



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
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LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

January 31, 2003

TO: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley *JTM*
Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY FLOOD
CONTROL DISTRICT FOR THE YEAR ENDED JUNE 30, 2002**

Pursuant to Government Code Section 26909, we audited the financial statements of the Los Angeles County Flood Control District (District) for the year ended June 30, 2002. Our attached report concludes that no material weaknesses involving the District's internal controls over financial reporting were noted, and the financial statements are presented fairly in conformity with accounting principles generally accepted in the United States of America and State regulations governing special districts.

PTM:DR:JS:EB
Attachments

c: David E. Janssen, Chief Administrative Officer
James A. Noyes, Director, Department of Public Works
Violet Varona-Lukens, Executive Officer, Board of Supervisors
Public Information Officer
Audit Committee Members



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J. TYLER McCAULEY
AUDITOR-CONTROLLER

January 16, 2003

The Honorable Board of Supervisors
Los Angeles County Flood Control District
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Report on Compliance and on Internal Controls Over Financial Reporting

Dear Supervisors:

We have audited the financial statements of the Los Angeles County Flood Control District (District) as of and for the year ended June 30, 2002, and have issued our report thereon dated January 16, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance that are required to be reported under Government Auditing Standards.

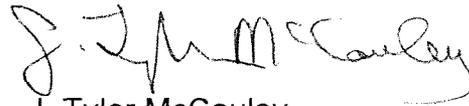
Internal Controls Over Financial Reporting

In planning and performing our audit of the financial statements of the District for the year ended June 30, 2002, we considered the internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. Our consideration of the internal control structure would not necessarily disclose all matters that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over financial reporting and its operation that we consider to be a material weakness.

This report is intended for the information of the Board of Supervisors and management of the District. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Sincerely,



J. Tyler McCauley
Auditor-Controller

PTM:DR:JS:EB

c: David E. Janssen, Chief Administrative Officer
James A. Noyes, Director, Department of Public Works
Violet Varona-Lukens, Executive Officer, Board of Supervisors
Public Information Officer
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LOS ANGELES COUNTY FLOOD CONTROL DISTRICT

Financial Statements
For the Year Ended June 30, 2002

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

January 16, 2003

Independent Auditor's Report

The Honorable Board of Supervisors
Los Angeles County Flood Control District
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

We have audited the accompanying financial statements of the Los Angeles County Flood Control District (District) as of and for the year ended June 30, 2002, as listed in the table of contents. These basic financial statements are the responsibility of the District'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 auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance that 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 financial position of the District as of June 30, 2002, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America and State regulations governing special districts.

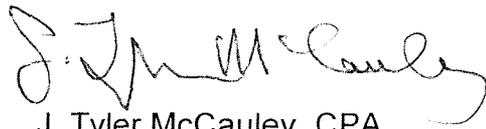
As discussed further in the notes to the financial statements, the accompanying financial statements reflect certain changes in the presentation of financial data required

as a result of the implementation of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, for the year ended June 30, 2002.

In accordance with Government Auditing Standards, we have also issued a report dated January 16, 2003 on our considerations of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The information identified in the accompanying table of contents as Management’s Discussion and Analysis 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 required supplementary information. However, we did not audit the information and 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 accompanying information identified in the table of contents as individual fund statements and schedules is presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination 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.


J. Tyler McCauley, CPA
Auditor-Controller

**COUNTY OF LOS ANGELES
FLOOD CONTROL DISTRICT**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Los Angeles County Flood Control District financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2002. We encourage readers to consider this information in conjunction with the accompanying financial statements, footnotes and supplementary information.

GASB Statement No. 34

The District is adopting the guidelines of reporting financial statements as established by GASB Statement No. 34. The District is also a component of a larger governmental unit, the County of Los Angeles. We also encourage readers to use the Comprehensive Annual Financial Report of the County of Los Angeles to provide perspective on the Government-wide Statements and how the District is a component of those statements.

FINANCIAL HIGHLIGHTS

At the end of the current year, the net assets (total assets less total liabilities) of the District were positive \$43 million.

During the year, the District's net assets increased by \$32.9 million. The increase was a result of the District's governmental activities. The District has no business-type activities to report.

At the end of the current year, the District's General Fund reported a total fund balance of \$117 million. The amount of unreserved and undesignated fund balance was \$5.8 million.

The District's capital asset balances were \$89.9 million at year-end and increased by \$38.3 million during the year.

The District's total long-term debt decreased by \$16.8 million during the year. The District did not issue any new debt during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts, Management's Discussion and Analysis (this section), the Basic Financial Statements, and Required Supplementary Information (RSI). The Basic Financial Statements include the Government-wide financial statements and Fund financial statements. The

**COUNTY OF LOS ANGELES
FLOOD CONTROL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS – Continued**

financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District’s assets and liabilities, with the difference representing net assets. Over time, increases or decreases in the District’s net assets are an indicator of whether its financial health is improving or deteriorating.

The government-wide financial statements of the District report on one category, Governmental activities, as the District has no business-type activities.

Governmental Activities – All of the District’s basic services are included here. Property taxes and Benefit assessment finance almost all of the District’s Flood Control activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District’s significant funds. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

The District has two kinds of funds:

Governmental Funds – All of the District’s basic services are included in the Governmental funds, which focus on how resources flow in and out with the balances remaining at year-end that are available for spending. The governmental funds statements provide a detailed short-term view to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s activities. Because this information does not encompass the additional long-term focus of the government-wide statements, we describe the relationship between governmental activities and governmental funds through the reconciliations on pages 18 and 21 and in the Notes to the Basic Financial Statements.

Fiduciary Funds – These funds are used to report assets held in an agency capacity for others and cannot be used to support the District’s activities. The Agency fund uses the accrual basis of accounting.

**COUNTY OF LOS ANGELES
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

NOTES TO BASIC FINANCIAL STATEMENTS

The notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 23 of this report.

REQUIRED SUPPLEMENTARY INFORMATION

In addition to the Basic Financial Statements and accompanying notes, this report presents certain required supplementary information (RSI) concerning the District's budget and actual on a budgetary basis. The RSI can be found on pages 36 through 39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the first period the District applied Governmental Accounting Standards Board (GASB) Statement No. 34. The District has not restated prior periods for purposes of providing the comparative data for the Management's Discussion and Analysis (MD&A) because certain prior year information is unavailable. However, in future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

The District's net assets were \$43 million at the close of the most recent fiscal year. The District does not have business-type activity to report (See Table 1 on the following page).

