintain a Local Agency Trustee having a corporate trust office in Los Angeles or San Francisco, California.

The Local Agency may at any time, unless there exists any event of default as defined in the Local Agency Trust Agreement, remove the Local Agency Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto by an instrument in writing; provided that any such successor shall be a bank or trust company doing business and having a corporate trust office in Los Angeles or San Francisco, California, having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars ($50,000,000) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Local Agency Trustee may at any time resign by giving written notice of such resignation to the Local Agency and by mailing to the Holders notice of such resignation. Upon receiving such notice of resignation, the Local Agency shall promptly appoint a successor Local Agency Trustee by an instrument in writing. Any removal or resignation of a Local Agency Trustee and appointment of a successor Local Agency Trustee shall become effective only upon the acceptance of appointment by the successor Local Agency Trustee. If, within thirty (30) days after notice of the removal or resignation of the Local Agency Trustee no successor Local Agency Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Local Agency Trustee may petition any court of competent jurisdiction for the appointment of a successor Local Agency Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Local Agency Trustee having the qualifications required by the Local Agency Trust Agreement.

The Local Agency Trustee shall, prior to an event of default, and after the curing of all events of default that may have occurred, perform such duties and only such duties as are specifically set forth in the Local Agency Trust Agreement and no implied duties or obligations shall be read into the Local Agency Trust Agreement. The Local Agency Trustee shall, during the existence of any event of default (that has not been cured), exercise such of the rights and powers vested in it by the Local Agency Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

Compensation and Indemnification of Local Agency Trustee

The Local Agency covenants to pay to the Local Agency Trustee from time to time, and the Local Agency Trustee shall be entitled to, reasonable compensation for all services rendered by it in the exercise and performance of any of the powers and duties under the Local Agency Trust Agreement of the Local Agency Trustee, and the Local Agency will pay or reimburse the Local Agency Trustee upon its request for all expenses, disbursements and advances incurred or made by the Local Agency Trustee in accordance with any of the provisions of the Local Agency Trust Agreement (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence, default or willful misconduct, including the negligence or willful misconduct of any of its officers, directors, agents or employees.

Amendment of the Local Agency Trust Agreement

The Local Agency Trust Agreement and the rights and obligations of the Local Agency and of the Holders may be amended at any time by a Supplemental Trust Agreement which shall become binding when the written consents of the Holders of a majority in Aggregate Principal Amount of the Local Agency Bonds then Outstanding, exclusive of Local Agency Bonds disqualified as provided in the Local Agency Trust Agreement, are filed with the Local Agency Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal of or redemption premium, if any, or extend the time of payment on any Bond without the express written consent of the Holder of such Bond, or (2) reduce the percentage of Local Agency Bonds required for the written consent to any such amendment.

The Local Agency Trust Agreement and the rights and obligations of the Local Agency and of the Holders may also be amended at any time by a Supplemental Trust Agreement which shall become binding upon adoption without the consent of any Holders, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel, for any purpose that will not materially adversely affect the interests of the Holders, including (without limitation) for any one or more of the following purposes

(a) to add to the agreements and covenants required in the Local Agency Trust Agreement to be performed by the Local Agency other agreements and covenants thereafter to be performed by the Local Agency, to pledge or assign additional security for the Local Agency Bonds (or any portion thereof), or to surrender any right or power reserved in the Local Agency Trust Agreement to or conferred therein on the Local Agency;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Local Agency Trust Agreement and in any Supplemental Local Agency Trust Agreement or in regard to questions arising thereunder which the Local Agency may deem desirable or necessary and not inconsistent therewith;

(c) to provide for the issuance of any Additional Local Agency Bonds and to provide the terms of such Additional Local Agency Bonds, subject to the conditions and upon compliance with the procedure set forth in the Local Agency Trust Agreement (which shall be deemed not to adversely affect Holders);

(d) to modify, amend or add to the provisions in the Local Agency Trust Agreement or in any Supplemental Local Agency Trust Agreement to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statutes thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by such statute or similar statute;

(e) to modify, amend or add to the provisions in the Local Agency Trust Agreement or in any Supplemental Local Agency Trust Agreement pertaining to the terms or operations of interest on the Local Agency Bonds at a variable rate, as the Local Agency may deem necessary or desirable in order to conform to common market practices for such bonds; or

(f) to modify, amend or supplement the Local Agency Trust Agreement and any Supplemental Local Agency Trust Agreement in any manner that does not materially adversely affect the interest of Holders of Local Agency Bonds.

The Local Agency Trustee shall not be required to enter into or consent to any supplemental trust agreement which, in the sole judgment of the Local Agency Trustee, may adversely affect the rights, obligations, powers, privileges, indemnities and immunities provided the Local Agency Trustee in the Local Agency Trust Agreement.

Amendment by Mutual Consent

The provisions of this article shall not prevent any Holder from accepting any amendment as to the particular Local Agency Bonds held by him, provided that due notation thereof is made on such Local Agency Bonds.

Events of Default

If one or more of the following events (called "events of default" in the Local Agency Trust Agreement) shall happen, that is to say:

(a) if default shall be made by the Local Agency in the due and punctual payment of the interest on any Local Agency Bond when and as the same shall become due and payable;

(b) if default shall be made by the Local Agency in the due and punctual payment of the principal of or redemption premium, if any, on any Local Agency Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) if default shall be made by the Local Agency in the performance of any of the agreements or covenants required in the Local Agency Trust Agreement to be performed by the Local Agency, and such default shall have continued for a period of sixty (60) days after the Local Agency shall have been given notice in writing of such default by the Local Agency Trustee or the Owners of not less than twenty-five (25%) in Aggregate Principal Amount of the Local Agency Bonds at the time Outstanding, specifying such default and requiring the same to be remedied, provided, however, if the default stated in the notice can be corrected, but not within the applicable period, the Local Agency Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Local Agency within the applicable period and diligently pursued until the default is corrected; or

( ) if the Local Agency shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Local Agency seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Local Agency or of the whole or any substantial part of its property;

Institution of Legal Proceedings by Local Agency Trustee

If one or more of the events of default shall happen and be continuing, the Local Agency Trustee may, and upon the written request of the Holders of not less than fifty-one percent (51%) in Aggregate Principal Amount of the Local Agency Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Holders of Local Agency Bonds under this Local Agency Trust Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained therein, or in aid of the execution of any power granted in the Local Agency Trust Agreement, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Local Agency Trustee shall deem most effectual in support of any of its rights and duties under the Local Agency Trust Agreement.

