COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

January 18, 2005

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

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY FLOOD CONTROL DISTRICT FOR THE YEAR ENDED JUNE 30, 2004**

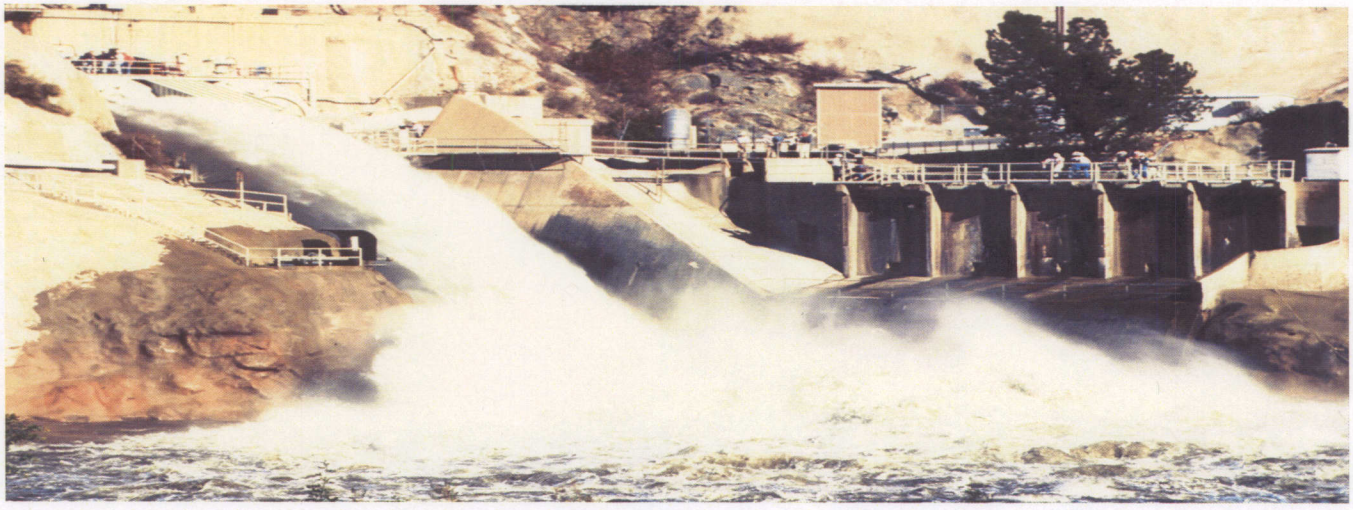
Pursuant to Government Code Section 26909, we contracted with Simpson & Simpson, Certified Public Accountants to independently audit the financial statements of the Los Angeles County Flood Control District (District) for the year ended June 30, 2004. A copy of the full report is attached.

Simpson & Simpson noted no material weaknesses involving the District's internal controls over financial reporting and concluded that the District's financial statements are presented fairly in conformity with accounting principles generally accepted in the United States of America and State regulations governing special districts.

JTM:MMO:TK
Attachments

c: David E. Janssen, Chief Administrative Officer
Donald L. Wolfe, Acting Director, Department of Public Works
Violet Varona-Lukens, Executive Officer, Board of Supervisors
Public Information Officer
Audit Committee

Los Angeles County ♦ Flood Control District



Annual Financial Report
Fiscal Year Ended June 30, 2004
Interim Director Donald L. Wolfe

SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
CARL P. SIMPSON, CPA

3600 WILSHIRE BOULEVARD, SUITE 1710
LOS ANGELES, CA 90010
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

To the County of Los Angeles Board of Supervisors

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited the financial statements of the governmental activities and each major fund of the Los Angeles County Flood Control District (District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 23, 2004. 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 basic 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County of Los Angeles Board of Supervisors and the District's management and is not intended to be and should not be used by anyone other than these specified parties.

Simpson & Simpson

Los Angeles, California
December 23, 2004

CPA℠
The CPA. Never Underestimate The Value.℠

BOARD OF SUPERVISORS

Don Knabe, Chairman
Fourth District

Gloria Molina
First District

Zev Yaroslavsky
Third District

Yvonne B. Burke
Second District

Michael D. Antonovich
Fifth District

Violet Varona-Lukens
Executive Officer
Board of Supervisors

CONTRIBUTING COUNTY OFFICIALS

Donald L. Wolfe
Interim Director of Public Works

David E. Janssen
Chief Administrative Officer

J. Tyler McCauley
Auditor-Controller

Mark J. Saladino
Treasurer and Tax Collector

Raymond G. Fortner, Jr.
County Counsel

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT

Annual Financial Report
Fiscal Year Ended June 30, 2004

Table of Contents

	Page
Independent Auditor's Report	Preface
Management's Discussion and Analysis (Required Supplementary Information)	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Fiduciary Net Assets	20
Statement of Changes in Assets and Liabilities (Fiduciary Funds)	21
Notes to the Basic Financial Statements	22
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual on Budgetary Basis--General and Debt Service Funds	36
Notes to Required Supplementary Information	38

SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
CARL P. SIMPSON, CPA

3600 WILSHIRE BOULEVARD, SUITE 1710
LOS ANGELES, CA 90010
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

To the County of Los Angeles Board of Supervisors

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Los Angeles County Flood Control District (District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis identified in the accompanying table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Simpson & Simpson

Los Angeles, California
December 23, 2004

CPA℠
The CPA. Never Underestimate The Value.℠

LOS ANGELES COUNTY
FLOOD CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Los Angeles County Flood Control District (District) financial performance provides a narrative overview and analysis of the District's financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements, notes, and supplementary information.

The District is a component of a larger governmental unit, the County of Los Angeles (County). 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 on 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 $142 million.

