

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Calabasas (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The City of Calabasas was incorporated on April 5, 1991 as a "General Law" City covering approximately eleven square miles. The City operates under a council-city manager form of government.

The City of Calabasas Facilities Corporation (the Corporation) was established on December 17, 1998 for the purpose of providing financing and funding for property acquisition and public capital improvements.

The criteria used in determining the scope of the reporting entity is based on the provisions of GASB Statement 14. The City of Calabasas is the primary government unit. A component unit is an entity which is financially accountable to the primary government, either because the City appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the City. Despite being legally separate, this entity is, in substance, part of the City's operations. Accordingly, the balances and transactions of this component unit are reported within a debt service fund of the City.

The following specific criteria were used in determining that the Corporation was a blended component unit:

The members of the City Council also act as the governing body of the Corporation.

The Corporation is managed by employees of the City.

There are no entities which meet the Governmental Accounting Standards Board Statement No. 14 as amended by GASB Statement No. 39, criteria for discrete disclosure within these financial statements.

B. Government-wide and Fund Financial Statement

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. 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 reply to a significant extent on fees and charges for support.

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

B. Government-wide and Fund Financial Statement (Continued)

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 charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grant 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, the proprietary fund, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide, proprietary, and fiduciary 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. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, including property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes 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. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures generally are recorded when the liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when due. Capital asset acquisitions are reported as expenditures in governmental funds.

Property taxes, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and 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 City.

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 City has elected not to follow subsequent private-sector guidance.

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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 Tennis and Swim Center are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed.

The City reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds.

Developer Impact Fees Special Revenue Fund – used to account for fees collected from developers for future projects necessitated by new development.

Landscape District Maintenance Special Revenue Fund – used to account for receipts and expenditures relating to the benefit assessment district for landscape maintenance.

Grants Special Revenue Fund – used to account for other grants requiring segregated fund accounting. Financing is provided by federal, state, and county agencies.

Capital Projects Fund – used to account for the acquisition and construction of major capital projects not being financed by proprietary funds.

The City reports the following major proprietary fund:

Tennis and Swim Center - used to account for operations of the Tennis and Swim Center that are financed and operated in a manner similar to private business enterprise. Costs are financed or recovered primarily through user charges.

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Additionally, the City reports the following fund types:

Governmental Funds:

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

Debt Service Fund – used to account for the accumulation of resources for and the payment of principal and interest on long-term debt.

Fiduciary Funds:

Agency Funds - used to account for assets held by the City as an agent. This fund is custodial in nature and does not involve measurement of results of operations.

D. Assets, Liabilities, Net Assets, or Equity

Cash and Investments

The City pools idle cash from all funds for the purpose of increasing income through investment. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balances of each fund.

In compliance with the applicable State statute, the Statement of Investment Policy is adopted annually by the City Council. Investments authorized under the Investment Policy included:

Local Agency Investment Fund (LAIF) – State of California Investment Pool
U.S. Treasury Obligations
Federal Agency Securities
Certificates of Deposit
Savings Accounts

The City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, “Accounting and Financial Reporting for Certain Investments and External Pools”, which require governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred.

The City’s investments are carried at fair value which equal cost. The fair value of equity and debt securities is determined based on sales prices or bid-and-asked quotations from SEC-registered securities exchanges or NASDAQ dealers. LAIF determines the fair value of its portfolio quarterly and reports a factor to the City; the City applies that factor to convert its share of LAIF from amortized cost to fair value. Changes in fair value are allocated to each participating fund.

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 **Summary of Significant Accounting Policies (Continued)**

D. Assets, Liabilities, Net Assets, or Equity (Continued)

Cash and Investments (Continued)

For purposes of the statement of cash flows for the proprietary fund, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered cash equivalents.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as interfund receivables/interfund payables (i.e., the current portion of interfund loans) or advances to/from other funds (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as interfund receivables or interfund payables.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and tax receivables are shown net of an allowance for uncollectible accounts if applicable, and estimated refunds due.

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations – are established by the Assessor of the County of Los Angeles for the secured and unsecured property tax rolls; the utility property tax rolls are valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978) properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Levies – are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates – are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Collections – are the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 **Summary of Significant Accounting Policies (Continued)**

D. Assets, Liabilities, Net Assets, or Equity (Continued)

Receivables and Payables (Continued)

Tax Collections (Continued)

year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payments.

