

Audit – Part III

See Part IV

CITY OF AGOURA HILLS
Notes to Financial Statements (Continued)
June 30, 2004

The City maintains a cash and investment pool for the general operation of the City. Each fund type's portion of the pool is reported on the combined balance sheet as Cash and Investments. Interest earned on pooled cash and investments is distributed quarterly to each fund based upon each funds proportionate share of the pool.

The City has monies held by trustees or fiscal agents pledged to the payment or security of certain bonds. The California Government Code provides these monies, in the absence of specific statutory provisions governing the issuance of bonds, may be invested in accordance with the ordinance, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions and indentures are generally more restrictive than the City's general investment policy.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., short-term interfund loans) or as "advances to/from other funds" (i.e., long-term interfund loans).

Property tax revenue is recognized when susceptible to accrual in the accounting period in which taxes are measurable and available. Property taxes are considered available by the City if they are collected within 60 days after year end. There is no allowance for uncollectibles. Assessed valuations are determined on an annual basis by the Los Angeles County Assessor. Taxes attach as an enforceable lien on property as of January 1, are levied on July 1, are due November 1 and February 1, and are delinquent if not paid by December 10 and April 10 of each year.

3. Deposits

Self insurance deposits to the California Joint Powers Authority and certain payments to other vendors represent prepaid items that apply to the 2004-05 accounting period.

4. Land Held for Resale

Land held for resale is carried at the lower of cost or estimated realizable value. Fund balances are reserved in amounts equal to the carrying value of land held for resale because such assets are not available to finance the City's current operations.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the governmental activities columns in the government-wide financial statements. Capital assets are valued at historical cost or estimated historical cost of purchased or constructed. Donated capital assets are valued at their estimated fair value

CITY OF AGOURA HILLS
Notes to Financial Statements (Continued)
June 30, 2004

on the date donated. Capital assets subject to lease obligations are valued at the present value of future lease payments at the inception of the lease. Depreciation of all exhaustible capital assets used by governmental activities is charged as an expense against their operations. Accumulated depreciation is reported on the statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method over the following estimated useful lives:

| | |
|-------------------------------------|-------------|
| Buildings and building improvements | 50 years |
| Vehicles | 7-15 years |
| Machinery | 5-30 years |
| Equipment | 5-15 years |
| Infrastructure | 20-50 years |

Capitalization of capital assets shall be based on the following with a minimum value as follows:

| | |
|-------------------------------------|----------|
| Buildings and building improvements | \$25,000 |
| Vehicles, machinery, & equipment | 10,000 |
| Infrastructure | 25,000 |

6. Vacation and Compensatory Time (Compensated Absences)

The City records compensated absences (unpaid vacation, management leave, holiday comp, and compensatory time) in governmental funds as expenditures in the year paid, as it is the City's policy to liquidate any unpaid compensated absences at June 30 from future resources, rather than currently available financial resources. Accordingly, the entire unpaid liability for governmental funds at June 30, 2004 is recorded as a long-term liability.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

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

CITY OF AGOURA HILLS
Notes to Financial Statements (Continued)
June 30, 2004

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The City is required to adopt an annual budget resolution for the General Fund and Special Revenue Funds. Generally annual budgets are not adopted for the Capital Projects Funds and the Debt Service Fund. All annual appropriations lapse at year end.

The budget is prepared by fund, function and activity, and includes actual information for the past year, current year estimates and requested appropriations for the next fiscal year. The budget is a statement of the goals and objectives of the City for that fiscal year. The budget provides management control at the functional departmental level. The City Manager may authorize the transfer of funds within the same department. Responsible individuals review progress against their budget each month. The City Council considers supplemental budget amendment requests during the year and reviews changes at mid year and year end.

B. Deficit Fund Balances:

The fund which has a deficit fund balance at June 30, 2004 is as follows:

| | |
|-----------------------|--------------------|
| Special Revenue Fund: | |
| Highway Construction | <u>\$ (91,383)</u> |

The City plans to remove the deficit in the Highway Construction Fund through transfers from the General Fund, developer fees and additional grant revenue from other governmental agencies.

