



CITY OF LAGUNA HILLS

California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2010





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CITY MANAGER
Bruce E. Channing

ASSISTANT CITY MANAGER
Donald J. White

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CITY OF LAGUNA HILLS

GFOA CERTIFICATE OF ACHIEVEMENT
JUNE 30, 2009

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Cit of Laguna Hills
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



INTRODUCTORY SECTION



December 6, 2010

**Honorable Mayor and
Members of the City Council:**

The Comprehensive Annual Financial Report (CAFR) of the City of Laguna Hills for the fiscal year ended June 30, 2010, is submitted herewith. This report is published in accordance with local ordinance and State law requirements that financial statements be presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent public accounting firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the City of Laguna Hills. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. It is management's opinion that the data is accurate in all material aspects, is presented in a manner designed to fairly set forth the financial position and results of operations of the City, and contains all disclosures necessary to enable the reader to gain an understanding of the City's financial affairs. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, misuse, and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. Because the cost of internal controls should not exceed anticipated benefits, the object is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misrepresentation. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and

reliable in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds of the City, as well as the City as a whole.

The City's financial statements have been audited by Moss, Levy & Hartzheim, LLP, a public accounting firm fully licensed and qualified to perform audits of local government. The independent auditors concluded that there was a reasonable basis for rendering an unqualified opinion on the City's financial statements and that they present fairly, in all material respects, the financial condition of the City at the end of this fiscal year.

A narrative introduction, overview and analysis of the basic financial statements for the City for the fiscal year ended June 30, 2010, is discussed in the Management's Discussion and Analysis (MD&A), which immediately follows the independent auditors report. The MD&A is designed to complement this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE CITY OF LAGUNA HILLS

The City of Laguna Hills is located in South Orange County approximately 60 miles south of Los Angeles and 70 miles north of San Diego. Incorporated in 1991 under the laws of the State of California, it enjoys all the rights and privileges pertaining to "General Law" cities. The City is home to approximately 33,593 people and over 1,000 businesses.

The City of Laguna Hills operates under a Council-Manager form of government. Policymaking and legislative authority are vested in the City Council, which consists of a Mayor and a four-member Council. The Mayor is annually selected by the City Council from among its membership, and serves a one-year term. The governing Council is responsible, among other things, for passing the City's ordinances and operating resolutions, adopting the biennial budget, appointing commissions and committees, and hiring the City Manager.

The City contracts for selected municipal services utilizing agreements with other governmental entities, private firms and individuals. Police services are provided by the Orange County Sheriff's Department and fire services are provided through the Orange County Fire Authority, of which the City is a member.

Although the majority of the area in the City has a distinctive residential character, the City has a strong commercial base, specifically in the northern section of the City. This commercial area, or “Urban Village,” is anchored by the regional Laguna Hills Mall, the Oakbrook Village Shopping Center, and the Saddleback Memorial Medical Center. In addition, the area north of the Mall holds a complement of commercial and mixed-use industrial uses.

FACTORS AFFECTING FINANCIAL CONDITION

LOCAL ECONOMY

Since its incorporation in 1991, Laguna Hills has had a strong and well-diversified tax base. The tax base has performed well in good economic times and has helped the City weather slower economic conditions and recessions. As the lingering effects of the Great Recession—that began in December 2007 and ended in 2009—have continued to impact the nation, State, and region, this well diversified tax base has allowed the City to weather much of the economic storm. The impact of the Great Recession on local government revenues was worse than anticipated as the recession progressed so as to affect all sectors of the regional economy. While no governmental agencies escaped the impacts, some cities have certainly fared better than others. In 2009/2010, Laguna Hills still garnered a modest operating surplus in spite of a 5.6% decline in operating revenues over the previous fiscal year. This was managed by achieving a 3% decrease in operating expenditures and a 34% decrease in debt service over FY 2008/2009. Fortunately, signs of a recovery in the local tax base appeared in the first quarter of 2010/2011 with increases in sales tax and transient occupancy taxes.

Property taxes are also expected to make a rebound next year given a positive consumer price index and the end of the temporary Proposition 8 reductions imposed by the County Assessor over the last few years.

According to a recent Chapman University report, the following forecasts for 2011, should they hold true, will positively impact revenues in Laguna Hills:

- Personal Income +3.3%
- Taxable Sales +5.5%
- Consumer Price Index +2.9%

**LONG-TERM
FINANCIAL PLANNING**

The City utilizes an 8-Year Resource Allocation Plan that is specifically designed to project the City's operating and reserve policy ratios over an eight year forecast horizon. The target operating ratio for the current biennial budget period is 1.07 to 1 and the reserve policy minimum is 40%. The operating ratio for Fiscal Year 2009/2010 fell to 1.01, primarily due to the 5.6% decrease in operating revenues. However, the City successfully mitigated the lower revenue environment by lowering its operating expenditures and debt service payments by \$1,137,772. This resulted in an overall operating surplus of \$255,018. The City's unreserved General Fund ratio for the end of Fiscal Year 2009/2010 was at 40%.

**ACCOUNTING SYSTEM
AND BUDGETARY
CONTROLS**

In developing the City's accounting system, consideration was given to the adequacy of internal accounting controls, which are designed to provide reasonable, but not absolute, assurance in connection with: (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. All internal control evaluations occur within the above framework. We believe the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. Furthermore, the City maintains budgetary controls to ensure compliance with the legal provisions embodied in the annual appropriated budget approved by the City Council. The City Manager is authorized to transfer budgeted amounts within and between funds as deemed necessary in order to meet the City's needs. Revisions that exceed the appropriated budget must be approved by the City Council.

CASH MANAGEMENT

The City invests its temporary idle cash in investments authorized under the City's prevailing Investment Resolution and Policies, which are reviewed and approved annually by the City Council. These policies are significantly more restrictive than State law, limiting investments to a maturity of one year or less. At the present time, the City's investments are invested in the Local Agency Investment Fund (LAIF), fully insured or collateralized certificates of deposit with qualified banks, and U.S. Treasury money market funds.

CAPITAL ASSETS

Generally, only assets which cost \$5,000 or more and which have a useful life of five years or more are considered capital assets. This designation is extensively discussed in the City's Internal Control Policies and Procedures for Capital Assets and Minor Equipment, which were developed for the City's compliance with the requirements with GASB 34. The City also utilizes a computerized asset-tracking program using a scanning device to update inventory records periodically.

MAJOR INITIATIVES

The following details the various initiatives of the City of Laguna Hills in 2009/2010:

**BOND
REFINANCING**

The City successfully refinanced the 2001 and 2003 Certificates of Participation with a bond closing in January 2010. The refinancing yielded a present value savings of 6.075%, or \$1,072,242. During the course of this refinancing, Standard & Poor's issued a credit ratings upgrade for the City of Laguna Hills. After a review of the City's financial condition and current budget, Standard & Poor's upgraded the AA- rating of the City's outstanding debt to AA+. This upgrade recognizes the City's historically strong financial management and fiscal policies and the City's ability to address future problems.

**COMMUNITY CENTER
FACILITY FEE STUDY**

As part of the City's approved Major Plans, the Community Services Department completed a comprehensive analysis of the City's athletic fees and outdoor amenities. The fee studies included an in-depth cost recovery analysis, as well as a comparison of the rates of surrounding cities, and resulted in an increase in certain user category rental rates.

IMPLEMENTATION OF
GENERAL PLAN

Following last year's approval of the City's first major General Plan Update since 1994, the City continues working diligently to address many of the implementation plans identified in the General Plan. Specifically, an amendment to the Urban Village Specific Plan is currently underway that recognized new development authorized by the newly updated General Plan. The amendment to the Urban Village Specific Plan will be completed this upcoming year. Additionally, the updated Housing Element incorporated in the General Plan received official approval by the State Department of Housing and Community Development this past February.

URBAN VILLAGE
DEVELOPMENT
PROJECT

The Urban Village is anchored by the regional Laguna Hills Mall and includes the Oakbrook Village Shopping Center. Both areas have plans in the pipeline for extensive renovations that incorporate mixed-uses (housing/retail). Over the next few years, the Mall will undergo a series of changes as it moves away from smaller shop space to larger tenant spaces and restaurants, such as last year's opening of the Elephant Bar restaurant. Essentially, the owners are positioning the Mall as a "Lifestyle" Center. The owners of the Oakbrook Village Shopping Center continue to work with the City to create a redevelopment plan for the Center. The redevelopment plan will include the development of new retail and new residential units. Lastly, the closure of the Circuit City resulted in a great deal of interest in the site. Ultimately, Ashley's Furniture purchased the property for \$11.4 million this past January. The new owners are examining a number of possibilities that incorporate new additional space and a new restaurant pad.

LA PAZ WIDENING AT
INTERSTATE 5

The La Paz Widening at Interstate 5 project was approved by the City Council on May 2010. Caltrans recently approved the project with a slight modification in the plans and the City Council gave its final approval to the modified plans on September 2010. This \$7.6 million project includes a number of safety and traffic flow improvements such as the widening and addition of off- and on-ramp lanes, modifying traffic signals, and landscape improvements. The City has successfully acquired \$4.7 million in Federal funding for the project, in addition to \$1.15 million of Measure M funds. Construction on the project is expected to begin in March 2011 and will take nine months to complete.

CAPITAL PROJECTS COMPLETED

The City continues to be committed to job-creating infrastructure project for two reasons: 1) local public investment functions as local economic stimulus; and 2) construction costs have gone down significantly. Over the past year, the City completed the following projects:

- The Moulton Parkway Pavement Rehabilitation from Via Lomas to Glenwood Drive, which included repair of curbs and sidewalks, new access ramps, removal and replacement of deteriorated pavement, placement of a paving fabric and a new asphalt concrete overlay.
- The Laguna Hills Drive Pavement Rehabilitation from Moulton Parkway to Paseo de Valencia, which included repair of curbs and sidewalks, median curb construction, sleeves for future irrigation, new access ramps, placement of a paving fabric and a new asphalt concrete overlay.
- The completion of the signal coordination between Alicia Parkway and of La Paz Road constructed physical connections between the existing isolated traffic signals and installed coordination equipment to create a signal system that would allow each roadway to be synchronized for traffic flow improvements.

AFFORDABLE HOUSING RENOVATION

Over the past six years, the City has been awarded Community Development Block Grant (CDBG) funds totaling over \$1,900,000 that has resulted in the partial rehabilitation of more than 130 affordable housing units for very low, low, and moderate income households in the City. In 2010, the City was awarded \$200,000 to renovate homes in the 248-unit Aliso Meadows Condominium Association.

AWARDS AND ACKNOWLEDGEMENTS

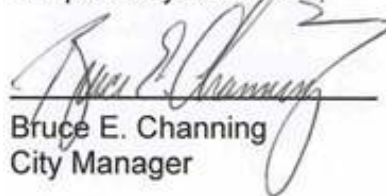
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Laguna Hills for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009. This was the seventeenth consecutive year the City has received this prestigious award. The certificate is a national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards, and must satisfy both generally accepted accounting principles and applicable legal requirements.

The City also received the GFOA Distinguished Budget Presentation Award for its 2009-11 biennial budget document. To qualify for the GFOA award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

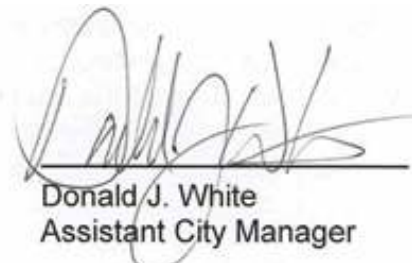
The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Administrative Services Department.

In closing, without the effective leadership, guidance, and support provided by the City Council, preparation of this report, as well as the favorable financial results of the past year, would not have been possible.

Respectfully submitted,



Bruce E. Channing
City Manager

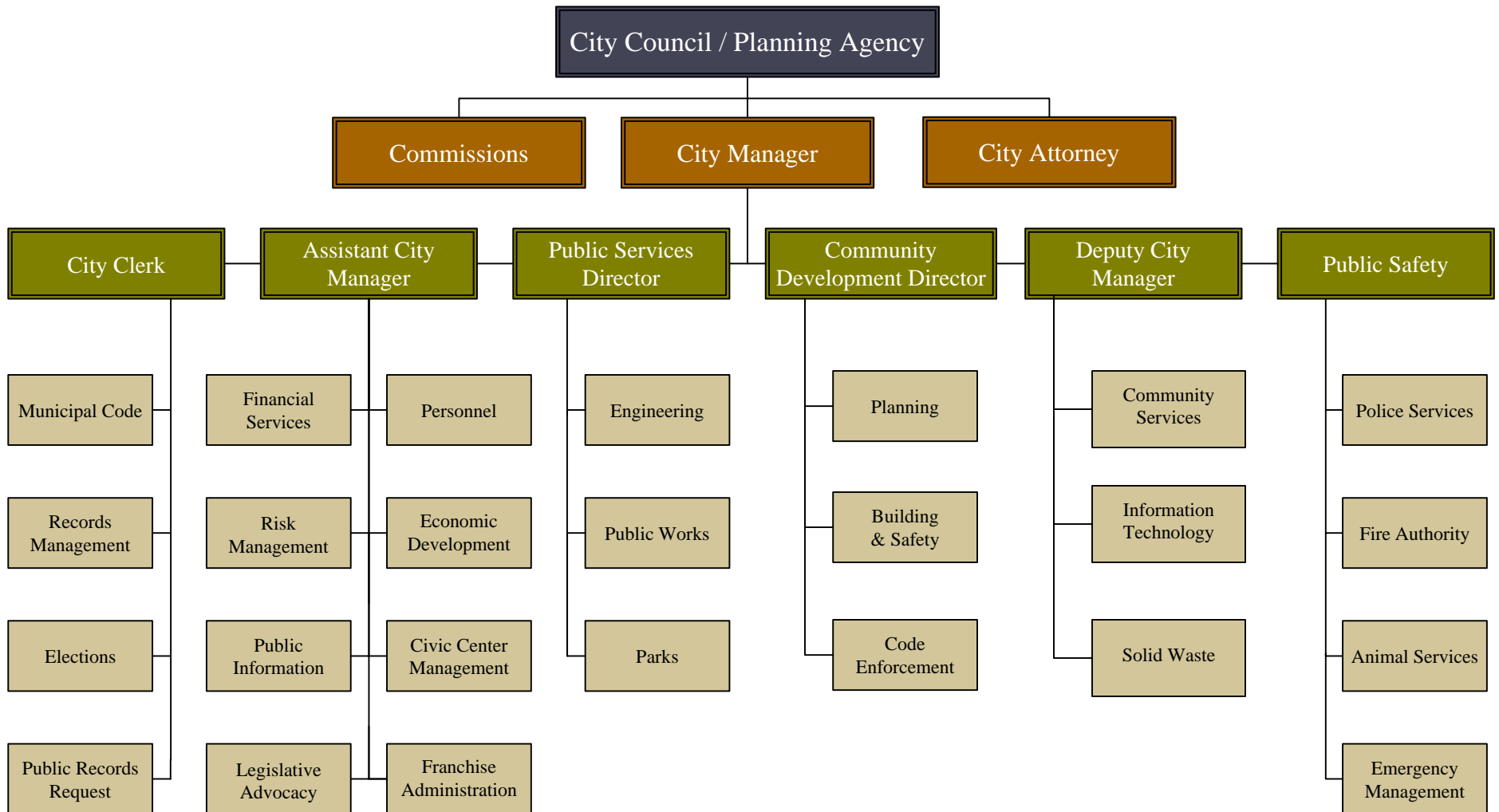


Donald J. White
Assistant City Manager

CITY OF LAGUNA HILLS

ORGANIZATIONAL CHART

June 30, 2010



CITY OF LAGUNA HILLS

ELECTED OFFICIALS AS OF JUNE 30, 2010



Randal Bressette
Mayor



R. Craig Scott
Mayor Pro Tem



Melody Carruth
Council Member



Joel Lautenschleger
Council Member



L. Allan Songstad, Jr.
Council Member

CITY OF LAGUNA HILLS

APPOINTED OFFICIALS AS OF JUNE 30, 2010



Donald J. White
Assistant City Manager/Deputy Treasurer



Bruce E. Channing
City Manager/Treasurer

- | | |
|------------------------------------|--|
| ♦ Gregory E. Simonian | City Attorney |
| ♦ Peggy J. Johns | City Clerk |
| ♦ Vernon A. Jones | Community Development Director |
| ♦ David T. Reynolds | Deputy City Manager |
| ♦ Kenneth H. Rosenfield | Director of Public Works/City Engineer |
| ♦ Lt. Steven F. Doan | Police Chief (O.C. Sheriff Department) |
| ♦ Div. Chief Edward Fleming | Fire Chief (OC. Fire Department) |

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FINANCIAL SECTION



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Laguna Hills
Laguna Hills, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Laguna Hills, California (City), as of and for the fiscal year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Laguna Hills, California, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable thereof, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2009, the City adopted Governmental Accounting Standards Board (GASB) Statements No. 51, *Accounting and Financial Reporting for Intangible Assets*, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

In accordance with Government Auditing Standards, we have also issued a report December 1, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion on pages II-3 through II-14 and analysis and budgetary comparison information on pages II-51 and II-58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Laguna Hills, California's financial statements as a whole. The introductory section, combining and individual non-major fund financial statements, and statistical section, are presented for purposes of additional analysis and are not required parts of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Moss, Levy & Hartzheim

Moss, Levy and Hartzheim, LLP
Beverly Hills, California
December 1, 2010

MANAGEMENT'S DISCUSSION & ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Laguna Hills offers the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended **June 30, 2010**. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter on page I-1 and the basic financial statements in the appropriate section.

Financial Highlights

Government-Wide

- The assets of the City of Laguna Hills exceeded its liabilities at the close of the most recent fiscal year by \$100,159,493. Of this amount, \$7,652,381 may be used to meet the City's ongoing obligations to its citizens and creditors.
- After recording the value of the City's infrastructure assets, net of accumulated depreciation, the decrease in the City's net assets resulting from the most recent fiscal year's operation was \$(983,236), approximately 1%.
- Total revenues from all sources were \$21,447,678.
- The total cost of all City programs and projects was \$22,430,914. Approximately 19%, or \$4,152,654, of this amount is attributable to depreciation on the City's infrastructure assets.
- Governmental net assets were \$87,802,169 as of June 30, 2010, after recording the value of the City's infrastructure assets, net of accumulated depreciation.
- Governmental activities, which include certain capital projects and depreciation related to capital assets, decreased the City's net assets by \$485,081.

Fund Based

- As of the close of the current fiscal year, the governmental funds reported combined ending fund balances of \$11,650,502. Approximately, 67% (\$7,793,130 total unreserved, undesignated) of this total amount is available for spending at the City's discretion.
- Total unreserved fund balances were \$9,565,142. Designations of fund balances, such as amounts set aside in accordance with the City's

Financial Policy, totaled \$1,772,012.

- Total governmental fund balances increased by \$297,377.
- At the end of the most recent fiscal year, the total fund balance for the general fund was \$7,422,224.
- General fund reported revenues exceeding expenditures by \$1,227,674.

Overview of the Financial Statements

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

- (1) **Government-wide financial statements.** These statements are designed to provide readers with a broad overview of the City of Laguna Hills' finances, in a manner similar to a private-sector business. The following reports comprise the government-wide financial statements:

- a) Statement of Net Assets. This report presents information on all the assets and liabilities, with the difference between the two reported as the *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or weakening, though it is important to consider other non-financial factors in accurately assessing the overall health of the City, such as the property tax base or condition of the roads, etc.; and
- b) Statement of Activities. The information presented in this report shows how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (referred to as *governmental activities*), from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as *business-type activities*).