Tax Levy Apportionments – Due to the nature of the City-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under state legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county auditor-controller based primarily on the ratio that each agency represented of the total City-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees – The State of California FY 1990-91 Budget Act authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

Prepaid Items

Payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, improvements, equipment, and infrastructure assets 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 and individual cost of \$1,000. Such capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation of all exhaustible assets used by the governmental and business-type activities is charged as an expense against their operations. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets as follows:

Equipment	5 years
Buildings	15 years
Improvements other than buildings	10 years
Infrastructure	20-50 years

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 **Summary of Significant Accounting Policies (Continued)**

D. Assets, Liabilities, Net Assets, or Equity (Continued)

Compensated Absences

It is the City's policy to permit employees to accumulate earned, but unused vacation benefits, which will be paid to employees upon separation from City service. Under current City policy, sick leave does not vest with the employee; therefore, a liability has not been accrued. Governmental fund types recognize the cost of vacation benefits when payments are made to employees. Since these unused vacation benefits will not be liquidated with available financial resources, a long-term liability for accrued vacation benefits is recorded. Proprietary fund types accrue vacation benefits in the period they are earned.

Long-Term Obligations

In the government-wide financial statements, and proprietary type 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. 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. Amortization of bond premiums or discounts, and issuance costs are included in interest expense.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets and Fund Equity

In the government-wide financial statements, proprietary fund financial statements, and fiduciary fund financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, and laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The City's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted.

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. Undesignated fund balance represents that portion of fund balance which is available for budgeting in future periods.

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 **Summary of Significant Accounting Policies (Continued)**

E. Estimates

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

Note 2 **Stewardship, Compliance, and Accountability**

A. Budgetary Control and Accounting

General Budget Policies:

The City Council reviews and adopts an annual budget for the General, Special Revenue, Debt Service, and Capital Projects Funds. The City Council holds public hearings and may modify the appropriations by general approval. Budgeted amounts may be transferred between departments with the City Manager’s approval. The legal level of expenditure control is at the fund level. Operating appropriations lapse at the end of each fiscal year.

The budget is reported on the same basis as the fund types and on a basis consistent with accounting principles generally accepted in the United States of America. Additional appropriations or other changes during the fiscal year may be submitted by the department for Council review and approval.

B. Excess Expenditures over Appropriations

At June 30, 2004, the following funds expenditures exceeded final budgeted appropriations:

	Final Budget	Expenditures	Excess
Major Funds:			
General			
General government	\$ 4,425,103	\$ 4,490,308	\$ 65,205
Community services	3,186,195	3,257,860	71,665
Landscape District Maintenance			
Community services	2,668,405	2,802,108	133,703
Nonmajor Funds:			
Proposition C			
Community Services	48,000	65,959	17,959
South Coast Air Quality			
Capital outlay		23,336	23,336
Community Development Block Grant			
Community development	94,000	168,935	74,935
AB 939			
Community Services	65,000	100,968	35,968
Storm Damage			
Public works		127,727	127,727

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 2 **Stewardship, Compliance, and Accountability (Continued)**

B. Excess of Expenditures over Appropriations (Continued)

Excess of expenditures over appropriations in departments/cost centers of individual funds are as follows:

	Final Budget	Expenditures	Excess
Nonmajor Funds:			
COPs - AB 3229			
Public safety	\$ 100,550	\$ 119,057	\$ 18,507
Library District			
Community services	754,850	793,943	39,093
Debt Service			
Interest and fiscal charges	310,813	313,112	2,299

Note 3 **Cash and Investments**

On June 30, 2004, the City had the following cash and investments on hand:

	Carrying Amount
Petty cash	\$ 2,050
Pooled cash	3,417,088
Pooled investments	30,304,970
Cash and investments with fiscal agents	6,537,344
Total cash and investments	\$ 40,261,452

On June 30, 2004, cash and investments were reported in the accompanying financial statements as follows:

	Cash and Investments	Cash and Investments with Fiscal Agents	Total
Governmental Activities	\$ 30,425,779	\$ 464,407	\$ 30,890,186
Business-type Activities	842,762		842,762
Fiduciary type Funds	2,455,567	6,072,937	8,528,504
	\$ 33,724,108	\$ 6,537,344	\$ 40,261,452

Pooled Cash

Pooled cash includes cash on hand and commercial bank accounts. All pooled cash is entirely insured or collateralized. 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 fair 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 a city's total deposits. The City may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 3 **Cash and Investments (Continued)**

Pooled Cash (Continued)

Cash is classified in three categories of credit risk as follows:

Category 1 – Insured or collateralized with securities held by 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, and

Category 3 – Uncollateralized.