**COUNTY OF LOS ANGELES
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

**Table 1
Statement of Net Assets
June 30, 2002
(In thousands)**

	Governmental Activities
Current and other assets	\$144,130
Capital assets	89,983
Total assets	\$234,113
Current and other liabilities	\$12,030
Long-term liabilities	178,621
Total liabilities	190,651
 Net Assets:	
Invested in capital assets, net of related debt	(85,127)
Restricted net assets	2,430
Unrestricted net assets	126,159
Total net assets	43,462
Total Liabilities and net assets	\$234,113

Capital Assets, Net of Related Debt

The District's capital assets, net of related debt, are negative \$85 million. As discussed below, the District has not yet recognized infrastructure assets acquired prior to July 1, 2001. However, the District has issued debt in previous years to acquire such infrastructure assets. At June 30, 2002, the District reported Bonds Payable of \$175 million that were related to unrecorded infrastructure assets. Accordingly, this category of net assets is negative and is expected to remain negative until the District recognizes the retroactive infrastructure assets associated with the outstanding debt. The District is in the process of evaluating its infrastructure assets that were acquired in prior years to ensure that they are reported prior to the year ending June 30, 2006, as required by GASB 34 for governments with annual revenues of \$100 million or more.

**COUNTY OF LOS ANGELES
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

Restricted Net Assets

The District's restricted net assets at year-end were \$2.4 million. The Asset restriction is imposed by bond covenants that require reserves over the repayment period of the bond amortization schedule.

Unrestricted Net Assets

The largest portion of the District's net assets is classified as unrestricted. This amount, \$126 million, may be used to meet the District's ongoing financial requirements.

Governmental Activities

The Statement of Activities is being presented for the first time in the District's financial statements. Accordingly, comparable financial information from the prior year is not available. In future years, this section will provide discussion of the changes in the various revenues and expenses that explain the overall change in net assets.

The following table indicates the changes in net assets for the governmental activities (See Table 2 on the following page):

**COUNTY OF LOS ANGELES
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

**Table 2
Statement of Activities
For the Year Ended June 30, 2002
(In thousands)**

	Governmental Activities
Revenues:	
Program Revenues -	
Charges for Services	\$116,148
Operating Contributions and Grants	1,817
Capital Contributions and Grants	204
General Revenues -	
Property taxes	65,575
Unrestricted grants and contributions	2,795
Investment earnings	4,574
Miscellaneous	1,063
Total revenues	\$192,176
Expenses:	
Public protection	\$148,671
Contributions to Los Angeles County	1,551
Interest on long-term debt	8,979
Total expenses	159,201
Changes in net assets	32,975
Net assets - July 1, 2001	10,487
Net assets - June 30, 2002	\$43,462

The District's net assets increased by \$32.9 million during the current fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the fiscal year-end, the District's governmental funds reported a combined fund balance of \$122 million, a decrease of \$21.3 million from the previous years fund balance. The current year-ending fund balance consists of \$96.3 million in reserves to indicate the extent that the funds have been committed or are otherwise unavailable for spending; \$20.3 million in designations that have been set aside for specific infrastructure improvements. The remaining \$5.8 million is unreserved and undesignated and available for spending for flood control purposes.

**COUNTY OF LOS ANGELES
FLOOD CONTROL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS – Continued**

The decrease in fund balance can be attributed to the District’s General Fund, which decreased designations by \$11 million to fund the Los Angeles County Drainage Area (LACDA) project along with utilizing \$10.3 million in unreserved and undesignated funds for the planning, design and construction of other flood control projects.

Revenues from the District’s governmental funds, primarily the General Fund, were \$192.8 million. The benefit assessment revenue (Charges for services) of \$107.6 million was the major source of revenue for the governmental funds. The other significant source of revenue for the governmental funds was property taxes, which were \$66.3 million. Together, these two revenue sources account for 90 percent of total revenues for all the governmental funds. Expenditures for the governmental funds were \$212.8 million, which resulted in a deficiency of \$20 million in revenues as compared to expenditures. As mentioned above, designations and available fund balance were utilized to fund the difference.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgetary Summary – Revenues/Financing Sources

Following is a summary of current year budgetary changes and actual results for the District’s General Fund revenues and other financing sources (in thousands) (See Table 3 below):

Table 3

<u>Category</u>	Increase From Original Budget	Final Budget Amount	Actual Amount	Variance From Final Budget
Taxes	\$3,929	\$59,534	\$59,626	\$92
Intergovernmental revenues	-	20,664	4,815	(15,849)
Charges for Services	-	110,508	107,002	(3,506)
All other revenue	-	15,144	13,837	(1,307)
Other sources	-	200	206	6
Reserves/Designations - net	10,295	14,295	20,375	6,080
Total	<u>\$14,224</u>	<u>\$220,345</u>	<u>\$205,861</u>	<u>\$(14,484)</u>

Changes from Amounts Originally Budgeted

During the year, net increases in budgeted revenues and other financing sources were \$14.2 million. The increases occurred as follows:

**COUNTY OF LOS ANGELES
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

The budget for tax revenues was increased by \$3.9 million. The District's policy is to increase the budget for certain tax revenues that exceed the amounts originally budgeted. The revised budget action occurs at the end of the fiscal year and is designed to demonstrate compliance with legal provisions related to the appropriation of revenues from taxes.

The reserves and designations were cancelled by \$10.3 million to provide a source of financing for a contribution (\$7.1 million) from the District to the Army Corp of Engineers (Corp) for the Los Angeles County Drainage Area (LACDA) project, which the Corp is the project manager and the District is providing funding to the Corp for the District's share of the project costs; and to provide a source of financing for the write-off of a long-term investment (\$3.2 million) that resulted from a settlement agreement the District entered into. As part of the settlement, the District also acquired a hydroelectric plant and a long-term power purchase agreement with Southern California Edison.

Actual Revenues/Financing Source Compared with Final Budget Amounts

Actual revenues and other financing sources recognized by the District's General Fund were almost \$14.5 million lower than budget. The variance resulted from the budgeting of Federal Emergency Management Agency (FEMA) grant funds for the Districts' Headquarters seismic retrofit project (\$9 million) and dam seismic retrofit projects (\$3.6 million) that will not be awarded until after June 30, 2002. In addition, \$3.2 million in FEMA disaster related reimbursement was budgeted and not realized.