The **governmental activities** of the City of Laguna Hills include general government, public services, community development, community

services and public safety. Property taxes, sales and use taxes, vehicle in lieu taxes, transient occupancy taxes, and franchise fees finance most of these activities.

The *business-type activity* of the City of Laguna Hills pertains to the leasing of certain areas in the Laguna Hills Civic Center, which also houses City Hall.

The government-wide financial statements can be found on pages II-15 to II-17 of this report.

- (2) **Fund financial statements.** These statements show how the City services were financed in the short term as well as what remains for future spending. These statements also report the City's operation in more detail than the government-wide statements by providing information about the City's most significant funds, but not the City as a whole. Funds are required to be established, either by State or Federal laws, in order to meet legal responsibilities associated with the usage of certain taxes, grants, and other money. There are three types of funds, namely:

- a) *Governmental funds.* These statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information provides a short-term view of the City's general government operations and shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. These funds are reported using the *modified accrual method* of accounting, which measures cash and all other financial assets that can readily be converted to cash. The relationship between governmental activities and the governmental funds are reported in the reconciliation of government-wide and fund financial statements and in Note 1 in the Notes to the Basic Financial Statements.

The City maintains 18 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and capital projects fund, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each nonmajor governmental fund is provided in the form of *combining statements* elsewhere in this report.

- b) *Proprietary funds.* When the City charges for the services it provides, other than those services associated with the City's general

governmental operations, these services are generally reported in proprietary funds. The proprietary fund is used to report the same function presented as *business-type activities* in the government-wide financial statements. The City uses the proprietary fund to account for its Civic Center leasing activity.

- c) *Fiduciary funds*. These funds are used to account for resources held for the benefit of parties outside the government. They are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs.

The fund financial statements can be found on pages II-19 to II-26 of this report.

- (3) **Notes to the basic financial statements.** The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages II-27 to II-49 of this report.
- (4) **Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the budgetary comparisons for the general fund.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Government –Wide Financial Analysis

As noted earlier, net assets may serve as a useful indicator over time of the City's financial position. The City's combined net assets at the close of the most recent fiscal year ended June 30, 2010 were \$100,159,493, as shown on Table 1, on the following page.

By far the largest of the City's net assets (\$88.6 million, or 88% of total net assets) reflects its investment in capital assets (land, building, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. There is \$17,943,432 in debt outstanding related to the acquisition and construction of these capital assets.

Table 1
Condensed Statement of Net Assets
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 14,444	\$ 14,076	\$ 215	\$ 189	\$ 14,659	\$ 14,265
Capital assets	94,015	95,659	12,207	12,720	106,222	108,379
Total assets	<u>108,459</u>	<u>109,735</u>	<u>12,422</u>	<u>12,909</u>	<u>120,881</u>	<u>122,644</u>
Long-term liabilities						
outstanding	18,352	18,833	45	46	18,397	18,879
Other liabilities	2,305	2,615	20	8	2,325	2,623
Total liabilities	<u>20,657</u>	<u>21,448</u>	<u>65</u>	<u>54</u>	<u>20,722</u>	<u>21,502</u>
Net assets:						
Invested in capital assets, net						
of related debt	76,365	77,189	12,207	12,720	88,572	89,909
Restricted	3,935	3,357			3,935	3,357
Unrestricted	7,502	7,741	150	135	7,652	7,876
Total net assets	<u>\$ 87,802</u>	<u>\$ 88,287</u>	<u>\$ 12,357</u>	<u>\$ 12,855</u>	<u>\$ 100,159</u>	<u>\$ 101,142</u>

Another portion of the City's net assets, \$3,935,701 (4% of the total net assets), represents resources that are subject to external restrictions on how they may be used. The remaining balance of the City's net assets is unrestricted net assets of \$7,652,381, which may be used to meet the City's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's business-type activity involves the leasing of rentable areas in the Civic Center building. This 3-story building complex was renovated to accommodate the City offices and to add leasable spaces. Since June 28, 2004, the City government has operated from this facility. The occupancy rate was approximately 80% on June 30, 2010.

During the fiscal year ended June 30, 2010, the total revenue from all sources was \$21,447,678 and the cost of all activities was \$22,430,914, resulting in an overall decrease in net assets of \$983,236. The City's governmental activities decreased total net assets by \$485,081 and the decrease related to the City's business-type activities was \$498,155. These decreases are attributable to depreciation. Of the \$1,125,330 of total expenses related to the City's property leasing activities, depreciation represents 61% (\$688,267) of that total. Of the

\$21,305,584 of total expenses related to the City's governmental activities, depreciation represents 16% (\$3,464,387) of that total.

The details of the changes in the City's Net Assets are shown in **Table 2**.

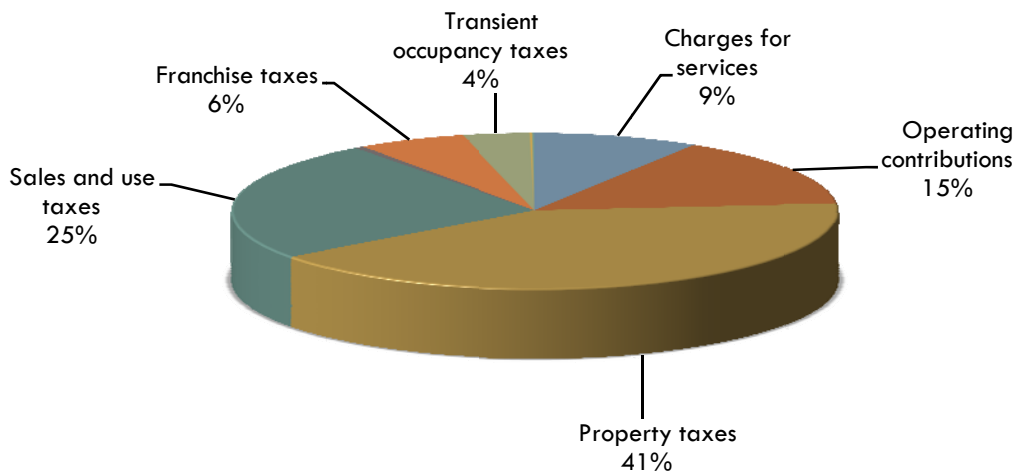
Table 2
Statement of Changes in Net Assets
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program Revenues:						
Charges for services	\$ 1,846	\$ 1,766	\$ 649	\$ 592	\$ 2,495	\$ 2,358
Operating Contributions	3,060	4,218			3,060	4,218
Capital Contributions						
General Revenues:						
Property taxes	8,573	8,624			8,573	8,624
Sales and use taxes	5,197	5,522			5,197	5,522
Other State subvention						
Franchise taxes	1,218	1,237			1,218	1,237
Transient occupancy taxes	752	916			752	916
Motor Vehicle in lieu taxes	99	115			99	115
Interest earnings	30	119	3	2	33	121
Miscellaneous revenues	21	62			21	62
Total revenues	<u>20,796</u>	<u>22,579</u>	<u>652</u>	<u>594</u>	<u>21,448</u>	<u>23,173</u>
Expenses:						
Legislative/executive	1,592	1,542			1,592	1,542
Administrative services	1,724	1,719			1,724	1,719
Public services	7,390	7,010			7,390	7,010
Community development	1,596	1,523			1,596	1,523
Community services	1,770	1,776			1,770	1,776
Public safety	6,598	6,424			6,598	6,424
Property leasing			1,125	1,117	1,125	1,117
Interest	636	875			636	875
Total expenses	<u>21,306</u>	<u>20,869</u>	<u>1,125</u>	<u>1,117</u>	<u>22,431</u>	<u>21,986</u>
Change in net assets before transfers	<u>(510)</u>	<u>1,710</u>	<u>(473)</u>	<u>(523)</u>	<u>(983)</u>	<u>1,187</u>
Transfers	<u>25</u>	<u>150</u>	<u>(25)</u>	<u>(150)</u>	<u>-</u>	<u>-</u>
Change in net assets	(485)	1,860	(498)	(673)	(983)	1,187
Net assets, beginning, as restated	<u>88,287</u>	<u>86,427</u>	<u>12,855</u>	<u>13,528</u>	<u>101,142</u>	<u>99,955</u>
Net assets, ending	<u>\$ 87,802</u>	<u>\$ 88,287</u>	<u>\$ 12,357</u>	<u>\$ 12,855</u>	<u>\$ 100,159</u>	<u>\$ 101,142</u>

Governmental Activities

The revenue sources from governmental activities presented in the preceding table are illustrated in a pie chart shown below as **Figure 1**, which illustrates the percentage relationship of these revenues to each other, as well as their impact on the City's total resources.

Figure 1
Revenue by Sources – Governmental Activities
FY 2009/10



As shown in the above pie chart, about 76% of the City's total governmental revenues are from taxes, comprised of property, sales and use, motor vehicle in lieu, franchise and transient occupancy taxes. Program revenues totaled 24% of the total resources, comprised of charges for services and operating contributions.

Despite the overall decrease in revenues due to the slow economic recovery in the local economy, charges for services in governmental activities increased by 5% as a result of an increase in vehicle code fines and forfeitures.

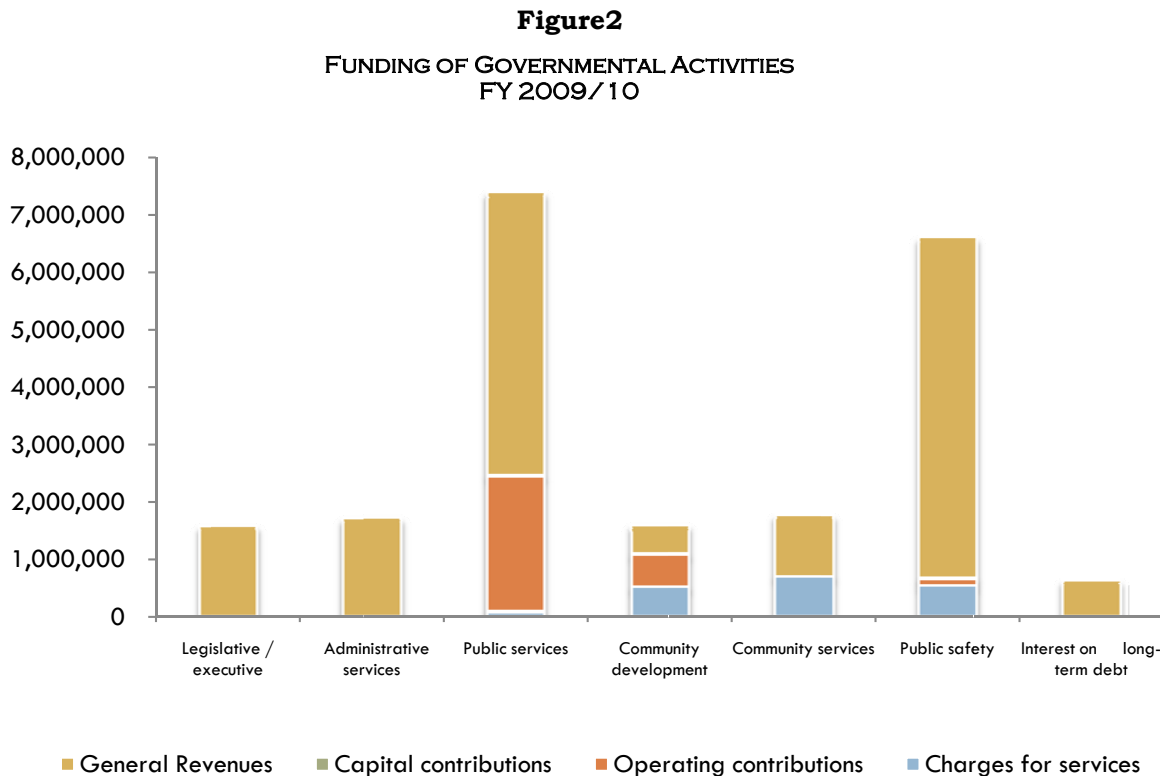
The City's expenses in connection with its governmental activities are categorized by function, namely: legislative/executive, administrative services, public services, community development, community services and public safety. The program revenues associated with these governmental activities are classified into three categories, which are charges for services, operating contributions and capital contributions. The relationships of the City's program

revenues with the related governmental functions are illustrated in a graph shown as **Figure 2** below.

Expenses associated with governmental activities increased by 2% this past year, which is largely attributable to capital related items. Of the \$21,305,584 of expenses, depreciation of capital assets accounts for \$3,464,387 (16%) and the debt service interest payment on capital related items accounts for \$636,441 (3%).

Program Revenues and Expenses:

Program revenues for the most recent fiscal year were \$4,905,504. Expenses related to governmental activities were \$21,305,584. The program revenues are generally not adequate to finance the governmental programs, so it is typical for governmental expenditures to be subsidized by general revenues. The City's expenditures for public services are comparatively higher than the other expense categories, as shown in **Figure 2** below. The interest on long-term debt was \$636,441.



Business-type Activities

During the most recent fiscal year, the operating revenues of the Laguna Hills Civic Center were \$649,270 and the operating expenses were \$1,125,330, resulting in a net operating loss of \$476,060, which includes a depreciation charge of \$688,267. After interest earnings of \$2,695 and net transfers to the City of \$24,790, the change in net assets at fiscal year-end was \$(498,155). The net cash provided by the leasing activities was \$171,144.

Analysis of Major Funds

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

Governmental funds:

The focus of the City of Laguna Hills' *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Laguna Hills' financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$11,650,502, an increase of \$297,377 from prior year's balance. Of the ending fund balance, \$7,793,130 constitutes *unreserved and undesignated* fund balance in the general fund, which is available for spending at the City's discretion, \$212,500 is *unreserved and designated* for the Self-Insurance Workers' Compensation Program, \$106,648 is *unreserved and designated* for Claims Liability, and a total of \$1,452,864 is *unreserved and designated* for equipment maintenance of the Civic Center, Community Center, Sports Complex, and various parks. The amount of \$2,411,192 is considered unreserved fund balance in the non-major governmental funds. The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has been committed to liquidate contracts and purchase orders of the prior period.

The fund balance of the City's general fund decreased by \$977,189 from the prior fiscal year's balance. The fund balance of the capital projects fund showed an increase of \$1,402,008 during the fiscal year. These changes in fund balances are largely attributable to the transfer of \$1,384,314 from the general fund to the capital projects fund to satisfy the reserve requirements as established under the 2010 Certificates of Participation trust agreement to secure the debt service payments. The fund balance of the non-major governmental funds decreased by \$127,442, lower than prior fiscal year,

which can be attributable to transfers to the City's general fund to finance the outlay for certain capital projects, recycling projects, and street maintenance.

Proprietary funds:

The proprietary fund provides the same type of information found in the government-wide financial statements. The City's proprietary fund consists of owning a piece of commercial real estate and leasing it to various entities. The total square footage of the building is 51,946. The City is a tenant using approximately 20,843 square feet of the building. The enterprise fund does not charge the City rent. The estimated annual rent for the space would be approximately \$593,000.

The statement of revenue, expenses, and change in net assets shows a net operating loss of \$476,060 before the interest earnings of \$2,695 and net transfers to the City of \$24,790. The net effect is a decrease in the ending net assets of \$498,155, which is largely attributable to depreciation. It should be noted that before accounting for depreciation the net operating income would be \$212,207 from the City's leasing related activities.

General Fund Budgetary Highlights

At fiscal year-end, total revenues were below the budgeted amount by \$2,082,846 as a result of the significant slowdown in California's economy. The slow economic recovery brought in revenues 11% lower than the original estimates in revenues for the fiscal year.

The total operating expenditures came in lower than the budgeted amount by \$279,525. The difference in the budgeted transfers in and transfers out can be attributed to capital project budget carry-overs.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2010 amounted to \$106,221,741 net of accumulated depreciation. This investment includes land, land improvements, easements, right of ways, building, building improvements, equipment, machinery, construction in progress, and infrastructure. In accordance with the requirement of GASB 34, the value of the City's infrastructure assets are included in this report, which include streets, sidewalks, curbs, gutters, playground equipment, and similar assets that are considered public property. Equipment and

machinery includes vehicles, furniture, computer hardware and software.

A schedule showing the changes in the City's capital assets are shown in the following **Table 3**.

Table 3
City of Laguna Hills Capital Assets (Net of depreciation)
(in thousands)

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land & improvements	\$ 31,739	\$ 32,907	\$ 2,855	\$ 2,855	\$ 34,594	\$ 35,762
Rights of ways/Easements	1,957	1,957			1,957	1,957
Building & improvements	7,923	8,583	9,352	9,865	17,275	18,448
Equipment and machinery	1,034	1,239			1,034	1,239
Construction in progress	2,141	1,555			2,141	1,555
Infrastructure						
Street signs	191	226			191	226
Storm drains	2,560	2,637			2,560	2,637
Streets	35,481	35,065			35,481	35,065
Parks inventory	1,622	1,788			1,622	1,788
Curbs, sidewalks, gutters	7,344	7,611			7,344	7,611
Bridges	2,023	2,091			2,023	2,091
Total capital assets net of depreciation	<u>\$ 94,015</u>	<u>\$ 95,659</u>	<u>\$ 12,207</u>	<u>\$ 12,720</u>	<u>\$106,222</u>	<u>\$108,379</u>

Additional information on the City's capital assets can be found in Note 5 on page II-45 of this report.

Long-term Debt

On January 26, 2010, to take advantage of favorable interest rates, the City issued \$17,190,000 of Certificates of Participation (COPs). Proceeds from the sale were placed in an irrevocable trust used to service the future debt requirements of the 2001 and 2003 Certificates of Participation, which were issued to finance a portion of the costs to develop certain property, including the Civic Center Renovation Project and Community Center. As a result, the balance of the 2001 and 2003 COPs are considered to be defeased and the liability for those bonds has been removed. At year-end June 30, 2010, the per capita liability of the City of Laguna Hills was \$511.71. Additional information on the City's long-term debt can be found in Note 6 on page II-40 of this report.

Budget and Economic Factors

The City's most recent adopted biennial budget for fiscal years 2009/10 - 2010/11 shows that the City continues to live within its means. The major goals and issues that dominated the budgeting process for this biennial budget are discussed in the transmittal letter together with the measures adopted to address the prevailing issues.

Requests for Information

This financial report is designed to provide a general overview of the City of Laguna Hills' finances to all interested parties. Any questions regarding this report or requests for additional information should be addressed to the City's Finance Department, at 24035 El Toro Road, Laguna Hills, California, 92653.