During the year, the District's net assets increased by $49 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 $118 million. The amount of unreserved and undesignated fund balance was $8 million.

The District's capital assets balance, $154 million at year-end, increased by $33 million during the year. Infrastructure assets are reflected only to the extent that they were acquired since July 1, 2001. Retroactive infrastructure reporting has been deferred until future years as discussed on pages 27 and 28.

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 are comprised of the following three components:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-wide Financial Statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on 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 may serve as an indicator of whether its financial health is improving or deteriorating.

The Statement of Activities presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that affect cash flows in future periods. For example, property tax revenues have been recorded that have been earned but not yet collected and workers' compensation expenses have been accrued but not yet paid.

The Government-wide Financial Statements of the District report on one category, governmental activities, as the District has no business-type activities or discreetly presented component units that the District is financially accountable for.

Governmental Activities - All of the District's basic services are included here. Property taxes and benefit assessments finance almost all of the District's Flood Control activities.

FUND FINANCIAL STATEMENTS

The Fund Financial Statements are designed to 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 and show the balances remaining at year-end that are available for spending. The Governmental Funds Statements provide a detailed short-term view that helps readers determine whether there are more or fewer financial resources that can be spent in the near future on the District's activities. Because this information does not encompass the additional long-term focus of the government-wide statements, we show the relationship between governmental activities and governmental funds using the reconciliations on pages 16 and 19 and 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 District's Agency funds are reported in this fund category using the accrual basis of accounting.

NOTES TO THE 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 the Fund Financial Statements. The notes can be found beginning on page 22 of this report.

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the District's budget and actual revenues and expenditures on a budgetary basis. The RSI can be found on pages 36 through 39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A comparative analysis of government-wide data is available and presented under the reporting model required by Governmental Accounting Standards Board (GASB) Statement No. 34. The District does not have business-type activities to report.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $142 million at the close of the most recent fiscal year (see Table 1).

Table 1

Summary of Net Assets
As of June 30, 2003 and 2004
(in thousands)

	Governmental Activities	
	2004	2003
Current and other assets	$143,593	$137,320
Capital assets	153,945	120,663
Total assets	$297,538	$257,983
Current and other liabilities	$ 13,271	$ 7,729
Long-term liabilities	141,989	156,999
Total liabilities	155,260	164,728
Net assets:		
Invested in capital assets, net of related debt	16,000	(33,487)
Restricted net assets	3,313	4,769
Unrestricted net assets	122,965	121,973
Total net assets	142,278	93,255
Total liabilities and net assets	$297,538	$257,983

Capital Assets, Net of Related Debt

The District's capital assets, net of related debt, are $16 million. This reflects an increase of $49 million over the previous year (negative $33 million). The increase resulted from the purchase of infrastructure assets ($33 million) and payment of debt ($16 million). As discussed below, the District has not yet recorded 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, 2004, the District reported Bonds Payable of $138 million that were related to unrecorded infrastructure assets. Accordingly, this category of net assets will continue to be significantly less until the District records the retroactive infrastructure assets associated with the outstanding debt.

The District began to capitalize newly acquired infrastructure assets during the 2001-02 fiscal year in accordance with GASB 34. However, infrastructure assets acquired prior to July 1, 2001, are not yet reflected in the financial statements. The District is in the process of evaluating infrastructure assets that were acquired in prior years to ensure that they are reported by the year ending June 30, 2006, as required by GASB 34 for government agencies with annual revenues of $100 million or more.

Restricted Net Assets

The District's restricted net assets at year-end were $3 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, $123 million, may be used to meet the District's ongoing financial requirements.

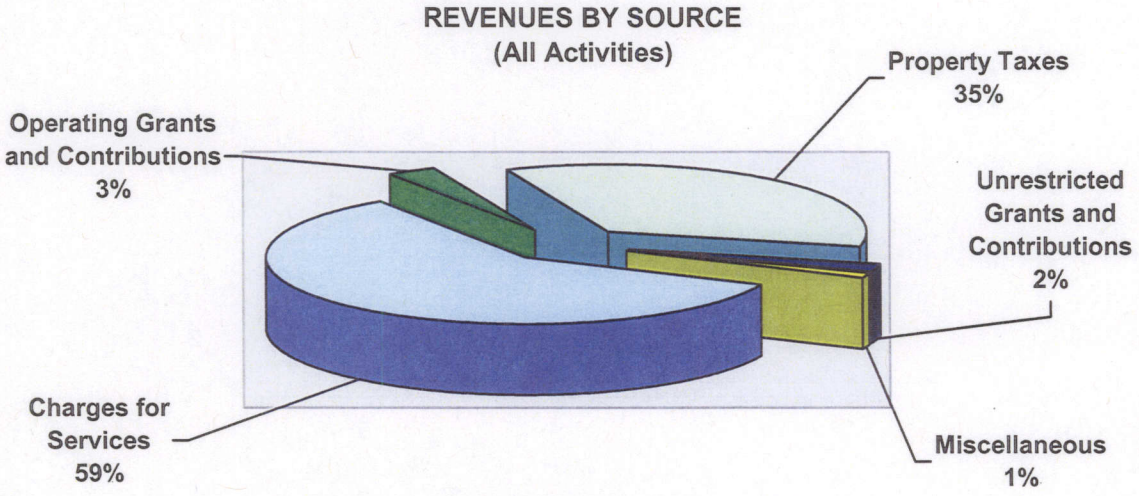
Governmental Activities

Table 2 indicates the changes in net assets for the governmental activities.