III. Detailed Notes on all Funds

A. Cash and Investments

Cash and investments at June 30, 2004 consisted of the following:

| | |
|------------------------------|----------------------|
| Cash on Hand | \$ 800 |
| Pooled Deposits: | |
| Demand Deposits | 113,965 |
| Investments: | |
| Pooled: | |
| Local Agency Investment Fund | <u>28,346,370</u> |
| Total Cash and Investments | <u>\$ 28,461,135</u> |

CITY OF AGOURA HILLS
Notes to Financial Statements (Continued)
June 30, 2004

Deposit / Credit Risk:

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging governmental securities as collateral. The market value of pledged securities must equal at least 110% of deposits. California law further allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a market value of 150% of the City's total deposits. The City may waive collateral requirements for deposits which are fully insured by Federal depository insurance.

Deposits as of June 30, 2004, are classified into three categories of credit risk:

Category 1: Insured or collateralized with securities held by the City or by its agent in the City's name;

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name; and

Category 3: Uncollateralized.

Under provisions of the City's investment policy, and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments.

- Securities of the U.S. Government or its Agencies
- Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan companies
- Commercial Paper of "prime" quality
- Local Agency Investment Fund (LAIF State Pool)
- Mutual Funds
- Annuity Contracts

| | Category | | | Carrying Amount |
|----------------------------|-------------------|-------------------|-------------|--------------------|
| | 1 | 2 | 3 | |
| Pooled deposits: | | | | |
| Demand accounts: | | | | |
| Bank balance | \$ 100,000 | \$ 127,912 | \$ | \$ 227,912 |
| Plus: Deposit in transit | | | | 22,275 |
| Less: Outstanding warrants | | | | (136,222) |
| | <u>\$ 100,000</u> | <u>\$ 127,912</u> | <u>\$ -</u> | <u>\$ 113,965</u> |

CITY OF AGOURA HILLS
Notes to Financial Statements (Continued)
June 30, 2004

Investments as of June 30, 2004, are classified into three categories of credit risk:

- Category 1: Insured or registered in the City's name, or securities held by the City or its agent in the City's name;
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name. (e.g., securities purchased from a bank and held by that bank in safekeeping, or by its trust department or agent, but not in the City's name).

California municipalities may invest in the State Treasurer's Local Agency Investment Fund (Pool) which is secured by the underlying securities of the Pool. This investment is not categorized as it is not evidenced by physical or book entry securities.

| | Category | | | Fair Value |
|---|----------|------|------|------------------------------|
| | 1 | 2 | 3 | |
| Investments: | | | | |
| State of California Local Agency Investment Fund ⁽¹⁾ | | | | \$ 28,346,370 ⁽²⁾ |
| Total Investments | \$ - | \$ - | \$ - | \$ 28,346,370 |

⁽¹⁾ Not subject to categorization.

⁽²⁾ The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

CITY OF AGOURA HILLS
Notes to Financial Statements (Continued)
June 30, 2004

B. Capital Assets

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

A summary of changes in capital asset activity for the year ended June 30, 2004 is as follows:

| <u>Governmental Activities:</u> | <u>July 1, 2003</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2004</u> |
|---|----------------------|---------------------|---------------------|----------------------|
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 7,455,020 | | \$ (722,357) | \$ 6,732,663 |
| Construction in Progress | 283,533 | \$ 2,973,704 | | 3,257,237 |
| Total Capital Assets, Not Being Depreciated | <u>7,738,553</u> | <u>2,973,704</u> | <u>(722,357)</u> | <u>9,989,900</u> |
| Capital Assets, Being Depreciated: | | | | |
| Buildings and Improvements | 8,398,960 | | | 8,398,960 |
| Leased Equipment | 54,870 | | | 54,870 |
| Vehicles | 188,926 | 22,820 | | 211,746 |
| Infrastructure | 51,116,560 | 226,678 | | 51,343,238 |
| Total Capital Assets, Being Depreciated | <u>59,759,316</u> | <u>249,498</u> | | <u>60,008,814</u> |
| Less: Accumulated Depreciation For: | | | | |
| Buildings and Improvements | 220,889 | 167,980 | | 388,869 |
| Leased Equipment | 10,974 | 10,974 | | 21,948 |
| Vehicles | 84,122 | 26,433 | | 110,555 |
| Infrastructure | 29,678,713 | 1,519,848 | | 31,198,561 |
| Total Accumulated Depreciation | <u>29,994,698</u> | <u>1,725,235</u> | | <u>31,719,933</u> |
| Total Capital Assets, Being Depreciated | <u>29,764,618</u> | <u>(1,475,737)</u> | | <u>28,288,881</u> |
| Governmental Activities Capital Assets | <u>\$ 37,503,171</u> | <u>\$ 1,497,967</u> | <u>\$ (722,357)</u> | <u>\$ 38,278,781</u> |