* * * * *

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LAGUNA HILLS
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments (note 2)	\$ 7,816,519	\$ 259,576	\$ 8,076,095
Taxes receivable	1,543,894		1,543,894
Accounts receivable, net of allowance	278,280	21,420	299,700
Interest receivable	10,691		10,691
Prepaid items	15,624	9,320	24,944
Deferred charges, net of accumulated amortization	293,102		293,102
Due from other governments	2,399,256		2,399,256
Internal balances	75,000	(75,000)	
Restricted cash and investments (note 2)	2,011,542		2,011,542
Capital assets, not depreciated (note 5)	21,791,194	2,855,425	24,646,619
Capital assets, net of accumulated depreciation (note 5)	72,223,891	9,351,231	81,575,122
Total assets	<u>108,458,993</u>	<u>12,421,972</u>	<u>120,880,965</u>
LIABILITIES			
Accounts payable	764,262		764,262
Unearned revenue	11,275		11,275
Accrued liabilities	454,229	19,215	473,444
Interest payable	292,577		292,577
Due to other governments	782,280		782,280
Deposits		45,433	45,433
Noncurrent Liabilities (note 6):			
Due within one year	1,182,537		1,182,537
Due in more than one year	17,169,664		17,169,664
Total liabilities	<u>20,656,824</u>	<u>64,648</u>	<u>20,721,472</u>
NET ASSETS			
Invested in capital assets, net of related debt	76,364,755	12,206,656	88,571,411
Restricted for:			
Public services	2,347,452		2,347,452
Community services	51,664		51,664
Community development	12,076		12,076
Debt service	1,524,509		1,524,509
Unrestricted	7,501,713	150,668	7,652,381
Total net assets	<u>\$ 87,802,169</u>	<u>\$ 12,357,324</u>	<u>\$ 100,159,493</u>

See Accompanying Notes to the Basic Financial Statement

CITY OF LAGUNA HILLS

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

		Program Revenues			
	Expenses	Charges for Services	Operating Contributions	Capital Contributions	Total Program Revenues
Governmental activities:					
Legislative/executive	\$ 1,592,070	\$ -	\$ -	\$ -	\$ -
Administrative services	1,724,356				
Public services	7,389,564	86,176	2,362,651		2,448,827
Community development	1,595,670	514,162	574,301		1,088,463
Community services	1,769,589	703,099			703,099
Public safety	6,597,894	542,732	122,383		665,115
Interest expense	636,441				
Total governmental activities	<u>21,305,584</u>	<u>1,846,169</u>	<u>3,059,335</u>	<u></u>	<u>4,905,504</u>
Business-type activities:					
Property leasing	<u>1,125,330</u>	<u>649,270</u>	<u></u>	<u></u>	<u>649,270</u>
Total business-type activities	<u>1,125,330</u>	<u>649,270</u>	<u></u>	<u></u>	<u>649,270</u>
Total primary government	\$ 22,430,914	\$ 2,495,439	\$ 3,059,335	\$ -	\$ 5,554,774

General revenues:

Taxes:

Property taxes

Sales and use tax

Franchise tax

Transient occupancy tax

Intergovernmental, unrestricted:

Motor vehicle in lieu

Investment earnings

Miscellaneous revenue

Transfers

Total general revenues and transfers

Changes in net assets

Net assets - beginning, as restated (note 12)

Net assets - ending

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total
\$ (1,592,070)	\$ -	\$ (1,592,070)
(1,724,356)		(1,724,356)
(4,940,737)		(4,940,737)
(507,207)		(507,207)
(1,066,490)		(1,066,490)
(5,932,779)		(5,932,779)
(636,441)		(636,441)
<u>(16,400,080)</u>		<u>(16,400,080)</u>
	(476,060)	(476,060)
	<u>(476,060)</u>	<u>(476,060)</u>
<u>(16,400,080)</u>	<u>(476,060)</u>	<u>(16,876,140)</u>
8,573,008		8,573,008
5,197,367		5,197,367
1,217,595		1,217,595
752,478		752,478
99,167		99,167
29,205	2,695	31,900
21,389		21,389
24,790	(24,790)	
<u>15,914,999</u>	<u>(22,095)</u>	<u>15,892,904</u>
(485,081)	(498,155)	(983,236)
88,287,250	12,855,479	101,142,729
<u>\$ 87,802,169</u>	<u>\$ 12,357,324</u>	<u>\$ 100,159,493</u>

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FUND FINANCIAL STATEMENTS

CITY OF LAGUNA HILLS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

	General	Capital Projects	Other Governmental Funds	Totals
Assets				
Cash and investments	\$ 7,816,519	\$ -	\$ -	\$ 7,816,519
Receivables:				
Taxes	1,543,894			1,543,894
Accounts	404,004			404,004
Interest	8,188	2,503		10,691
Prepaid items	15,624			15,624
Due from other funds (note 3)	1,847,012		2,685,782	4,532,794
Due from other governments	2,337,944		61,312	2,399,256
Advances to other funds	252,650		21,013	273,663
Restricted assets:				
Cash and investments	196,959	1,814,583		2,011,542
Total assets	<u>\$ 14,422,794</u>	<u>\$ 1,817,086</u>	<u>\$ 2,768,107</u>	<u>\$ 19,007,987</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 764,262	\$ -	\$ -	\$ 764,262
Deferred revenues	542,932		82,325	625,257
Accrued liabilities	454,229			454,229
Due to other funds (note 3)	4,456,867		927	4,457,794
Due to other governments	782,280			782,280
Advances from other funds			273,663	273,663
Total liabilities	<u>7,000,570</u>		<u>356,915</u>	<u>7,357,485</u>
Fund balances:				
Reserved for:				
Prepaid items	15,624			15,624
Debt service		1,817,086		1,817,086
Advances	252,650			252,650
Unreserved:				
Unreserved, reported in Non-major:				
Special revenue funds			2,411,192	2,411,192
Designated for Workers Comp	212,500			212,500
Designated for Claims Liability	106,648			106,648
Designated for Park Eqpt Mtnc	373,434			373,434
Designated for Civic Center Eqpt Mtnc	262,086			262,086
Designated for Sports Complex Eqpt Mtnc	326,092			326,092
Designated for Community Ctr Eqpt Mtnc	441,252			441,252
Designated for Slopes/Storm Drain Mtnc	50,000			50,000
Undesignated	5,381,938			5,381,938
Total fund balances	<u>7,422,224</u>	<u>1,817,086</u>	<u>2,411,192</u>	<u>11,650,502</u>
Total liabilities and fund balances	<u>\$ 14,422,794</u>	<u>\$ 1,817,086</u>	<u>\$ 2,768,107</u>	<u>\$ 19,007,987</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Fund balances of governmental funds	\$ 11,650,502
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Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Accounts receivable allowance for doubtful accounts.	(125,724)
--	-----------

Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	94,015,085
--	------------

Long term debt, compensated absences, and claims and judgments that have that have not been included in the governmental fund activity.	(18,059,099)
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Accrued interest payable for the current portion of interest due on the Certificates of Participation has not been reported in the governmental funds.	(292,577)
--	-----------

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>613,982</u>
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Net assets of governmental activities	<u><u>\$ 87,802,169</u></u>
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See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General	Capital Projects	Other Governmental Funds	Totals
Revenues:				
Taxes	\$ 10,460,756	\$ -	\$ 92,440	\$ 10,553,196
Licenses and permits	378,706		44,306	423,012
Intergovernmental revenues	5,069,814		2,906,063	7,975,877
Charges for current services	946,119			946,119
Fines and forfeitures	542,732			542,732
Investment income	24,991	4,214	16,527	45,732
Total revenues	<u>17,423,118</u>	<u>4,214</u>	<u>3,059,336</u>	<u>20,486,668</u>
Expenditures:				
Current:				
Legislative/executive	1,583,009			1,583,009
Administrative services	1,537,841			1,537,841
Public services	3,980,562		107,976	4,088,538
Community development	1,008,692		584,495	1,593,187
Community services	1,570,196			1,570,196
Public safety	6,515,144		70,495	6,585,639
Capital outlay		1,992,060	21,737	2,013,797
Debt service:				
Interest		427,854		427,854
Bond issue costs		301,477		301,477
Principal retirement		820,000		820,000
Total expenditures	<u>16,195,444</u>	<u>3,541,391</u>	<u>784,703</u>	<u>20,521,538</u>
Excess (deficiency) of revenues over expenditures	<u>1,227,674</u>	<u>(3,537,177)</u>	<u>2,274,633</u>	<u>(34,870)</u>
Other financing sources (uses):				
Proceeds from bond issue		17,190,000		17,190,000
Payment to escrow agent		(18,081,996)		(18,081,996)
Premium on bond issue		1,206,953		1,206,953
Lawsuit settlement	(7,500)			(7,500)
Transfers in (note 4)	3,244,203	4,624,228		7,868,431
Transfers out (note 4)	(5,441,566)		(2,402,075)	(7,843,641)
Total other financing sources (uses)	<u>(2,204,863)</u>	<u>4,939,185</u>	<u>(2,402,075)</u>	<u>332,247</u>
Net change in fund balances	(977,189)	1,402,008	(127,442)	297,377
Fund balances, beginning of fiscal year, as restated (note 12)	<u>8,399,413</u>	<u>415,078</u>	<u>2,538,634</u>	<u>11,353,125</u>
Fund balances, end of fiscal year	<u>\$ 7,422,224</u>	<u>\$ 1,817,086</u>	<u>\$ 2,411,192</u>	<u>\$ 11,650,502</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FISCAL YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds	\$ 297,377
--	------------

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 costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(1,643,985)
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but in the Statement of Net Assets, the costs are deferred and amortized throughout the period during which the related debt is outstanding. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.	(17,262,326)
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Payments to refunded debt escrow agent are recognized as other financing uses in the Governmental Funds. In the Government-wide Statements, payments to refunded debt escrow are reported as a reduction of long-term debt.	18,081,996
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To record as an expense the net change in compensated absences and claims and judgments in the Statement of Activities.	(45,451)
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Accrued interest for Certificates of Participation. This is the net change in accrued interest for the current period.	(221,737)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This is the net change in deferred revenue for the current period.	<u>309,045</u>
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Change in net assets of governmental activities	<u><u>\$ (485,081)</u></u>
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See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS

PROPRIETARY FUND

STATEMENT OF NET ASSETS

JUNE 30, 2010



	<u>Enterprise - Property Leasing</u>
ASSETS	
Current assets:	
Cash and investments (note 2)	\$ 259,576
Accounts receivable	21,420
Prepaid items	9,320
Total current assets	<u>290,316</u>
Noncurrent assets:	
Capital assets not depreciated	2,855,425
Capital assets, net of accumulated depreciation	9,351,231
Total noncurrent assets	<u>12,206,656</u>
Total assets	<u>12,496,972</u>
LIABILITIES	
Current liabilities:	
Accrued liabilities	19,215
Due to other funds (note 3)	75,000
Total current liabilities	<u>94,215</u>
Noncurrent liabilities:	
Deposits	<u>45,433</u>
Total liabilities	<u>139,648</u>
NET ASSETS	
Net assets, invested in capital assets	12,206,656
Unrestricted	<u>150,668</u>
Total net assets	<u>\$ 12,357,324</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Enterprise - Property Leasing
Operating revenues:	
Rental fees (note 14)	\$ 639,504
CAM revenues	9,061
Other current service fees	705
Total operating revenues	<u>649,270</u>
Operating expenses:	
Direct operating expenses	425,592
Advertising and promotion	2,691
Administrative and professional fees	1,278
Repairs and maintenance	7,502
Depreciation expense	688,267
Total operating expenses	<u>1,125,330</u>
Operating income/(loss)	<u>(476,060)</u>
Nonoperating revenues (expenses):	
Interest income	<u>2,695</u>
Total nonoperating revenues (expenses)	<u>2,695</u>
Income/(loss) before transfers	(473,365)
Transfers out	<u>(24,790)</u>
Change in net assets	(498,155)
Net assets, beginning of fiscal year	<u>12,855,479</u>
Net assets, end of fiscal year	<u><u>\$ 12,357,324</u></u>

See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS

PROPRIETARY FUND

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Enterprise - Property Leasing
Cash flows from operating activities:	
Receipts from tenants	\$ 673,226
Payments to suppliers for goods and services	(502,082)
Net cash provided by (used for) operating activities	171,144
Net cash flows from noncapital financing activities:	
Cash paid to other funds	(24,790)
Net cash used for noncapital financing activities	(24,790)
Cash flows from capital and related financing:	
Acquisition of capital assets	(174,442)
Net cash used for capital and related financing activities	(174,442)
Cash flows from investing activities:	
Interest on investments	2,695
Net cash provided by investing activities	2,695
Net increase (decrease) in cash and cash equivalents	(25,393)
Cash and cash equivalents at beginning of fiscal year	284,969
Cash and cash equivalents at end of fiscal year	\$ 259,576
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (476,060)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	688,267
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	24,576
(Increase) decrease in prepaid items	(1,163)
Increase (decrease) in accrued liabilities	11,144
Increase (decrease) in due to other funds	(75,000)
Increase (decrease) in deposits payable	(620)
Total adjustments	647,204
Net cash provided by operating activities	\$ 171,144
Non-cash investing, capital, and financing activities:	
During the fiscal year ending June 30, 2010, there were no non-cash investing, capital, or financing items.	

See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS
AGENCY FUND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2010

ASSETS

Cash and investments	<u>\$ 268,824</u>
Total assets	<u><u>\$ 268,824</u></u>

LIABILITIES

Deposits	<u>\$ 268,824</u>
Total liabilities	<u><u>\$ 268,824</u></u>

See Accompanying Notes to the Basic Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

CITY OF LAGUNA HILLS

Notes to the Financial Statements
June 30, 2010

(1) Reporting Entity and Summary of Significant Accounting Policies

a) Summary of Significant Accounting Policies

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Financial Reporting Entity

The City of Laguna Hills (the City) was incorporated on December 20, 1991 under the General Laws of the State of California. The City operates under a Council-Manager form of government and provides the following services: public safety, highways and streets, parks, solid waste, public improvements, planning and zoning, building and safety, community services, and general administrative services.

b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the City are composed of the following:

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

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB Pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under

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

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to

finance the expenditures accrued for the reporting period. For this purpose, the City considers its general revenue, with the exception of property taxes, to be available if they are collected within 90 days of the end of the fiscal year. The City uses a 180-day availability period for special revenue grants and contributions, in accordance with the provisions set forth in Governmental Accounting, Auditing, and Financial Reporting (GAFR), Chapter 5, page 64, paragraph 1.

Revenue recognition is subject to the measurable and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

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. 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.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate; however, that they should not be considered “available spendable resources” since they do not represent net current assets. Recognition of governmental fund type revenues represented by non-current receivables are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current 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 *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

Proprietary Funds and Fiduciary Funds

The City's enterprise fund is a proprietary fund. In the fund financial statements, proprietary funds and fiduciary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds and fiduciary funds are presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets. The Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations, however, they do use the full accrual basis of accounting to recognize receivables and payables. The City has no internal service funds.

Proprietary fund operating revenues, such as rental fees, result from exchange transactions associated with principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as investment income result from non-exchange transactions or ancillary activities.

Amounts paid to acquire capital assets are capitalized as assets in the enterprise fund financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the enterprise fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the enterprise fund are reported as a reduction of the related liability, rather than as expenditures.

c) Major Funds and Fiduciary Fund Types

The City reports the following major governmental funds:

General Fund

The General Fund is the general operating fund of the City. It is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

Capital Projects Fund

The Capital Projects Fund is used to account for the financial resources to be used for the acquisition and construction of the City's capital projects, and to pay the City's debt service on its COP issue.

The City reports the following major proprietary fund:

Property Leasing

The City Hall Fund is used to account for activity pertaining to the leasing of certain areas in the Laguna Hills Civic Center, which has been the City Hall site and seat of government since June 28, 2004.

Additionally, the City reports the following fund types:

Special Revenue Funds

The Special Revenue Funds are used to account for certain revenue sources set aside for specific purposes, to avoid including restricted revenues within the general fund and to provide separate information on the sources and applications of these restricted sources.

Fiduciary Fund Type

The City has one Fiduciary Fund Type, an Agency Fund, used to account for construction deposits and trust monies received from builders, land developers, and other agencies.

d) Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Assets

“Total fund balances” of the City’s governmental funds, \$11,650,502, differs from “net assets” of governmental activities, \$87,802,169, reported in the statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Accounts Receivable Related Items

When receivables that are to be used in governmental activities are deemed to be uncollectible in the short term the statement of net assets includes an allowance to reflect the true assets of the City as a whole.

Transient occupancy tax (TOT)	\$	33,669
Miscellaneous damages reimbursement		7,307
Traffic accidents reimbursement		84,748
	\$	<u>125,724</u>

Capital Related Items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$136,296,036
Accumulated depreciation	<u>(42,280,951)</u>
	<u>\$ 94,015,085</u>

Long-term Debt Transactions

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities and corresponding deferred charges and refunding (both current and long-term) are reported in the statement of net assets. Balances at June 30, 2010 were:

Certificates of Participation	\$ 17,190,000
COP deferred charges, net accumulated amortization of \$8,375	(293,102)
COP deferred refunding loss, net accumulated amortization of \$12,000	(419,996)
COP bond premium, net of accumulated amortization of \$33,525	1,173,428
Claims and judgments	93,931
Compensated absences	<u>314,838</u>
	<u>\$ 18,059,099</u>

Accrued Interest

Accrued liabilities in the statement of net assets differ from the amount reported in governmental funds due to accrued interest on Certificates of Participation.

Accrued interest	<u>\$ 292,577</u>
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Other Long-term Assets

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

Sales tax triple flip	\$ 405,933
Housing fund deposits	82,325
Miscellaneous accounts receivable	<u>125,724</u>
	<u>\$ 613,982</u>

Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide statements, except for net residual amounts due between governmental and business-type activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once - in the function in which they are allocated.

(e) Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities

The “net change in fund balances” for governmental funds, \$297,377, differs from the “change in net assets” for governmental activities, \$(485,081), reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

Capital Related Items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decreased by the amount of depreciation expense charged for the year.

Capital outlay	\$ 2,013,797
Less amounts expended	(237,561)
Add signage	44,166
Depreciation expense	<u>(3,464,387)</u>
	<u>\$ (1,643,985)</u>

Long-term Debt Transactions

The repayment of principal and cost of bond issuance (deferred charges) are reported as expenditures in the governmental fund. The proceeds from COP debt issuance and bond premium are reported as other financing sources. The net amount has the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, these payments reduce and proceeds increase the liabilities in the statement of net assets.

Amortization of unamortized premium, deferred charges and loss on refunding is not an expense of the governmental funds, but under the full accrual method is a component of interest expense.

Repayment of debt principal	\$ 820,000
Issuance of long-term debt	(17,190,000)
Issuance cost and premium incurred	(905,476)
Issuance cost and premium amortized	<u>13,150</u>
	<u>\$ (17,262,326)</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This includes the net change in claims and judgments (see also Note 1 (j), Note 7 General Liability Insurance and Self-funded Workers’ Compensation, and Note 6 Compensated Absences.)

The City provides a Retiree Health Savings Plan for its employees, wherein the City deposits the equivalent of the balance of the eligible employee's accumulated sick leave balance to the plan on the eligible employee's anniversary hire date (see also Note 1 (k) and Note 6 (Compensated Absences)).

Claims and judgments	\$ 39,173
Compensated absences	<u>6,278</u>
	<u>\$ 45,451</u>

Accrued Interest

The statement of activities includes changes in accrued interest on Certificates of Participation.

Accrued interest	<u>\$ 221,737</u>
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Other Long-term Assets

Revenues that do not provide current financial resources are not reported as revenue in the governmental funds.

Sales tax triple flip	\$ 226,720
Housing fund deposits	<u>82,325</u>
	<u>\$ 309,045</u>

Reclassification and Eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between business-type and governmental activities. Amounts involving fiduciary funds should be reported as external transactions. Any allocations must reduce the expenses of the function from which the expenses are being allocated, so that expenses are reported only once - in the function in which they are allocated.

(f) Cash and Investments

Investments are reported in the accompanying basic financial statements at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that 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.

