



CITY OF LAGUNA HILLS California

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Fiscal Year Ended June 30, 2012



CITY OF LAGUNA HILLS

California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2012

CITY MANAGER
Bruce E. Channing

ASSISTANT CITY MANAGER
Donald J. White



INTRODUCTORY SECTION

CITY OF LAGUNA HILLS

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Presented to

City of Laguna Hills
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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.



Linda C. Danison

President

Jeffrey R. Emer

Executive Director

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November 27, 2012

**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, 2012, 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, 2012, 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 30,410 residents 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. Following the impact of the Great Recession that substantially altered the economic landscape of the State and region, this well-diversified tax base comprises a critical component to the City’s continued success. In the aftermath of the Great Recession that has led to a structural correction in the economy and resulted into what many are calling a “new normal”, local government revenues in particular have been greatly impacted. While a slow recovery is working its way through the economy, much of the State is still plagued by high unemployment and difficulties in the housing market that continue to limit the recovery and stoke fears of a double-dip recession. Consequently, while no governmental agencies escaped the impact in revenues these past few years, some cities have certainly fared better than others. Total revenues in Laguna Hills increased in Fiscal Year 2011/2012 by \$950,143, or 4.2%. Total expenditures have remained flat, however a concerted effort to reduce operating expenditures has resulted in a savings of \$614,000 below the adopted budget. Going forward into this next year, it is anticipated the City will see stronger signs of recovery in the local tax base, especially as general economic activity in the City continues to increase and new businesses come online. Coupled with the general improvements in the local housing market, this should translate to positive impacts for the City's General Fund.

Property taxes are also expected to continue to make a rebound next year, albeit rather slowly, given a positive consumer price index, the end to many of the temporary Proposition 8 reductions imposed by the County Assessor over the last few years, and the overall improvement that is occurring in the local housing market.

According to a recent Chapman University report, the following forecasts for 2013, should they hold true, will positively impact revenues in Laguna Hills:

- Personal Income +5.0%
- Taxable Sales +6.0%
- Consumer Price Index +3.3%

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.

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.

MAJOR INITIATIVES

The following details the various initiatives of the City of Laguna Hills in 2011/2012:

FORMER CIRCUIT CITY SITE

The closure of the Circuit City in 2009 resulted in a great deal of interest in the site. Ultimately, in January 2010, Ashley's Furniture purchased the property for \$11.4 million. In June 2012, an additional development of 5,949 square feet of retail space was completed to serve as the new home to an Ashley's Furniture, Total Wine and More, and Chick-Fil-A. All three stores are currently open and are anticipated to contribute substantially to the City's revenue.

MOULTON-LA PAZ SHOPPING CENTER

This 11.3 acre area located on the north side of La Paz Road between Moulton Parkway to the west and Alameda to the east was identified as an Opportunity Area in the City's General Plan. Following the rezoning of this parcel from open space to commercial retail, staff processed a tentative parcel map essentially creating a 3.055 acre lot with a 50-foot-wide open space/trail easement along La Paz Road. Last year, the City Council authorized staff to file a quiet title action in court, giving the City clear title on the property. At the April 24, 2012, City Council meeting, the City Council approved the sale of the property to Vintage Real Estate, the owner of the adjacent Moulton-La Paz shopping center for \$2.75 million. At that meeting, the City Council also approved the addition of 29,098 square feet of general commercial space. The approved purchase and sale agreement also included a creative and first-of-its-kind water quality easement over a portion of contiguous city-owned open space that allowed the project to move forward. Without this creative solution to the new water quality rules and regulations, it is highly likely that the project would wither have been abandoned or the City would have had to specifically lower the purchase price on the property. The City negotiated an additional \$211,416 in exchange for the use of these easements. The quiet title action was completed in June 2012 and escrow on the property closed in September 2012 in the amount of \$2,963,093 (See Note 14 in *Notes to the Financial Statements*). The Center will be anchored by The Fresh Market. The Fresh Market in Laguna Hills will be the chains first store in Southern California and the second in the State. Construction on the property is anticipated to begin in January 2013 and be completed in the spring of 2014. The rehabilitation of the open space along the La Paz Road between Alameda and Moulton Parkway is anticipated to commence in the summer of 2013.