Additionally, \$3.5 million in reimbursable work on various projects was not realized due to delays in final acceptance.

The decrease in the all other revenue category of \$1.3 million was primarily due to a decrease in actual interest earnings for the year.

The variance in the Reserves and Designation category resulted from a net increase in financing sources from the cancellation of commitments (\$16.375 million) above the adjustments made during the year (\$10.295 million) to utilize available financing.

Budgetary Summary – Expenditures/Other Financing Uses

Following is a summary of current year budgetary changes and actual results for the District's General Fund expenditures, transfers out, and contingencies (in thousands) (See Table 4 below):

**COUNTY OF LOS ANGELES
FLOOD CONTROL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS – Continued**

Table 4

<u>Category</u>	Increase From Original Budget	Final Budget Amount	Actual Amount	Variance From Final Budget
Public Protection	\$10,295	\$232,392	\$212,454	\$(19,938)
Transfers out	-	2,416	1,551	(865)
Contingencies	3,929	3,929	-	(3,929)
Total	\$14,224	\$238,737	\$214,005	\$(24,732)

Changes from Amounts Originally Budgeted

During the year, increases in the District’s General Fund appropriations and contingencies were \$14.2 million. The increases occurred as follows:

After the original budget was established, the appropriation for public protection was increased by \$10.3 million. The increase consisted of a \$7.1 million increase for a contribution made to the United States Army Corp of Engineers for the LACDA project, as described previously; \$3.2 million increase to write-off a long-term investment related to a settlement agreement entered into by the District, also as described previously.

Contingencies increased from the original budget by \$3.9 million as a result of actual tax revenues exceeding the original budget. The District’s policy is to increase the budget for certain tax revenues that exceed the amounts originally budgeted. As indicated previously, the revised budget action occurs at the end of the fiscal year and is designed to demonstrate compliance with legal provisions related to the appropriation of revenues from taxes.

Actual Expenditures/Other Financing Uses Compared with Final Budget Amount

Actual expenditures and other financing uses of the District’s General fund were \$24.7 million lower than budget. The variance in the public protection category result from changes in the District’s project schedule that occur as a result of various circumstances that delay the award of a project for construction. Project delays are anticipated and an inventory of projects are kept to replace projects that remain in the planning stage or are delayed. The majority of the variance in public protection resulted from the delays in construction phase of the following projects:

- District’s Headquarters seismic retrofit project (\$14.3 million)
- District’s Headquarters parking lot renovation project (\$2.5 million)

**COUNTY OF LOS ANGELES
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

The remainder of the variance of \$3.1 million result from the net decrease in flood control projects that were not awarded by the end of the fiscal year. These projects will be scheduled for award in the next fiscal year as project scheduling allows.

Contingency appropriations of \$3.9 million were not utilized. The amount budgeted in this account was not eligible to be spent. The contingency appropriation was established to demonstrate compliance with legal provisions related to the appropriation of revenues from taxes in excess of the original budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the June 30, 2002, the District had \$89.9 million invested in capital assets including land, buildings, infrastructure and equipment (See Table 5 below). Infrastructure assets have also been recognized for activity that occurred during the current year. The District has deferred recognition of infrastructure assets acquired prior to July 1, 2001.

The District's capital assets increased from the prior fiscal year as shown in table 5 below.

**Table 5
Changes in Capital Assets, Net of Depreciation**

	Current Year	Prior Year	Increase (Decrease)
Land	\$4,053	\$3,872	\$181
Buildings and Improvements (B&I)	46,760	46,845	(85)
Infrastructure	7,019	-	7,019
Equipment	148	193	(45)
Construction-in-Progress - B&I	877	765	112
Construction-in-Progress - Infrastructure	31,126	-	31,126
Total	\$89,983	\$51,675	\$38,308

New infrastructure costs and Buildings and Improvements were capitalized for projects that remained in progress at the end of the year. The value of the new construction for the District was \$32 million and will be classified as Construction-in-Progress category until they are completed.

**COUNTY OF LOS ANGELES
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued**

This years capital asset additions were:

Channel Improvements

- Walnut Creek Invert Repair – San Gabriel River to Lark Ellen Avenue (\$4 million)
- South Area Channel Access Roads Reconstruction (\$375,000)
- Whites Canyon Channel – Invert Access Ramps at Camp Plenty Road and Fox Lane Drive (\$199,000)
- Other Various Channel Improvements (\$1.4 million)

Storm Drain Improvements

- Bull Creek - Repair reinforced concrete box (\$817,000)
- Other Various Storm Drain Improvements (\$204,000)

Debt Administration

At June 30, 2002, the District had \$175.1 million in long-term debt. The District's long-term debt consisted of \$17 million in voter approved general obligation bonds and \$158.1 in revenue bonds. The District's long-term debt decreased by \$16.8 million (9%) in the current year as a result of scheduled debt service payments.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Financial Management Branch at the Department of Public Works, 900 South Fremont Avenue, 7th Floor, Alhambra, California 91803-1331.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2002 (IN THOUSANDS)**

		<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>		
Pooled Cash and Investments (Note 4)	\$	116,643
Advances from Other Funds		6,842
Other investments		17
Taxes receivable		14,833
Interest receivable		1,024
Other receivables		4,771
Capital Assets (Note 5):		
Land and construction in progress	\$	36,056
Other capital assets, net of depreciation		<u>53,927</u>
Total capital assets		<u>89,983</u>
TOTAL ASSETS		<u><u>234,113</u></u>
<u>LIABILITIES:</u>		
Accounts Payable		2,454
Accrued Interest Payable		2,621
Deferred revenue		6,955
Long-term Liabilities (Note 6)		
Due within one year		20,095
Due in more than one year		<u>158,526</u>
TOTAL LIABILITIES		<u><u>190,651</u></u>
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt		(85,127)
Restricted Net Assets		
Capital Projects		117
Debt Service		2,313
Unrestricted		<u>126,159</u>
TOTAL NET ASSETS	\$	<u><u><u>43,462</u></u></u>

See accompanying notes to the basic financial statements.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002 (IN THOUSANDS)**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	<u>Governmental Activities</u>	
Governmental activities:					
Public protection	\$ 148,671	116,148	1,817	204	(30,502)
Contributions to Los Angeles County	1,551				(1,551)
Interest on long-term debt	8,979				(8,979)
Totals	\$ 159,201	116,148	1,817	204	(41,032)