Table 2

Summary of Changes in Net Assets
For the Years Ended June 30, 2003 and 2004
(in thousands)

	Governmental Activities	
	2004	2003
Revenues:		
Program revenues:		
Charges for services	$120,566	$123,053
Operating grants and contributions	5,600	1,194
Capital grants and contributions	533	1,448
General revenues:		
Property taxes	72,723	69,518
Unrestricted grants and contributions	3,197	3,042
Investment earnings	957	2,183
Miscellaneous	2,269	8,001
Total revenues	$205,845	$208,439
Expenses:		
Public protection	$149,317	$148,450
Contributions to Los Angeles County	1,306	903
Interest on long-term debt	6,199	9,293
Total expenses	$156,822	$158,646
Changes in net assets	$ 49,023	$ 49,793
Net assets – beginning	93,255	43,462
Net assets – ending	$142,278	$ 93,255



The District's net assets increased by $49 million during the fiscal year. Following are the major factors that contributed to the net asset changes:

- Revenues from governmental activities decreased by $3 million (1%) over the prior year. The most significant changes in revenue were experienced in the following areas:

  - Charges for services were $2 million (2%) lower than the previous year due to previous year's receipt of a reimbursement from the City of Redondo Beach for the Greenflag Drain project.

  - Operating grants and contributions were $4 million (369%) higher than the previous year due to reimbursements received from the Federal Emergency Management Agency (FEMA) for the 1994 Earthquake Disaster and 1993 Storm Disaster projects and the District headquarters seismic retrofit project.

  - Property taxes were $3 million (5%) higher than the previous year, which is consistent with the ongoing growth in the real estate market and continued upward trends in Los Angeles County's assessed property values within the District.

  - Investment earnings decreased by $1 million (56%) as a result of the decrease in the yield from the County's Treasury Pool from 2.16% in the previous year to 1.37% in the current year. The District deposits all cash receipts in the County's Treasury Pool and the County manages the day-to-day investments of the District.

- Miscellaneous revenues were $6 million (72%) lower than the previous year. This is mainly due to: (1) previous year's recognition of a $5 million premium on the revenue refunding bonds issued on January 1, 2003 (issuance and redemption costs were offset against a premium of $8.5 million for a net increase of $5 million), and (2) previous year's transfer of $2 million from the County General Fund to the District for refurbishment costs of the District's headquarters. The decreases from the previous year were partially offset by the current year's net gain on sale of easements and revenue from sale of electricity from the San Gabriel Hydroelectric Plant to the Southern California Edison Company.

- Governmental activity expenses remained at about the same level as the previous year with the exception of interest on long-term debt. Interest on long-term debt decreased by $3 million due to scheduled debt service payments.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Types of governmental funds reported by the District include the General, Debt Service, and Capital Projects Funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported a combined fund balance of $121 million, an increase of $1 million from the previous year's fund balance. The current year-end fund balance consists of $94 million in reserves to indicate the extent that the funds have been committed or are otherwise unavailable for spending and $19 million in designations have been set aside for specific infrastructure improvements. The remaining $8 million is unreserved and undesignated and is available for spending for flood control purposes.

Revenues from the District's governmental funds, primarily the General Fund, were $206 million, an increase of $4 million (2%) from the previous year. The benefit assessment revenue, included as charges for services, of $109 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 $73 million. Property taxes increased $3 million (4%) over the previous year. Together, these two revenue sources account for 88% of total revenues for all the governmental funds. Expenditures for the governmental funds totaled $204 million, decreasing by $10 million (5%) from the previous year. In the current year, revenues for governmental activities exceeded expenditures by $2 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgetary Summary – Revenues/Financing Sources

Table 3 is a summary of current year budgetary changes and actual results for the District's General Fund revenues and other financing sources (in thousands).

Table 3

Category	Increase (Decrease) From Original Budget	Final Budget Amount	Actual Amount	Variance - Positive (Negative)
Taxes	$4,864	$ 68,190	$ 69,036	$ 846
Intergovernmental revenues	-	18,484	9,331	(9,153)
Charges for services	-	110,927	111,392	465
All other revenues	-	15,259	12,802	(2,457)
Other sources and transfers	-	150	708	558
Long-term debt proceeds	-	10,152	-	(10,152)
Changes in reserves/designations	-	-	5,003	5,003
Total	$4,864	$223,162	$208,272	$(14,890)

Changes from Amounts Originally Budgeted

During the year, the budgeted tax revenues were increased by $5 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.

Actual Revenues/Financing Source Compared With Final Budget Amounts

Actual revenues and other financing sources recognized by the District's General Fund were $15 million less than budget. The variance mainly resulted from the following:

- A delay in the reimbursements from FEMA for the District headquarters seismic retrofit project ($7 million) and from Caltrans for various projects ($2 million). It is anticipated that the construction phase of the District headquarters seismic retrofit project will commence next fiscal year, and the FEMA reimbursement for this project will be rebudgeted then.
- Investment yield declined during the year. As mentioned previously, the County's Treasury Pool yields decreased from 2.16% in the previous year to 1.37% in the current year.

- Long-term debt proceeds ($10 million) not realized. The long-term debt proceeds will be rebudgeted next fiscal year to finance the construction phase of the District headquarters seismic retrofit project.
- Reserves totaling $5 million were decreased as a result of the cancellation of existing contracts and purchase orders, resulting in additional unreserved funds.

Budgetary Summary - Expenditures/Other Financing Uses

Table 4 is a summary of current year budgetary changes and actual results for the District's General Fund expenditures, contributions to Los Angeles County, and contingencies (in thousands).