Non-Waiver

Nothing in the Local Agency Trust Agreement or in the Local Agency Bonds shall affect or impair the obligation of the Local Agency, which is absolute and unconditional, to pay the interest on and principal of and redemption premiums, if any, on the Local Agency Bonds to the respective Holders of the Local Agency Bonds at the respective dates of maturity or upon prior redemption as provided in Local Agency Trust Agreement, or shall affect or impair the right of such Holders, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Local Agency Trust Agreement and in the Local Agency Bonds.

A waiver of any default or breach of duty or contract by the Local Agency Trustee or any Holder shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Local Agency Trustee or any Holder to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Holders by the Act or by this Article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Local Agency Trustee or the Holders.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned, the Local Agency, the Trustee and any Holder shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive

No remedy in the Local Agency Trust Agreement conferred upon or reserved to the Holders is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Local Agency Trust Agreement or now or thereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

Discharge of Local Agency Bonds

( ) If the Local Agency shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding Local Agency Bonds the interest thereon and the principal thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated in the Local Agency Trust Agreement and therein, and shall pay or provide for the payment of all fees and expenses of the Local Agency Trustee, then all agreements, covenants and other obligations of the Local Agency to the Holders of such Local Agency Bonds thereunder shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Local Agency Trustee shall execute and deliver to the Local Agency all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, the Local Agency Trustee shall pay over or deliver to the Local Agency all money or securities held by it pursuant to the Local Agency Trust Agreement which are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Local Agency Bonds.

(a) Any Outstanding Local Agency Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (1) in case any of such Local Agency Bonds are to be redeemed on any date prior to their maturity date, the Local Agency shall have given to the Local Agency Trustee in form satisfactory to it irrevocable instructions to provide notice in accordance with the Local Agency Trust Agreement, (2) there shall have been deposited with the Local Agency Trustee either (A) money in an amount which shall be sufficient or (B) Defeasance Securities which are not subject to redemption prior to maturity (including any such Defeasance Securities issued or held in book-entry form on the books of the Local Agency or the Treasury of the United States of America), the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Local Agency Trustee at the same time, shall be sufficient, in the opinion of an Independent Certified Public Accountant, to pay when due the interest to become due on such Local Agency Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, on such Local Agency Bonds, and (3) in the event such Local Agency Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Local Agency shall have given the Local Agency Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Holders of such Local Agency Bonds that the deposit required by clause (2) above has been made with the Local Agency Trustee and that such Local Agency Bonds are deemed to have been paid in accordance with this section and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Local Agency Bonds.

# APPENDIX F

# PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

California Statewide Communities
Development Authority
Sacramento, California

California Statewide Communities Development Authority
Taxable Pension Obligation Bonds, 2004 Series A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the California Statewide Communities Development Authority (the "Issuer") of $197,084,194.85 aggregate principal amount of California Statewide Communities Development Authority Taxable Pension Obligation Bonds, 2004 Series A (the "Bonds"), issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code and the Trust Agreement, dated as of June 1, 2004 (the "Trust Agreement") between the Issuer and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Trust Agreement provides that the Bonds are issued for the purpose of purchasing bonds (the "Local Agency Obligations") issued on the date hereof by California cities and counties (the "Local Agencies") identified in Schedule II to the Trust Agreement. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, opinions of counsel to the Trustee and others, certificates of the Issuer, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreement and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions, including but not limited to the default judgments rendered pursuant to California Code of Civil Procedure Sections 860 et. seq. concerning validity of the Local Agency Obligations, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement. We call attention to the fact that the rights and obligations under the Bonds and the Trust Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint powers authorities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.

2. The Trust Agreement has been duly executed and delivered by, and constitute the valid and binding obligation of, the Issuer. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Local Agency Obligations and payments with respect thereto, subject to the provisions of the Trust Agreement permitting the disbursement thereof for or to the purposes and on the conditions and terms set forth in the Trust Agreement.

3. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

4. Interest on the Bonds is exempt from State of California personal income taxes. We express no opinion regarding federal income tax or other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

## APPENDIX G

## BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

THE INFORMATION IN THIS APPENDIX E CONCERNING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY BELIEVES TO BE RELIABLE, BUT THE AUTHORITY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

### BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, credit providers, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, ("NSCC," "GSCC," "MBSCC" and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, credit providers, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds: DTC records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The Authority will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Bonds. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

A Beneficial Owner will give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and will effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's

Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, or the Trustee, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

## GLOBAL CLEARANCE PROCEDURES

The information that follows is based solely on information provided by the Euroclear Operator. No representation is made as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

### Clearstream International and Clearstream

Clearstream International is the product of the merger of Deutsche Borse and Cedel International, the European international clearing depository founded in 1970, and a number of its subsidiaries including Cedelbank. Clearstream International is registered in Luxembourg and has two subsidiaries: Clearstream Banking and Clearstream Services. Clearstream Banking ("Clearstream") contains the core clearing and settlement business and consists of Clearstream Banking Luxembourg, Clearstream Banking Frankfurt and six regional offices in Dubai, Hong Kong, London, New York, São Paulo and Tokyo. Clearstream holds securities for its participating organizations ("Clearstream Participants") and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

### Euroclear System

The Euroclear System ("Euroclear") was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear System is owned Euroclear plc and operated through a license agreement by Euroclear Bank S.A./N.V., a bank incorporated under the laws of the Kingdom of Belgium (the "Euroclear Operator").

The Euroclear Operator holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other securities intermediaries.

The Euroclear Operator provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services.

Non-Participants of Euroclear may hold and transfer book-entry interests in the Securities through accounts with a direct Participant of Euroclear or any other securities intermediary that holds a book-entry interest in the Securities through one or more securities intermediaries standing between such other securities intermediary and the Euroclear Operator

The Euroclear Operator is regulated and examined by the Belgian Banking and Finance Commission and the National Bank of Belgium.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with Persons holding through Euroclear participants.

**Distribution of the Bonds through Clearstream or Euroclear**

Distributions with respect to the Bonds held through Clearstream or Euroclear are to be credited to the cash accounts of Clearstream Participants or Euroclear Participants, as applicable, in accordance with the relevant system's rules and procedures, to the extent received by its Depository (as defined below). Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an Owner of the Bonds under the Trust Agreement on behalf of a Clearstream Participant or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the relevant Depositary's ability to effect such actions on its behalf through DTC. Owners of the Bonds may hold their Bonds through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or indirectly through organizations which are participants in such systems.

The Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositaries which in turn are to hold such positions in customers' securities accounts in the depositaries' names on the books of DTC. Citibank, N.A. acts as depositary for Clearstream and the Euroclear Operator acts as depositary for Euroclear (in such capacities, individually, the "Depositary" and, collectively, the "Depositaries").

Transfers of the Bonds between DTC Participants are to occur in accordance with DTC Rules. Transfers between Clearstream Participants and Euroclear Participants are to occur in accordance with their respective rules and operating procedures. Because of time-zone differences, credits of securities received in Clearstream or Euroclear as a result of a transaction with a Participant may be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such securities settled during such processing would be reported to the relevant Euroclear or Clearstream Participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream Participant or Euroclear Participant to a Participant are to be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlements in DTC.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants, on the other, are to be effected in DTC in accordance with DTC Rules on behalf of the relevant European international clearing system by its Depositary; however, such cross-market transactions require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system if the transaction meets its settlement requirements, is to deliver instructions to its Depositary to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions to the Depositaries.

THE AUTHORITY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (I) PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE BONDS (II) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE BONDS OR (III) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR

EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR, EUROCLEAR PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE TRUST AGREEMENT; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE BONDS.

# APPENDIX H

# FORM OF INSURANCE POLICY

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Ambac

# Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

**Ambac Assurance Corporation (Ambac),** a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Robert J Genader
President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Anne G. Gill
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Noraida Lauro
Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)



SPECIMEN

Ambac

Ambac Assurance Corporation
c/o CT Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

# Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

SPECIMEN

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions provisions, agreements or limitations of the above mentioned Policy other than as above stated.

**In Witness Whereof**, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

**Ambac Assurance Corporation**

President

Secretary

Authorized Representative

Form No.: 2B-0015 (7/97)

# APPENDIX I

# ACCRETED VALUE TABLES

| Year of Maturity: | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|
| Initial Denominational Amount: | $4,461.20 | $4,223.40 | $3,974.10 | $3,738.55 | $3,495.15 | $3,265.60 | $3,046.65 |
| Compounding Rate: | 3.94% | 4.35% | 4.72% | 4.97% | 5.24% | 5.45% | 5.63% |
| Compounding Date | | | | | | | |
| 12/1/2004 | $4,535.30 | $4,300.85 | $4,053.15 | $3,816.85 | $3,572.30 | $3,340.60 | $3,118.95 |
| 6/1/2005 | 4,624.65 | 4,394.40 | 4,148.85 | 3,911.70 | 3,665.90 | 3,431.65 | 3,206.75 |
| 12/1/2005 | 4,715.75 | 4,490.00 | 4,246.75 | 4,008.90 | 3,761.95 | 3,525.15 | 3,297.00 |
| 6/1/2006 | 4,808.65 | 4,587.65 | 4,346.95 | 4,108.50 | 3,860.55 | 3,621.20 | 3,389.80 |
| 12/1/2006 | 4,903.40 | 4,687.40 | 4,449.55 | 4,210.60 | 3,961.70 | 3,719.90 | 3,485.25 |
| 6/1/2007 | 5,000.00 | 4,789.35 | 4,554.55 | 4,315.25 | 4,065.45 | 3,821.25 | 3,583.35 |
| 12/1/2007 | - | 4,893.55 | 4,662.05 | 4,422.50 | 4,172.00 | 3,925.40 | 3,684.20 |
| 6/1/2008 | - | 5,000.00 | 4,772.05 | 4,532.40 | 4,281.30 | 4,032.35 | 3,787.95 |
| 12/1/2008 | - | - | 4,884.70 | 4,645.00 | 4,393.45 | 4,142.25 | 3,894.55 |
| 6/1/2009 | - | - | 5,000.00 | 4,760.45 | 4,508.60 | 4,255.10 | 4,004.20 |
| 12/1/2009 | - | - | - | 4,878.75 | 4,626.70 | 4,371.05 | 4,116.90 |
| 6/1/2010 | - | - | - | 5,000.00 | 4,747.90 | 4,490.15 | 4,232.80 |
| 12/1/2010 | - | - | - | - | 4,872.30 | 4,612.55 | 4,351.95 |
| 6/1/2011 | - | - | - | - | 5,000.00 | 4,738.20 | 4,474.45 |
| 12/1/2011 | - | - | - | - | - | 4,867.35 | 4,600.45 |
| 6/1/2012 | - | - | - | - | - | 5,000.00 | 4,729.95 |
| 12/1/2012 | - | - | - | - | - | - | 4,863.10 |
| 6/1/2013 | - | - | - | - | - | - | 5,000.00 |
| 12/1/2013 | - | - | - | - | - | - | - |
| 6/1/2014 | - | - | - | - | - | - | - |
| 12/1/2014 | - | - | - | - | - | - | - |
| 6/1/2015 | - | - | - | - | - | - | - |
| 12/1/2015 | - | - | - | - | - | - | - |
| 6/1/2016 | - | - | - | - | - | - | - |
| 12/1/2016 | - | - | - | - | - | - | - |
| 6/1/2017 | - | - | - | - | - | - | - |
| 12/1/2017 | - | - | - | - | - | - | - |
| 6/1/2018 | - | - | - | - | - | - | - |
| 12/1/2018 | - | - | - | - | - | - | - |
| 6/1/2019 | - | - | - | - | - | - | - |
| 12/1/2019 | - | - | - | - | - | - | - |
| 6/1/2020 | - | - | - | - | - | - | - |
| 12/1/2020 | - | - | - | - | - | - | - |
| 6/1/2021 | - | - | - | - | - | - | - |
| 12/1/2021 | - | - | - | - | - | - | - |
| 6/1/2022 | - | - | - | - | - | - | - |
| 12/1/2022 | - | - | - | - | - | - | - |
| 6/1/2023 | - | - | - | - | - | - | - |
| 12/1/2023 | - | - | - | - | - | - | - |
| 6/1/2024 | - | - | - | - | - | - | - |
| 12/1/2024 | - | - | - | - | - | - | - |
| 6/1/2025 | - | - | - | - | - | - | - |
| 12/1/2025 | - | - | - | - | - | - | - |
| 6/1/2026 | - | - | - | - | - | - | - |
| 12/1/2026 | - | - | - | - | - | - | - |
| 6/1/2027 | - | - | - | - | - | - | - |
| 12/1/2027 | - | - | - | - | - | - | - |
| 6/1/2028 | - | - | - | - | - | - | - |
| 12/1/2028 | - | - | - | - | - | - | - |
| 6/1/2029 | - | - | - | - | - | - | - |
| 12/1/2029 | - | - | - | - | - | - | - |
| 6/1/2030 | - | - | - | - | - | - | - |
| 12/1/2030 | - | - | - | - | - | - | - |
| 6/1/2031 | - | - | - | - | - | - | - |
| 12/1/2031 | - | - | - | - | - | - | - |
| 6/1/2032 | - | - | - | - | - | - | - |
| 12/1/2032 | - | - | - | - | - | - | - |
| 6/1/2033 | - | - | - | - | - | - | - |
| 12/1/2033 | - | - | - | - | - | - | - |
| 6/1/2034 | - | - | - | - | - | - | - |