General Revenues:

Property Taxes	65,575
Grants and contributions not restricted to special programs	2,795
Investment earnings	4,574
Miscellaneous	1,063
Total General Revenue	74,007

Change in Net Assets 32,975

Net Assets, July 1, 2001 10,487

Net Assets, June 30, 2002 \$ 43,462

See accompanying notes to the basic financial statements.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002 (IN THOUSANDS)**

	GOVERNMENTAL FUND TYPES			TOTAL GOVERNMENTAL FUNDS
	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	
<u>ASSETS:</u>				
Pooled cash and investments (Note 4)	\$ 111,900	4,643	100	116,643
Advances from Other Funds	6,842			6,842
Other investments			17	17
Taxes receivable	5,964	1,055		7,019
Interest receivable	986	38		1,024
Assessments receivable	8,468			8,468
Other receivables	4,117			4,117
TOTAL ASSETS	\$ 138,277	5,736	117	144,130

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Continued...

See accompanying notes to the basic financial statements.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2002 (IN THOUSANDS)**

	GOVERNMENTAL FUND TYPES			TOTAL GOVERNMENTAL FUNDS
	GENERAL	DEBT SERVICE	CAPITAL PROJECTS	
<u>LIABILITIES:</u>				
Accounts payable	\$ 2,454			2,454
Deposits payable				
Deferred revenue	18,436	802		19,238
TOTAL LIABILITIES	20,890	802		21,692
<u>FUND EQUITY:</u>				
Fund balances:				
Reserved for:				
Encumbrances	88,300			88,300
Other	3,011			3,011
Debt Service		4,934		4,934
Unreserved:				
Designated	20,307			20,307
Undesignated	5,769		117	5,886
TOTAL FUND EQUITY	117,387	4,934	117	122,438
TOTAL LIABILITIES AND FUND EQUITY	\$ 138,277	5,736	117	144,130

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See accompanying notes to the basic financial statements.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2002 (IN THOUSANDS)**

Fund balance/net assets of governmental activities (page 15) \$ 122,438

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 governmental funds.

Land	\$ 4,053	
Construction-in-progress	32,003	
Buildings and improvements - net	46,760	
Equipment - net	148	
Infrastructure - net	<u>7,019</u>	89,983

Other long-term assets are not available to pay for current-period expenditures and are deferred, or not recognized, in governmental funds:

Deferred revenue		12,283
------------------	--	--------

Accrued interest payable is not recognized in governmental funds		(2,621)
--	--	---------

The following long-term liabilities, are not due and payable in the current period therefore are not reported in the funds.

Bonds and notes payable	(175,110)	
Litigation/self insurance	<u>(3,511)</u>	<u>(178,621)</u>

Net assets of governmental activities (page 13)		<u><u>\$ 43,462</u></u>
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See accompanying notes to the basic financial statements.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2002 (IN THOUSANDS)**

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>REVENUES:</u>				
Taxes	\$ 59,298	7,017		66,315
Licenses and permits	731			731
Fines, forfeitures and penalties	1,474	44		1,518
Interest	4,382	158	34	4,574
Rents and royalties	6,248			6,248
Intergovernmental revenues:				
Federal	3,313			3,313
State	1,502			1,502
Other		1		1
Charges for services	107,552			107,552
Miscellaneous	1,061			1,061
TOTAL REVENUES	185,561	7,220	34	192,815
<u>EXPENDITURES:</u>				
Current:				
Services and supplies	179,747			179,747
Other charges	5,972	3		5,975
Debt Service:				
Principal		16,775		16,775
Interest		9,366		9,366
Capital Outlay	950			950
TOTAL EXPENDITURES	186,669	26,144		212,813
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,108)	(18,924)	34	(19,998)

Continued...

See accompanying notes to the basic financial statements.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2002 (IN THOUSANDS)**

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
OTHER FINANCING SOURCES (USES):				
Sales of fixed assets	\$ 206			206
Transfers in		18,429		18,429
Transfers out	(18,228)		(201)	(18,429)
Contributions to Los Angeles County (Note 3)	(1,551)			(1,551)
OTHER FINANCING SOURCES(USES)-NET	<u>(19,573)</u>	<u>18,429</u>	<u>(201)</u>	<u>(1,345)</u>
NET CHANGE IN FUND BALANCES	(20,681)	(495)	(167)	(21,343)
FUND BALANCE, JULY 1, 2001, as restated (Note 2)	<u>138,068</u>	<u>5,429</u>	<u>284</u>	<u>143,781</u>
FUND BALANCE, JUNE 30, 2002	<u>\$ 117,387</u>	<u>4,934</u>	<u>117</u>	<u>122,438</u>

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
JUNE 30, 2002 (IN THOUSANDS)**

Net change in fund balances - total governmental funds (page 18) \$ (21,343)

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

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Expenditures for general capital assets, infrastructure and other related capital asset adjustments	\$ 40,402	
Less - current year depreciation expense	<u>(1,891)</u>	38,511

In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus the change in net assets differs from the change in fund balance. (204)

Revenue timing differences result in less revenue in government-wide statements (641)

Repayment of bond principal is an expenditure in the government funds but the repayment reduced long-term liabilities in the Statement of Net Assets 16,775

Accrued interest for bonds payable. This is the net change in accrued interest for the current period. 387

Some expenses reported in the accompanying statement of activities do not require (or provide) the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in litigation/self insurance	<u>(510)</u>
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Change in net assets of governmental activities (page 13) \$ 32,975

See accompanying notes to the basic financial statements.

**LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2002 (IN THOUSANDS)**

	<u>AGENCY FUND</u>
ASSETS	
Pooled cash and investments	\$ <u>3,918</u>
TOTAL ASSETS	<u>3,918</u>
LIABILITIES	
Deposits Payable	<u>3,918</u>
TOTAL LIABILITIES	<u>3,918</u>
NET ASSETS	\$ <u><u>-</u></u>

See accompanying notes to the basic financial statements.