Table 4

Category	Increase (Decrease) From Original Budget	Final Budget Amount	Actual Amount	Variance - Positive
Public Protection	-	$227,635	$204,450	$23,185
Contributions to Los Angeles County	-	2,118	1,306	812
Contingencies	4,864	5,995	-	5,995
Total	$4,864	$235,748	$205,756	$29,992

Changes from Amounts Originally Budgeted

During the year, the District's General Fund contingencies were increased by $5 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 $30 million lower than budgeted. The variance in the public protection category resulted from changes in the District's project schedule that occurs as a result of various circumstances that delay the award of a project for construction. Project delays are anticipated and an inventory of projects is kept to replace projects that remain in the planning stage or are delayed. The majority of the variance in public protection resulted from the delay in the: (1) construction phase of the District headquarters seismic retrofit project ($17 million), (2) construction phase of the Eaton Yard improvement project ($2 million), and (3) District headquarters refurbishment project ($1 million).

Contributions to Los Angeles County were $1 million less than budgeted. The variance is a result of the contribution actually needed from the District to the County for

equipment purchases. The District provides a residual equity transfer annually to the County to finance new equipment purchases that are owned by the County and utilized by the District for flood control activities.

Contingency appropriations of $6 million were not utilized. The amount budgeted in this account was not eligible to be spent. The contingency appropriations were 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 June 30, 2004, the District had $154 million invested in capital assets including land, buildings and improvements, infrastructure, and equipment (see Table 5).

The District's capital assets increased $33 million (27%) from the prior fiscal year:

Table 5

Changes in Capital Assets, Net of Depreciation (in thousands)

	Current Year	Prior Year	Increase (Decrease)
Land	$ 4,438	$ 4,438	$ 0
Buildings and improvements (B&I)	44,757	45,908	(1,151)
Infrastructure	54,140	38,875	15,265
Equipment	281	116	165
Construction-in-progress - B&I	2,941	2,314	627
Construction-in-progress - infrastructure	47,388	29,012	18,376
Total	$153,945	$120,663	$33,282

Current year infrastructure costs were capitalized for projects that remained in progress at the end of the year. The value of construction-in-progress at June 30, 2004, was $47 million and the value will remain classified within the Construction-in-Progress category until the assets are completed.

This year's infrastructure asset additions of $18 million were as follows (assets addition values are shown before depreciation is deducted):

Channel Improvements

- Puddingstone Channel – Invert Access Ramp @ Canyon View Drive ($175,000)
- Tujunga Wash Central Bridge ($157,000)
- Santa Clara River – Invert Access Ramps @ PD T771, PD T832, and PD T911 ($347,000)
- Triunfo Creek/PDT 728 – Invert Access Ramp @ U/S Lindero Canyon ($124,000)
- Forbes Spreading Grounds – Rubber Dam ($377,000)
- Los Cerritos Channel ($363,000)
- Flood Maintenance Channel Landscape Improvements – West Area ($368,000)

Dam Improvement

- Big Dalton Dam ($192,000)

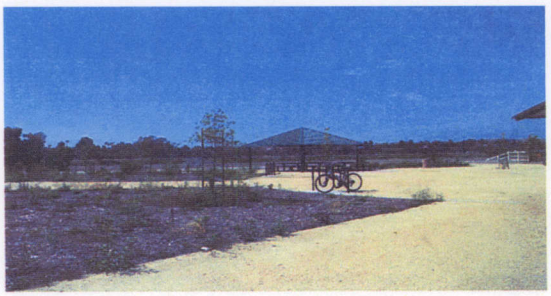
San Gabriel & Rio Hondo Coastal Basin Spreading Ground

Debris Basin

- Verdugo Debris Basin Enlargement ($539,000)

Flood Pump Plant

- Alamitos Bay Pump Plant ($346,000)


Rio Hondo Coastal Basin Spreading Ground

Flood Spreading Grounds

- San Gabriel & Rio Hondo Coastal Basin Spreading Ground ($2,908,000)
- Rio Hondo Coastal Basin Spreading Ground ($420,000)

Storm Drain Improvements

- Baldwin Park Drain ($2,300,000)
- Project No. 3650, Lines D, E, and F ($1,001,000)
- Valleydale School Drain ($1,237,000)
- Temple Avenue, Sunkist Avenue, and Amar Road Drains ($3,005,000)
- Bond Issue 527, Line A & Private Drain 502, Line A and B ($564,000)
- Colorado Lagoon, Marine Stadium, and Branford Pit ($1,065,000)
- Project 504 Line E, Project 411 Line B, and Ince Boulevard Drain ($420,000)
- Various storm drain improvement projects ($2,408,000)

Project No. 3650

Debt Administration

At June 30, 2004, the District had $138 million in long-term debt. The District's long-term debt consisted of $6 million in voter-approved general obligation bonds and $132 million in revenue bonds. The District's long-term debt decreased by $16 million (10%) 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 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, please contact the District's Financial Management Branch at the Department of Public Works, 900 South Fremont Avenue, 7th Floor, Alhambra, California 91803-1331.