CITY OF AGOURA HILLS
Notes to Financial Statements (Continued)
June 30, 2004

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|---|----------------------------|
| Governmental Activities: | |
| General Government | \$ 179,518 |
| Public Works | 1,539,163 |
| Parks and Recreation | <u>6,554</u> |
| Total Depreciation Expense- Governmental Activities | <u><u>\$ 1,725,235</u></u> |

C. Interfund Receivables, Payables and Transfers

Due to/Due from

| | Due From General Fund |
|-----------------------------|-----------------------------|
| Due To | |
| Highway Construction | \$ 91,383 |
| Special Revenue Fund | <u>158</u> |
| Nonmajor Governmental Funds | <u><u>\$ 91,541</u></u> |

The general fund loaned the CDBG Fund \$158 and the Highway Construction Fund \$91,383 to cover the negative cash balance in these funds.

Interfund transfers

| | Transfers In | | | Totals |
|---------------------------|-----------------------------|-----------------------------|-----------------------------------|----------------------------|
| | Traffic Improvement | Redevelopment Fund | Nonmajor Governmental Funds | |
| Transfers Out | | | | |
| General Fund | \$ 493,543 | \$ 523,111 | \$ 722,357 | \$ 1,739,011 |
| Redevelopment Agency Fund | <u> </u> | <u> </u> | 292,376 | <u>292,376</u> |
| Totals | <u><u>\$ 493,543</u></u> | <u><u>\$ 523,111</u></u> | <u><u>\$ 1,014,733</u></u> | <u><u>\$ 2,031,387</u></u> |

CITY OF AGOURA HILLS
Notes to Financial Statements (Continued)
June 30, 2004

The purpose of transfers in and transfers out is to finance various programs or capital projects in accordance with budgetary authorizations. The transfer from the City to the Redevelopment Fund represents the City's financial support of agency costs.

D. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2004 was as follows:

| | <u>Balance</u> <u>July 1, 2003</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2004</u> | <u>Due within</u> <u>one year</u> |
|---|---------------------------------------|----------------------|-----------------------|--|--------------------------------------|
| Governmental activities | | | | | |
| Capital Lease Obligation - Office Equipment | \$ 35,718 | | \$ 7,581 | \$ 28,137 | \$ 8,416 |
| 1999 Lease Revenue Bonds | 9,395,000 | | 185,000 | 9,210,000 | 195,000 |
| Accrued Compensated Absences | <u>144,656</u> | <u>\$ 35,786</u> | <u>10,308</u> | <u>170,134</u> | |
| Total governmental long-term liabilities | <u>\$ 9,575,374</u> | <u>\$ 35,786</u> | <u>\$ 202,889</u> | <u>\$ 9,408,271</u> | <u>\$ 203,416</u> |

Lease Payable

The City entered into a capital lease agreement for the purchase of office equipment. Title transfers to the City at the termination of the lease in fiscal year 2006-07.

1999 Lease Revenue Bonds

On July 1, 1999, the Agoura Hills Public Financing Authority issued \$9,740,000 in 1999 Lease Revenue Bonds with rates ranging from 4.80% to 5.25%. Principal amounts in annual installments of \$185,000 to \$635,000 mature annually on June 1 of each year through 2029.

Employee Compensated Absences Payable

The City's policies relating to compensated absences are described in Note I.D.6. This liability will be paid in future years from future resources.