Notes to the Basic Financial Statements
June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Los Angeles County Flood Control District ("District") is empowered to carry out the objectives of the Los Angeles County Flood Control Act. The objectives are to provide for the control and conservation of flood, storm and other wastewater and to protect from damage from such flood or storm waters, the harbors, waterways, public highways and property within the District. These powers are exercised through the County of Los Angeles ("County") Board of Supervisors, which acts as the governing body of the District. Among its duties, it approves the District's budget, determines the District's tax rates, approves contracts, and determines when to issue bonds authorized by the voters of the District.

Reporting Entity

In accordance with the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 14, District management has determined that the Public Works Financing Authority ("PWFA") should be included in the basic financial statements of the District as a blended component unit. The PWFA is dependent upon the District for funding. The PWFA is a public agency organized pursuant to a Joint Exercise of Powers Agreement between the District and the County dated May 18, 1993. The PWFA is empowered to finance District fixed assets through the issuance of bonds.

Blended component units are those that, because of the closeness of the relationship with the primary government, should be blended in the basic financial statements as though they are part of the primary government. GASB Statement No. 14 provides that certain entities that are less closely related to the primary government be included in the financial statements in a separate (discrete presentation) column. The District does not have any component units that should be discretely presented. Additional financial information for the PWFA may be obtained from the Department of Public Works at 900 South Fremont Avenue, Alhambra, California, 91803.

The District is included as a component unit in the County financial reporting entity and is included in the County's comprehensive annual financial report for the year ended June 30, 2002. The financial resources and operations of the District are accounted for in the fund types as discussed below.

Basis of Accounting and Measurement Focus

The basic financial statements of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements

Notes to the Basic Financial Statements
June 30, 2002

- Notes to the basic financial statements

Financial reporting is based upon all GASB pronouncements.

Government-wide Financial Statements

Government-wide financial statements display information about the District as a whole. The statement of net assets and statement of activities display information about the District.

Basis of Accounting

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the basic financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financial source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

When both restricted and unrestricted resources are combined in a fund, expenditures are considered to be paid first from restricted resources and then from unrestricted resources are used to the extent necessary.

Fund Financial Statements

The underlying accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to the Basic Financial Statements

June 30, 2002

Fund financial statements are presented after the government-wide financial statements. These statements display information about major funds individually in the aggregate for governmental funds.

The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented.

The District reports the following major governmental funds:

- **General Fund**
The General Fund is available for any authorized purpose and is used to account for all financial resources except those required to be accounted for in another fund.
- **Debt Service Funds**
Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
- **Capital Projects Funds**
Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of flood control structures financed by general long-term debt.

The following Fiduciary Fund is also reported:

- **Agency Fund**
The Agency Fund is used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental entities or other funds.

Basis of Accounting

In the fund financial statements, governmental funds are presented using the modified accrual basis of accounting. Revenues are recognized when they became measurable and available to finance operations during the year. Secured and unsecured property taxes and benefit assessments estimated to be collectable in the future years are recorded as receivables and deferred revenue. The accrual of property tax revenues is generally limited to the extent that collection occurs within 60 days after the balance sheet date.

Interest income and charges for current services are accrued when earned and determined available. Changes in the fair value of investments are recognized as revenues at the end of each year. Federal and State grants are recorded as revenue when determined to be available, entitlement occurs, and related eligible expenditures are incurred. Revenues that are not considered susceptible to accrual include licenses, permits, and miscellaneous revenues. Expenditures

Notes to the Basic Financial Statements
June 30, 2002

are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt, which is recognized when payment is due.

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

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

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

Property Taxes

All jurisdictions within California derive their taxing authority from the State Constitution and various legislative provisions contained in the Government Code and Revenue and Taxation Code. Property is assessed at 100% of full cash or market value (with some exceptions). Pursuant to such legislation, the Board of Supervisors levies a property tax to support general operations of the various jurisdictions (ad valorem tax) which is limited to one percent (1%) of full cash value of property and distributes the collections in accordance with statutory formulae. The District receives an apportionment from the property tax levy which is a major source of District revenue.

Property taxes are levied on both real and personal property. Secured property taxes are levied during September of each year. They become a lien on real property on January 1 preceding the fiscal year for which taxes are levied. These tax payments can be made in two equal installments; the first is due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property taxes which are

Notes to Basic financial statements

June 30, 2002

delinquent and unpaid as of June 30 are declared to be tax defaulted and are subject to redemption penalties, costs, and interest when paid. If the delinquent taxes are not paid at the end of five (5) years, the property may be sold at public auction. The proceeds are used to pay the delinquent amounts due, and any excess is remitted, if claimed, to the taxpayer. Unsecured personal property taxes are not a lien against real property. These taxes are due on January 1 and become delinquent, if unpaid, on August 31. Unsecured property tax receivables are reduced by an amount estimated to be uncollectible, which is based on a five-year historical average collection percentage.

Benefit Assessments

The District, as authorized by the Government Code, levies an assessment on each parcel of real property within the District, except on property owned by federal, State or local government agencies. The assessment, as approved by the Board of Supervisors, is levied in proportion to benefits received, determined on the basis of the proportionate storm water runoff from each parcel. The purpose of benefit assessments is to cover the cost of providing flood control services within the District not offset by other available revenues.

Deposits and Investments

In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the accompanying financial statements reflect the fair value of investments. Changes in fair value that occur during a fiscal year are recognized as investment income reported for the fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

All cash and investment balances of the District are pooled and invested by the County Treasurer and are subject to withdrawal from the pool upon demand. Each fund's share in the pool is displayed in the accompanying financial statements as pooled cash and investments. Investment income earned by the pooled investments is allocated to various funds based on the fund's average cash and investment balance, as provided by California Government Code Section 53647.

The fair value of pooled investments is determined annually and based on current market prices. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawals rather than market value.

Capital Assets

Capital Assets, which include land, buildings and improvement, equipment, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if

Notes to the Basic Financial Statements

June 30, 2002

purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital outlay is recorded as expenditures of the General and Capital Project Funds and as assets in the government-wide financial statements to the extent the County's capitalization threshold is met.

The District's capitalization thresholds are \$5,000 for equipment, \$100,000 for buildings and improvements and \$100,000 for infrastructure assets. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements that significantly increase the values, change capacities, or extend the useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

Buildings and Improvements	10 to 50 years
Equipment	2 to 35 years
Infrastructure	2 to 50 years

Pursuant to GASB Statement No. 34, an extended period of deferral (fiscal year beginning July 1, 2005) is available before the requirement to record and depreciate infrastructure assets acquired prior to July 1, 2002 is effective. As a result, the governmental activities column in the accompanying government-wide financial statements as of June 30, 2002 does not reflect infrastructure assets completed prior to July 1, 2001. The accompanying government-wide financial statements include infrastructure assets that were either completed during the fiscal year or considered construction in progress at year-end. Infrastructure assets that were completed during the period and are functional are currently being depreciated. A schedule of capital assets is presented in Note 5.