The carrying amount of the City’s deposits was \$3,419,138. The bank’s balances were \$3,369,549. The difference is due to the normal deposits in transit and outstanding checks. The City’s deposits by category as of June 30, 2004 were as follows:

Deposits:	Category			Bank Balance	Carrying Amount
	1	2	3		
Demand accounts	\$ 100,000	\$ 3,267,499	\$ -	\$ 3,367,499	\$ 3,417,088
Petty cash	2,050			2,050	2,050
Total Deposits	<u>\$ 102,050</u>	<u>\$ 3,267,499</u>	<u>\$ -</u>	<u>\$ 3,369,549</u>	<u>\$ 3,419,138</u>

Investments

Investments are also classified in three categories of credit risk 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; and

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.

Investments in pools managed by other governments or in mutual funds are not required to be categorized.

The City’s investments by category as of June 30, 2004 were as follows:

	Category			Carrying Amount/ Fair Value
	1	2	3	
Investments Controlled by the City:				
State of California Local Agency Investment Fund	\$ N/A	\$ N/A	\$ N/A	\$ 30,304,970
Total Investments Controlled by the City				<u>30,304,970</u>
Investments with Fiscal Agents:				
U.S. Government Money Market Fund	N/A	N/A	N/A	4,412,307
Investment Agreement			2,125,037	2,125,037
Total Investments with Fiscal Agents			<u>2,125,037</u>	<u>6,537,344</u>
Total Investments	\$ -	\$ -	\$ 2,125,037	\$ <u>36,842,314</u>

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 3 Cash and Investments (Continued)

Investments (Continued)

During the fiscal year ended June 30, 2004, the City did not invest in repurchase agreements.

Local Agency Investment Fund (LAIF)

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. It is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State Statute. The State Treasurer's Office audits the fund annually. The City may invest up to \$40,000,000. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. Investments with LAIF are secured by the full faith and credit of the State of California.

Allocation of Interest Income Among Funds

Interest income from pooled investments is allocated to those funds which are required by law or administrative action to receive interest. Interest is allocated on a monthly basis based on the ending cash balances of the previous month in each fund receiving interest.

Note 4 Accounts Receivable

The following is a list of accounts receivable at June 30, 2004:

	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
Governmental Activities -			
Accounts and taxes	\$ 2,598,734	\$ -	\$ 2,598,734
Intergovernmental	660,794		660,794
	<u>\$ 3,259,528</u>	<u>\$ -</u>	<u>\$ 3,259,528</u>
Business-type Activities -			
Accounts and taxes	<u>\$ 1,892</u>	<u>\$ -</u>	<u>\$ 1,892</u>
Fiduciary Funds:			
Special taxes	\$ 7,298	\$ -	\$ 7,298
Accounts	2,841		2,841
	<u>\$ 10,139</u>	<u>\$ -</u>	<u>\$ 10,139</u>

Note 5 Notes and Loans Receivable

- A. The City has established a program whereby employees can receive an interest free loan to purchase computers. This allows employees access to technology which is compatible to that of the City. Loans are repaid through payroll deductions. During the fiscal year ended June 30, 2004, three new loans were given totaling \$5,498 and principal loans were paid in the amount of \$10,776 leaving an outstanding balance as of June 30, 2004 of \$6,234.
- B. The City through the Community Development Block Grant Program has given funds to residents in the form of rehabilitation assistance to assist low income residents in fixing up their residences. These notes can be either amortized or deferred and two notes amounting to \$20,000 will be forgiven if outstanding for 10 years on a graduated schedule. The outstanding balance of the notes as of June 30, 2004 was \$43,595.

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 6 **Deferred Charges**

Deferred charges consist of issuance costs and discounts for debt issues. The following is the list of deferred charges at June 30, 2004:

	Amortization Period	Deferred Charges	Accumulated Amortization	Amortization for the Fiscal Year
1999 Certificates of Participation	357	\$ 201,450	\$ 165,354	\$ 6,768

Note 7 **Interfund Activity**

The following represents the interfund activity of the City for the fiscal year ended June 30, 2004.