Thomas A. Tidemanson
Public Works Headquarters

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004 (in thousands)

		GOVERNMENTAL ACTIVITIES
ASSETS		
Pooled cash and investments (Notes 1 and 3)		$ 119,002
Advances to other funds		6,712
Other investments (Note 3)		2
Taxes receivable		15,393
Interest receivable		308
Other receivables		2,176
Capital assets: (Notes 1 and 4)		
Land and construction-in-progress	$ 54,767	
Other capital assets, net of depreciation	99,178	
Total capital assets		153,945
TOTAL ASSETS		297,538
LIABILITIES		
Accounts payable		7,379
Accrued interest payable		1,861
Deferred revenue		4,031
Noncurrent liabilities: (Notes 5 and 7)		
Due within one year		20,105
Due in more than one year		121,884
TOTAL LIABILITIES		155,260
NET ASSETS		
Invested in capital assets, net of related debt		16,000
Restricted for:		
Capital projects		101
Debt service		3,212
Unrestricted		122,965
TOTAL NET ASSETS		$ 142,278

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

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004 (in thousands)

	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Total Governmental Activities
Governmental activities:					
Public protection	$ 149,317	120,566	5,600	533	$ (22,618)
Contributions to Los Angeles County	1,306				(1,306)
Interest on long-term debt	6,199				(6,199)
Total	$ 156,822	120,566	5,600	533	(30,123)
General revenues:					
Property taxes					72,723
Grants and contributions not restricted to special programs					3,197
Investment earnings					957
Miscellaneous					2,269
Total general revenues					79,146
Change in net assets					49,023
Net assets - July 1, 2003					93,255
Net assets - June 30, 2004					$ 142,278

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

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004 (in thousands)

	GENERAL	DEBT SERVICE	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
ASSETS:				
Pooled cash and investments (Notes 1 and 3)	$ 115,850	3,053	99	$ 119,002
Advances to other funds	6,712			6,712
Other investments (Note 3)			2	2
Taxes receivable	6,548	969		7,517
Interest receivable	301	7		308
Assessments receivable	7,876			7,876
Other receivables	2,176			2,176
TOTAL ASSETS	$ 139,463	4,029	101	$ 143,593
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$ 7,379			$ 7,379
Deferred revenue	14,339	759		15,098
TOTAL LIABILITIES	$ 21,718	759		$ 22,477
FUND BALANCES:				
Reserved for:				
Encumbrances	$ 87,511			$ 87,511
Other	3,008			3,008
Debt Service		3,270		3,270
Unreserved:				
Designated	19,478			19,478
Undesignated	7,748		101	7,849
TOTAL FUND BALANCES	$ 117,745	3,270	101	$ 121,116
TOTAL LIABILITIES AND FUND BALANCES	$ 139,463	4,029	101	$ 143,593

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

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004 (in thousands)

Fund balance of total governmental funds (page 15)		$ 121,116
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	$ 4,438	
Construction-in-progress	50,329	
Buildings and improvements - net	44,757	
Equipment - net	281	
Infrastructure - net	54,140	153,945
Other long-term assets are not available to pay for current-period expenditures and are deferred, or not recognized, in governmental funds:		
Deferred revenue		11,067
Accrued interest payable is not recognized in governmental funds		(1,861)
The following long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Bonds and notes payable	(137,945)	
Litigation/self insurance	(4,044)	(141,989)
Net assets of governmental activities (page 13)		$ 142,278

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

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004 (in thousands)

	GENERAL	DEBT SERVICE	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Taxes	$ 68,855	3,834		$ 72,689
Licenses and permits	231			231
Fines, forfeitures, and penalties	2,763	39		2,802
Interest	919	30	8	957
Rents and royalties	6,802			6,802
Intergovernmental revenues:				
Federal	5,240			5,240
State	1,695			1,695
Other	2,396			2,396
Charges for services	111,697			111,697
Miscellaneous	1,554			1,554
TOTAL REVENUES	202,152	3,903	8	206,063
EXPENDITURES:				
Current public protection:				
Services and supplies	176,207		60	176,267
Other charges	2,961	2		2,963
Principal		16,205		16,205
Interest		6,667		6,667
Capital outlay	2,168			2,168
TOTAL EXPENDITURES	181,336	22,874	60	204,270
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	20,816	(18,971)	(52)	1,793

Continued...

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS - Continued
FOR THE YEAR ENDED JUNE 30, 2004 (in thousands)

	GENERAL	DEBT SERVICE	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
OTHER FINANCING SOURCES (USES):				
Sales of capital assets	$ 708			$ 708
Transfers in		17,587		17,587
Transfers out	(17,521)		(66)	(17,587)
Contributions to Los Angeles County	(1,306)			(1,306)
OTHER FINANCING SOURCES (USES)	(18,119)	17,587	(66)	(598)
NET CHANGE IN FUND BALANCES	2,697	(1,384)	(118)	1,195
FUND BALANCE - BEGINNING	115,048	4,654	219	119,921
FUND BALANCE - ENDING	$ 117,745	3,270	101	$ 121,116

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

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
FOR THE YEAR ENDED JUNE 30, 2004 (in thousands)

Net change in fund balances - total governmental funds (page 18)		$ 1,195
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Expenditures for general capital assets, infrastructure and other related capital asset adjustments	$ 37,544	
Less - current year depreciation expense	(4,268)	33,276
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		6
Revenue timing differences result in less revenue in Government-wide Statements		(931)
Repayment of bond principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the Statement of Net Assets		16,205
Accrued interest for bonds payable; this is the net change in accrued interest for the current period		468
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		(1,196)
Change in net assets of governmental activities (page 14)		$ 49,023

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

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004 (in thousands)

	AGENCY FUNDS
ASSETS	
Pooled cash and investments (Notes 1 and 3)	$ 3,236
TOTAL ASSETS	$ 3,236
LIABILITIES	
Deposits payable	$ 3,236
TOTAL LIABILITIES	$ 3,236

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

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004 (in thousands)

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
TOTAL AGENCY FUNDS				
ASSETS				
Pooled cash and investments (Notes 1 and 3)	$ 3,175	2,827	(2,766)	$ 3,236
TOTAL ASSETS	**$ 3,175**	**2,827**	**(2,766)**	**$ 3,236**
LIABILITIES				
Deposits payable	$ (3,175)	(2,891)	2,830	$ (3,236)
TOTAL LIABILITIES	**$ (3,175)**	**(2,891)**	**2,830**	**$ (3,236)**

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

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. Its 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. District powers are exercised through the Los Angeles County Board of Supervisors (Board), which acts as the District's governing body. The duties of the Board include approving the District's budget, determining the District's tax rates, approving contracts, and determining when to issue bonds authorized by the voters of the District.