The annual requirements for long-term debt of the City's Governmental activities excluding compensated absences are as follows:

CITY OF AGOURA HILLS
Notes to Financial Statements (Continued)
June 30, 2004

| Fiscal Year Ending June 30 | Lease Payable | | Lease Revenue Bond | |
|------------------------------------|------------------|-----------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest |
| 2005 | \$ 8,416 | \$ 2,557 | \$ 195,000 | \$ 473,780 |
| 2006 | 9,344 | 1,629 | 205,000 | 464,420 |
| 2007 | 10,377 | 600 | 210,000 | 454,580 |
| 2008 | | | 220,000 | 444,500 |
| 2009 | | | 235,000 | 433,940 |
| 2010-2014 | | | 1,345,000 | 1,989,080 |
| 2015-2019 | | | 1,720,000 | 1,615,835 |
| 2020-2024 | | | 2,215,000 | 1,118,612 |
| 2025-2029 | | | 2,865,000 | 470,913 |
| Total Debt Service Payments | \$ 28,137 | \$ 4,786 | \$ 9,210,000 | \$ 7,465,660 |

E. Reserved Fund Balances

Reservations of fund balances represent amounts that are not appropriable or are legally segregated for a specific purpose.

Reserved fund balances at June 30, 2004 are as follows:

| | General Fund | Nonmajor Capital Projects Fund | Total |
|------------------------------------|-------------------|---|---------------------|
| Reserved for: | | | |
| Deposits and prepaids | \$ 153,486 | | \$ 153,486 |
| PEG capital grant | 43,250 | | 43,250 |
| Low/moderate income housing | | \$ 1,341,995 | 1,341,995 |
| Inclusionary housing in lieu | | 1,678,592 | 1,678,592 |
| Total Reserved Fund Balance | \$ 196,736 | \$ 3,020,587 | \$ 3,217,323 |

CITY OF AGOURA HILLS
Notes to Financial Statements (Continued)
June 30, 2004

IV. Other Information

A. Defined Benefit Pension Plan

Plan Description: The City of Agoura Hills contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 "P" Street, Sacramento, CA 95814.

Funding Policy: Participants are required to contribute 7% of their annual covered salary. The City makes the contributions required of the City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 2.49% of annual covered payroll for non-safety employees. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost: For the year ended June 30, 2004, the City's annual pension cost of \$177,249 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increase that vary by duration of service, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smooth market value). PERS unfunded actuarial accrued liabilities is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2004 was 17 years for remaining unfunded.

TREND INFORMATION FOR PERS

Schedule of Employer Contributions (\$ Amount in Thousands)

| <u>Fiscal Year</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|----------------------------------|--------------------------------------|-------------------------------|
| 6/30/02 | \$ 126 | 100% | \$ 0 |
| 6/30/03 | 139 | 100 | 0 |
| 6/30/04 | 177 | 100 | 0 |

CITY OF AGOURA HILLS
Notes to Financial Statements (Continued)
June 30, 2004

B. Self-Insurance and Contingent Liabilities

1. Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The City is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 91 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverages. The Authority's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a 9-member Executive Committee.

2. Self-Insurance Programs of the Authority

General Liability – Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). Six months after the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Costs are spread to members as follows: the first \$30,000 of each occurrence is charged directly to the member; costs from \$30,001 to \$750,000 are pooled based on a member's share of costs under \$30,000; costs from \$750,001 to \$5,000,000 are pooled based on payroll. Costs of covered claims above \$5,000,000 are currently paid by reinsurance. The protection for each member is \$50,000,000 per occurrence and \$50,000,000 annual aggregate.

Workers Compensation – The City also participates in the workers compensation pool administered by the Authority. Pool deposits and retrospective adjustments are valued in a manner similar to the General Liability pool. The City of Agoura Hills is charged for the first \$25,000 of each claim. Costs are pooled above that level to \$50,000. Costs from \$50,001 to \$100,000 per claim are pooled based on the member's losses under its retention level. Costs between \$100,001 and \$2,000,000 per claim are pooled based on payroll. Costs in excess of \$2,000,000 and \$5,000,000 are paid by excess insurance purchased by the Authority. Costs in excess of \$5,000,000 are pooled by the members based on payroll.