A. Due To/ From Other Funds

Current interfund balances arise in the normal course of business and to assist funds with negative cash balance at the fiscal year end. They are expected to be repaid shortly after the end of the fiscal year.

	Interfund Receivables	Interfund Payables
Due to/Due from		
Major Funds		
To: General Fund	\$ 1,110,982	\$ -
From: Grants		1,054,977
Non-major Funds:		
From: Debt Service		2,300
To: Community Development Block Grant		53,705
	\$ 1,110,982	\$ 1,110,982

B. Transfers

With council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund that has made an expenditure on behalf of another fund.

Fund	Transfers-in	Transfers-out
Major Funds:		
General Fund	\$ 285,000	\$ 3,222,158
Capital Projects	4,998,066	
Grants Special Revenue		799,498
Developer Impact Fees		416,524
Landscape District Maintenance Special Revenue	164,345	
Non Major Funds:		
Highway Users Tax Special Revenue		114,768
Proposition C Special Revenue		168,232
B & T Lost Hills District Special Revenue		727,246
Storm Damage Special Revenue	201,015	
Major Proprietary Fund:		
Tennis and Swim Center		200,000
Totals	\$ 5,648,426	\$ 5,648,426

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 8 **Capital Assets**

The City has reported all capital assets including infrastructure in the Government-wide Statement of Net Assets. The City elected to use the basic approach as defined by GASB Statement No. 34 for all infrastructure reporting, whereby depreciation expense and accumulated depreciation has been recorded.

A summary of changes in capital assets for the City's governmental activities for the fiscal year ended June 30, 2004 is as follows:

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2004</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,711,633	\$ 34,288	\$ -	\$ 3,745,921
Construction in progress		4,244,687		4,244,687
				<u>4,244,687</u>
Total capital assets, not being depreciated	<u>3,711,633</u>	<u>4,278,975</u>		<u>7,990,608</u>
Capital assets, being depreciated:				
Buildings	1,553,838			1,553,838
Equipment	1,397,715	274,804		1,672,519
Investment in joint venture - community center	2,813,060			2,813,060
Infrastructure	41,424,095	714,755		42,138,850
				<u>42,138,850</u>
Total capital assets, being depreciated	<u>47,188,708</u>	<u>989,559</u>		<u>48,178,267</u>
Less accumulated depreciation for:				
Buildings	(466,151)	(103,589)		(569,740)
Equipment	(1,078,852)	(98,021)		(1,176,873)
Investment in joint venture - community center	(775,256)	(187,537)		(962,793)
Infrastructure	(12,405,825)	(1,069,863)		(13,475,688)
				<u>(13,475,688)</u>
Total accumulated depreciation	<u>(14,726,084)</u>	<u>(1,459,010)</u>		<u>(16,185,094)</u>
Total capital assets, being depreciated, net	<u>32,462,624</u>	<u>(469,451)</u>		<u>31,993,173</u>
Governmental activities capital assets, net	<u>\$36,174,257</u>	<u>\$ 3,809,524</u>	<u>\$ -</u>	<u>\$ 39,983,781</u>

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 8 Capital Assets (Continued)

A summary of changes in property, improvements, and equipment in the Enterprise Fund – Tennis and Swim Center for the fiscal year ended June 30, 2004 is as follows:

	<u>Balance at</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Prior</u> <u>Period</u> <u>Adjustment</u>	<u>Balance at</u> <u>June 30, 2004</u>
Business type activities:					
Capital assets, not being depreciated:					
Land	\$ 837,819	\$ -	\$ -	\$ -	\$ 837,819
Total Capital assets, not being depreciated	<u>837,819</u>				<u>837,819</u>
Capital assets, being depreciated:					
Improvements	288,412	169,387			457,799
Buildings	1,922,935	43,754		(1,842)	1,964,847
Machinery and equipment	<u>365,293</u>	<u>20,481</u>		<u>(58,694)</u>	<u>327,080</u>
Total Capital assets, being depreciated	<u>2,576,640</u>	<u>233,622</u>		<u>(60,536)</u>	<u>2,749,726</u>
Less accumulated depreciation for:					
Improvements	(68,607)	(17,298)			(85,905)
Buildings	(989,817)	(132,207)			(1,122,024)
Machinery and equipment	<u>(230,861)</u>	<u>(29,828)</u>		<u>(28,435)</u>	<u>(289,124)</u>
Total accumulated depreciation	<u>(1,289,285)</u>	<u>(179,333)</u>		<u>(28,435)</u>	<u>(1,497,053)</u>
Total capital assets, being depreciated, net	<u>1,287,355</u>	<u>54,289</u>		<u>(88,971)</u>	<u>1,252,673</u>
Business-type activities capital assets, net	<u>\$ 2,125,174</u>	<u>\$ 54,289</u>	<u>\$ -</u>	<u>\$ (88,971)</u>	<u>\$ 2,090,492</u>

Depreciation expense was charged to the following functions:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
General government	\$ 34,094	\$ -
Public safety	674	
Public works	2,037	
Community services	353,242	
Unallocated	1,064,863	
Tennis and swim center		179,333
Total	<u>\$ 1,454,910</u>	<u>\$ 179,333</u>

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 9 **Long-Term Debt**

A. Changes in Long-term Debt

Summary of changes in long-term liabilities for governmental activities is as follows:

	<u>Balance at</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2004</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
Facilities corporation certificates of participation - series 1999	\$ 6,200,000	\$ -	\$(50,000)	\$ 6,150,000	\$ 65,000
Compensated absences payable	235,334	47,410		282,744	
Total governmental long-term debt	<u>\$ 6,435,334</u>	<u>\$ 47,410</u>	<u>\$ (50,000)</u>	<u>\$ 6,432,744</u>	<u>\$ 65,000</u>

Summary of changes in long-term liabilities for business-type activities is as follows:

	<u>Balance at</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2004</u>
Business-type activities				
Compensated Absences Payable	<u>\$ 7,064</u>	<u>\$ 4,653</u>	<u>\$ -</u>	<u>\$ 11,717</u>

B. Facilities Corporation Certificates of Participation – 1999

On February 1, 1999, the City of Calabasas Facilities Corporation issued \$6,345,000 in Certificates of Participation (COPs) with rates ranging from 3.1% to 5.0%. The net proceeds of \$5,674,897 (after payment of \$670,103 in underwriting and other issuance costs) became a lump sum lease payment to the City for the lease of two properties. These included the Creekside Park Community Center and the “Kilroy” land which is located in Los Angeles County CFD 98-1. Part of the lease payment, \$2,424,897, was used to prepay all future special taxes on the Kilroy land which will be used for a new City Hall and Library.

The City and the Facilities Corporation entered into a concurrent sublease of the Creekside and Kilroy properties by which the Corporation will receive lease rental amounts sufficient to satisfy debt service on the COPs.

Principal amounts on \$2,025,000 of serial certificates mature annually on each December 1 in the fiscal years 2000 through 2015. Term certificates in the amounts of \$1,335,000 and \$2,985,000 are due December 1, 2020 and 2028 respectively. Interest is payable semiannually on June 1 and December 1.

The COPs are subject to optional redemption on or after December 1, 2010 and on any interest payment date thereafter at a prior equal to the principal amount plus accrued interest to the redemption date, plus a premium ranging from 0.0% to 2.0%. The term certificates are subject to mandatory redemption on any December 1 from 2016 to 2028.

\$ 6,150,000

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 9 **Long-Term Debt (Continued)**

C. Compensated Absences:

The City's policies relating to compensated absences are Described in Note 1 of the Notes to Financial Statements. This liability will be paid in future fiscal years from future resources.

\$ 282,744

D. Minimum Requirement Future Payments

The annual requirements to amortize outstanding long-term debt of the City's Governmental Activities as of June 30, 2004, excluding compensated absences are as follows:

Fiscal Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 65,000	\$ 308,595	\$ 373,595
2006	75,000	305,828	380,828
2007	95,000	302,380	397,380
2008	110,000	298,123	408,123
2009	125,000	293,125	418,125
2010-2014	910,000	1,356,499	2,266,499
2015-2019	1,210,000	1,095,323	2,305,323
2020-2024	1,555,000	738,515	2,293,515
2025-2029	<u>2,005,000</u>	<u>274,181</u>	<u>2,279,181</u>
Totals	<u>\$ 6,150,000</u>	<u>\$ 4,972,569</u>	<u>\$ 11,122,569</u>

Note 10 **Defined Benefit Plan**

A. Plan Description

The City of Calabasas contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, 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.