**URBAN VILLAGE
DEVELOPMENT
PROJECTS**

The Urban Village, a centrally located 240-acre area that includes major retail and commercial nodes, 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. 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. The Laguna Hills Mall continues to systematically de-lease in anticipation of their upcoming renovations. It is expected that they will submit a development application in 2013. The owners of the 19- acre Oakbrook Village Shopping Center recently received approvals from the City to develop a mixed-use project that consists of 289-residential units amidst new and existing retail planned for the site. In addition, construction on the former Circuit City site was completed this year and now serves as a new home to Ashley's Furniture, Total Wine and More, and Chick-Fil-A. To accommodate these new businesses and the future development in the Urban Village area, construction was completed to widen Avenida de Carlota to allow for better traffic flow. Rounding out activity in the Urban Village area, the Taj-Mahal Medical Center, located in the northwest area of the Urban Village, also completed a multi-million dollar building renovation this past year.

**LA PAZ WIDENING AT
INTERSTATE 5**

The La Paz Widening at Interstate 5 project was approved by the City Council 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 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 began in April 2011 and is scheduled for completion in November 2012.

**AVENIDA DE LA
CARLOTTA WIDENING
PROJECT**

The Avenida de la Carlota Widening project, between Paseo de Valencia and El Toro Road, was substantially completed and included the addition of a third left-turn lane from the I-5/El Toro Road southbound off ramp onto Avenida de La Carlota and the addition of a third left-turn lane and through lane on Avenida de la Carlota at El Toro Road, along with traffic signal improvements, pedestrian access improvements, new pavement surfacing and signing and striping. No general fund dollars were used for this \$2.36 million dollar project.

**BIENNIAL STREET
MAINTENANCE
PROGRAM**

The City's ongoing maintenance program for residential and collector streets throughout the City was completed. In this project, approximately 17 streets south of Oso Parkway and 16 streets easterly of Paseo de Valencia were rehabilitated. The work included the removal and replacement of 13,000 square feet of sidewalk, 700 linear feet of curb and gutter, 2,200 square feet of driveways/cross-gutters and 13 new access ramps. The work also included 21,000 square feet of pavement repairs and placement of 16,000 tons of asphalt concrete overlays. Completion of this project extends the useful life of these streets for at least 20 years. This \$1.86 million dollar project was funded entirely by utilizing the City's share of gasoline tax revenues.

**COMMUNITY
DEVELOPMENT BLOCK
GRANT (CDBG)**

Over the past eight years, the City has been awarded Community Development Block Grant (CDBG) funds totaling over \$2.3 million dollars. Over \$2,100,000 has been used for the partial rehabilitation of more than 140 affordable housing units for very low, low, and moderate income households in the City. In 2012, the City was awarded \$162,000 to renovate homes in the 248-unit Aliso Meadows Condominium Association. The remaining \$222,000 in grant monies have been used to complete a number of improvements and address deferred maintenance issues at the Florence Sylvester Memorial Senior Center. In 2012, the City was awarded \$54,000 to expand the existing solar panel system and make interior improvements at the Center.

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, 2011. This was the twentieth 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 2011-13 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,