3. Purchased Insurance

Property Insurance – The City of Agoura Hills participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. The City is currently insured according to a schedule of covered property submitted by the City to the Authority. Total all-risk property insurance coverage is \$10,094,118. There is a \$5,000 per loss deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

CITY OF AGOURA HILLS
Notes to Financial Statements (Continued)
June 30, 2004

Earthquake and Flood Insurance – The City of Agoura Hills purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. The City property currently has earthquake protection in the amount of \$9,663,002. There is a deductible of 5% of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

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

4. Adequacy of Protection

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

5. Health Insurance

Health coverage is provided for all qualified full time employees by the Public Employees' Retirement System (PERS).

6. Other Post-Retirement Health Care Benefits

In addition to the pension benefits defined in Note IV.A, the City provides post-retirement health care benefits to all full time employees in accordance with the City's contract with the Public Employees' Retirement System (PERS) for participation in the State of California Public Employees' Medical and Hospital Care Act. The City's contribution for each retiree is the same as full time employees. These benefits will be financed on a "pay as you go basis." As of June 30, 2004, there were seven retired employees. The City expended \$40,493 for retiree health insurance during the fiscal year ended June 30, 2004.

C. Commitments/Operating Leases

The City has executed a ground lease with Saint Paul's Lutheran Church for a recreation facility site. This lease is for 20 years with options to extend for an additional 5 year period.

The following schedule lists future minimum lease payments for the recreation facility ground lease commitment:

CITY OF AGOURA HILLS
Notes to Financial Statements (Continued)
June 30, 2004

| <u>Year Ending</u> <u>June 30</u> | <u>Recreation</u> <u>Center</u> |
|--------------------------------------|------------------------------------|
| 2005 | \$ 19,420 |
| 2006 | 19,420 |
| 2007 | 20,391 |
| 2008 | 20,391 |
| 2009 | 20,391 |
| 2010 | <u>8,538</u> |
| Total Lease Payments | <u>\$108,551</u> |

The City contracts with the Los Angeles County Department of Public Works and Sheriff's Department to provide certain municipal services. During the year ended June 30, 2004, the City incurred expenditures of approximately \$211,914 and \$2,432,123 for Public Works and Public Safety services, respectively.

D. Joint Venture

On November 24, 1997, the Agoura Hills and Calabasas Community Center Authority (Authority) was created under a joint exercise of powers agreement. It was formed for the construction, furnishing, maintenance and operation of a Joint Recreation Center. The governing Board of Directors consists of one City Council Member from each City, two residents of each City appointed by City Council, and the President or a member of the Executive Board of the Alliance (a non profit organization formed for the sole purpose of raising funds for the Center). The City's participation in the joint venture is reported as Investment in Joint Venture, on the statement of net assets. The balance at June 30, 2004 was \$2,813,060.

Each City contributed money towards the construction of the Community Center, which was completed in March 2001. The Authority now oversees the operations and maintenance of the Community Center. The Cities of Agoura Hills and Calabasas will equally share in any profit or loss from operation of the Community Center. Authority financial statements are not available for the fiscal year ended June 30, 2004.

E. Home Rehabilitation Loan Program

During the year the City participated in a HOME rehabilitation loan program through the County of Los Angeles, administered with CDBG funds. The loan program offers qualified applicants a \$5,000 grant award and loan amount up to \$20,000 which is due to the City upon the sale or refinancing of the property. As of June 30, 2004, the City has outstanding loans in the amount of \$268,523. The City does not record these loans as loans receivable because the City owes the money back to the County when received. During the fiscal year ending June 30, 2004 the City had new loans in the amount of \$66,275.

CITY OF AGOURA HILLS
Notes to Financial Statements (Continued)
June 30, 2004

F. Contingency

Any claims for damages alleged against the City are referred to a claims adjuster through CJPIA. Management believes that there is minimal exposure to the City on these matters, and that no case, so reported, exceeds existing liability coverage.

There are certain legal actions pending against the City which have arisen in the normal course of operations. Management believes these matters will be covered by insurance; however, their outcome and financial effect on the City cannot presently be determined, and no provision for any potential liability or losses has been included in the financial statements as of June 30, 2004.

The ultimate resolution of these pending legal actions is not expected to have a material effect on the financial position of the City.

G. Commitment

The City and the Agency entered into a reimbursement agreement for services. The City estimated the Agency will be unable to pay the entire advance from available future revenues. Therefore, the additions to the advances have been reported as transfers. The balance at June 30, 2004 was \$11,544,306.

This page has been left blank intentionally.