Reporting Entity

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 capital assets through the issuance of bonds.

Blended component units are entities 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. 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 blended component unit in the County financial reporting entity and is included in the County's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004. The financial resources and operations of the District are accounted for in the fund types 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

Financial reporting incorporates all GASB pronouncements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

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, except for fiduciary activities.

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. 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 nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Proceeds of long-term debt are recorded as a liability rather than as another 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.

Net assets are classified into the following three categories: (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted. Net assets are reported as restricted when their use has been constrained by externally imposed conditions. Such conditions include limitations imposed by creditors (such as through debt covenants), grantors, or laws or regulations of other governments. Net asset restrictions are also recognized when imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted net assets are available, restricted resources are used first and then unrestricted resources are used to the extent necessary.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Fund Financial Statements

The 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 operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures or expenses, as appropriate.

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

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

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

The District reports on 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

- Fiduciary Funds (Agency Funds)

  The Agency Funds are 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 become measurable and available to finance operations during the year. Secured and unsecured property taxes and benefit assessments estimated to be collectable in 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 accrued include licenses, permits, and miscellaneous revenues. Expenditures 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. Noncurrent portions of long-term receivables due from governmental funds are reported on the District's balance sheet and are offset by deferred revenue. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

As a result of its spending measurement focus, expenditure recognition for governmental fund types excludes transactions involving noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as another 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 State's Government Code and Revenue and Taxation Code. Property is assessed at full cash or market value (with some exceptions). Pursuant to such legislation, the Board levies a property tax to support general operations of the various jurisdictions (ad valorem tax). This tax is limited to one percent (1%) of full cash value of property and collections are distributed 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 the 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 is delinquent with penalties after December 10; the second is due February 1 and is delinquent with penalties after April 10. Secured property taxes which are 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Benefit Assessments

The District, as authorized by the State's 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, is levied in proportion to benefits received and determined on the basis of the proportionate stormwater 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 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 improvements, equipment, and infrastructure, are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

Capital outlays are recorded as expenditures of the General and Capital Project Funds and as assets in the government-wide financial statements to the extent the District'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 values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital 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	10 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, 2001, is effective. As a result, the governmental activities column in the accompanying government-wide financial statements as of June 30, 2004, does not reflect infrastructure assets obtained or completed prior to July 1, 2001. The accompanying government-wide financial statements include infrastructure assets that were capitalized as of July 1, 2001. Infrastructure assets are depreciated upon completion. A schedule of capital assets is presented in Note 4.

2. 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 services to the District. 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, 2004, the County's billings to the District's General Fund approximated $87,092,000. Costs associated with shared equipment that are

2. TRANSACTIONS WITH THE COUNTY-Continued

funded through the Department of Public Works Internal Service Fund are recorded in the District's financial statements as "Contribution to the County of Los Angeles." For the year ended June 30, 2004, this contribution from the District's General Fund was $1,306,000.

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, 2004, the net balances of interfund amounts receivable or payable have been converted to cash for financial statement presentation.

On April 16, 1990, the District entered into a cost-sharing agreement with the County relative to the Public Works headquarters building. The agreement provides for the County to make rental payments to the District in exchange for its occupancy of the headquarters. Furthermore, the County has agreed to pay for its proportionate share of the headquarters' operating costs. For the year ended June 30, 2004, County rental payments to the District totaled $4,620,000.

The District issued certificates of participation in 1987 to acquire the headquarters. These certificates of participation were defeased and replaced with refunding bonds in August 1993. The 1993 refunding bonds were refunded in January 2003 (see Note 5). The District's management has no intention of selling the headquarters. However, in the event the headquarters 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 headquarters' cost.

3. 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, 2004, the District's share of the total pooled cash and investments included in the Statement of Net Assets and Balance Sheet under "pooled cash and investments" was $119,002,000, which represents approximately 0.80% of the total pool. The "pooled cash and investments" reported on the Statement of Fiduciary Net Assets was $3,236,000.

3. CASH AND INVESTMENTS-Continued

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 net unrealized loss on the District's proportionate share of investments held in the Treasurer's Pool was $352,000 as of June 30, 2004. 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.

Investments are managed by the County Treasurer, who provides status reports on a monthly basis to the Board. In addition, the County Treasury Oversight Committee reviews and monitors the County's investment policy. The Committee membership includes the Treasurer and Tax Collector, Auditor-Controller, Superintendent of Schools, Chief Administrative Officer, and a non-County representative.

GASB Statement No. 3 exempts participating entities from classifying their pool investments in categories of credit risk. Credit risk information for the entire County Treasurer Pool is presented in Note 4 to the County of Los Angeles Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004.