The City pools cash and investments of all funds, except for amounts held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

(g) Statement of Cash Flows

The enterprise proprietary fund participates in the City-wide cash and investments pool, which provides immediate access to invested funds. Accordingly, all cash and investments are considered to be cash and cash equivalents for purposes of the Statement of Cash Flows.

(h) Capital Assets

Capital assets are capital outlay for assets of a permanent nature, valued at \$5,000 or more or the usage of which is expected to be more than five years. Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair value at the date of the contribution.

Capital assets include public domain (infrastructure) general fixed assets consisting of certain improvements including roads, streets, sidewalks, medians, and storm drains.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government – wide financial statements and in the fund financial statements of the enterprise fund. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class, are as follows:

Building and improvements	20 years
Machinery and equipment	5-20 years
Infrastructure	5-60 years

(i) Property Taxes

The County of Orange collects property taxes for the City. Tax liens attach annually as of 12:01 am on the first day of January proceeding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on January 1 each year, and are delinquent, if unpaid, on August 31.

(j) Claims and Judgments Payable

As of July 1, 2003, the City became a member of the Exclusive Risk Management Authority of California. The annual premium included estimates of amounts paid for reported claims and incurred-but-not-reported claims based upon past experience, modified for current trends and information. Premiums are recorded as expenditures when they become payable from expendable available resources. When it is probable that a claims liability has been incurred and the amount of the loss can be reasonably estimated through historical trends and calculation of incurred but not reported claims (IBNR), the City accrues the estimated liability for the expected claims and judgments. These amounts are recorded in the government-wide financial statements. A liability is reported in the governmental funds only if there is an amount due and payable at June 30.

(k) Compensated Absences

Vacation time is provided to all full-time and extended part-time employees. Upon separation or retirement from City service, all employees shall be compensated at their prevailing pay rate for their accrued vacation. No employee shall be allowed to carry over more than 320 hours of vacation time from one fiscal year to the next. At the start of the fiscal year, if an employee has more than 320 hours accrued, the City will automatically cash out any hours in excess of 320.

The City provides an ICMA Vantage Care Retirement Health Savings Plan to its full-time employees who have reached ten (10) years of service with the City. This employer-sponsored retiree health benefit allows employees to accumulate assets to pay for medical expenses upon retirement from the City or age 50 on a tax-free basis. The employee's beneficiary receives the assets of the individual plan after the employee's death. The assets of the individual plans are not subject to claims of the City's creditors. The start-up contribution for employees will be based on their accumulated sick leave hours in excess of 160 hours upon completion of ten (10) years of service to the City, at their prevailing pay rate. Thereafter, annual contributions will be made to each employee's account for their unused sick leave hours in excess of 160 hours on June 30th of each fiscal year at the employees' prevailing pay rate. Upon separation from employment, the City will make a final contribution on behalf of the employee equivalent to all the unused sick leave balance of the employee at the employee's prevailing pay rate at the time of separation. The City also contributes on behalf of each Participant \$5,000 upon completion of ten years of service and annually thereafter on the Participant's employment anniversary date.

All vacation and sick leave pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

(l) Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The City has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The City has chosen to report the expenditures when benefitted.

(m) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and American Institute of Certified Public Accountants (AICPA), require management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

(n) Budgetary Information

Biennial budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds except for certain special revenue funds and capital projects funds, which adopt project length budgets and debt service funds that are not budgeted, as effective budgetary control is achieved through debt indenture provisions. The Housing Set Aside fund did not have an adopted budget during the current fiscal year

(o) Deficit Fund Balances/Net Assets

Nonmajor funds

A deficit fund balance of \$927 exists in the CR&R Recycling Special Revenue Fund. The deficit is due to the City incurring costs in advance of receiving revenue.

A deficit fund balance of \$252,650 exists in the Public Art Special Revenue Fund. The deficit is due to the City incurring costs in advance of receiving revenue.

(p) New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 51

For the fiscal year ended June 30, 2010, the City implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets". This Statement is effective for financial statements for periods beginning after June 15, 2009. The objective of this Statement is to establish accounting and financial reporting requirements for intangible

assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. Implementation of GASB Statement No. 51 did not have an impact on the City's basic financial statements for the fiscal year ended June 30, 2010.

Governmental Accounting Standards Board Statement No. 53

For the fiscal year ended June 30, 2010, the City implemented GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". This Statement is effective for financial statements for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Implementation of GASB Statement No. 53 did not have an impact on the City's basic financial statements for the fiscal year ended June 30, 2010.

Governmental Accounting Standards Board Statement No. 57

For the fiscal year ended June 30, 2010, the City implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans". This Statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. Implementation of GASB Statement No. 57 did not have an impact on the City's basic financial statements for the fiscal year ended June 30, 2010.

Governmental Accounting Standards Board Statement No. 58

For the fiscal year ended June 30, 2010, the City implemented GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies". This Statement is effective for reporting periods beginning after June 15, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to re-measure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. Implementation of GASB Statement No. 58 did not have an impact on the City's basic financial statements for the fiscal year ended June 30, 2010.

(2) Cash and Investments

The City maintains a cash and investment pool that is available for use by all funds. Cash and investments at June 30, 2010 are reported in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 8,076,095
Restricted cash and investments	2,011,542
Statement of Fiduciary Net Assets:	
Cash and investments	<u>268,824</u>
Total cash and investments	<u>\$10,356,461</u>

Cash and investments at June 30, 2010 consisted of the following:

Cash on hand		\$ 1,750
Pooled Deposits:		
Demand deposits	\$ 1,485,810	
Certificates of deposit	<u>820,957</u>	
Total Pooled Deposits		2,306,767
Pooled Investments:		
Local Agency Investment Fund		6,036,402
Restricted cash and investments:		
Money market mutual funds	1,814,583	
Demand deposits	<u>196,959</u>	
Total restricted cash and investments		<u>2,011,542</u>
Total cash and investments		<u>\$ 10,356,461</u>

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under provisions of bond indentures. Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on quarterly cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Deposits

At June 30, 2010 the carrying amount of the City's deposits' was \$1,485,810 and the bank balance was \$1,561,836. The difference represents outstanding checks and other reconciling items.

<u>Pooled Deposits</u>	<u>Carrying Amount</u>
Demand Deposits:	
Bank Balance	\$ 1,561,836
Plus: Deposits in transit	10,557
Less: Outstanding warrants	<u>(86,583)</u>
Book Balance	1,485,810
Certificates of Deposit	<u>820,957</u>
Total Pooled Deposits	<u>\$ 2,306,767</u>

The California Government Code requires California banks and savings and loan associations to secure a city's deposits by pledging government securities with a fair value of 110% of a city's deposits. California law also allows financial institutions to secure a city's deposits by pledging first trust deed mortgage notes having a fair value of 150% of a city's total deposits. The City's Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC.

In addition, the Transaction Account Guarantee Program, provides for a guarantee through December 31, 2012, of all amounts in excess of \$250,000 held in noninterest-bearing transaction accounts at FDIC-insured institutions that agree to participate in the program. Noninterest-bearing transaction accounts are transaction accounts "with respect to which interest is neither accrued nor paid and on which the insured depository institution does not reserve the right to require advance notice of an intended withdrawal." This definition covers traditional demand deposit checking accounts that allow for an unlimited number of deposits and withdrawals at any time.

The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

Authorized Investments

Under the provision 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:

- U.S. Treasury bills
- U.S. Treasury notes, bonds or money market funds
- Certificates of deposit
- Money market mutual funds
- State Treasurer's Local Agency Investment Fund
- Overnight Government (U.S. Treasuries, Agencies, and Instrumentalities) Securities Investment Account managed by the City's primary bank
- Overnight Commercial Paper Investment Account managed by the City's primary bank
- Overnight repurchase agreements managed by the City's primary bank where market value of the repurchase agreement is 102 percent or greater than the value of the funds borrowed
- Commercial paper
- Prime Banker's Acceptances

Investments Authorized by Debt Agreements

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code.

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. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

GASB Statement No. 31

The City has adopted GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

GASB Statement No. 40

The issuance of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, established the existing standards for providing note disclosures about a government's deposits and investments. This statement is designed to inform the user about deposit and investment risk and how it affects the entity's ability to provide services and meet its obligations as they become due. It requires an entity to disclose custodial credit risk only if they have:

- Deposits that are not insured and not collateralized, or that are collateralized with securities that are held by the bank or the bank's trust department or agent, but not in the government's name
- Investments that are not insured and are held by the other party or its trust department or agent, but not in the government's name.

The GASB also concluded that investments in mutual funds and external investment pools are not exposed to custodial credit risk and, therefore, do not have to be included in this disclosure.

Credit Risk

The City's investment policy limits investments in commercial paper and banker's acceptance to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policies further limits its investment choices. As of June 30, 2010, the City's investment in the State Treasurer's Local Agency Investment Fund has not been rated by a nationally recognized statistical rating organization. Investments in money market mutual funds are unrated, as well.

Concentration of Credit Risk

The City does not place a limit on the amount that may be invested with any one institution, with the exception of certificates of deposits. According to GASB 40, there is potential concentration of credit risk if more than 5 percent of the entity's investments are in any one issuer. As of June 30, 2010, none of the City's deposits or investments had been exposed to concentration of credit risk.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of June 30, 2010, none of the City's deposits or investments had been exposed to custodial credit risk.

Interest Rate Risk

The City has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rates. The City limits the investment maturities for operating funds to be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures as well as considering sizable blocks of anticipated revenue. The City has elected the segment time distribution method to present the investment maturities as follows:

<u>Investment Type</u>	<u>6 months or less</u>	<u>Fair Value</u>
Local Agency Investment Funds	\$ 6,036,402	\$ 6,036,402
Money Market Mutual Funds	<u>1,814,583</u>	<u>1,814,583</u>
Total	\$ <u>7,850,985</u>	\$ <u>7,850,985</u>

(3) **Interfund Receivables and Payables**

Interfund receivables and payables at June 30, 2010 were as follows.

<u>Funds:</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Major Governmental:</u>		
General	\$ 1,847,012	\$ 4,456,867
<u>Non-major Governmental:</u>		
<u>Special Revenue Funds:</u>		
Gas Tax	563,777	
AB 2766	55,149	
Proposition 1B	374,823	
Proposition 42	632,018	
CARITS	855,419	
Redevelopment Tax Increment	33,089	
Beverage Recycling	39,080	
CR&R Recycling Fee		927
AB 939 Surcharge Grant	13,511	
Grants and Contributions	118,916	
<u>Major Proprietary:</u>		
Enterprise-Property Leasing		75,000
Total	<u>\$ 4,532,794</u>	<u>\$ 4,532,794</u>

Outstanding balances at the end of the fiscal year between funds are reported as “due to/from other funds”. These balances are the result primarily of interfund transfers that have not yet been funded.

Advances to and from other funds at June 30, 2010 were as follows:

<u>Funds:</u>	<u>Advances to other funds</u>	<u>Advances from other funds</u>
<u>Major Governmental:</u>		
General	\$ 252,650	\$ -
<u>Non-major Governmental:</u>		
<u>Special Revenue Funds:</u>		
Redevelopment Tax Increment		21,013
Housing Set Aside	21,013	
Public Art		252,650
Total	<u>\$ 273,663</u>	<u>\$ 273,663</u>

These outstanding balances at the end of the fiscal year are the result interest-free advances from the General Fund to the Public Art Fund to cover the costs of the City’s Civic Center Public Art Program. The repayment of this advance

will be contingent on development as public art in lieu fees and grant funding for this project are generated in the coming years.

Also from the Redevelopment Tax Increment Fund to the Housing Set Aside Fund.

(4) Transfers In and Out

Transfers in and out for the fiscal year ended June 30, 2010 are as follows:

<u>Paying Fund</u>	<u>Transfers Out</u>	<u>Receiving Fund</u>	<u>Transfers In</u>
<u>Major Governmental:</u>		<u>Major Governmental:</u>	
General	\$ 5,441,566	General	\$ 3,224,203
		Capital Projects	4,624,228
<u>Non-major Governmental:</u>			
<u>Special Revenue Funds:</u>			
Measure M Turn Back & Discretionary	867,868		
AB 2766	58,869		
Proposition 42	216,118		
Proposition 1B	61,171		
CARITS	327,478		
C&D Forfeited Deposits	79,449		
Grants & Contributions	701,285		
Public Art	89,837		
<u>Major Proprietary:</u>			
Enterprise-Property Leasing	<u>24,790</u>		
Totals	<u>\$ 7,868,431</u>	Totals	<u>\$ 7,868,431</u>

Interfund Transfers are principally used to 1) provide available funds to the Capital Projects Fund for interest and principal payments on the City's long-term debt and 2) supply the Capital Projects Fund with funding necessary to accomplish those projects approved by the City Council. During the fiscal year ended June 30, 2010, there were no significant interfund transfers that were not expected, budgeted for, unusual, or of a non-routine nature.

(5) Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010 was as follows:

	<u>Balance at</u> <u>July 1, 2009</u>	<u>Prior Period</u> <u>Adjustments</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June</u> <u>30, 2010</u>
Governmental activities:					
Buildings and improvements	\$ 13,218,167	\$ (19,748)	\$ -	\$ -	\$ 13,198,419
Machinery and equipment	3,228,074	(858,961)			2,369,113
Land improvements	23,093,735	252,660			23,346,395
Infrastructure	<u>74,356,590</u>		<u>1,234,325</u>		<u>75,590,915</u>
Total cost of depreciable assets	<u>113,896,566</u>	<u>(626,049)</u>	<u>1,234,325</u>		<u>114,504,842</u>
Less accumulated depreciation for:					
Buildings and improvements	4,549,151	66,547	659,921		\$ 5,275,619
Machinery and equipment	1,322,683	(192,289)	204,600		1,334,994
Land improvements	8,082,809	50,532	1,167,319		9,300,660
Infrastructure	<u>24,927,131</u>		<u>1,432,547</u>		<u>26,369,678</u>
Total accumulated depreciation	<u>38,891,774</u>	<u>(75,210)</u>	<u>3,464,387</u>		<u>42,280,951</u>
Net depreciable assets	<u>75,004,792</u>	<u>(550,839)</u>	<u>(2,230,062)</u>		<u>72,223,891</u>
Land		17,693,529			17,693,529
Rights of way/Easements		1,956,600			1,956,600
Construction in progress	<u>71,885</u>	<u>1,483,103</u>	<u>586,077</u>		<u>2,141,065</u>
Total cost of non-depreciable assets	<u>71,885</u>	<u>21,133,232</u>	<u>586,077</u>		<u>21,791,194</u>
Total capital assets, net	<u>\$ 75,076,677</u>	<u>\$ 20,582,393</u>	<u>\$ (1,643,985)</u>	<u>\$ -</u>	<u>\$ 94,015,085</u>
Business-type activities:					
Buildings and improvements	\$ 13,590,896	\$ -	\$ 174,442	\$ -	\$ 13,765,338
Total cost of depreciable assets	<u>13,590,896</u>		<u>174,442</u>		<u>13,765,338</u>
Less accumulated depreciation for:					
Buildings and improvements	<u>3,725,840</u>		<u>688,267</u>		<u>4,414,107</u>
Total accumulated depreciation	<u>3,725,840</u>		<u>688,267</u>		<u>4,414,107</u>
Net depreciable assets	9,865,056		(513,825)		9,351,231
Land	<u>2,855,425</u>				<u>2,855,425</u>
Total capital assets, net	<u>\$ 12,720,481</u>	<u>\$ -</u>	<u>\$ (513,825)</u>	<u>\$ -</u>	<u>\$ 12,206,656</u>

The City recorded capital asset prior period adjustments during the year to reflect changes in valuing certain assets. Appraisals were performed to value Land and Rights of Way/Easements that the City owns but had never valued. Most of these assets have been owned by the City since its inception. The City also made adjustments to its depreciable assets for values below its capitalization policy as stated in Note 1.

Depreciation expensed was charged in the following functions in The Statement of Activities:

Governmental activities:	
Legislative/executive	\$ 9,061
Administrative services	141,064
Public services	3,293,526
Community development	2,483
Community services	5,998
Public safety	<u>12,255</u>
	3,464,387
Business-type activities:	
Property leasing	<u>688,267</u>
Total	<u>\$ 4,152,654</u>

(6) Long-term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2010 was as follows:

Governmental Activities					
	Balance at July 1, 2009	Additions	Reductions	Balance at June 30, 2010	Amounts Due in One Year
Certificates of Participation:					
2001 COP	\$ 14,020,000	\$ -	\$ 14,020,000	\$ -	\$ -
2003 COP	4,450,000		4,450,000		
2010 COP		17,190,000		17,190,000	1,090,000
Deferred loss on refunding		(431,996)	(12,000)	(419,996)	(28,800)
Unamortized premium		<u>1,206,953</u>	<u>33,525</u>	<u>1,173,428</u>	<u>80,460</u>
Total Certificates of Participation	<u>18,470,000</u>	<u>17,964,957</u>	<u>18,491,525</u>	<u>17,943,432</u>	<u>1,141,660</u>
Other Liabilities:					
Compensated absences	308,560	190,737	184,459	314,838	31,484
Claims and judgments	<u>54,758</u>	<u>39,173</u>		<u>93,931</u>	<u>9,393</u>
Total Other Liabilities	<u>363,318</u>	<u>229,910</u>	<u>184,459</u>	<u>408,769</u>	<u>40,877</u>
Totals	<u>\$ 18,833,318</u>	<u>\$ 18,194,867</u>	<u>\$ 18,675,984</u>	<u>\$ 18,352,201</u>	<u>\$ 1,182,537</u>

Typically, the City liquidates its compensated absences and claims and judgments with general fund resources.

2001 Certificates of Participation

In January 2010, the City issued COPs, in the amount of \$17,190,000 to refund \$13,200,000 of the 2001 COPs. Proceeds from the 2010 COPs were placed in an irrevocable trust to provide for all future debt service payments on the defeased COPs. During the current fiscal year the balance of the original 2001 COPs were completely paid off. The outstanding balance of the certificates at June 30, 2010 was \$0. As a result, the \$13,200,000 of outstanding COPs is considered to be defeased and the liability for those bonds has been removed.

2003 Certificates of Participation

In January 2010, the City issued COPs, in the amount of \$17,190,000 to refund \$4,450,000 of the 2003 COPs. Proceeds from the 2010 COPs were placed in an irrevocable trust to provide for all future debt service payments on the defeased COPs. During the current fiscal year the balance of the original 2003 COPs were completely paid off. The outstanding balance of the certificates at June 30, 2010 was \$0. As a result, the \$4,450,000 of outstanding COPs is considered to be defeased and the liability for those bonds has been removed.

2010 Certificates of Participation

On January 26, 2010, the City (through the City's blended component unit The Public Improvement Corporation) issued \$17,190,000 of Certificates of Participation (COPs). Proceeds from the sale were placed in an irrevocable trust that is used to service the future debt requirements of the 2001 and 2003 Certificates of Participation. This refunding resulted in an economic gain as well as savings from refunding. The economic gain realized in this refunding was \$1,072,242 and the savings resulting from the refunding was as follows:

Cash flow requirements to service old debt	\$ 23,858,154
Less: Cash flow requirements for new debt	<u>(22,738,962)</u>
Net savings from refunding	<u>\$ 1,119,192</u>

The 2010 COPs are direct obligations and pledge the full faith and credit of the City of Laguna Hills. The certificates were executed and delivered under the provisions of the Trust Agreement by and among The Bank of New York Mellon Trust Company, N.A, as trustee. The City is required under the Lease Agreement to make rental payments each 15th day of the month immediately preceding each June 1 and December 1 from any source of available funds in an amount sufficient to pay the annual principal and interest due with respect to the Certificates.