| Year of Maturity: | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|
| Initial Denominational Amount: | $2,840.70 | $2,638.20 | $2,448.20 | $2,271.45 | $2,111.10 | $1,958.65 | $1,819.65 |
| Compounding Rate: | 5.78% | 5.94% | 6.08% | 6.20% | 6.29% | 6.38% | 6.45% |
| Compounding Date | | | | | | | |
| 12/1/2004 | $2,909.90 | $2,704.20 | $2,510.90 | $2,330.75 | $2,167.05 | $2,011.30 | $1,869.10 |
| 6/1/2005 | 2,994.00 | 2,784.55 | 2,587.25 | 2,403.00 | 2,235.20 | 2,075.45 | 1,929.40 |
| 12/1/2005 | 3,080.50 | 2,867.25 | 2,665.90 | 2,477.50 | 2,305.50 | 2,141.65 | 1,991.60 |
| 6/1/2006 | 3,169.55 | 2,952.40 | 2,746.95 | 2,554.30 | 2,378.00 | 2,209.95 | 2,055.85 |
| 12/1/2006 | 3,261.15 | 3,040.10 | 2,830.45 | 2,633.50 | 2,452.75 | 2,280.45 | 2,122.15 |
| 6/1/2007 | 3,355.40 | 3,130.35 | 2,916.50 | 2,715.15 | 2,529.90 | 2,353.20 | 2,190.55 |
| 12/1/2007 | 3,452.35 | 3,223.35 | 3,005.15 | 2,799.30 | 2,609.50 | 2,428.30 | 2,261.20 |
| 6/1/2008 | 3,552.15 | 3,319.05 | 3,096.50 | 2,886.10 | 2,691.55 | 2,505.75 | 2,334.15 |
| 12/1/2008 | 3,654.80 | 3,417.65 | 3,190.65 | 2,975.55 | 2,776.20 | 2,585.70 | 2,409.40 |
| 6/1/2009 | 3,760.40 | 3,519.15 | 3,287.65 | 3,067.80 | 2,863.50 | 2,668.15 | 2,487.15 |
| 12/1/2009 | 3,869.10 | 3,623.65 | 3,387.60 | 3,162.90 | 2,953.55 | 2,753.30 | 2,567.35 |
| 6/1/2010 | 3,980.90 | 3,731.30 | 3,490.55 | 3,260.95 | 3,046.45 | 2,841.10 | 2,650.15 |
| 12/1/2010 | 4,095.95 | 3,842.10 | 3,596.70 | 3,362.05 | 3,142.25 | 2,931.75 | 2,735.60 |
| 6/1/2011 | 4,214.35 | 3,956.25 | 3,706.05 | 3,466.25 | 3,241.10 | 3,025.25 | 2,823.85 |
| 12/1/2011 | 4,336.10 | 4,073.75 | 3,818.70 | 3,573.75 | 3,343.05 | 3,121.80 | 2,914.90 |
| 6/1/2012 | 4,461.45 | 4,194.70 | 3,934.80 | 3,684.50 | 3,448.15 | 3,221.35 | 3,008.90 |
| 12/1/2012 | 4,590.35 | 4,319.30 | 4,054.40 | 3,798.75 | 3,556.60 | 3,324.15 | 3,105.95 |
| 6/1/2013 | 4,723.05 | 4,447.60 | 4,177.65 | 3,916.50 | 3,668.45 | 3,430.15 | 3,206.10 |
| 12/1/2013 | 4,859.55 | 4,579.70 | 4,304.65 | 4,037.90 | 3,783.85 | 3,539.60 | 3,309.50 |
| 6/1/2014 | 5,000.00 | 4,715.70 | 4,435.50 | 4,163.10 | 3,902.85 | 3,652.50 | 3,416.25 |
| 12/1/2014 | - | 4,855.75 | 4,570.35 | 4,292.15 | 4,025.60 | 3,769.00 | 3,526.40 |
| 6/1/2015 | - | 5,000.00 | 4,709.30 | 4,425.20 | 4,152.20 | 3,889.25 | 3,640.15 |
| 12/1/2015 | - | - | 4,852.45 | 4,562.40 | 4,282.80 | 4,013.30 | 3,757.55 |
| 6/1/2016 | - | - | 5,000.00 | 4,703.80 | 4,417.50 | 4,141.35 | 3,878.70 |
| 12/1/2016 | - | - | - | 4,849.65 | 4,556.40 | 4,273.45 | 4,003.80 |
| 6/1/2017 | - | - | - | 5,000.00 | 4,699.70 | 4,409.80 | 4,132.95 |
| 12/1/2017 | - | - | - | - | 4,847.50 | 4,550.45 | 4,266.20 |
| 6/1/2018 | - | - | - | - | 5,000.00 | 4,695.60 | 4,403.80 |
| 12/1/2018 | - | - | - | - | - | 4,845.40 | 4,545.85 |
| 6/1/2019 | - | - | - | - | - | 5,000.00 | 4,692.45 |
| 12/1/2019 | - | - | - | - | - | - | 4,843.75 |
| 6/1/2020 | - | - | - | - | - | - | 5,000.00 |
| 12/1/2020 | - | - | - | - | - | - | - |
| 6/1/2021 | - | - | - | - | - | - | - |
| 12/1/2021 | - | - | - | - | - | - | - |
| 6/1/2022 | - | - | - | - | - | - | - |
| 12/1/2022 | - | - | - | - | - | - | - |
| 6/1/2023 | - | - | - | - | - | - | - |
| 12/1/2023 | - | - | - | - | - | - | - |
| 6/1/2024 | - | - | - | - | - | - | - |
| 12/1/2024 | - | - | - | - | - | - | - |
| 6/1/2025 | - | - | - | - | - | - | - |
| 12/1/2025 | - | - | - | - | - | - | - |
| 6/1/2026 | - | - | - | - | - | - | - |
| 12/1/2026 | - | - | - | - | - | - | - |
| 6/1/2027 | - | - | - | - | - | - | - |
| 12/1/2027 | - | - | - | - | - | - | - |
| 6/1/2028 | - | - | - | - | - | - | - |
| 12/1/2028 | - | - | - | - | - | - | - |
| 6/1/2029 | - | - | - | - | - | - | - |
| 12/1/2029 | - | - | - | - | - | - | - |
| 6/1/2030 | - | - | - | - | - | - | - |
| 12/1/2030 | - | - | - | - | - | - | - |
| 6/1/2031 | - | - | - | - | - | - | - |
| 12/1/2031 | - | - | - | - | - | - | - |
| 6/1/2032 | - | - | - | - | - | - | - |
| 12/1/2032 | - | - | - | - | - | - | - |
| 6/1/2033 | - | - | - | - | - | - | - |
| 12/1/2033 | - | - | - | - | - | - | - |
| 6/1/2034 | - | - | - | - | - | - | - |