B. Funding Policy

Participants are required to contribute 7% 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 6.213% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 10 **Defined Benefit Pension Plan (Continued)**

C. Annual Pension Costs

For 2004, the City's annual pension cost of \$166,471 for PERS 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 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 3.50%. 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 percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2004 was 14 years.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2002	\$ 101,000	100%	\$ -
6/30/2003	134,191	100%	-
6/30/2004	166,471	100%	-

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL) (Excess Assets)	Funded Ratio	Covered Payroll	UAAL As a % of Covered Payroll
6/30/2001	\$ 2,345,315	\$ 2,864,236	\$ 518,921	122.1%	\$ 2,783,831	(18.6)%
6/30/2002	3,013,635	2,970,452	(43,183)	98.6%	2,831,464	1.5 %
6/30/2003	3,953,176	3,404,251	548,925	86.1%	3,194,114	17.2 %

Note 11 **Risk Management**

Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The City is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 84 California public entities and is organized under a joint powers agreement pursuant to California government Code § 6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverages. The Authority's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a 9-member Executive Committee.

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 11

Risk Management (Continued)

Self-Insurance Programs of the Authority in which the City Participates

General Liability – Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). Six months after the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Costs are spread to members as follows: the first \$20,000 of each occurrence is charged directly to the member; costs from \$20,001 to \$500,000 are pooled, based on a member's share of costs under \$20,000; costs from \$500,001 to \$5,000,000 are pooled based on payroll. Costs of covered claims above \$5,000,000 are currently paid by reinsurance. The protection for each member is \$50,000,000 per occurrence with a \$50,000,000 annual aggregate.

Workers Compensation – The City also participates in the workers' compensation pool administered by the Authority. Pool deposits and retrospective adjustments are valued in a manner similar to the General Liability Pool. The City is charged for the first \$25,000 of each claim. Costs are pooled above that level to \$50,000. Costs from \$50,001 to \$100,000 per claim are pooled based on the member's losses under its retention level. Costs between \$100,001 to \$500,000 per claim are pooled based on payroll. Costs in excess of \$500,000 are paid by excess insurance purchased by the Authority. The excess insurance provides coverage to statutory limits.

Purchased Insurance

Environmental Insurance – The City participates in the pollution legal liability and remediation legal liability insurance which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City. Coverage is on a claims-made basis. There is a \$50,000 deductible. The Authority has a limit of \$50,000,000 for the 3-year period from July 1, 2002 through June 30, 2005, with reinstatement of \$50,000,000 if the initial \$50,000,000 is depleted. Each member of the Authority has a \$10,000,000 limit during the 3-year term of the policy.

Property Insurance – The City participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. The City's property is currently insured according to a schedule of covered property submitted by the City to the Authority. Total all-risk property insurance coverage is \$7,280,160. There is a \$5,000 per loss deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Earthquake and Flood Insurance – The City purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. The City's property currently has earthquake protection in the amount of \$1,433,597. There is a deductible of 5% of the value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 11 **Risk Management (Continued)**

Fidelity Bonds – The City purchases blanket fidelity bond coverage in the amount of \$1,000,000 with a \$2,500 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retroactive adjustments.

Special Event Tenant User Liability Insurance – The City further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain activities on City property. The insurance premium is paid by the tenant user and is paid to the City according to a schedule. The City then pays for the insurance. The insurance is arranged by the Authority.

Adequacy of Protection

During the past three fiscal years none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior fiscal year.

Note 12 **Joint Venture**

On November 24, 1997, the Agoura Hills and Calabasas Community Center Authority (Authority) was created under a joint exercise of powers agreement between the Cities of Agoura Hills and Calabasas. It was formed for the operation and maintenance of a Joint recreation Center. The governing Board of Directors consists of one City Council Member from each City, two residents of each City appointed by the City Council, and the president or a member of the Executive Board of the Alliance (a non-profit organization formed for the sole purpose of raising funds for the Community Center). Each City contributed money towards the construction of the Community Center, which was completed in March 2000. The Authority now oversees the operations and maintenance of the Community Center. The Cities of Agoura Hills and Calabasas will equally share in any profit or loss from operation of the Community Center. Results of operations are included in the City of Calabasas' financial statements for the fiscal year ending June 30, 2004. A copy of the Authority financial statements can be obtained at: 27040 Malibu Hills Rd, Calabasas, CA 91301.