2. ACCOUNTING CHANGES AND RESTATEMENT OF FUND BALANCES

During the year, the District implemented the following new accounting standards and restated beginning balances as discussed below.

GASB Interpretation No. 6

During the year, the District implemented GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements," which clarified that certain liabilities are not recognized as governmental fund liabilities until they actually mature and payment is required.

Notes to the Basic Financial Statements
June 30, 2002

Prior to GASB Interpretation No. 6, the District had recognized governmental fund liabilities for litigation and self-insurance. The liabilities were recorded to the extent that amounts were due and payable within one year of the balance sheet date. The effect of such liabilities has been removed from the governmental funds and beginning fund balances have been increased accordingly.

Property Tax Revenues

In conjunction with implementing GASB Interpretation No. 6, the County reevaluated the recognition of accrued property tax revenues. The accrual of property tax revenues is generally limited to the extent that collection occurs within 60 days after the balance sheet date. The County believes that strict adherence to the 60-day rule is appropriate now that certain fund liabilities are no longer recognized in accordance with GASB Interpretation No. 6. Accordingly, receivables from property taxes have been reduced in the governmental funds, with a corresponding reduction in beginning fund balances.

GASB Statement No. 34

For the year ended June 30, 2002, the District implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government", as amended by GASB Statement No. 37. This statement significantly changes the manner in which the District's financial condition and results of operations are presented.

The "Management's Discussion and Analysis" is among the new requirements of GASB Statement No. 34 and is designed to provide a narrative introduction and analytical overview of the District's financial activities. This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Government-wide Financial Statements

The reporting model includes financial statements prepared using full accrual accounting for all the District's activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. Government-wide financial statements include the following:

Statement of Net Assets

The Statement of Net Assets is designed to display the financial position of the District. The District now reports all capital assets in the government-wide Statement of Net Assets and reports depreciation expense – the cost of "using up" capital assets – in the Statement of Activities. The net assets of the District are broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Notes to the Basic Financial Statements

June 30, 2002

Statement of Activities

The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the County's functions. The expense of individual functions is compared to the revenue generated directly by the function.

GASB Statement No. 38

GASB Statement No. 38, "Certain Financial Statement Note Disclosures", modifies, adds and deletes various note disclosure requirements. Those requirements address revenue recognition policies, actions taken in response to legal violations, debt service requirements, variable-rate debt, receivable and payable balances, interfund transfers and balances, and short-term debt.

Restatement of Fund Balances

The effect of the changes noted above is as follows (in thousands):

<u>Fund</u>	<u>Fund Balance, as previously reported</u>	<u>Effect of Interpretation 6</u>	<u>Property Taxes</u>	<u>Fund Balance as restated</u>
General	\$142,199	\$851	\$(4,982)	\$138,068
Debt Service	5,934	---	(505)	5,429
Capital Projects	284	---	---	284
	<u>\$148,417</u>	<u>\$851</u>	<u>\$(5,487)</u>	<u>\$143,781</u>

3. TRANSACTIONS WITH THE COUNTY

Pursuant to an agreement between the District and the County, the County is responsible for providing all necessary employees to the District for purposes of performing all District functions. Costs related to these employees are billed to the District based upon actual time spent providing District services. Supply pool and equipment costs are also billed based upon actual usage by the District. Accordingly, the District has no supplies inventory or employee-related liabilities (e.g., pension, compensated absences, and workers' compensation). For the year ended June 30, 2002, the County's billings to the District's General Fund approximated \$79,215,000. Costs associated with shared equipment are funded through an internal service fund and are recorded as "Contribution to the County of Los Angeles." For the year ended June 30, 2002, "Contribution to the County of Los Angeles" from the District's general fund is \$1,551,000.

During the course of its operations, the District has numerous transactions with the other funds of the County in order to finance operations, provide services, purchase assets and apportion property taxes. To the extent that certain transactions between the District and these funds had not been paid or received as of June 30, 2002, the net balances of interfund amounts receivable or payable have been recorded in the accounts Due From or Due To the County of Los Angeles.

Notes to the Basic Financial Statements
June 30, 2002

On April 16, 1990, the District entered into a cost-sharing agreement with the County relative to the Public Works Headquarters Building (the "Building"). The agreement provides for the County to make rental payments to the District in exchange for its occupancy of the Building. Furthermore, the County has agreed to pay for its proportionate share of the Building's operating costs. For the year ended June 30, 2002, County rental payments to the District totaled \$4,674,000.

The District issued certificates of participation in 1987 that were subsequently defeased and replaced with refunding bonds in August 1993 to acquire the Building (see Note 6). The District's management has no intention of selling the Building. However, in the event the Building were to be sold, the proceeds of the sale in excess of any outstanding indebtedness would be shared by the District and the County in proportion to each entity's share of the Building's cost.

4. CASH AND INVESTMENTS

Pooled Cash and Investments

As provided for by the Government Code, certain cash balances of the District are pooled and invested by the County Treasurer and are subject to withdrawal from the pool upon demand. As of June 30, 2002, the District's share of the total pooled cash and investments, included in the Statement of Net Assets and Combined Balance Sheet under "pooled cash and investments", was \$116,643,000, which represents approximately .94% of the total pool. The "pooled cash and investments" reported on the Statement of Fiduciary Net Assets was \$3,918,000.

Interest earned on pooled investments is deposited monthly based upon the average daily deposit balance during the allocation period. Investment gains and losses are proportionately shared by the entities participating in the pool, as an increase or reduction in interest earnings. The unrealized gain on the District's proportionate share of investments held in the Treasury Pool was \$291,000 as of June 30, 2002. Statutes authorize the pool to invest in obligations of the United States Treasury, federal agencies, municipalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, negotiable certificates of deposit, floating rate notes, repurchase agreements and reverse repurchase agreements.

The investments are managed by the County Treasurer, who reports on a monthly basis to the Board of Supervisors. In addition, the function of the County Treasurer Oversight Committee is to review and monitor the County's investment policy. The Committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Superintendent of Schools, Chief Administrative Officer, and a non-County representative.