| Year of Maturity: | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|
| Initial Denominational Amount: | 1,699.35 | 1,580.60 | 1,474.10 | 1,376.65 | 1,290.35 | 1,209.45 | 1,133.60 |
| Compounding Rate: | 6.48% | 6.53% | 6.56% | 6.58% | 6.58% | 6.58% | 6.58% |
| Compounding Date | | | | | | | |
| 12/1/2004 | $1,745.75 | $1,624.05 | $1,514.80 | $1,414.80 | $1,326.10 | $1,242.95 | $1,165.05 |
| 6/1/2005 | 1,802.30 | 1,677.10 | 1,564.50 | 1,461.35 | 1,369.70 | 1,283.85 | 1,203.35 |
| 12/1/2005 | 1,860.70 | 1,731.85 | 1,615.85 | 1,509.40 | 1,414.80 | 1,326.10 | 1,242.95 |
| 6/1/2006 | 1,921.00 | 1,788.40 | 1,668.85 | 1,559.05 | 1,461.35 | 1,369.70 | 1,283.85 |
| 12/1/2006 | 1,983.25 | 1,846.80 | 1,723.55 | 1,610.35 | 1,509.40 | 1,414.80 | 1,326.10 |
| 6/1/2007 | 2,047.50 | 1,907.10 | 1,780.10 | 1,663.35 | 1,559.05 | 1,461.35 | 1,369.70 |
| 12/1/2007 | 2,113.80 | 1,969.35 | 1,838.50 | 1,718.05 | 1,610.35 | 1,509.40 | 1,414.80 |
| 6/1/2008 | 2,182.30 | 2,033.65 | 1,898.80 | 1,774.60 | 1,663.35 | 1,559.05 | 1,461.35 |
| 12/1/2008 | 2,253.00 | 2,100.05 | 1,961.05 | 1,833.00 | 1,718.05 | 1,610.35 | 1,509.40 |
| 6/1/2009 | 2,326.00 | 2,168.60 | 2,025.40 | 1,893.30 | 1,774.60 | 1,663.35 | 1,559.05 |
| 12/1/2009 | 2,401.40 | 2,239.40 | 2,091.85 | 1,955.55 | 1,833.00 | 1,718.05 | 1,610.35 |
| 6/1/2010 | 2,479.20 | 2,312.55 | 2,160.45 | 2,019.90 | 1,893.30 | 1,774.60 | 1,663.35 |
| 12/1/2010 | 2,559.50 | 2,388.05 | 2,231.30 | 2,086.35 | 1,955.55 | 1,833.00 | 1,718.05 |
| 6/1/2011 | 2,642.45 | 2,466.00 | 2,304.50 | 2,155.00 | 2,019.90 | 1,893.30 | 1,774.60 |
| 12/1/2011 | 2,728.05 | 2,546.55 | 2,380.10 | 2,225.90 | 2,086.35 | 1,955.55 | 1,833.00 |
| 6/1/2012 | 2,816.45 | 2,629.70 | 2,458.15 | 2,299.15 | 2,155.00 | 2,019.90 | 1,893.30 |
| 12/1/2012 | 2,907.70 | 2,715.55 | 2,538.80 | 2,374.80 | 2,225.90 | 2,086.35 | 1,955.55 |
| 6/1/2013 | 3,001.90 | 2,804.20 | 2,622.05 | 2,452.90 | 2,299.15 | 2,155.00 | 2,019.90 |
| 12/1/2013 | 3,099.20 | 2,895.75 | 2,708.05 | 2,533.60 | 2,374.80 | 2,225.90 | 2,086.35 |
| 6/1/2014 | 3,199.60 | 2,990.30 | 2,796.90 | 2,617.00 | 2,452.90 | 2,299.15 | 2,155.00 |
| 12/1/2014 | 3,303.25 | 3,087.95 | 2,888.60 | 2,703.10 | 2,533.60 | 2,374.80 | 2,225.90 |
| 6/1/2015 | 3,410.30 | 3,188.75 | 2,983.35 | 2,792.00 | 2,617.00 | 2,452.90 | 2,299.15 |
| 12/1/2015 | 3,520.80 | 3,292.90 | 3,081.20 | 2,883.85 | 2,703.10 | 2,533.60 | 2,374.80 |
| 6/1/2016 | 3,634.85 | 3,400.40 | 3,182.30 | 2,978.75 | 2,792.00 | 2,617.00 | 2,452.90 |
| 12/1/2016 | 3,752.60 | 3,511.40 | 3,286.65 | 3,076.75 | 2,883.85 | 2,703.10 | 2,533.60 |
| 6/1/2017 | 3,874.20 | 3,626.05 | 3,394.45 | 3,178.00 | 2,978.75 | 2,792.00 | 2,617.00 |
| 12/1/2017 | 3,999.75 | 3,744.45 | 3,505.80 | 3,282.55 | 3,076.75 | 2,883.85 | 2,703.10 |
| 6/1/2018 | 4,129.35 | 3,866.70 | 3,620.80 | 3,390.55 | 3,178.00 | 2,978.75 | 2,792.00 |
| 12/1/2018 | 4,263.10 | 3,992.95 | 3,739.55 | 3,502.10 | 3,282.55 | 3,076.75 | 2,883.85 |
| 6/1/2019 | 4,401.25 | 4,123.35 | 3,862.20 | 3,617.30 | 3,390.55 | 3,178.00 | 2,978.75 |
| 12/1/2019 | 4,543.85 | 4,257.95 | 3,988.90 | 3,736.30 | 3,502.10 | 3,282.55 | 3,076.75 |
| 6/1/2020 | 4,691.05 | 4,397.00 | 4,119.75 | 3,859.25 | 3,617.30 | 3,390.55 | 3,178.00 |
| 12/1/2020 | 4,843.05 | 4,540.55 | 4,254.85 | 3,986.20 | 3,736.30 | 3,502.10 | 3,282.55 |
| 6/1/2021 | 5,000.00 | 4,688.80 | 4,394.45 | 4,117.35 | 3,859.25 | 3,617.30 | 3,390.55 |
| 12/1/2021 | - | 4,841.90 | 4,538.55 | 4,252.80 | 3,986.20 | 3,736.30 | 3,502.10 |
| 6/1/2022 | - | 5,000.00 | 4,687.45 | 4,392.75 | 4,117.35 | 3,859.25 | 3,617.30 |
| 12/1/2022 | - | - | 4,841.20 | 4,537.25 | 4,252.80 | 3,986.20 | 3,736.30 |
| 6/1/2023 | - | - | 5,000.00 | 4,686.55 | 4,392.75 | 4,117.35 | 3,859.25 |
| 12/1/2023 | - | - | - | 4,840.70 | 4,537.25 | 4,252.80 | 3,986.20 |
| 6/1/2024 | - | - | - | 5,000.00 | 4,686.55 | 4,392.75 | 4,117.35 |
| 12/1/2024 | - | - | - | - | 4,840.70 | 4,537.25 | 4,252.80 |
| 6/1/2025 | - | - | - | - | 5,000.00 | 4,686.55 | 4,392.75 |
| 12/1/2025 | - | - | - | - | - | 4,840.70 | 4,537.25 |
| 6/1/2026 | - | - | - | - | - | 5,000.00 | 4,686.55 |
| 12/1/2026 | - | - | - | - | - | - | 4,840.70 |
| 6/1/2027 | - | - | - | - | - | - | 5,000.00 |
| 12/1/2027 | - | - | - | - | - | - | - |
| 6/1/2028 | - | - | - | - | - | - | - |
| 12/1/2028 | - | - | - | - | - | - | - |
| 6/1/2029 | - | - | - | - | - | - | - |
| 12/1/2029 | - | - | - | - | - | - | - |
| 6/1/2030 | - | - | - | - | - | - | - |
| 12/1/2030 | - | - | - | - | - | - | - |
| 6/1/2031 | - | - | - | - | - | - | - |
| 12/1/2031 | - | - | - | - | - | - | - |
| 6/1/2032 | - | - | - | - | - | - | - |
| 12/1/2032 | - | - | - | - | - | - | - |
| 6/1/2033 | - | - | - | - | - | - | - |
| 12/1/2033 | - | - | - | - | - | - | - |
| 6/1/2034 | - | - | - | - | - | - | - |