Note 13 **Contingencies**

The City has been named as a defendant in various general damage and personal injury lawsuits and claims. Such claims arise primarily from injuries or damages sustained by claimants while on property owned and maintained by the City. Management believes that the ultimate result of the pending lawsuits and claims will not have a material adverse affect upon the City's basic financial statements taken as a whole.

Note 14 **Commitments**

The City is obligated under operating lease agreements for the rental of space for the city hall, city library, and parking lot. Future minimum lease payments under these operating leases are as follows:

<u>Fiscal Year</u>	
2005	\$ 766,295
2006	744,515
2007	681,472
2008	146,968
	<u>\$ 2,339,250</u>

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 15 **Post-Employment Medical Benefits**

Pursuant to Government Code Sections 22850 and 22857 and City Resolutions 2000-611, 2000-617, 2000-649 and 2002-780 the City provides post-employment medical benefits to all retired employees in the amount of \$32 and \$16 per month for 2004 and 2003 respectively. This amount is paid on the employees' behalf to the Public Employees Retirement System for health benefits. In addition, certain management employees and City Council who have retired with at least 8 years of PERS service credit with the City and who have reached age 55 are reimbursed for PERS health benefit payments up to \$667 per month. The reimbursement is reduced by the amount of eligible Medicare benefits. This benefit is funded on a pay-as-you-go basis. For fiscal year 2003-04, the City paid \$32,273 for post-employment medical benefits covering 7 participants. An additional individual was under contract with the City, whereby the City will pay the medical benefits in the amount of \$667 per month for eleven months beginning February, 2004.

Note 16 **Special Assessment Districts (AD) Bonds**

Bonds issued for improvements in certain special assessment districts in accordance with the provisions of the Mello-Roos Community Facilities Act of 1982, as amended, are liabilities of the property owners and are secured by liens against the assessed property. The City Treasurer acts as an agent for collection of principal and interest payments by the property owners and remittance of such moneys to the bondholders.

Neither the faith and credit nor the general taxing power of the City of Calabasas have been pledged to the payment of the bonds. Therefore none of the following special assessment bonds have been included in the accompanying financial statements.

<u>AD#</u>	<u>Special Assessment Bonds</u>	<u>Amount of Issue</u>	<u>Outstanding June 30, 2004</u>
98-1	Community Facilities District	\$12,515,000	\$10,725,000
2001-1	Community Facilities District	28,645,000	27,970,000

Note 17 **Prior Period Adjustments/Restatements**

The following list is an explanation of prior period adjustments and restatements made to the fund financial statements as well as the government-wide statements.

Governmental Funds:

General Fund –

- a) \$564,530 for a prior year understatement of accounts receivable.
- b) \$23,359 for an overstatement of prior year's deposits payable.
- c) (\$25,596) for an understatement of payroll liabilities.

Grants Special Revenue Fund – to adjust for an overstatement of deferred revenue based on reimbursement type grant receivables in the amount of \$441,213.

Library District Special Revenue Fund – to adjust for an overstatement of \$69,154 of accounts payable.

CITY OF CALABASAS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2004

Note 17 **Prior Period Adjustments/Restatements (Continued)**

Proprietary Funds:

Tennis & Swim Center Enterprise Fund – to adjust for an overstatement of the cost of capital assets in the amount of \$88,971.

Statement of Activities/Net Assets:

Deferred charges were not reported on the statement of net assets in the prior period. The amount net of accumulated amortization was \$172,122.

Long-term notes receivables were not reported in the statement of net assets in the prior period. This amount was \$43,595.

The prior period adjustments above in the governmental funds affect the statement of net assets in the amount of \$1,072,660 less \$812,490 which was recorded properly in the prior years statement of net assets.

Note 18 **Subsequent Events**

The City is expected to receive up to \$8 million in a Library grant to assist in building its new library.

The City received as agent \$2 million in December 2004 from NM Homes One, Inc. for the construction of a new school site within the Las Virgenes Unified School District.