Notes to the Basic Financial Statements
June 30, 2002

GASB Statement No. 3 exempts participating entities from classifying their pool investments in categories of credit risk. Credit risk information for the entire County Treasury Pool is presented in Note 4 to the County of Los Angeles Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2002.

5. CAPITAL ASSETS

In conjunction with the implementation of GASB 34, capital assets reported within governmental activities have been restated from amounts previously reported in the General Fixed Assets Account Group. The specific changes consisted of an increase in capital assets, reclassification of capital assets between categories, and the recognition of accumulated depreciation.

A summary of changes to capital assets, the total of which is recorded in the government-wide statements is shown on the following page (in thousands):

	<u>Balance July 1, 2001 as restated</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2002</u>
<u>Governmental Activities</u>				
Capital Assets, not depreciated:				
Land	\$ 3,872	\$ 229	\$ (48)	\$ 4,053
Construction in Progress-Buildings and Improvements	765	112		877
Construction in Progress-Infrastructure	<u>31,126</u>	<u>31,126</u>		<u>31,126</u>
Subtotal	4,637	31,467	(48)	36,056
Capital Assets, depreciated:				
Buildings and improvements	63,575	1,053		64,628
Equipment	1,626		(32)	1,594
Infrastructure	<u>7,759</u>	<u>7,759</u>		<u>7,759</u>
Subtotal	65,201	8,812	(32)	73,981
Less accumulated depreciation:				
Buildings and improvements	16,730	1,138		17,868
Equipment	1,433	45	(32)	1,446
Infrastructure	<u>740</u>	<u>740</u>		<u>740</u>
Subtotal	18,163	1,923	(32)	20,054
Total capital assets, depreciated, net	\$ <u>47,038</u>	<u>6,889</u>	<u>0</u>	\$ <u>53,927</u>
Total capital assets, net	\$ <u>51,675</u>	<u>38,356</u>	<u>(48)</u>	\$ <u>89,983</u>

Notes to the Basic Financial Statements
June 30, 2002

Depreciation Expense

Depreciation expense was charged to functions/programs of Flood Control District as follows:

Governmental activities:		
Public Protection	\$	1,891
Total depreciation expense, governmental activities	\$	<u>1,891</u>

6. LONG-TERM OBLIGATIONS

Long-term obligations of the District consist of general obligation bonds, capital construction and refunding bonds, and other liabilities.

General Obligation Bonds

Pursuant to the Los Angeles County Flood Control Act and voter approval, the District is authorized to issue bonds. The proceeds from the sale of bonds were used for the construction of storm drain systems. Revenue for retirement of such bonds is provided from ad valorem taxes on property within the District. The District's general obligation bonds outstanding at June 30, 2002, are summarized as follows (in thousands):

\$252,000 authorized 1970, \$252,000 issued; due in annual installments through 2008; interest at 4.0% to 8.5%	\$13,720
\$60,000 refunding bonds authorized 1993, \$50,290 issued; due in annual installments through 2006; interest at 2.5% to 5.15%	<u>3,255</u> <u>\$16,975</u>

Aggregate debt service requirements on the general obligation bonds as of June 30, 2002, are as follows (in thousands):

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 6,776	\$ 757
2004	5,285	485
2005-2008	<u>6,578</u>	<u>422</u>
Total	<u>\$18,639</u>	<u>\$1,664</u>

Capital Construction and Refunding Bonds

In August 1993, the Los Angeles County Public Works Financing Authority issued \$238,695,000 in capital construction and refunding bonds with interest at 4.5% to 7.9%. The capital construction and refunding bonds are secured by installment purchase payments, which are unconditional obligations of the District. Aggregate

Notes to the Basic Financial Statements
June 30, 2002

maturity of capital construction and refunding bonds as of June 30, 2002, are as follows (in thousands):

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2003	\$18,424	\$ 7,854
2004	18,427	7,358
2005-2009	92,123	28,058
2010-2014	76,141	10,325
2015-2017	<u>7,287</u>	<u>672</u>
Total	<u>\$158,135</u>	<u>\$54,267</u>

Changes in Long-term Liabilities

The following is a summary of long-term liabilities for the fiscal year ended June 30, 2002 (in thousands):

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u> <u>(Deletions)</u>	<u>Maturities</u>	<u>Balance</u> <u>June 30, 2002</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	\$191,887		\$(16,777)	\$175,110	\$16,584
Liabilities (note 7)	<u>851</u>	<u>7,995</u>	<u>(5,335)</u>	<u>3,511</u>	<u>3,511</u>
Total	<u>\$192,738</u>	<u>\$7,995</u>	<u>\$(22,112)</u>	<u>\$178,621</u>	<u>\$20,095</u>

7. RISK MANAGEMENT

The District has programs for public liability and property damage. There have been no settlements related to these programs that exceeded insurance coverage during the 2001-02 fiscal year. The District retains the risk for all loss exposure in excess of insurance coverage. Expenditures are accounted for in the fund whose operations resulted in the loss. Claims, and expenditures and liabilities are reported when it is probable that a loss has been incurred and the amount of that loss, including those incurred but not reported, can be reasonably estimated. The District utilizes actuarial studies, historical data, and individual claims reviews to estimate these liabilities.

As of June 30, 2002, the District's best estimate of these liabilities is \$3,511,000. Changes in the reported liability since June 30, 2000 resulted from the following (in thousands):

	<u>Beginning of</u> <u>Fiscal Year</u> <u>Liability</u>	<u>Current Year</u> <u>Claims and</u> <u>Changes</u> <u>in Estimate</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at</u> <u>Fiscal</u> <u>Year-End</u>
2000-01	72	1,767	(988)	851
2001-02	851	7,995	(5,335)	3,511

Notes to the Basic Financial Statements
June 30, 2002

In addition to the above estimated liabilities, the County has determined that claims seeking damages of approximately \$2,527,000 are possible of creating an adverse judgment against the County. Because of the uncertainty of their outcome, no loss has been accrued for these claims.

8. PROPOSITION 218

In November 1996, the voters approved the "Right to Vote on Taxes Act" (Proposition 218) which limits the District's ability to levy additional property related benefit assessments without owner approval. In September 1998, the Board of Supervisors approved ordinance amendments to bring the County's general purpose taxes into conformance with proposition 218. The District's existing benefit assessments are exempt under Proposition 218. However, any future increases to property related benefit assessments may be subject to property owner approval.