| Year of Maturity: | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|
| Initial Denominational Amount: | 1,062.55 | 995.95 | 933.50 | 875.00 | 820.15 | 768.70 | 720.50 |
| Compounding Rate: | 6.58% | 6.58% | 6.58% | 6.58% | 6.58% | 6.58% | 6.58% |
| Compounding Date | | | | | | | |
| 12/1/2004 | $1,092.00 | $1,023.55 | $ 959.35 | $ 899.25 | $ 842.85 | $ 790.00 | $ 740.50 |
| 6/1/2005 | 1,127.90 | 1,057.20 | 990.95 | 928.80 | 870.60 | 816.00 | 764.85 |
| 12/1/2005 | 1,165.05 | 1,092.00 | 1,023.55 | 959.35 | 899.25 | 842.85 | 790.00 |
| 6/1/2006 | 1,203.35 | 1,127.90 | 1,057.20 | 990.95 | 928.80 | 870.60 | 816.00 |
| 12/1/2006 | 1,242.95 | 1,165.05 | 1,092.00 | 1,023.55 | 959.35 | 899.25 | 842.85 |
| 6/1/2007 | 1,283.85 | 1,203.35 | 1,127.90 | 1,057.20 | 990.95 | 928.80 | 870.60 |
| 12/1/2007 | 1,326.10 | 1,242.95 | 1,165.05 | 1,092.00 | 1,023.55 | 959.35 | 899.25 |
| 6/1/2008 | 1,369.70 | 1,283.85 | 1,203.35 | 1,127.90 | 1,057.20 | 990.95 | 928.80 |
| 12/1/2008 | 1,414.80 | 1,326.10 | 1,242.95 | 1,165.05 | 1,092.00 | 1,023.55 | 959.35 |
| 6/1/2009 | 1,461.35 | 1,369.70 | 1,283.85 | 1,203.35 | 1,127.90 | 1,057.20 | 990.95 |
| 12/1/2009 | 1,509.40 | 1,414.80 | 1,326.10 | 1,242.95 | 1,165.05 | 1,092.00 | 1,023.55 |
| 6/1/2010 | 1,559.05 | 1,461.35 | 1,369.70 | 1,283.85 | 1,203.35 | 1,127.90 | 1,057.20 |
| 12/1/2010 | 1,610.35 | 1,509.40 | 1,414.80 | 1,326.10 | 1,242.95 | 1,165.05 | 1,092.00 |
| 6/1/2011 | 1,663.35 | 1,559.05 | 1,461.35 | 1,369.70 | 1,283.85 | 1,203.35 | 1,127.90 |
| 12/1/2011 | 1,718.05 | 1,610.35 | 1,509.40 | 1,414.80 | 1,326.10 | 1,242.95 | 1,165.05 |
| 6/1/2012 | 1,774.60 | 1,663.35 | 1,559.05 | 1,461.35 | 1,369.70 | 1,283.85 | 1,203.35 |
| 12/1/2012 | 1,833.00 | 1,718.05 | 1,610.35 | 1,509.40 | 1,414.80 | 1,326.10 | 1,242.95 |
| 6/1/2013 | 1,893.30 | 1,774.60 | 1,663.35 | 1,559.05 | 1,461.35 | 1,369.70 | 1,283.85 |
| 12/1/2013 | 1,955.55 | 1,833.00 | 1,718.05 | 1,610.35 | 1,509.40 | 1,414.80 | 1,326.10 |
| 6/1/2014 | 2,019.90 | 1,893.30 | 1,774.60 | 1,663.35 | 1,559.05 | 1,461.35 | 1,369.70 |
| 12/1/2014 | 2,086.35 | 1,955.55 | 1,833.00 | 1,718.05 | 1,610.35 | 1,509.40 | 1,414.80 |
| 6/1/2015 | 2,155.00 | 2,019.90 | 1,893.30 | 1,774.60 | 1,663.35 | 1,559.05 | 1,461.35 |
| 12/1/2015 | 2,225.90 | 2,086.35 | 1,955.55 | 1,833.00 | 1,718.05 | 1,610.35 | 1,509.40 |
| 6/1/2016 | 2,299.15 | 2,155.00 | 2,019.90 | 1,893.30 | 1,774.60 | 1,663.35 | 1,559.05 |
| 12/1/2016 | 2,374.80 | 2,225.90 | 2,086.35 | 1,955.55 | 1,833.00 | 1,718.05 | 1,610.35 |
| 6/1/2017 | 2,452.90 | 2,299.15 | 2,155.00 | 2,019.90 | 1,893.30 | 1,774.60 | 1,663.35 |
| 12/1/2017 | 2,533.60 | 2,374.80 | 2,225.90 | 2,086.35 | 1,955.55 | 1,833.00 | 1,718.05 |