The Serial bonds mature in annual installments ranging from \$345,000 to \$1,670,000, commencing February 1, 2011 ending February 1, 2025. Interest accrues at rates between 2.00% and 5.00% and is payable semiannually. The annual requirements to amortize the certificates of participation as of June 30, 2010 are as follows:

Fiscal Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,090,000	\$ 710,824	\$ 1,800,824
2012	1,130,000	668,388	1,798,388
2013	1,180,000	623,188	1,803,188
2014	1,205,000	599,586	1,804,586
2015	1,250,000	551,386	1,801,386
2016 - 2020	7,010,000	1,969,924	8,979,924
2021 - 2025	<u>4,325,000</u>	<u>425,666</u>	<u>4,750,666</u>
Totals	<u>\$ 17,190,000</u>	<u>\$ 5,548,962</u>	<u>\$ 22,738,962</u>

Compensated Absences

The City's policies relating to compensated absences are described in Note 1. The long-term portion of this liability, amounting to \$314,838 at June 30, 2010 will be paid from fund balance.

(7) General Liability Insurance & Workers' Compensation Program

In July 2003, the City joined the Exclusive Risk Management Authority of California (ERMAC), a pool of three other cities in California, namely Beaumont, Hayward, and Santa Maria, established under the provisions of California Government Code Section 6502, in order to jointly develop and fund General Liability insurance.

The ERMAC policy covers the City for losses due to personal injury, property damage, wrongful acts because of public officials' errors and omissions and unfair employment practices (see the chart below for City's retained limits and policy liability limits). Legal defense costs may be covered in addition to policy limits.

The City also carries property, business interruption and boiler & machinery insurance with ERMAC (PEPIP Program) to cover all City property. In addition, Difference in Conditions (DIC) or earthquake and flood insurance is provided by Pacific Insurance Company and National Fire & Marine Insurance Company. This policy covers the Laguna Hills Civic Center.

The following is a list of the allocation of risk coverage for the City as of June 30, 2010, taking in to account the City's self-insurance portion, if any.

Area of Risk	City Self-Insurance	Carrier	Risk Coverage
Municipal Broad General Liability	<ul style="list-style-type: none"> • \$100,000 for PI, PD or wrongful acts (public officials E&O) • \$1,000,000 for unfair employment practices 	ERMAC	<ul style="list-style-type: none"> • \$25M per occurrence, excess limit of SIR
Property, Business Interruption and Boiler & Machinery	<ul style="list-style-type: none"> • \$10,000 per occurrence (specific perils may be higher) 	ERMAC (PEPIP program)	<ul style="list-style-type: none"> • \$1B per occurrence combined • \$10M flood limit per occurrence • \$100M combined business interruption • \$100M boiler explosion & machinery breakdown combined
Crime	<ul style="list-style-type: none"> • \$2,500 - \$10,000 	Travelers	<ul style="list-style-type: none"> • \$1M employee dishonesty • \$1M forgery alterations • \$1M money & securities theft, inside premises • \$1M money & securities theft, outside premises • \$1M computer fraud • \$1M money order & counterfeit currency • \$500,000 theft of other property, inside premises • \$500,000 theft of other property, outside premises
Difference in Conditions (DIC) (Multi-peril)	<ul style="list-style-type: none"> • \$50,000 General • 5% earthquake 	Pacific Insurance Company and National Fire & Marine Insurance Company	<ul style="list-style-type: none"> • \$5.6M per occurrence and annual aggregate • \$1 million ordinance or law • \$25M TIV coverage for the Civic Center
Recreational Class & Officials Supplemental	<ul style="list-style-type: none"> • None 	Scottsdale	<ul style="list-style-type: none"> • \$1M per occurrence • \$300,000 property damage • \$1M personal injury, products and partial liability • \$5,000 medical expense

Area of Risk	City Self-Insurance	Carrier	Risk Coverage
Business Auto	<ul style="list-style-type: none"> • \$500 	Redland	<ul style="list-style-type: none"> • \$1M combined BI & PD • \$1M uninsured, under-insured motorist • \$5,000 medical payments • If any basis, non-owned or hired auto liability
Excess Workers' Compensation & Employers' Liability	<ul style="list-style-type: none"> • \$125,000 	CSAC Excess Insurance Authority	<ul style="list-style-type: none"> • \$875,000 each accident or employee for disease & employers liability (Layer 1) • \$4 per occurrence in excess of Layer 1 (Layer 2) • \$45M per occurrence in excess of Layer 2 (Layer 3) • Statutory per occurrence in excess of Layer 3 (Layer 4)

Self-Insurance Program for Workers' Compensation Claims

On November 22, 2005, the City initiated a program of self-insurance for worker's compensation liability claims. The Workers' Compensation Self-Insurance Fund was established at \$550,000, comprised of a deposit of \$250,000, which is twice the self-insured retention (SIR) level of \$125,000, plus a \$300,000 reserve. This deposit was intended to be a worst case conservative estimate of actual losses and expenses that could be experienced, with a caveat that an independent actuarial report would make funding recommendations for subsequent years. The audit of this fund would include a reserve analysis to determine the minimum funding levels for each year. The \$300,000 reserve ensured the self-insured plan's stability in the event of a combination of multiple large losses in a single year.

The City engaged the services of Arm Tech, an independent actuary, to perform a study of the City's reserve funding levels for fiscal year ended June 30, 2007 and two fiscal years thereafter. It was actuarially determined that \$212,500 was an adequate reserve for the estimated outstanding losses associated with the City's Self-Insured Workers' Compensation Program, as of June 30, 2007. In September 2008, the City changed the minimum funding level from a specific dollar amount to a formula driven funding level. The formula would be the total of the present value of the estimated outstanding losses and the present value of the projected unlimited losses based on an expected (50%) confidence level, not to exceed \$550,000. The total amount designated for the Workers' Compensation Self Insurance Fund as of June 30, 2010 is \$212,500.

The City carries excess workers' compensation & employers' liability insurance coverage with the CSAC Excess Insurance Authority (CSAC EIA). The excess insurance coverage provides for a pooled retention level layer above the City's \$125,000 SIR up to \$875,000 (total \$1,000,000 Layer 1). The Layer 2 limit is \$4,000,000 for each occurrence above the Layer 1 limit. The Layer 3 limit is

\$45,000,000 for each occurrence above the Layer 2 limit. The Layer 4 limit is Statutory for each occurrence above the Layer 3 limit.

The City has entered into contract with CorVel Corporation as third-party administrators who supervise the workers compensation program.

Claims Liability

Arm Tech was also engaged to perform a study of the City's reserve funding for its claims liability. The actuarial recommendation is to establish a liability reserve equal to the estimated outstanding losses, which included case reserves, the development of known claims and incurred but not reported (IBNR) claims. Furthermore, the implementation guide for GASB Statement No. 10 specifies that a liability of outstanding unallocated loss adjustment expenses (ULAE) needs to be established, which are primarily composed of future claims administration for open claims, typically at 5% to 10% of estimated outstanding losses. The total amount designated for the Claims Liability Loss Reserve Fund as of June 30, 2010 is \$106,648.

When it is probable that a claims liability has been incurred and the amount of the loss can be reasonably estimated through historical trends and calculation of incurred but not reported claims (IBNR), the City accrues the estimated liability to the extent of the City's self-insured limit in the government-wide statements for expected claims and judgments.

The following is a summary of the changes in the claims liability for the last two fiscal years:

	FY2009/10	FY2008/09
Claims payable, beginning	\$ 54,758	\$ 195,167
Payments/changes in estimate	39,173	(140,409)
Claims payable, ending	\$ 93,931	\$ 54,758

(8) Pension Plan

Plan Description

The City of Laguna Hills contributes to the California Public Employees Retirement System (PERS), a cost sharing 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 at 400 P. Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. The current rate is 10.263% of annual covered payroll. The contribution requirements of plan members and the City are established by contract and may be amended by PERS.

Annual Pension Cost

For 2009-2010, the City's annual pension cost of \$476,195 for PERS was equal to the City's required and actual contributions.

THREE YEAR TREND INFORMATION FOR PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/08	\$490,920	100%	\$0
6/30/09	\$488,396	100%	\$0
6/30/10	\$476,195	100%	\$0

For fiscal years 2003-2010, the City of Laguna Hills participated in risk pooling. Risk pooling consists of combining assets and liabilities across employers to produce large groups where the impact of a catastrophic demographic event is shared among all employers of the same risk pool. Participation in risk pools is mandatory for all rate plans with less than 100 active members. Mandated participation in risk pools was initially based on the active membership of each rate plan as of June 30, 2003. The implementation of risk pools was done in a way that minimizes the impact on employer contribution rates. The first year in the risk pools, the employer contribution rates are almost identical to what the rates would have been outside pools. Future rates will be based on the experience of each pool. Pooling will reduce the volatility of future employer rates. Mandated participation will occur on an annual basis. If on any valuation date, starting with the June 30, 2003 valuation, a rate plan has less than 100 active members, it will be mandated in one of the risk pools effective on that valuation date.

At the time of joining a risk pool, a side fund was created to account for the difference between the funded status of the pool and the funded status of the City's plan. The side fund, when in the negative, is equivalent to the agency's unfunded liability. The actuarial valuation of the City's adjusted unfunded liability is \$638,418 as of June 30, 2010.

(9) Deferred Compensation

The City offers its employees two kinds of deferred compensation plans.

One plan is created in accordance with Internal Revenue Code Section 457. This plan, available to all employees, permits them to defer annually up to 25% of their annual salary to a maximum of \$16,500 for calendar year 2009 and \$16,500 for calendar year 2010. This maximum deferred compensation is not

available to employees until termination, retirement, death or unforeseeable emergency. Amounts accumulated by the City under the plan have been invested in several investment options administered by independent third-party administrators at the direction of the employee. The assets of the Plan are held in trust, with the City as trustee, for the exclusive benefit of the Plan participants and their beneficiaries, and the assets cannot be diverted to any other purpose. The Trustee's beneficial ownership of Plan assets held in the ICMA Retirement Trust is held for the further exclusive benefit of the Plan participants and their beneficiaries. The Plan permits loans, administered by the City, in accordance with approved loan guidelines.

The other Plan is created in accordance with Internal Revenue Code Section 401A. This Plan is available to all management staff regardless of years of service, and non-management employees who have reached a minimum of ten years of service with the City. The City is the sole contributor to this Plan, and sets the contribution amount to each class of eligible employees. The contribution limit is in accordance with the prevailing IRS regulation. The assets of this Plan, held for the exclusive benefits of the Plan's participants and their beneficiaries, are administered by the Public Agency Retirement System (PARS), and the trustee is Union Bank of California. Amounts accumulated under this Plan are self-directed by each participant.

(10) Joint Venture

Orange County Fire Authority

In January 1995, the City of Laguna Hills entered into a Joint Powers Agreement with the Cities of Buena Park, Cypress, Dana Point, Irvine, Laguna Niguel, Lake Forest, La Palma, Los Alamitos, Mission Viejo, Placentia, San Clemente, San Juan Capistrano, Seal Beach, Stanton, Tustin, Villa Park, and Yorba Linda and the County of Orange to create the Orange County Fire Authority. Since the creation of the Authority, the cities of Aliso Viejo, Laguna Woods, Rancho Santa Margarita and Westminster have joined the Authority as members eligible for protection services. The purpose of the Authority is to provide for mutual fire protection, prevention and suppression services and related and incidental services including, but not limited to, emergency medical and transport services, as well as providing facilities and personnel for such services. The effective date of formation was March 1, 1995. The Authority's governing board consists of one representative from each City and two from the County. The operations of the Authority are funded with structural fire fees collected by the County through the property tax roll for the unincorporated area and on behalf of all member Cities except for the Cities of Stanton, Tustin, San Clemente, Buena Park, Placentia, Seal Beach and Westminster. The County pays all structural fire fees it collects to the Authority. The Cities of Stanton, Tustin, San Clemente, Buena Park, Placentia and Seal Beach are considered "cash contract cities" and accordingly make cash contributions based on the Authority's annual budget. No determination has been made as to each participant's proportionate share of fund equity as of June 30, 2010. Upon dissolution of the Authority, all surplus money and property of the Authority will be conveyed or distributed to each member in proportion to all funds provided to the Authority by that member or by the County on behalf of that member during its membership.

Summarized information of the Authority for the fiscal year ended June 30, 2010 is as follows.

	<u>Government-Wide</u>
Total Assets	\$ 383,473,164
Total Liabilities	<u>(82,166,911)</u>
Total Net Assets	<u>\$ 301,306,253</u>
Total Revenues	\$ 251,842,703
Total Expenditures	<u>(245,336,424)</u>
Net Change in Net Assets	<u>\$ 6,506,279</u>

Complete financial statements may be obtained from the Orange County Fire Authority (1 Fire Authority Road, Irvine, CA 92602).

(11) Net Assets

None of the restricted net assets were restricted as a result of enabling legislature.

(12) Restatement of Net Assets/Fund Balance

The accompanying financial statements reflect adjustments that resulted in the restatement of beginning net assets and fund balances of the Governmental Funds as follows:

	<u>Governmental Activities Net Assets</u>	<u>Major Fund General Fund Balance</u>
Beginning balance, as previously reported	\$ 67,821,899	\$ 8,627,555
Capital assets corrections	20,582,393	
Adjustment of prior year expenditures	111,100	
Adjustment of prior year revenues	<u>(228,142)</u>	<u>228,142</u>
Beginning balance, as restated	<u>\$ 88,287,250</u>	<u>\$ 8,399,413</u>
<u>Non-Major Governmental Funds</u>		
Beginning balance, as previously reported		\$ 2,427,534
Adjustment of prior year expenditures		<u>111,100</u>
Beginning balance, as restated		<u>\$ 2,538,634</u>

(13) Proposition 1A Securitization Program

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties, and special districts (excluding redevelopment agencies). The state is

required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City of Laguna Hills was \$800,675.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California.

Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

(14) Related Party Transactions

The City's enterprise fund consists of owning a piece of commercial real estate and leasing it to various entities. The total square footage of the building is 51,946. The City is a tenant using approximately 20,843 square feet of the building. The enterprise fund does not charge the City rent. The estimated annual rent for the space would be approximately \$593,000.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAGUNA HILLS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. BUDGETS AND BUDGETARY ACCOUNTING

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and used as a management control device. The City Council approves the two-year budget submitted by the City Manager prior to the beginning of the new two-year budget cycle. The Council conducts public hearings prior to its adoption. All remaining appropriations in the Operating Budget will be carried over from the first year to the second year of the two-year budget period. The City Council has the legal authority to amend the budget at any time during the fiscal year. The City Manager has the authority to transfer budgeted amounts between funds and divisions as deemed necessary to meet the City's needs within the overall legal limit established by the City Council. The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control is total expenditures by fund. Formal budgetary integration is employed as a management control device during the year for the governmental type funds.

2. EXPENDITURES IN EXCESS OF APPROPRIATIONS

Expenditures exceeded appropriations in the following General Fund department:

	Appropriations	Expenditures	Variance Positive (Negative)
General Fund:			
Administrative services	\$1,527,828	\$1,537,841	\$ (10,013)

CITY OF LAGUNA HILLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variances with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Taxes	\$ 11,281,475	\$ 11,281,475	\$ 10,460,756	\$ (820,719)
Licenses and permits	480,600	480,600	378,706	(101,894)
Intergovernmental revenues	6,195,367	6,195,367	5,069,814	(1,125,553)
Charges for current services	998,522	998,522	946,119	(52,403)
Fines and forfeitures	475,000	475,000	542,732	67,732
Investment income	75,000	75,000	24,991	(50,009)
Total Revenues	19,505,964	19,505,964	17,423,118	(2,082,846)
Expenditures:				
Legislative/executive	1,554,189	1,604,189	1,583,009	21,180
Administrative services	1,527,828	1,527,828	1,537,841	(10,013)
Public services	4,000,738	4,000,738	3,980,562	20,176
Community development	1,098,150	1,048,150	1,008,692	39,458
Community services	1,647,838	1,647,838	1,570,196	77,642
Public safety	6,646,226	6,646,226	6,515,144	131,082
Total Expenditures	16,474,969	16,474,969	16,195,444	279,525
Excess (Deficiency) of				
Revenues over Expenditures	3,030,995	3,030,995	1,227,674	(1,803,321)
Other Financing Sources (Uses):				
Lawsuit settlement			(7,500)	(7,500)
Transfers in	4,655,000	12,575,697	3,244,203	(9,331,494)
Transfers out	(7,152,000)	(15,171,672)	(5,441,566)	9,730,106
Total Other Financing				
Sources (Uses)	(2,497,000)	(2,595,975)	(2,204,863)	391,112
Net change in Fund Balance	533,995	435,020	(977,189)	(1,412,209)
Fund Balance, Beginning (as restated)	8,399,413	8,399,413	8,399,413	
Fund Balance, Ending	\$ 8,933,408	\$ 8,834,433	\$ 7,422,224	\$ (1,412,209)

See Notes to Required Supplementary Information

SUPPLEMENTARY SCHEDULES

NON-MAJOR FUNDS

Gas Tax Fund - Used to account for revenues and expenditures made for general street improvement maintenance. Financing is provided by the City's share of state gasoline taxes collected under the Street and Highway Code, Sections 2105, 2106, 207 and 2107.5.

Measure M- Turn Back & Discretionary Fund - Used to account for revenues and expenditures made for street improvement and maintenance beneficial to the transportation systems. Financing is provided by the Orange County Transportation Authority.

AB 2766 Fund - Used to account for revenues and expenditures made for air quality improvement. AB 2766 was enacted to authorize air pollution control districts to impose fees on motor vehicles.

Proposition 42 Fund - Used to account for revenues and expenditures related to the State's portion of sales tax on gasoline, used for the purpose of transportation related projects, specifically, local street and road repairs and improvements.

Proposition 1B Fund - Used to account for revenues and expenditures related to funds from Proposition 1B, a 2006 voter-approved transportation bond, used for the purpose of transportation related projects that relieve traffic congestion and improve air quality.

CARITS Fund - Used to account for revenues and expenditures related to the cooperative agreement with the County of Orange for Coastal Area Road Improvement and Traffic Signals (CARITS) fee program. The fees established by this program are collected at issuance of building permits and forwarded to the County for administration of the funds. The City is a recipient of these funds as projects are initiated for construction as part of the program.

Community Development Block Grant Fund - Used to account for revenues and expenditures to improve local and national objectives to provide decent and safe housing for low- and moderate-income families. This is grant funding obtained from the United States Department of Housing and Urban Development (HUD) for the purposes of rehabilitating "eligible" deteriorating housing in the City.

Redevelopment Tax Increment Fund - Used to account for revenues and expenditures related to the 20% set-aside redevelopment tax increment funds generated from properties within the Laguna Hills portion of the El Toro Redevelopment Project Area.

Beverage Recycling Fund - Used to account for revenues and expenditures related to grant funding received from the California State Department of Conservation for the purpose of implementing and supporting beverage container recycling programs within the City.

CR&R Recycling Fund - Used to account for contractual revenues received from the City's franchised hauler, CR&R, for the purposes of recycling consulting services and general recycling activity expenditures.

C & D Forfeited Deposits Fund - Used to account for Construction and Demolition Waste Recycling Program security deposits, which have been forfeited to the City when determined that the applicant has not made a good faith effort to comply with the program. These forfeited deposits are used for administration costs of the program, or on programs to divert the waste from construction, demolition and alteration projects from landfill disposal, or other recycling programs.