9. SUBSEQUENT EVENT

On January 7, 2003, the Board of Supervisors authorized the issuance of Los Angeles County Public Works Financing Authority Refunding Revenue Bonds, Series 2003A to refund the outstanding balance of the Los Angeles County Public Works Financing Authority 1993 Capital Construction and Refunding Bonds. On January 30, 2003, the Los Angeles County Public Works Financing Authority issued \$143,195,000 in Refunding Revenue Bonds. The County projects that the refunding of the existing bonds will reduce annual payments of the District by a minimum of 3% based on current market rates.

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL ON BUDGETARY BASIS
GENERAL FUND AND DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2002 (IN THOUSANDS)

	GENERAL FUND				DEBT SERVICE FUNDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	OVER (UNDER)	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	OVER (UNDER)
REVENUES:								
Taxes	\$ 55,605	59,534	59,626	92	5,761	5,761	6,992	1,231
Licenses and permits	600	600	731	131				
Fines, forfeitures and penalties	1,557	1,557	1,474	(83)	89	89	44	(45)
Interest/Investment income	6,000	6,000	4,323	(1,677)	217	217	155	(62)
Rents and royalties	6,127	6,127	6,248	121				
Intergovernmental revenues:								
Federal	17,544	17,544	1,329	(16,215)				
State	2,000	2,000	1,502	(498)				
Other	1,120	1,120	1,984	864			2	2
Charges for services	110,508	110,508	107,002	(3,506)				
Miscellaneous	860	860	1,061	201				
TOTAL REVENUES	201,921	205,850	185,280	(20,570)	6,067	6,067	7,193	1,126
EXPENDITURES:								
Current:								
Services and supplies	180,823	187,428	185,221	(2,207)				
Other charges	20,985	24,200	24,200					
Debt Service:								
Principal					6,665	6,665	6,665	
Interest					1,051	1,051	1,050	(1)
Fixed Asset/Capital outlay	20,289	20,764	3,033	(17,731)				
TOTAL EXPENDITURES	222,097	232,392	212,454	(19,938)	7,716	7,716	7,715	(1)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(20,176)	(26,542)	(27,174)	(632)	(1,649)	(1,649)	(522)	1,127

Continued...

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL ON BUDGETARY BASIS
 GENERAL FUND AND DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2002 (IN THOUSANDS)

	GENERAL FUND				DEBT SERVICE FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	OVER (UNDER)	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	OVER (UNDER)
OTHER FINANCING SOURCES (USES)								
Sales of fixed assets	200	200	206	6				
Transfers out	(2,416)	(2,416)	(1,551)	865				
Appropriation for contingencies		(3,929)		3,929	(224)	(224)		224
Changes in reserves and designations	4,000	14,295	20,375	6,080	519	519	519	
OTHER FINANCING SOURCES (USES) NET	1,784	8,150	19,030	10,880	295	295	519	224
NET CHANGE IN FUND BALANCE	(18,392)	(18,392)	(8,144)	10,248	(1,354)	(1,354)	(3)	1,351
FUND BALANCE, JULY 1, 2001 AS RESTATEMENT	18,392	18,392	18,392	-	1,354	1,354	1,354	-
FUND BALANCE, JUNE 30, 2002	\$ -	-	10,248	10,248	-	-	1,351	1,351

Notes to Required Supplementary Information
June 30, 2002

1. Budgetary Data

In accordance with the provisions of Section 29000-29144 of the Government Code of the State of California (the "Government Code"), commonly known as the County Budget Act, a District budget is adopted on or before August 30 for each fiscal year. Budgets are adopted for the General Fund and the Debt Service Fund on a basis of accounting which is different from generally accepted accounting principles ("GAAP").

For budgetary purposes, outstanding commitments related to construction contracts and other purchases of goods and services are recorded as expenditures at the time contracts or purchase agreements are entered into. Under the GAAP basis, these obligations are only recognized when goods are received or services are rendered. Obligations for litigation and self-insurance claims are recognized under the budgetary basis when they become due and payable. Under the GAAP basis, these items are recognized as expenditures if they become due and payable within one year of the balance sheet date.

Investment income includes the effect of changes in the fair value of investment. For budgetary purposes, investment income is recognized prior to the effect of such fair value changes. Note 2 indicate specific differences between the two bases of accounting as of June 30, 2002.

Expenditures are controlled at the object level for all District budgets, except for fixed asset expenditures, which are controlled at the sub-object level. There were no excesses of expenditures over the related appropriations within any fund at June 30, 2002.

Encumbrances, which are commitments related to executory contracts for goods or services, are recorded for budgetary control purposes in the General Fund and Capital Projects Fund. Encumbrance accounting is utilized to assure effective budgetary control and accountability. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately expected to result if the unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end and encumbrances outstanding at that time are reported as reservations of fund balances for subsequent year expenditures (see Note 8).

Any excess of budgeted expenditures and other financing uses over revenue and other financing sources is financed by beginning available fund balance as provided for in the County Budget Act.

Notes to Required Supplementary Information
June 30, 2002

2. BUDGETARY ACCOUNTING CHANGES/RECONCILIATION BETWEEN BUDGETARY BASIS AND GAAP

During the current year, the District modified the format of the budgetary financial statement to include all reserves and designations as uses of budgetary financial resources. In previous years such uses of budgetary financial resources only included the outstanding reserves for encumbrances. The change in format is consistent with the County’s budgetary accounting policies and presents budgetary fund balances in a manner that is consistent with the County Budget. As a result of the change beginning budgetary fund balances have been restated from amounts previously reported.

The District's Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual on Budgetary Basis for the governmental funds has been prepared on the budgetary basis of accounting which is different from GAAP.

The amounts presented for the governmental fund statements are based on the modified accrual basis of accounting and differ from the amounts presented on a budgetary basis of accounting. The following schedule is a reconciliation of the budgetary and GAAP fund balances as of June 30, 2002 (in thousands):

	General Fund	Debt Service Fund
Fund Balance – Budgetary Basis	\$10,248	\$1,351
Reserves and Designations	111,618	519
Subtotal	121,866	1,870
Adjustments:		
Change in		3,064
Change in Revenue Accruals	(4,479)	
Fund Balance – GAAP Basis	\$ 117,387	\$ 4,934