| 6/1/2018 | 2,617.00 | 2,452.90 | 2,299.15 | 2,155.00 | 2,019.90 | 1,893.30 | 1,774.60 |
| 12/1/2018 | 2,703.10 | 2,533.60 | 2,374.80 | 2,225.90 | 2,086.35 | 1,955.55 | 1,833.00 |
| 6/1/2019 | 2,792.00 | 2,617.00 | 2,452.90 | 2,299.15 | 2,155.00 | 2,019.90 | 1,893.30 |
| 12/1/2019 | 2,883.85 | 2,703.10 | 2,533.60 | 2,374.80 | 2,225.90 | 2,086.35 | 1,955.55 |
| 6/1/2020 | 2,978.75 | 2,792.00 | 2,617.00 | 2,452.90 | 2,299.15 | 2,155.00 | 2,019.90 |
| 12/1/2020 | 3,076.75 | 2,883.85 | 2,703.10 | 2,533.60 | 2,374.80 | 2,225.90 | 2,086.35 |
| 6/1/2021 | 3,178.00 | 2,978.75 | 2,792.00 | 2,617.00 | 2,452.90 | 2,299.15 | 2,155.00 |
| 12/1/2021 | 3,282.55 | 3,076.75 | 2,883.85 | 2,703.10 | 2,533.60 | 2,374.80 | 2,225.90 |
| 6/1/2022 | 3,390.55 | 3,178.00 | 2,978.75 | 2,792.00 | 2,617.00 | 2,452.90 | 2,299.15 |
| 12/1/2022 | 3,502.10 | 3,282.55 | 3,076.75 | 2,883.85 | 2,703.10 | 2,533.60 | 2,374.80 |
| 6/1/2023 | 3,617.30 | 3,390.55 | 3,178.00 | 2,978.75 | 2,792.00 | 2,617.00 | 2,452.90 |
| 12/1/2023 | 3,736.30 | 3,502.10 | 3,282.55 | 3,076.75 | 2,883.85 | 2,703.10 | 2,533.60 |
| 6/1/2024 | 3,859.25 | 3,617.30 | 3,390.55 | 3,178.00 | 2,978.75 | 2,792.00 | 2,617.00 |
| 12/1/2024 | 3,986.20 | 3,736.30 | 3,502.10 | 3,282.55 | 3,076.75 | 2,883.85 | 2,703.10 |
| 6/1/2025 | 4,117.35 | 3,859.25 | 3,617.30 | 3,390.55 | 3,178.00 | 2,978.75 | 2,792.00 |
| 12/1/2025 | 4,252.80 | 3,986.20 | 3,736.30 | 3,502.10 | 3,282.55 | 3,076.75 | 2,883.85 |
| 6/1/2026 | 4,392.75 | 4,117.35 | 3,859.25 | 3,617.30 | 3,390.55 | 3,178.00 | 2,978.75 |
| 12/1/2026 | 4,537.25 | 4,252.80 | 3,986.20 | 3,736.30 | 3,502.10 | 3,282.55 | 3,076.75 |
| 6/1/2027 | 4,686.55 | 4,392.75 | 4,117.35 | 3,859.25 | 3,617.30 | 3,390.55 | 3,178.00 |
| 12/1/2027 | 4,840.70 | 4,537.25 | 4,252.80 | 3,986.20 | 3,736.30 | 3,502.10 | 3,282.55 |
| 6/1/2028 | 5,000.00 | 4,686.55 | 4,392.75 | 4,117.35 | 3,859.25 | 3,617.30 | 3,390.55 |
| 12/1/2028 | - | 4,840.70 | 4,537.25 | 4,252.80 | 3,986.20 | 3,736.30 | 3,502.10 |
| 6/1/2029 | - | 5,000.00 | 4,686.55 | 4,392.75 | 4,117.35 | 3,859.25 | 3,617.30 |
| 12/1/2029 | - | - | 4,840.70 | 4,537.25 | 4,252.80 | 3,986.20 | 3,736.30 |
| 6/1/2030 | - | - | 5,000.00 | 4,686.55 | 4,392.75 | 4,117.35 | 3,859.25 |
| 12/1/2030 | - | - | - | 4,840.70 | 4,537.25 | 4,252.80 | 3,986.20 |
| 6/1/2031 | - | - | - | 5,000.00 | 4,686.55 | 4,392.75 | 4,117.35 |
| 12/1/2031 | - | - | - | - | 4,840.70 | 4,537.25 | 4,252.80 |
| 6/1/2032 | - | - | - | - | 5,000.00 | 4,686.55 | 4,392.75 |
| 12/1/2032 | - | - | - | - | - | 4,840.70 | 4,537.25 |
| 6/1/2033 | - | - | - | - | - | 5,000.00 | 4,686.55 |
| 12/1/2033 | - | - | - | - | - | - | 4,840.70 |
| 6/1/2034 | - | - | - | - | - | - | 5,000.00 |