AB 939 Surcharge Grant Fund - Used to account for revenues and expenditures related to the County of Orange Regional Recycling and Waste Diversion Grant Program (AB 939 Surcharge Grant) for the purpose of implementing and supporting regional recycling and waste diversion within the City.

Housing Set Aside - Used to account for property tax increment specifically levied for low and moderate income housing. State law requires that at least 20% of tax increment monies received be dedicated for the sole purpose of the development and preservation of affordable housing in the community.

Grants & Contribution Fund - Used to account revenues and expenditures made for specific projects including landscape improvements and certain capital expenditures. Land developers and builders, as well as other public agencies provide financing.

Public Art Fund - Used to account for revenues and expenditures related to the City's Public Art program designed to enhance the cultural and aesthetic environment and to encourage creativity, education and appreciation of the arts.

Public Safety Fund - Used to account for revenues received and expenditures made for front line police services. Financing is provided by federal and state funds.

CITY OF LAGUNA HILLS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
AS OF JUNE 30, 2010

Special Revenue							
	Measure M						
	Gas Tax	Turn Back & Discretionary	AB 2766	Prop 42	Prop 1B	CARITS	CDBG
Assets							
Due from other funds	\$ 563,777	\$ -	\$ 55,149	\$ 374,823	\$ 632,018	\$ 855,419	\$ -
Due from other governments							
Advances to other funds							
Total Assets	<u>\$ 563,777</u>	<u>\$ -</u>	<u>\$ 55,149</u>	<u>\$ 374,823</u>	<u>\$ 632,018</u>	<u>\$ 855,419</u>	<u>\$ -</u>
Liabilities and Fund Balances							
Liabilities:							
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred revenue							
Advances from other funds							
Total Liabilities							
Fund Balances:							
Unreserved, Undesignated	<u>563,777</u>		<u>55,149</u>	<u>374,823</u>	<u>632,018</u>	<u>855,419</u>	
Total Liabilities and Fund Balance	<u>\$ 563,777</u>	<u>\$ -</u>	<u>\$ 55,149</u>	<u>\$ 374,823</u>	<u>\$ 632,018</u>	<u>\$ 855,419</u>	<u>\$ -</u>

									Total
Redevelopment		CR&R	C & D	AB 939					Nonmajor
Tax	Beverage	Recycling	Forfeited	Surcharge	Housing	Grants and	Public	Public	Governmental
Increment	Recycling	Fee	Deposits	Grant	Set Aside	Contributions	Art	Safety	Funds
\$ 33,089	\$ 39,080	\$ -	\$ -	\$ 13,511	\$ 61,312	\$ 118,916	\$ -	\$ -	\$ 2,685,782
					21,013				61,312
									21,013
<u>\$ 33,089</u>	<u>\$ 39,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,511</u>	<u>\$ 82,325</u>	<u>\$ 118,916</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,768,107</u>
\$ -	\$ -	\$ 927	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 927
					82,325				82,325
<u>21,013</u>							<u>252,650</u>		<u>273,663</u>
<u>21,013</u>		<u>927</u>			<u>82,325</u>		<u>252,650</u>		<u>356,915</u>
<u>12,076</u>	<u>39,080</u>	<u>(927)</u>		<u>13,511</u>		<u>118,916</u>	<u>(252,650)</u>		<u>2,411,192</u>
<u>\$ 33,089</u>	<u>\$ 39,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,511</u>	<u>\$ 82,325</u>	<u>\$ 118,916</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,768,107</u>

CITY OF LAGUNA HILLS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Special Revenue						
	Measure M						
	Gas Tax	Turn Back & Discretionary	AB 2766	Prop 42	Prop 1B	CARITS	CDBG
Revenues:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits							
Intergovernmental	555,906	665,773	37,678	302,745			515,293
Investment income	1,601	1,480	453	1,323	3,562	6,079	
Total Revenues	557,507	667,253	38,131	304,068	3,562	6,079	515,293
Expenditures:							
Current:							
Public services							
Community development							515,293
Community services							
Public safety							
Capital outlay							
Total Expenditures							515,293
Excess (Deficiency) of Revenues over Expenditures	557,507	667,253	38,131	304,068	3,562	6,079	
Other Financing Sources (Uses):							
Transfers in							
Transfers out		(867,868)	(58,869)	(216,118)	(61,171)	(327,478)	
Total Other Financing Sources (Uses)		(867,868)	(58,869)	(216,118)	(61,171)	(327,478)	
Net Change in Fund Balances	557,507	(200,615)	(20,738)	87,950	(57,609)	(321,399)	
Fund Balances (Deficit), Beginning, as restated	6,270	200,615	75,887	286,873	689,627	1,176,818	
Fund Balances (Deficit), Ending	\$ 563,777	\$ -	\$ 55,149	\$ 374,823	\$ 632,018	\$ 855,419	\$ -

									Total
Redevelopment		CR&R	C & D	AB 939					Nonmajor
Tax	Beverage	Recycling	Forfeited	Surcharge	Housing	Grants &	Public	Public	Governmental
Increment	Recycling	Fee	Deposits	Grant	Set Aside	Contribution	Art	Safety	Funds
\$ 58,783	\$ -	\$ 33,657	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 92,440
			44,306						44,306
	5,000					701,285		122,383	2,906,063
225	191	43	452	83		1,035			16,527
59,008	5,191	33,700	44,758	83	-	702,320	-	122,383	3,059,336
	2,565	38,688	61,978	4,745					107,976
69,202									584,495
									-
								70,495	70,495
								21,737	21,737
69,202	2,565	38,688	61,978	4,745				92,232	784,703
(10,194)	2,626	(4,988)	(17,220)	(4,662)		702,320		30,151	2,274,633
			(79,449)			(701,285)	(89,837)		(2,402,075)
			(79,449)			(701,285)	(89,837)		(2,402,075)
(10,194)	2,626	(4,988)	(96,669)	(4,662)		1,035	(89,837)	30,151	(127,442)
22,270	36,454	4,061	96,669	18,173		117,881	(162,813)	(30,151)	2,538,634
\$ 12,076	\$ 39,080	\$ (927)	\$ -	\$ 13,511	\$ -	\$ 118,916	\$ (252,650)	\$ -	\$ 2,411,192

CITY OF LAGUNA HILLS
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget- Positive(Negative)
Revenues:				
Investment income	\$ -	\$ -	\$ 4,214	\$ 4,214
Total Revenues			4,214	4,214
Expenditures:				
Capital Outlay	5,260,000	13,279,672	1,992,060	11,287,612
Debt Service:				
Interest	850,078	850,078	427,854	422,224
Bond issue costs			301,477	(301,477)
Principal	1,041,922	1,041,922	820,000	221,922
Total Expenditures	7,152,000	15,171,672	3,541,391	11,630,281
Excess (Deficiency) of Revenues over Expenditures	(7,152,000)	(15,171,672)	(3,537,177)	11,634,495
Other Financing Sources (Uses):				
Proceeds from bond issue			17,190,000	17,190,000
Payment to escrow agent			(18,081,996)	(18,081,996)
Premium on bond issue			1,206,953	1,206,953
Transfers in	7,152,000	15,171,672	4,624,228	(10,547,444)
Total Other Financing Sources (Uses)	7,152,000	15,171,672	4,939,185	(10,232,487)
Net change in Fund Balances			1,402,008	1,402,008
Fund Balance, Beginning	415,078	415,078	415,078	
Fund Balance, Ending	\$ 415,078	\$ 415,078	\$ 1,817,086	\$ 1,402,008

CITY OF LAGUNA HILLS
GAS TAX SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Intergovernmental	\$ 612,000	\$ 612,000	\$ 555,906	\$ (56,094)
Investment income	2,500	2,500	1,601	(899)
Total Revenues	614,500	614,500	557,507	(56,993)
Other Financing Sources (Uses):				
Transfers out				
Total Other Financing Sources (Uses)				
Net Change in Fund Balance	614,500	614,500	557,507	(56,993)
Fund Balance, Beginning	6,270	6,270	6,270	
Fund Balance, Ending	\$ 620,770	\$ 620,770	\$ 563,777	\$ (56,993)

CITY OF LAGUNA HILLS
MEASURE M - TURN BACK AND DISCRETIONARY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Intergovernmental	\$ 2,238,346	\$ 2,238,346	\$ 665,773	\$ (1,572,573)
Investment income	2,500	2,500	1,480	(1,020)
Total Revenues	2,240,846	2,240,846	667,253	(1,573,593)
Other Financing Sources (Uses):				
Transfers out	(1,833,000)	(1,936,226)	(867,868)	1,068,358
Total Other Financing Sources (Uses)	(1,833,000)	(1,936,226)	(867,868)	1,068,358
Net Change in Fund Balance	407,846	304,620	(200,615)	(505,235)
Fund Balance, Beginning	200,615	200,615	200,615	
Fund Balance, Ending	\$ 608,461	\$ 505,235	\$ -	\$ (505,235)

CITY OF LAGUNA HILLS
AB2766 SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Intergovernmental	\$ 38,000	\$ 38,000	\$ 37,678	\$ (322)
Investment income	1,000	1,000	453	(547)
Total Revenues	39,000	39,000	38,131	(869)
Other Financing Sources (Uses):				
Transfers out	(60,000)	(60,000)	(58,869)	1,131
Total Other Financing Sources (Uses)	(60,000)	(60,000)	(58,869)	1,131
Net Change in Fund Balance	(21,000)	(21,000)	(20,738)	262
Fund Balance, Beginning	75,887	75,887	75,887	
Fund Balance, Ending	\$ 54,887	\$ 54,887	\$ 55,149	\$ 262

CITY OF LAGUNA HILLS
PROPOSITION 42 SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental	\$ 421,123	\$ 421,123	\$ 302,745	\$ (118,378)
Investment income	<u>2,500</u>	<u>2,500</u>	<u>1,323</u>	<u>(1,177)</u>
Total Revenues	<u>423,623</u>	<u>423,623</u>	<u>304,068</u>	<u>(119,555)</u>
Other Financing Sources (Uses):				
Transfers out	<u>(412,000)</u>	<u>(412,000)</u>	<u>(216,118)</u>	<u>195,882</u>
Total Other Financing Sources (Uses)	<u>(412,000)</u>	<u>(412,000)</u>	<u>(216,118)</u>	<u>195,882</u>
Net Change in Fund Balance	11,623	11,623	87,950	76,327
Fund Balance, Beginning	<u>286,873</u>	<u>286,873</u>	<u>286,873</u>	
Fund Balance, Ending	<u>\$ 298,496</u>	<u>\$ 298,496</u>	<u>\$ 374,823</u>	<u>\$ 76,327</u>

CITY OF LAGUNA HILLS
PROPOSITION 1B SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Investment income	5,000	5,000	3,562	(1,438)
Total Revenues	5,000	5,000	3,562	(1,438)
Other Financing Sources (Uses):				
Transfers out		(50,000)	(61,171)	(11,171)
Total Other Financing Sources (Uses)		(50,000)	(61,171)	(11,171)
Net Change in Fund Balance	5,000	(45,000)	(57,609)	(12,609)
Fund Balance, Beginning	689,627	689,627	689,627	
Fund Balance, Ending	\$ 694,627	\$ 644,627	\$ 632,018	\$ (12,609)

CITY OF LAGUNA HILLS
CARITS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Investment income	\$ 12,500	\$ 12,500	\$ 6,079	\$ (6,421)
Total Revenues	12,500	12,500	6,079	(6,421)
Other Financing Sources (Uses):				
Transfers out	(1,095,000)	(1,095,000)	(327,478)	767,522
Total Other Financing Sources (Uses)	(1,095,000)	(1,095,000)	(327,478)	767,522
Net Change in Fund Balance	(1,082,500)	(1,082,500)	(321,399)	761,101
Fund Balance, Beginning	1,176,818	1,176,818	1,176,818	
Fund Balance, Ending	\$ 94,318	\$ 94,318	\$ 855,419	\$ 761,101

CITY OF LAGUNA HILLS
CDBG SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ 428,686	\$ 428,686	\$ 515,293	\$ (86,607)
Total Revenues	428,686	428,686	515,293	(86,607)
Expenditures:				
Current:				
Community development	428,686	428,686	515,293	(86,607)
Net Change in Fund Balance				
Fund Balance, Beginning				
Fund Balance, Ending	\$ -	\$ -	\$ -	\$ -

CITY OF LAGUNA HILLS
REDEVELOPMENT TAX INCREMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Taxes	\$ 33,000	\$ 33,000	\$ 58,783	\$ 25,783
Investment income	500	500	225	(275)
Total Revenues	33,500	33,500	59,008	25,508
Expenditures:				
Current:				
Community development			69,202	(69,202)
Net Change in Fund Balance	33,500	33,500	(10,194)	(43,694)
Fund Balance, Beginning	22,270	22,270	22,270	
Fund Balance, Ending	\$ 55,770	\$ 55,770	\$ 12,076	\$ (43,694)

CITY OF LAGUNA HILLS
BEVERAGE RECYCLING SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Intergovernmental	\$ 8,000	\$ 8,000	\$ 5,000	\$ (3,000)
Investment income	500	500	191	(309)
Total Revenues	8,500	8,500	5,191	(3,309)
Expenditures:				
Current:				
Public Services	20,000	20,000	2,565	17,435
Net Change in Fund Balance	(11,500)	(11,500)	2,626	14,126
Fund Balance, Beginning	36,454	36,454	36,454	
Fund Balance, Ending	\$ 24,954	\$ 24,954	\$ 39,080	\$ 14,126

CITY OF LAGUNA HILLS
CR&R RECYCLING FEES SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Taxes	\$ 20,000	\$ 20,000	\$ 33,657	\$ 13,657
Investment income			43	43
Total Revenues	20,000	20,000	33,700	13,700
Expenditures:				
Current:				
Public Services	20,000	20,000	38,688	(18,688)
Net Change in Fund Balance			(4,988)	(4,988)
Fund Balance, Beginning	4,061	4,061	4,061	
Fund Balance (Deficit), Ending	\$ 4,061	\$ 4,061	\$ (927)	\$ (4,988)

CITY OF LAGUNA HILLS
C & D FORFEITED DEPOSITS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Licenses and permits	\$ -	\$ -	\$ 44,306	\$ 44,306
Investment income	1,000	1,000	452	(548)
Total Revenues	1,000	1,000	44,758	43,758
Expenditures:				
Current:				
Public Services	54,000	54,000	61,978	(7,978)
Excess (deficiency) of Revenues over Expenditures	(53,000)	(53,000)	(17,220)	35,780
Other Financing Sources (Uses):				
Transfers out			(79,449)	(79,449)
Total Other Financing Sources (Uses)			(79,449)	(79,449)
Net Change in Fund Balance	(53,000)	(53,000)	(96,669)	(43,669)
Fund Balance, Beginning	96,669	96,669	96,669	
Fund Balance, Ending	\$ 43,669	\$ 43,669	\$ -	\$ (43,669)

CITY OF LAGUNA HILLS
AB 939 SURCHARGE GRANT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Investment income	\$ -	\$ -	\$ 83	\$ 83
Total Revenues			83	83
Expenditures:				
Current:				
Public Services	18,453	18,453	4,745	13,708
Net Change in Fund Balance	(18,453)	(18,453)	(4,662)	13,791
Fund Balance, Beginning	18,173	18,173	18,173	
Fund Balance (Deficit), Ending	\$ (280)	\$ (280)	\$ 13,511	\$ 13,791

CITY OF LAGUNA HILLS
GRANTS AND CONTRIBUTIONS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Intergovernmental	\$ 600,000	\$ 8,257,471	\$ 701,285	\$ (7,556,186)
Investment income	2,500	2,500	1,035	(1,465)
Total Revenues	602,500	8,259,971	702,320	(7,557,651)
Other Financing Sources (Uses):				
Transfers out	(640,000)	(8,297,471)	(701,285)	7,596,186
Total Other Financing Sources (Uses)	(640,000)	(8,297,471)	(701,285)	7,596,186
Net Change in Fund Balance	(37,500)	(37,500)	1,035	38,535
Fund Balance, Beginning	117,881	117,881	117,881	
Fund Balance, Ending	\$ 80,381	\$ 80,381	\$ 118,916	\$ 38,535

CITY OF LAGUNA HILLS
PUBLIC ART FUND SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Licenses and permits	\$ -	\$ -	\$ -	\$ -
Total Revenues				
Other Financing Sources (Uses):				
Transfers out		(60,000)	(89,837)	(29,837)
Total Other Financing Sources (Uses)		(60,000)	(89,837)	(29,837)
Net Change in Fund Balance		(60,000)	(89,837)	(29,837)
Fund Balance (deficit), Beginning	(162,813)	(162,813)	(162,813)	
Fund Balance (deficit), Ending	<u>\$ (162,813)</u>	<u>\$ (222,813)</u>	<u>\$ (252,650)</u>	<u>\$ (29,837)</u>

CITY OF LAGUNA HILLS
PUBLIC SAFETY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive(Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 125,000	\$ 125,000	\$ 122,383	\$ (2,617)
Total Revenues	125,000	125,000	122,383	(2,617)
Expenditures:				
Current:				
Public safety			70,495	(70,495)
Capital outlay	25,000	25,000	21,737	3,263
Total Expenditures	25,000	25,000	92,232	(67,232)
Excess (Deficiency) of Revenues over Expenditures	100,000	100,000	30,151	(69,849)
Net Change in Fund Balance	100,000	100,000	30,151	(69,849)
Fund Balance (deficit), Beginning	(30,151)	(30,151)	(30,151)	
Fund Balance, Ending	\$ 69,849	\$ 69,849	\$ -	\$ (69,849)

CITY OF LAGUNA HILLS
AGENCY FUND
STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>
Assets				
Cash and investments	\$ <u>427,647</u>	\$ <u>-</u>	\$ <u>(158,823)</u>	\$ <u>268,824</u>
Total assets	\$ <u><u>427,647</u></u>	\$ <u><u>-</u></u>	\$ <u><u>(158,823)</u></u>	\$ <u><u>268,824</u></u>
Liabilities				
Deposits	\$ <u>427,647</u>	\$ <u>-</u>	\$ <u>(158,823)</u>	\$ <u>268,824</u>
Total liabilities	\$ <u><u>427,647</u></u>	\$ <u><u>-</u></u>	\$ <u><u>(158,823)</u></u>	\$ <u><u>268,824</u></u>



STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Laguna Hills' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City of Laguna Hills' overall financial health.