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004, is as follows (in thousands):

Governmental Activities	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets, not depreciated:				
Land	$ 4,438			$ 4,438
Construction-in-progress - buildings and improvements	2,314	629	(2)	2,941
Construction-in-progress - infrastructure	29,012	30,850	(12,474)	47,388
Subtotal	**35,764**	**31,479**	**(12,476)**	**54,767**
Capital assets, being depreciated:				
Buildings and improvements	64,925			64,925
Equipment	1,588	274	(43)	1,819
Infrastructure	42,096	18,316		60,412
Subtotal	**108,609**	**18,590**	**(43)**	**127,156**
Less accumulated depreciation:				
Buildings and improvements	19,017	1,151		20,168
Equipment	1,472	101	(35)	1,538
Infrastructure	3,221	3,051		6,272
Subtotal	**23,710**	**4,303**	**(35)**	**27,978**
Total capital assets, being depreciated, net	**84,899**	**14,287**	**(8)**	**99,178**
Total capital assets, net	**$120,663**	**45,766**	**(12,484)**	**$153,945**

Depreciation Expense

Depreciation expense was charged to functions/programs of the Flood Control District as follows (in thousands):

Governmental activities:	
Public protection	$ 4,303
Total depreciation expense, governmental activities	**$ 4,303**

5. LONG-TERM OBLIGATIONS

Long-term obligations of the District consist of general obligation bonds, capital construction and refunding bonds, and other liabilities (Note 7).

General Obligation Bonds

Pursuant to the Los Angeles County Flood Control Act and subject to 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, 2004, are summarized as follows (in thousands):

$252,000 authorized 1970, $252,000 issued; due in annual installments through 2008; interest at 4.0% to 8.2%	$5,600
$60,000 refunding bonds authorized 1993, $50,290 issued; due in annual installments through 2006; interest at 2.6% to 5.15%	555
	$6,155

Aggregate debt service requirements to maturity of general obligation bonds as of June 30, 2004, are as follows (in thousands):

	Governmental Activities	
Year Ending June 30	Principal	Interest
2005	$ 3,890	$ 269
2006	1,185	103
2007	710	43
2008	370	9
Total	$ 6,155	$ 424

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, maturing on various dates between 2004 and 2017, with an average interest rate of 3.34%. These bonds were issued to refund the outstanding principal amount of $147,565,000 of capital construction and refunding bonds issued in 1993 at an interest rate of 5%.

5. LONG-TERM OBLIGATIONS-Continued

The District's capital construction and refunding bonds outstanding at June 30, 2004, are summarized as follows (in thousands):

$143,195 issued in 2003; due in annual installments through 2017; average interest at 3.34%	$131,790

Aggregate maturity of capital construction and refunding bonds as of June 30, 2004, are as follows (in thousands):

	Governmental Activities	
Year Ending June 30	Principal	Interest
2005	$ 12,175	$ 5,407
2006	12,475	5,102
2007	12,860	4,728
2008	13,245	4,342
2009	13,740	3,845
2010-2014	62,905	9,027
2015-2017	4,390	370
Total	$131,790	$32,821

Changes in Long-Term Obligations

The following is a summary of long-term obligations for the fiscal year ended June 30, 2004 (in thousands):

	Balance July 1, 2003	Additions (Deletions)	Maturities	Balance June 30, 2004	Due Within One Year
Bonds Payable	$154,150		(16,205)	$137,945	$16,065
Other Liabilities (Note 7)	2,849	1,195		4,044	4,040
Total	$156,999	1,195	(16,205)	$141,989	$20,105

6. INTERFUND TRANSACTIONS

Interfund transfers were made during the year from the General and Capital Projects Funds to the Debt Service Fund in accordance with long-term debt covenants. Interfund transfers to/from other funds for the year ended June 30, 2004, are as follows (in thousands):

Transfer From	Transfer To	Amount
General Fund	Debt Service Fund	$17,521
Capital Projects Fund	Debt Service Fund	66
Total		$17,587

7. RISK MANAGEMENT

The District has programs to address public liability and property damage. There have been no settlements related to these programs that exceeded insurance coverage during Fiscal Year 2003-04. The District bears the risk for all loss exposure in excess of insurance coverage. Claims 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, 2004, the District's best estimate of these probable judgment liabilities is $4,044,000. Changes in the reported liability since June 30, 2002, resulted from the following (in thousands):

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimate	Claim Payments	Balance at Fiscal Year-End
2002-03	$3,511	$3,578	($4,240)	$2,849
2003-04	$2,849	$4,058	($2,863)	$4,044

8. PROPOSITION 218

In November 1996, 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 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 EVENTS

State Water Resources Control Board

On September 3, 2003, the Board authorized the settlement of a lawsuit on behalf of the District against the State Water Resources Control Board and the Regional Water Quality Control Board that challenged the adoption of total maximum daily loads (TMDLs) which set a discharge limit of zero trash in the Los Angeles River and Ballona Creek and Wetland. However, that settlement was effectively made void as a result of a tentative judicial order that required the State to redraft the TMDL discharge limit requirements. The State subsequently filed an appeal challenging

9. SUBSEQUENT EVENTS- Continued

the judicial order; the case is currently under consideration by the appeals court. The TMDL requirements cited in the lawsuit for the Los Angeles River and Ballona Creek and Wetland are only a small portion (of the 92 TMDL requirements) with which the District will soon need to comply. Currently, there are five TMDLs in effect in the County, at least two TMDLs are expected to become effective in 2005, and several more are being developed by the Regional Board. The District is currently taking measures to comply with the current and forthcoming TMDL requirements. The overall financial impact of these programs on the District will be significant.

San Gabriel Dam and Reservoir Post-Fire Sediment Removal

On October 21, 2003, the Board approved a project and adopted the plans to address the sediment removal related to the 2002 fire damage in the Angeles National Forest. On March 16, 2004, the Board awarded a $34,170,000 five-year contract for the sediment removal project. The District funded $10 million of the contract in Fiscal Year 2003-04 and will fund the remainder of the contract over the next 3 ½ to 5 years.