## APPENDIX J

## FORMS OF CONTINUING DISCLOSURE CERTIFICATES

## FORM OF LOCAL AGENCY CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the ______________ (the "Local Agency"), dated June 1, 2004 in connection with the issuance of $197,084,194.85 California Statewide Communities Development Authority (the "Authority") Taxable Pension Obligation Bonds, 2004 Series A-1, 2004 Series A-2 and 2004 Series B (the "Bonds"). The Bonds are being issued pursuant to the Trust Agreement, dated as of June 1, 2004, (including any supplements thereto, the "Trust Agreement"), by and between the California Statewide Communities Development Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). Each Local Agency (as defined under the Trust Agreement) has entered into a Purchase Agreement, dated as of June 1, 2004 (the "Purchase Agreement") with the Authority. Pursuant to each Purchase Agreement, the Authority will purchase bonds issued by the respective Local Agency (the "Obligations"), which the Authority will use to secure the Bonds in part. The Local Agency covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Local Agency for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Local Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean Wells Fargo Bank, National Association, or any successor Dissemination Agent designated in writing by the Local Agency and which has filed with the Local Agency a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission (the "SEC") are listed in the SEC website at http://www.sec.gov/info/municipal/nrmsir.htm.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated June 15, 2004.

"Participating Underwriter" shall mean the original purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Local Agency shall, or shall cause the Dissemination Agent to, not later than 210 days after the end of the Local Agency's fiscal year (presently such fiscal year ends June 30), commencing with the report for the fiscal year ending June 30, 2004, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the Local Agency may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Local Agency's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, the Local Agency shall provide the Annual Report to the Dissemination Agent (if other than the Local Agency). If the Local Agency is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Local Agency shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the Name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the Local Agency), file a report with the Local Agency certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Local Agency's Annual Report shall contain or include by reference the audited financial statements of the Local Agency for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Local Agency's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Any or all of the items listed in this section may be included by specific reference to other documents, including official statements of debt issues of the Local Agency or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Local Agency shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Local Agency shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Obligations or its obligations in relation to the Bonds, if material:

1. principal and interest payment delinquencies; and

2. non-payment related defaults.

(b) Whenever the Local Agency obtains knowledge of the occurrence of a Listed Event, the Local Agency shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Local Agency determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Local Agency shall promptly file a notice of such occurrence with the Repositories.

SECTION 6. Termination of Reporting Obligation. The Local Agency's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Obligations. If such termination occurs prior to the final maturity of the Bonds, the Local Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The Local Agency hereby appoints Wells Fargo Bank, National Association to serve as the Dissemination Agent hereunder. The Local Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Local Agency pursuant to this Disclosure Certificate.

SECTION 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Local Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Local Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Local Agency shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The Local Agency acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Local Agency, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Local Agency under such laws.

SECTION 9. Default. In the event of a failure of the Local Agency to comply with any provision of this Disclosure Certificate, the sole legal remedy of any Holder or Beneficial Owner of the Bonds or the Participating Underwriter shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement.

No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Local Agency satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Local Agency shall have refused to comply therewith within a reasonable time.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Local Agency agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Local Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 11. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Local Agency may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived with the consent of the Authority, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Local Agency shall describe such amendment in the same manner as for a Listed Event under Section 5(c).

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Local Agency, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

[LOCAL AGENCY]

By ______________________________________
Authorized Officer

**Acknowledged as to Duties as Dissemination Agent:**

WELLS FARGO BANK, NATIONAL ASSOCIATION

By __________________________________
Authorized Officer

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

| | |
|---|---|
| **Name of Obligated Party:** | **[Local Agency]** |
| Name of Bond Issue: | California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2004A |
| Date of Issuance: | June 29, 2004 |

**NOTICE IS HEREBY GIVEN that an Annual Report with respect to the above-named Bonds was not released by the Local Agency by the date required in the Continuing Disclosure Certificate. [The Local Agency anticipates that the Annual Report will be filed by _____________.]**

Dated:_______________

[Local Agency]

By __[form only; no signature required]______

## FORM OF AUTHORITY CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the California Statewide Communities Development Authority (the "Authority"), dated June 1, 2004, in connection with the issuance of $197,084,194.85 California Statewide Communities Development Authority Taxable Pension Obligation Bonds, Series 2004A (the "Bonds"). The Bonds are being issued pursuant to the Trust Agreement, dated as of June 1, 2004, (including any supplements thereto, the "Trust Agreement"), by and between the California Statewide Communities Development Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). Each Local Agency (as defined under the Trust Agreement) has entered into a Purchase Agreement, dated as of June 1, 2004 (the "Purchase Agreement") with the Authority. Pursuant to each Purchase Agreement, the Authority will purchase bonds issued by the respective Local Agency (the "Obligations"), which the Authority will use to secure the Bonds in part. The Authority covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean Wells Fargo Bank, National Association, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission (the "SEC") are listed in the SEC website at http://www.sec.gov/info/municipal/nrmsir.htm.

"Official Statement" shall mean the Official Statement relating to the Bonds, dated June 15, 2004.

"Participating Underwriter" shall mean the original purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

SECTION 3. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 3, the Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds (the Bonds are being issued as taxable obligations under the Code);
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform; and
11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Trust Agreement.

SECTION 4. Termination of Reporting Obligation. The Authority's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Obligations. If such termination occurs prior to the final maturity of the Bonds, the

Authority shall give notice of such termination in the same manner as for a Listed Event under Section 3(c).

SECTION 5. Dissemination Agent. The Authority hereby appoints Wells Fargo Bank, National Association to serve as the Dissemination Agent hereunder. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Authority pursuant to this Disclosure Certificate.

SECTION 6. Default. In the event of a failure of the Authority to comply with any provision of this Disclosure Certificate, the sole legal remedy of any Holder or Beneficial Owner of the Bonds or the Participating Underwriter shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement.

No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Authority satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Authority shall have refused to comply therewith within a reasonable time.

SECTION 7. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived with the consent of the Authority, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Authority shall describe such amendment in the same manner as for a Listed Event under Section 3(c).

SECTION 9. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY

By ______________________________________
Member of the Commission

Acknowledged as to Duties as Dissemination Agent:

WELLS FARGO BANK, NATIONAL ASSOCIATION

By ___________________________________
Authorized Officer

California Statewide Communities Development Authority • Taxable Pension Obligation Bonds • Series A-1 and A-2

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