Contents	Page
Financial Trends	III-3
<i>Financial trend schedules contain trend information to help the reader understand how the City of Laguna Hills' financial performance and well-being have changed over time.</i>	
Revenue Capacity	III-10
<i>Revenue capacity schedules contain information to help the reader assess the City of Laguna Hills' most significant local revenue source, the property tax.</i>	
Debt Capacity	III-14
<i>Debt capacity schedules present information to help the reader assess the affordability of the City of Laguna Hills' current levels of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	III-19
<i>Demographic and economic information schedules offer demographic and economic indicators to help the reader understand the environment within which the City of Laguna Hills' financial activities take place.</i>	
Operating Information	III-21
<i>Operating information schedules contain service and infrastructure data to help the reader understand how the information in the City of Laguna Hills' financial report relates to the services the government provides and the activities it performs.</i>	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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CITY OF LAGUNA HILLS

NET ASSETS BY COMPONENT

LAST NINE FISCAL YEARS

(accrual basis of accounting)

	Fiscal Year								
	2002	2003	2004 ^(a)	2005	2006	2007	2008	2009	2010
Governmental activities									
Invested in capital assets, net of related debt	\$ 18,321,732	\$ 17,736,446	\$ 42,960,776	\$ 44,165,410	\$ 46,474,237	\$ 50,728,980	\$ 52,338,159	\$ 56,606,677	\$ 76,364,755
Restricted	1,020,083	2,043,428	2,531,175	3,246,346	3,839,611	3,023,222	4,701,017	3,356,723	3,935,701
Unrestricted	10,879,032	10,633,566	10,050,219	8,833,570	9,377,131	10,606,335	10,230,570	7,858,499	7,501,713
Total government activities net assets	\$ 30,220,847	\$ 30,413,440	\$ 55,542,170	\$ 56,245,326	\$ 59,690,979	\$ 64,358,537	\$ 67,269,746	\$ 67,821,899	\$ 87,802,169
Business-type activities									
Invested in capital assets, net of related debt	\$ 6,133,119	\$ 6,023,608	\$ 12,744,792	\$ 14,413,461	\$ 14,163,874	\$ 13,796,813	\$ 13,292,252	\$ 12,720,481	\$ 12,206,656
Restricted									
Unrestricted	113,063	207,205	298,992	169,956	540,017	359,254	195,703	134,998	150,668
Total business-type activities net assets	\$ 6,246,182	\$ 6,230,813	\$ 13,043,784	\$ 14,583,417	\$ 14,703,891	\$ 14,156,067	\$ 13,487,955	\$ 12,855,479	\$ 12,357,324
Primary government									
Invested in capital assets, net of related debt	\$ 24,454,851	\$ 23,760,054	\$ 55,705,568	\$ 58,578,871	\$ 60,638,111	\$ 64,525,793	\$ 65,630,411	\$ 69,327,158	\$ 88,571,411
Restricted	1,020,083	2,043,428	2,531,175	3,246,346	3,839,611	3,023,222	4,701,017	3,356,723	3,935,701
Unrestricted	10,992,095	10,840,771	10,349,211	9,003,526	9,917,148	10,965,589	10,426,273	7,993,497	7,652,381
Total primary government net assets	\$ 36,467,029	\$ 36,644,253	\$ 68,585,954	\$ 70,828,743	\$ 74,394,870	\$ 78,514,604	\$ 80,757,701	\$ 80,677,378	\$ 100,159,493

^(a) As of June 30, 2004, the City completed its inventory of infrastructure assets, which include streets and sidewalks, curbs, gutters, playground equipment and similar assets, which are considered public property. Thus, in accordance with the requirement of GASB, the value of these infrastructure assets were included in the June 30, 2004 report.

^(b) Data presented is from fiscal year ended June 30, 2002, when GASB 34 was implemented.

CITY OF LAGUNA HILLS
CHANGE IN NET ASSETS
LAST NINE FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Expenses									
Governmental activities:									
Legislative/executive	\$ 1,597,963	\$ 1,669,415	\$ 1,246,684	\$ 1,299,424	\$ 1,389,720	\$ 1,441,763	\$ 1,534,942	\$ 1,542,082	\$ 1,592,070
Administrative services	1,329,893	2,457,364	1,795,147	2,593,403	2,357,409	1,928,022	1,785,896	1,719,314	1,724,356
Public services	12,258,663	7,174,054	6,970,973	6,650,188	7,360,168	9,507,357	6,814,629	8,318,347	7,389,564
Community development	625,240	733,724	785,278	1,060,418	1,247,350	1,541,295	1,775,552	1,523,476	1,595,670
Community services	858,783	1,751,118	1,892,812	3,225,589	1,554,514	1,651,779	1,771,671	1,776,257	1,769,589
Public safety	4,262,592	4,999,520	5,109,994	5,288,663	5,598,571	5,893,769	6,503,096	6,422,802	6,597,894
Interest expense	1,312,113	1,086,092	1,044,572	1,002,505	973,024	942,801	910,500	875,447	636,441
Total governmental activities expenses	22,245,247	19,871,287	18,845,460	21,120,190	20,480,756	22,906,786	21,096,286	22,177,725	21,305,584
Business-type activities:									
Property leasing	213,871	618,621	427,492	1,035,344	1,087,912	1,139,550	1,162,891	1,117,002	1,125,330
Total business-type activities expenses	213,871	618,621	427,492	1,035,344	1,087,912	1,139,550	1,162,891	1,117,002	1,125,330
Total primary government expenses	\$ 22,459,118	\$ 20,489,908	\$ 19,272,952	\$ 22,155,534	\$ 21,568,668	\$ 24,046,336	\$ 22,259,177	\$ 23,294,727	\$ 22,430,914
Program Revenues									
Government activities:									
Charges for Services:									
Legislative/executive	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Administrative services									
Public services		82,679	56,665	48,696	38,683	59,584	58,539	98,818	86,176
Community development	484,875	664,189	924,056	552,029	535,973	672,168	616,819	544,227	514,162
Community services	229,080	390,960	468,773	511,766	540,369	562,584	683,911	687,987	703,099
Public safety	307,458	379,792	381,119	405,000	533,977	475,214	485,376	435,452	542,732
Operating Contributions	2,013,036	3,369,544	2,795,098	2,583,927	4,774,223	6,826,309	3,486,884	4,217,578	3,059,335
Capital Contributions	345,064	11,320	55,545	19,665	40,771	57,282	24,674		
Total governmental activities program revenues	3,379,513	4,898,484	4,681,256	4,121,083	6,463,996	8,653,141	5,356,203	5,984,062	4,905,504
Business-type activities:									
Charges for Services:									
Property Leasing	345,339	473,102	455,298	406,721	588,842	688,215	790,817	591,665	649,270
Operating grants and contributions									
Capital grants and contributions				2,134,938					
Total business-type activities program revenues	345,339	473,102	455,298	2,541,659	588,842	688,215	790,817	591,665	649,270
Total primary government program revenues	\$ 3,724,852	\$ 5,371,586	\$ 5,136,554	\$ 6,662,742	\$ 7,052,838	\$ 9,341,356	\$ 6,147,020	\$ 6,575,727	\$ 5,554,774

(Continued)

	Fiscal Year								
(Continued)	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net (expense)/revenue									
Governmental activities	\$ (18,865,734)	\$ (14,972,803)	\$ (14,164,204)	\$ (16,999,107)	\$ (14,016,760)	\$ (14,253,645)	\$ (15,740,083)	\$ (16,193,663)	\$ (16,400,080)
Business- type activities	131,468	(145,519)	27,806	1,506,315	(499,070)	(451,335)	(372,074)	(525,337)	(476,060)
	<u>\$ (18,734,266)</u>	<u>\$ (15,118,322)</u>	<u>\$ (14,136,398)</u>	<u>\$ (15,492,792)</u>	<u>\$ (14,515,830)</u>	<u>\$ (14,704,980)</u>	<u>\$ (16,112,157)</u>	<u>\$ (16,719,000)</u>	<u>\$ (16,876,140)</u>
General Revenues and Other Changes in Net Assets									
Governmental activities:									
Taxes									
Property taxes	\$ 4,323,019	\$ 4,532,842	\$ 4,836,439	\$ 4,892,577	\$ 5,219,940	\$ 6,000,932	\$ 6,310,302	\$ 8,624,076	\$ 8,573,008
Sales and use taxes	6,400,705	6,799,566	6,746,046	7,964,948	6,868,829	6,811,004	6,368,887	5,522,204	5,197,367
Motor vehicle in lieu taxes	2,094,888	1,951,508	1,546,339	2,724,783	2,591,236	2,575,919	2,690,646	114,895	99,167
Other State subvention	50,988	24,944	1,108	1,919	95,072	25,026			
Franchise taxes	853,807	851,198	888,821	920,778	1,006,109	1,218,116	1,202,702	1,237,335	1,217,595
Transient occupancy taxes	840,759	830,935	967,378	980,585	1,156,409	1,227,989	1,219,609	915,807	752,478
Investment earnings	363,099	201,246	120,274	134,912	210,046	325,266	469,876	119,006	29,205
Miscellaneous revenue	10,732	147,002	56,056	111,761	404,382	620,465	44,312	62,493	21,389
Lawsuit settlement	1,419,367		1,349,451						
Transfers		(130,000)		(30,000)	(599,379)	100,000	300,000	150,000	24,790
Total governmental activities	<u>16,357,364</u>	<u>15,209,241</u>	<u>16,511,912</u>	<u>17,702,263</u>	<u>16,952,644</u>	<u>18,904,717</u>	<u>18,606,334</u>	<u>16,745,816</u>	<u>15,914,999</u>
Business-type activities:									
Investment earnings	26	150	2,016	3,318	30	3,511	3,962	2,877	2,695
Transfers		130,000		30,000	599,379	(100,000)	(300,000)	(150,000)	(24,790)
Total business-type activities	<u>26</u>	<u>130,150</u>	<u>2,016</u>	<u>33,318</u>	<u>599,409</u>	<u>(96,489)</u>	<u>(296,038)</u>	<u>(147,123)</u>	<u>(22,095)</u>
Total primary government	<u>\$ 16,357,390</u>	<u>\$ 15,339,391</u>	<u>\$ 16,513,928</u>	<u>\$ 17,735,581</u>	<u>\$ 17,552,053</u>	<u>\$ 18,808,228</u>	<u>\$ 18,310,296</u>	<u>\$ 16,598,693</u>	<u>\$ 15,892,904</u>
Change in Net Assets									
Governmental activities	(2,508,370)	236,438	2,347,708	703,156	2,935,884	4,651,072	2,866,251	552,153	(485,081)
Business-type activities	131,494	(15,369)	29,822	1,539,633	100,339	(547,824)	(668,112)	(672,460)	(498,155)
Total primary government	<u>\$ (2,376,876)</u>	<u>\$ 221,069</u>	<u>\$ 2,377,530</u>	<u>\$ 2,242,789</u>	<u>\$ 3,036,223</u>	<u>\$ 4,103,248</u>	<u>\$ 2,198,139</u>	<u>\$ (120,307)</u>	<u>\$ (983,236)</u>

Data presented is from fiscal year ended June 30, 2002, when GASB 34 was implemented.

CITY OF LAGUNA HILLS
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST NINE FISCAL YEARS

(accrual basis of accounting)

Fiscal Year	Property Tax	Sales & Use Tax	Motor Vehicle in Lieu Tax	Other State Subvention	Franchise Tax	Transient Occupancy Tax	Total
2002	\$ 4,323,019	\$ 6,400,705	\$ 2,094,888	\$ 50,988	\$ 853,807	\$ 840,759	\$ 14,564,166
2003	4,532,842	6,799,566	1,951,508	24,944	851,198	830,935	14,990,993
2004	4,836,439	6,746,046	1,546,339	1,108	888,821	967,378	14,986,131
2005	4,892,577	7,964,948	2,724,783	1,919	920,778	967,378	17,472,383
2006	5,219,940	6,868,829	2,591,236	95,072	1,006,109	1,156,409	16,937,595
2007	6,000,932	6,811,004	2,575,919	25,026	1,218,116	1,227,989	17,858,986
2008	6,310,302	6,368,887	2,690,646		1,202,702	1,219,609	17,792,146
2009	8,624,076	5,522,204	114,895		1,237,335	915,807	16,414,317
2010	8,573,008	5,197,367	99,167		1,217,595	752,478	15,839,615

^(a) Data presented is from fiscal year ended June 30, 2002, when GASB 34 was implemented.

CITY OF LAGUNA HILLS
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST NINE FISCAL YEARS
(modified accrual basis of accounting)

	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
General fund									
Reserved	\$ 126,619	\$ 187,690	\$ 127,613	\$ 52,957	\$ 40,016	\$ 30,745	\$ 186,524	\$ 44,610	\$ 15,624
Unreserved	10,929,290	10,710,922	10,556,528	9,252,463	10,074,573	11,019,918	10,313,093	8,582,945	8,611,931
Total general fund	<u>\$ 11,055,909</u>	<u>\$ 10,898,612</u>	<u>\$ 10,684,141</u>	<u>\$ 9,305,420</u>	<u>\$ 10,114,589</u>	<u>\$ 11,050,663</u>	<u>\$ 10,499,617</u>	<u>\$ 8,627,555</u>	<u>\$ 7,422,224</u>
All other governmental funds									
Reserved	\$ 814,145	\$ 4,584,721	\$ 614,510	\$ 628,258	\$ 652,694	\$ 419,790	\$ 421,484	\$ 415,078	\$ 1,817,086
Unreserved, reported in:									
Special revenue funds	1,020,083	1,627,814	1,918,250	2,129,536	2,751,414	2,603,432	4,202,374	2,427,534	2,411,192
Debt service funds		415,163	416,135	421,470	435,502				
Total all other governmental funds	<u>\$ 1,834,228</u>	<u>\$ 6,627,698</u>	<u>\$ 2,948,895</u>	<u>\$ 3,179,264</u>	<u>\$ 3,839,610</u>	<u>\$ 3,023,222</u>	<u>\$ 4,623,858</u>	<u>\$ 2,842,612</u>	<u>\$ 4,228,278</u>

CITY OF LAGUNA HILLS
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST NINE FISCAL YEARS
(modified accrual basis of accounting)

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	
Revenues:										
Taxes	\$ 6,017,586	\$ 6,214,974	\$ 6,803,566	\$ 7,312,670	\$ 7,412,442	\$ 8,598,829	\$ 8,843,272	\$ 10,858,989	\$ 10,553,196	
Licenses and permits	236,278	319,494	854,948	530,839	505,608	599,423	579,915	521,724	423,012	
Intergovernmental	11,444,907	12,105,317	10,515,416	12,348,515	14,796,110	16,153,141	12,364,967	9,727,124	7,975,877	
Charges for current services	1,907,776	1,021,335	1,111,839	743,414	828,054	815,148	951,289	909,504	946,119	
Fines and forfeitures	307,458	323,792	333,119	357,000	485,977	426,060	437,376	435,452	542,732	
Miscellaneous					25,914					
Investment income	768,697	252,812	224,829	222,313	363,044	552,887	494,550	223,846	45,732	
Total revenues	20,682,702	20,237,724	19,843,717	21,514,751	24,417,149	27,145,488	23,671,369	22,676,639	20,486,668	
Expenditures:										
Current:										
Legislative/executive	1,594,617	1,673,657	1,264,822	1,296,945	1,389,261	1,431,276	1,521,937	1,527,927	1,583,009	
Administrative services	1,303,699	1,677,304	1,816,417	1,811,903	1,663,400	1,804,671	1,863,562	1,664,029	1,537,841	
Public services	3,760,190	3,413,539	3,445,753	3,441,494	3,551,780	4,050,846	4,897,258	4,419,088	4,088,538	
Community development	624,608	732,057	748,454	1,050,679	1,239,540	1,533,319	1,823,818	1,660,768	1,593,187	
Community services	849,827	1,124,936	1,230,118	1,378,890	1,518,157	1,679,248	1,717,124	1,733,464	1,570,196	
Public safety	4,260,433	4,998,999	4,883,141	5,303,888	5,630,812	5,915,809	6,524,289	6,427,542	6,585,639	
Capital outlay	17,310,083	5,758,801	9,764,192	6,128,394	5,337,802	8,991,937	2,619,246	7,102,899	2,013,797	
Debt service:										
Interest	939,688	1,067,963	1,048,504	1,004,910	975,512	945,372	913,325	878,480	427,854	
Cost of bond issuance	339,044								301,477	
Payment to bond escrow agent	887,222									
Discount on bond	305,290									
Principal retirement		640,000	849,844	1,216,000	1,130,000	1,160,000	1,016,178	1,010,000	820,000	
Total expenditures	32,174,701	21,087,256	25,051,245	22,633,103	22,436,264	27,512,478	22,896,737	26,424,197	20,521,538	
Excess (deficiency) of revenues over expenditures	(11,491,999)	(849,532)	(5,207,528)	(1,118,352)	1,980,885	(366,990)	774,632	(3,747,558)	(34,870)	

(Continued)

(Continued)

(Continued)	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	
Other financing sources (uses):										
Transfers in	\$ 31,295,918	\$ 11,515,391	\$ 18,075,145	\$ 10,035,905	\$ 10,928,487	\$ 17,968,939	\$ 5,956,627	\$ 13,800,602	\$ 7,868,431	
Transfers out	(31,295,918)	(11,645,391)	(18,075,145)	(10,065,905)	(11,527,866)	(17,868,939)	(5,656,627)	(13,650,602)	(7,843,641)	
Bond Proceeds	19,000,000	5,660,000							17,190,000	
Payment to bond escrow agent	(8,596,094)								(18,081,996)	
Premium on bond issue									1,206,953	
Sales tax repayment						(358,909)				
Lawsuit Settlement			1,349,451			550,000	(70,000)	(55,750)	(7,500)	
Total other financing sources (uses)	10,403,906	5,530,000	1,349,451	(30,000)	(599,379)	291,091	230,000	94,250	332,247	
Net change in fund balances	\$ (1,088,093)	\$ 4,680,468	\$ (3,858,077)	\$ (1,148,352)	\$ 1,381,506	\$ (75,899)	\$ 1,004,632	\$ (3,653,308)	\$ 297,377	
Debt service as a percentage of noncapital expenditures	13.06%	8.41%	7.62%	12.13%	11.75%	10.13%	10.17%	9.57%	8.03%	

CITY OF LAGUNA HILLS
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST NINE FISCAL YEARS
(amounts expressed in thousands)

Fiscal Year Ended June 30,	Real Property		Personal Property	Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate		Estimated Actual Taxable Value	Assessed Value ^(a) as a Percentage of Actual Value
	Land	Improvements				TRA 31-066	TRA 31-001		
2002	\$ 1,689,950	\$ 2,066,089	\$ 133,627	\$ 111,137	\$ 3,778,529	1.03592	1.01604	\$ 3,782,350	99.899%
2003	1,815,482	2,134,455	142,675	125,317	3,967,296	1.02821	1.01724	3,967,515	99.994%
2004	1,990,403	2,214,756	131,000	138,425	4,197,734	1.00610	1.01902	4,197,860	99.997%
2005	2,216,145	2,289,665	132,785	130,954	4,507,641	1.04206	1.01771	4,508,804	99.974%
2006	2,516,918	2,382,644	128,824	118,914	4,909,472	1.03599	1.01598	4,909,424	100.001%
2007	2,834,519	2,462,720	151,279	132,697	5,315,821	1.03118	1.01469	5,313,973	100.035%
2008	3,034,914	2,565,230	164,299	29,001	5,735,442	1.03264	1.01401	5,736,525	99.981%
2009	3,030,698	2,651,991	156,285	148,289	5,690,685	1.03473	1.01507	5,692,646	99.966%
2010	2,865,870	2,726,535	140,679	144,635	5,588,449	1.03564	1.01475	5,589,417	99.983%

Sources: HdL Coren & Cone, Orange County Assessor Annual Tax Rolls

Note: Property in the county is reassessed annually.

^(a) Does not include aircraft or tax-exempt property.

^(b) Data presented is from fiscal year ended June 30, 2002, when GASB 34 was implemented.