State Budget

The State's final budget for Fiscal Year 2004-05 includes a $1.3 billion annual diversion of local property tax revenues for the benefit of the State General Fund. The District will be diverting $5.9 million annually in property tax revenues to the State for the next two fiscal years beginning with Fiscal Year 2004-05. This diversion is part of a broader agreement that was on the November 2004 Statewide Ballot as Proposition 1A. The proposition was approved in the November 2004 election and, along with the diversion provision, it also provides for limits on future State diversions of property taxes. At this time, the impact of further State budget curtailments and their impact to the District have not been determined.

REQUIRED SUPPLEMENTARY INFORMATION
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, 2004 (in thousands)

	GENERAL FUND				DEBT SERVICE FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
REVENUES:								
Taxes	$ 63,326	$ 68,190	$ 69,036	$ 846	$ 2,846	$ 2,846	$ 3,802	$ 956
Licenses and permits	550	550	231	(319)				
Fines, forfeitures, and penalties	1,318	1,318	2,763	1,445	14	14	39	25
Interest/Investment income	5,000	5,000	1,452	(3,548)	57	57	48	(9)
Rents and royalties	8,181	8,181	6,802	(1,379)				
Intergovernmental revenues:								
Federal	12,563	12,563	5,240	(7,323)				
State	4,169	4,169	1,695	(2,474)				
Other	1,752	1,752	2,396	644				
Charges for services	110,927	110,927	111,392	465				
Miscellaneous	210	210	1,554	1,344				
TOTAL REVENUES	207,996	212,860	202,561	(10,299)	2,917	2,917	3,889	972
EXPENDITURES:								
Current - public protection:								
Services and supplies	184,395	183,813	180,513	(3,300)				
Other charges	21,303	21,071	20,482	(589)				
Capital assets	21,937	22,751	3,455	(19,296)				
Debt Service:								
Principal					4,803	4,803	4,803	
Interest					485	485	485	
TOTAL EXPENDITURES	227,635	227,635	204,450	(23,185)	5,288	5,288	5,288	
REVENUES OVER/(UNDER) EXPENDITURES	(19,639)	(14,775)	(1,889)	12,886	(2,371)	(2,371)	(1,399)	972

Continued...

REQUIRED SUPPLEMENTARY INFORMATION
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 - Continued
FOR THE YEAR ENDED JUNE 30, 2004 (in thousands)

	GENERAL FUND				DEBT SERVICE FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL ON BUDGETARY BASIS	VARIANCE FROM FINAL BUDGET OVER (UNDER)
OTHER FINANCING SOURCES (USES):								
Sales of fixed assets	$ 150	$ 150	$ 708	$ 558				
Transfers out	(2,118)	(2,118)	(1,306)	812				
Long-term debt proceeds	10,152	10,152		(10,152)				
Appropriation for contingencies	(1,131)	(5,995)		5,995	$ (109)	$ (109)		$ 109
Changes in reserves and designations			5,003	5,003	1,041	1,041	1,041	
OTHER FINANCING SOURCES (USES)-NET	7,053	2,189	4,405	2,216	932	932	1,041	109
NET CHANGE IN FUND BALANCE	(12,586)	(12,586)	2,516	15,102	(1,439)	(1,439)	(358)	1,081
FUND BALANCE, JULY 1, 2003	12,586	12,586	12,586		1,439	1,439	1,439	
FUND BALANCE, JUNE 30, 2004	$ -	$ -	$ 15,102	$ 15,102	$ -	$ -	$ 1,081	$ 1,081

See accompanying notes to required supplementary information.

1. BUDGETARY DATA

In accordance with the provisions of Section 29000-29144 of the State's Government Code, commonly known as the County Budget Act, a District budget must be 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). Note 2 indicates specific differences between the two bases of accounting as of June 30, 2004. The major areas of difference are as follows:

- Under the budgetary basis, designations are recorded as other financing uses at the time they are established. Although designations are not legal commitments, the District recognizes them as uses of budgetary fund balance. Designations that are subsequently cancelled or otherwise made available for appropriation are recorded as other financing sources.

- Under the budgetary basis, encumbrances and other reserves are also recorded as other financing uses at the time they are established. For encumbrances, this occurs 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. Other reserves are also recognized as other financing uses to indicate that certain assets are not available for appropriation. Cancellations of encumbrances and other fund balance reserves are recorded as other financing sources for budgetary purposes.

- Under the budgetary basis, property tax revenues are recognized to the extent that they are collectible within one year after year-end. Under the GAAP basis, property tax revenues are recognized only to the extent that they are collectible within 60 days.

- Under the GAAP basis, investment income includes the effect of changes in the fair value of investment. Under the budgetary basis, investment income is recognized prior to the effect of such fair value changes.

Expenditures are controlled at the object level for all District budgets, except for fixed asset expenditures, which are controlled at the subobject level. Expenditures did not exceed the related appropriations within any fund at June 30, 2004.

Encumbrances are set aside appropriations related to purchase orders or contracts for goods or services and are recorded to assure budgetary control and accountability in the General Fund and Capital Projects Fund. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately expected to result if the unperformed purchase orders or contracts in process at year-end are completed. Encumbrances outstanding at year-end do not

1. BUDGETARY DATA-Continued

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 2).

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.

2. RECONCILIATION BETWEEN BUDGETARY BASIS AND GAAP

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 (GAAP) of accounting and differ from the amounts presented on the budgetary basis of accounting. The following schedule is a reconciliation of the budgetary and GAAP basis fund balances as of June 30, 2004 (in thousands):

	General Fund	Debt Service Fund
Fund Balance – Budgetary Basis	$ 15,102	$1,081
Reserves and Designations	109,997	2,206
Subtotal	125,099	3,287
Adjustments:		
Change in Accounts Payable Accruals	(2,538)	
Change in Revenue Accruals	(4,816)	(17)
Fund Balance – GAAP Basis	$117,745	$3,270