CITY OF LAGUNA HILLS
PROPERTY TAX RATES
DIRECT AND OVERLAPPING ^(a) GOVERNMENTS
LAST NINE FISCAL YEARS

Fiscal Year	TRA 31-066				TRA 31-001			
	City of Laguna Hills		Overlapping Rates		City of Laguna Hills		Overlapping Rates	
	City, School & District			Direct & Overlapping Rates	City, School & District			Direct & Overlapping Rates
	Assessments	School			Assessments	School		
	Basic Levy- Operating	District Debt Service	Special Districts		Basic Levy- Operating	District Debt Service	Special Districts	
2002	1.00000		0.03592	1.03592	1.00000	0.00834	0.00770	1.01604
2003	1.00000		0.02821	1.02821	1.00000	0.01054	0.00670	1.01724
2004	1.00000		0.00610	1.00610	1.00000	0.01292	0.00610	1.01902
2005	1.00000	0.03626	0.00580	1.04206	1.00000	0.01191	0.00580	1.01771
2006	1.00000	0.03079	0.00520	1.03599	1.00000	0.01078	0.00520	1.01598
2007	1.00000	0.02668	0.00450	1.03118	1.00000	0.01019	0.00450	1.01469
2008	1.00000	0.02834	0.00430	1.03264	1.00000	0.00971	0.00430	1.01401
2009	1.00000	0.03043	0.00430	1.03473	1.00000	0.01077	0.00430	1.01507
2010	1.00000	0.03194	0.00370	1.03564	1.00000	0.01105	0.00370	1.01475

Source: Orange County Auditor-Controller Tax Rate Book

^(a) Overlapping rates are those of local and county governments that apply to property owners within the City of Laguna Hills. Not all overlapping rates apply to all City of Laguna Hills property owners (e.g., the rates of special districts apply only to the proportion of the City's property owners whose property is located within the geographic boundaries of the special district.)

^(b) Data presented is from fiscal year ended June 30, 2002, when GASB 34 was implemented.

CITY OF LAGUNA HILLS
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(amounts expressed in thousands)

Taxpayer	2010			2001		
	Taxable Assessed		Percentage of Total Taxable Assessed	Taxable Assessed		Percentage of Total Taxable Assessed
	Value	Rank	Value	Value	Rank	Value
Shopping Center Associates	\$ 122,468	1	2.19%	\$ 82,304	1	2.39%
TGM Prado LLC	78,540	2	1.41%			
Acquiport Three Corporation	73,413	3	1.31%	54,296	2	1.57%
LakeHills at Laguna LLC	54,092	4	0.97%			
LHT Saddleback LLC	50,989	5	0.91%			
SPRTMRT Properties Trust	39,909	6	0.71%	28,258	5	0.82%
Columbia California Carlota Office LLC	32,600	7	0.58%			
La Paz Shopping Center LLC	30,223	8	0.54%			
The Realty Associates Fund VIII	28,350	9	0.51%			
Moulton Plaza LLC	22,330	10	0.40%			
Pine Brook Apartments				33,725	3	0.98%
Saddleback Partners LLC				28,778	4	0.83%
LLH Associates				22,429	6	0.65%
VV California				20,572	7	0.60%
Laguna Hills Investment				19,644	8	0.57%
Spieker Properties LP				18,870	9	0.55%
EQR-Villa Solana Vistas				17,874	10	0.52%
Totals	\$ 532,914		9.54%	\$ 326,750		9.47%

Source: HdL Coren & Cone, Orange County Assessor Combined Tax Rolls

CITY OF LAGUNA HILLS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST NINE FISCAL YEARS
(amounts expressed in thousands)

Fiscal Year Ended June 30,			Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
	<u>Secured</u>	<u>Unsecured</u>		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
2002	\$ 3,749	\$ 220	\$ 3,969	\$ 3,881	97.8%	\$ 49	\$ 3,930	99%
2003	3,862	218	4,080	4,001	98.1%	60	4,061	100%
2004	4,133	224	4,357	4,270	98.0%	58	4,328	99%
2005	4,488	230	4,718	4,631	98.2%	50	4,682	99%
2006	4,884	232	5,116	4,990	97.5%	54	5,044	99%
2007	5,266	267	5,533	5,325	96.2%	67	5,393	97%
2008	5,697	250	5,946	5,714	96.1%	116	5,830	98%
2009	5,675	250	5,925	5,685	96.0%	200	5,885	99%
2010	5,555	256	5,812	5,629	96.9%	203	5,832	100%

^(a) Data presented is from fiscal year ended June 30, 2002, when GASB 34 was implemented.

CITY OF LAGUNA HILLS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST NINE FISCAL YEARS

(amounts expressed in thousands, except per capita amount)

Fiscal Year	Certificates of Participation	Percentage of Estimated Actual Taxable Value of Property ^(a)	Per Capita ^(b)
2002	\$19,000	0.50%	\$583.47
2003	24,020	0.61%	730.65
2004	23,180	0.55%	702.21
2005	22,300	0.49%	659.55
2006	21,390	0.44%	632.63
2007	20,450	0.38%	604.83
2008	19,480	0.34%	582.87
2009	18,470	0.32%	554.99
2010	17,190	0.31%	511.71

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

^(a) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page III - 10 for property value data.

^(b) Population data can be found in the Schedule of Demographic and Economic Statistics on page III - 19.

^(c) Data presented is from fiscal year ended June 30, 2002, when GASB 34 was implemented.

CITY OF LAGUNA HILLS

RATIOS OF GENERAL BONDED DEBT OUTSTANDING LAST NINE FISCAL YEARS

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
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Note: There was no general bonded debt outstanding for the last nine fiscal years.

CITY OF LAGUNA HILLS
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2010

	Debt Outstanding	Estimated Percentage Applicable ^a	Estimated Share of Overlapping Debt
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District	264,220,000	0.308%	813,798
Saddleback Valley Unified School District	137,690,000	18.914%	26,042,687
Capistrano Unified School District Facilities Improvement District No. 1	51,174,930	0.019%	9,723
Moulton-Niguel Water District and, I.D.'s # 4A, 6 & 8	29,870,000	3.416% & 95.011%	1,226,448
Orange County Community Facilities District #88-2	756,387	100.000%	756,387
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 28,849,043
<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</u>			
		% Applicable	Debt
Orange County General Fund Obligations	391,027,000	1.488%	\$ 5,818,482
Orange County Pension Obligations	59,333,382	1.488%	882,881
Orange County Board of Education Certificates of Participation	19,230,000	1.488%	286,142
Orange County Fire Authority	3,590,000	2.902%	104,182
Municipal Water District of Orange County Water Facilities Corporation	15,965,000	1.758%	280,665
South Orange County Community College District Certificates of Participation	18,845,000	3.451%	650,341
Capistrano Unified School District Certificates of Participation	33,020,000	0.013%	4,293
Irvine Ranch Water District Certificates of Participation	85,145,000	0.001%	851
Moulton-Niguel Water District Certificates of Participation	86,889,318	13.895%	12,073,271
SUBTOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT			\$ 20,101,108
City of Laguna Hills Certificates of Participation, Direct Debt	17,190,000	100.000%	17,190,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT			37,291,108
Less: MWDOC Water Facilities Corporation (100% self-supporting)			<u>280,665</u>
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT			\$ 37,010,443
GROSS COMBINED TOTAL DEBT			\$ 66,140,151 ^b
NET COMBINED TOTAL DEBT			\$ 65,859,486

^(a) The percentage of overlapping debt applicable is estimated using taxable assessed property values.

^(b) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

CITY OF LAGUNA HILLS
LEGAL DEBT MARGIN INFORMATION
LAST NINE FISCAL YEARS

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt limit	\$ 567,352,459	\$ 595,127,241	\$ 629,679,066	\$ 676,320,569	\$ 736,413,674	\$ 797,096,008	\$ 860,478,777	\$ 853,896,957	\$ 838,412,595
Total net debt applicable to limit	<u>19,000,000</u>	<u>24,020,000</u>	<u>23,180,000</u>	<u>22,300,000</u>	<u>21,390,000</u>	<u>20,450,000</u>	<u>19,480,000</u>	<u>18,470,000</u>	<u>17,190,000</u>
Legal debt margin	<u>\$ 548,352,459</u>	<u>\$ 571,107,241</u>	<u>\$ 606,499,066</u>	<u>\$ 654,020,569</u>	<u>\$ 715,023,674</u>	<u>\$ 776,646,008</u>	<u>\$ 840,998,777</u>	<u>\$ 835,426,957</u>	<u>\$ 821,222,595</u>
Total net debt applicable to limit as a percentage of debt limit	3.35%	4.04%	3.68%	3.30%	2.90%	2.57%	2.26%	2.16%	2.05%

Legal Debt Margin Calculation for Fiscal Year 2010

Assessed value	\$ 5,695,677,569
Add back: exempt real property	<u>106,260,272</u>
Total assessed value	5,589,417,297
Debt limit (15% of total assessed value)	838,412,595
Debt applicable to limit:	
Certificates of Participation	<u>17,190,000</u>
Total net debt applicable to limit	17,190,000
Legal debt margin	<u>\$ 821,222,595</u>

Note: Under state finance law, the City of Laguna Hills' outstanding general obligation debt should not exceed 15 percent of total assessed property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

(a) Data presented is from fiscal year ended June 30, 2002, when GASB 34 was implemented.

CITY OF LAGUNA HILLS
PLEDGED-REVENUE COVERAGE
LAST NINE FISCAL YEARS

Note: There was no debt covenants that required pledged-revenue coverage for the last nine fiscal years.

CITY OF LAGUNA HILLS

DEMOGRAPHIC & ECONOMIC STATISTICS

Population		
1997	30,158	
1998	30,517	
1999	30,901	
2000	29,891	
2001	32,369	
2002	32,626	
2003	32,833	
2004	32,994	
2005	33,101	
2006	33,129	
2007	33,143	
2008	33,421	
2009	33,280	
2010	33,593	

Year	Total Personal Income(thousands)	Per Capita Personal Income
2000	1,085,674	36,321
2001	1,186,032	36,647
2002	1,198,698	36,741
2003	1,226,811	37,369
2004	1,275,828	38,677
2005	1,321,554	39,938
2006	1,384,623	41,813
2007	1,425,961	43,058
2008	1,441,089	43,346
2009	1,417,282	42,444

2000 Racial & Ethnic Population		
White	21,471	68.9%
Hispanic	5,113	16.4%
Asian & Pacific Islander	3,198	10.3%
Black	404	1.3%
Other	992	3.2%

2000 Population by Age		
Age	Population	Percentage
0 - 4	1,915	6.1%
5 - 14	4,748	15.2%
15 - 24	3,802	12.2%
25 - 34	3,767	12.1%
35 - 54	10,323	33.1%
55 - 64	2,835	9.1%
65 - 74	1,517	4.9%
75 +	2,271	7.3%

Consumer Price Index		
Year	CPI	% Change
2001	177.3	3.3%
2002	182.2	2.8%
2003	187.0	2.6%
2004	193.2	3.3%
2005	201.8	4.5%
2006	210.4	4.3%
2007	217.3	3.3%
2008	225.0	3.5%
2009	223.2	-0.8%

Building Activity and Valuation (in thousands)			
	2007	2008	2009
Residential			
New Single Family	1,684	2,633	0
New Multi-Family	0	0	0
Addition, alterations	5,565	4,284	5,626
Total Residential	7,248	6,917	5,626
Commercial			
New Commercial	0	2,700	0
New Industrial	0	0	0
Other	0	0	0
Addition, alterations	8,364	5,731	5,111
Total Non-Residential	8,364	8,431	5,111
Total Valuation	13,928	12,715	10,737
No. of New Dwelling Units	1	4	0

2000 Housing Units by Type		
	Quantity	Percentage
Single Detached	6,009	53.0%
Single Attached	2,085	18.4%
2 - 4 Dwelling Units	668	5.9%
5 + Dwelling Units	2,335	20.6%
Mobile Homes	238	2.1%
Total Housing Units	11,335	100.0%
Occupied	10,930	96.4%
Vacant	405	3.6%
Persons Per Occupied Unit		2.85
Percent of County Units		1.2%

Housing Prices 2006			
	Median		Average
Single Family Sales			
2- Bedroom	\$ 410,000	\$	591,800
3 Bedroom	560,000		686,200
4+ Bedroom	939,000		1,262,300
Condo	442,000		462,000

Unemployment Rate			
Year	Labor Force	Unemployed	Rate
1997	18,630	340	1.8
1998	19,210	300	1.6
1999	20,130	300	1.5
2000	20,610	320	1.6
2001	21,020	280	1.3
2002	21,300	450	2.1
2003	21,240	500	2.4
2004	21,600	400	1.9
2005	17,900	600	3.1
2006	17,800	500	2.9
2007	18,300	500	2.9
2008	18,300	700	4.0
2009	18,200	1,300	7.0
2010	17,800	1,400	8.0

Sources: Cal State University Fullerton Center for Demographic Research, Orange County Association of Realtors, and HDL Reported City of Laguna Hills' Demographic and Economic Statistics

CITY OF LAGUNA HILLS
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

Employer	2010			2001		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Saddleback Memorial Medical	1,020	1	6.22%	1,800	1	8.68%
Professional Community Management	350	2	2.13%			
JC Penney Corp Inc.	250	3	1.52%			
Macys Department Store	200	4	1.22%			
United Parcel Service				125	2	0.60%
Semi-Kinetics Inc				109	3	0.53%
Merrill Lynch & Co. Inc.				100	4	0.48%
PacificCare Behavioral Health				100	5	0.48%
Total	<u>1,820</u>		11.10%	<u>2,234</u>		10.77%

Source: California State University, Fullerton, Center for Demographic Research, Orange County Progress Report 2010 & 2001

CITY OF LAGUNA HILLS
FULL-TIME EQUIVALENT PERSONNEL ALLOCATION BY FUNCTION
LAST NINE FISCAL YEARS

Function	Full-time Equivalent Personnel at June 30								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Legislative/executive	5.16	5.06	5.06	4.31	5.31	5.31	5.31	5.72	5.72
Administrative services	8.18	8.28	8.28	9.03	7.28	7.78	6.78	6.18	6.18
Public services	30.25	30.25	30.00	30.00	30.00	41.00	41.00	42.00	42.00
Community development	5.50	5.50	6.00	6.00	7.85	8.30	8.30	8.15	7.15
Community services	14.50	14.50	15.50	14.25	14.25	14.25	14.25	15.61	15.61
Public safety	<u>32.13</u>	<u>32.13</u>	<u>30.10</u>	<u>30.17</u>	<u>30.07</u>	<u>31.19</u>	<u>31.24</u>	<u>29.19</u>	<u>29.19</u>
Total	<u>95.72</u>	<u>95.72</u>	<u>94.94</u>	<u>93.76</u>	<u>94.76</u>	<u>107.83</u>	<u>106.88</u>	<u>106.85</u>	<u>105.85</u>

^(a) Data presented is from fiscal year ended June 30, 2002, when GASB 34 was implemented.

CITY OF LAGUNA HILLS
OPERATING INDICATORS BY FUNCTION
FOR THE FISCAL YEAR ENDING JUNE 30, 2010

Function	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10
Police ^(b)						
Physical arrests	468	487	579	460	740	721
Parking violations	897	1,799	3,162	2,757	3,636	2,662
Traffic violations	3,637	5,367	3,846	5,566	4,886	5,781
Fire ^(c)						
Number of calls answered	2,211	2,373	2,424	2,434	2,421	2,558
Inspections	651	586	549	309	387	439
Highways and Streets ^(d)						
Sidewalk replacement (sq. ft.)	10,190	7,610	3,450	1,850	4,660	22,266
Curb & gutter replacement (linear ft.)	1,678	626	90	110	2,374	1,030
Asphalt concrete placed (tons)	12,244	15,203	13,385	11,362	21,291	15,695
Street sweeping debris collected (tons)	315	922	546	265	449	294
New sign installations	23	37	65	37	64	92
Sign Replacements	102	161	304	238	277	168
Trees trimmed	1,493	2,370	1,815	1,763	1,774	2,273
Trees removed	349	247	265	207	214	81
Trees planted	90	67	108	262	82	43
Sanitation ^(a)						
Refuse collected (tons/day)	83	80	70	63	50	46
Recyclables collected (tons/day)	72	77	65	55	52	50
Culture and Recreation ^(e)						
Community center programs (participants)	7,877	8,215	8,650	8,173	9,538	7,262
Athletic permits	70	74	71	70	76	69
Waste Stream ^(a)						
Refuse collected (tons)	30,124	29,126	25,705	22,981	18,089	16,698
Recyclables collected (tons)	26,102	27,927	23,691	20,120	19,081	18,162

^(a) CR&R Monthly Tonnage Report, 6/30/10

^(b) Orange County Sheriff's Department Deputy Statistics Report

^(c) Orange County Fire Authority- Clerk of the Authority, Safety & Environmental Services, Planning & Development

^(d) City of Laguna Hills, Public Works Department

^(e) City of Laguna Hills, Community Center Department

CITY OF LAGUNA HILLS
CAPITAL ASSETS STATISTICS BY FUNCTION
LAST NINE FISCAL YEARS

Function	Fiscal Year								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Highways and streets									
Streets (miles)	82	83	83	83	83	83	83	83	83
Traffic signals	44	44	45	45	45	45	45	45	45
Culture and recreation									
Parks acreage	83	83	83	83	83	83	83	83	83
Parks	15	15	15	15	15	15	15	15	15
Community centers	1	1	1	1	1	1	1	1	1
Civic Center				1	1	1	1	1	1

^(a) Data presented is from fiscal year ended June 30, 2002, when GASB 34 was implemented.

CITY OF LAGUNA HILLS

AT A GLANCE

GENERAL INFORMATION

The City of Laguna Hills, located in South Orange County, has approximately 6.6 square miles of land in its corporate boundary and is now home to 33,593 people. Majority of the area in the City has a distinctive residential character. Yet, the City has a strong commercial base in its northern part. This commercial area, or “urban village”, is anchored by the regional Laguna Hills Mall, the Oakbrook Village Shopping Center, and the Saddleback Memorial Hospital. It includes approximately 2,000,000 square feet of retail, restaurant, professional office, and medical related building space. When the City annexed the “North Laguna Hills” area in July of 1996, the City acquired 1.2 square miles of primarily light industrial, professional office, specialty retail, hotel, and residential uses. This annexed area contains a furniture row, office headquarters, major electronics products, retailer, and the only light industrial/manufacturing establishments in the City. In September of 2000, the City grew by another 150 acres as a result of the annexation of residential properties identified as West Laguna Hills.

HISTORY

Laguna Hills is built on one of the major land grants developed during the rancho area. Following Mexico’s independence from Spain in 1821, those who had served in the government or who had friends in authority were given vast lands for cattle grazing. Rancho Lomas de Santiago, Rancho San Joaquin, and Rancho Niguel covered much of the western portion of the Saddleback Valley. Don Juan Avila was granted the 13,000-acre Rancho Niguel on which Laguna Hills is located.

In 1874, Lewis Moulton purchased Rancho Niguel from Don Juan Avila and increased the original grant to 22,000 acres. Moulton and his partner, Jean Piedrea Daguerre, used the ranch to raise sheep and cattle. The Moulton ranch was eventually subdivided in the early 1960s part of which is recognized as Laguna Hills.

Incorporation efforts began in 1987 and on March 5, 1991, the goal of incorporation was finally achieved with 86% of the residents voting in favor of forming the City of Laguna Hills. On December 20, 1991, Laguna Hills officially became a City.

CITY GOVERNMENT

The City of Laguna Hills is a General Law City that operates under the Council/Manager form of government. The voters elect five of their fellow citizens to the City Council for overlapping four-year terms. The Council, in turn, selects one of its members to serve as Mayor for a one-year term. The City Council holds regular public meetings on the second and fourth Tuesday of each month.