original signed

Bruce E. Channing
City Manager

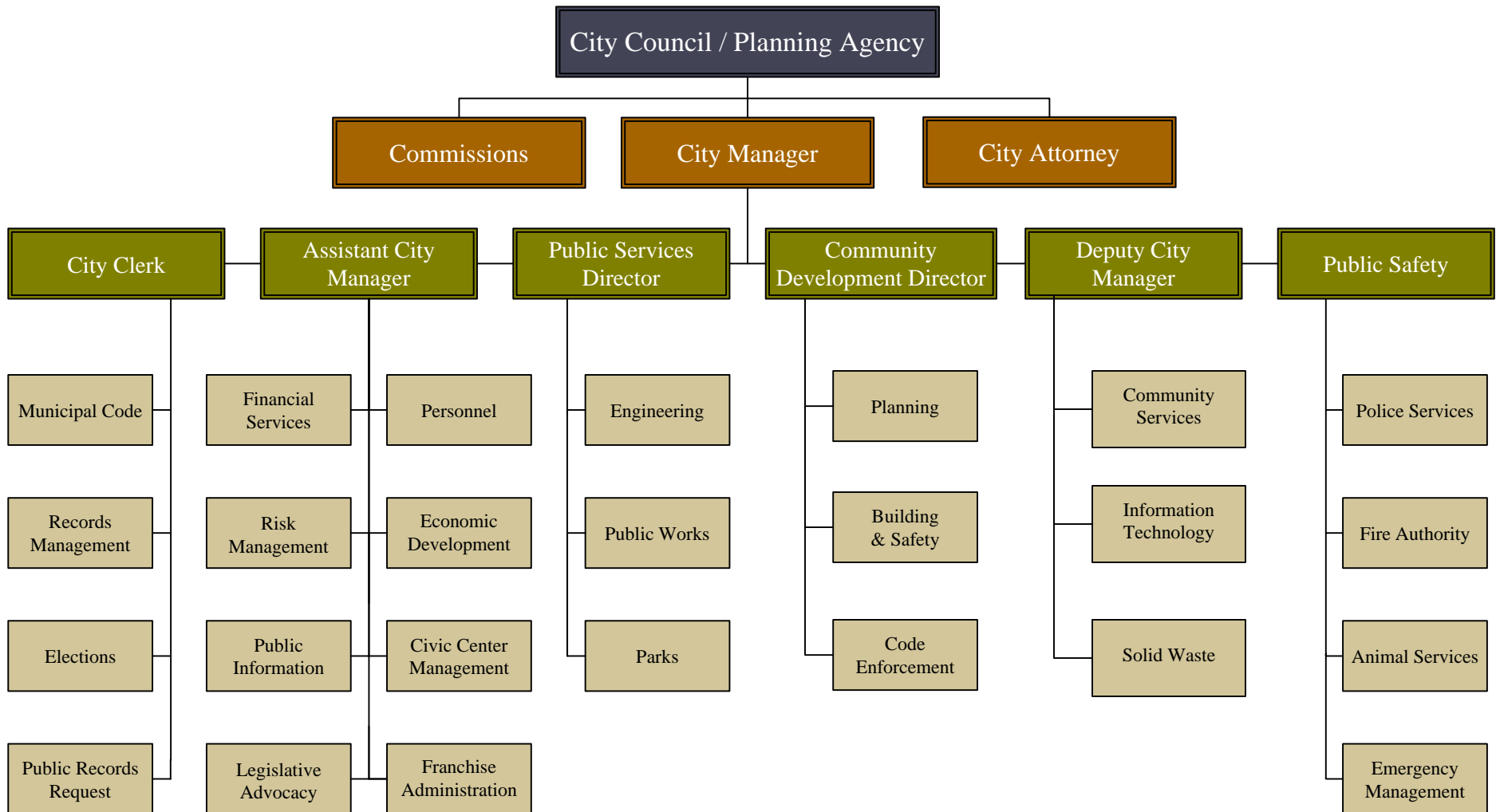
original signed

Donald J. White
Assistant City Manager

CITY OF LAGUNA HILLS

ORGANIZATIONAL CHART

June 30, 2012

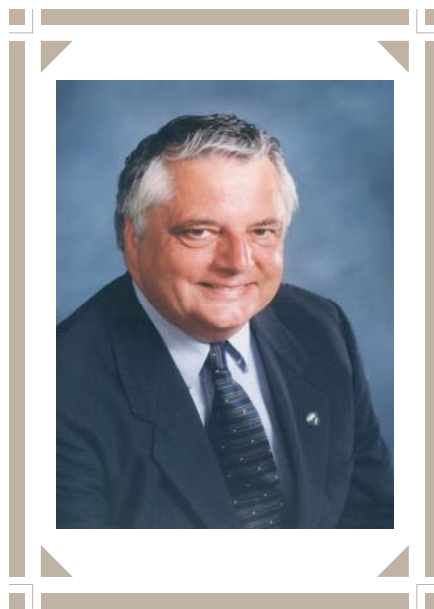


CITY OF LAGUNA HILLS

ELECTED OFFICIALS AS OF JUNE 30, 2012



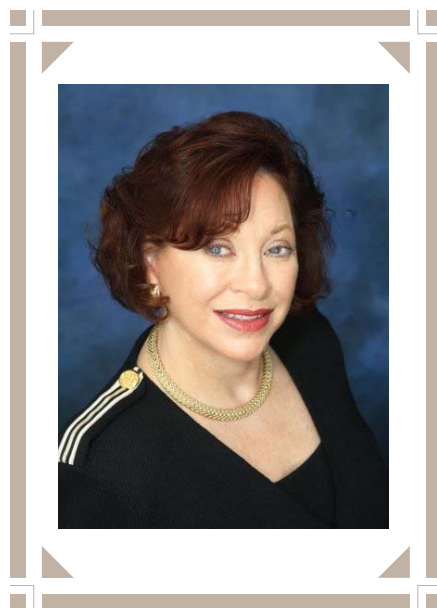
Melody Carruth
Mayor



Joel Lautenschleger
Mayor Pro Tem



Randal Bressette
Council Member



Barbara Kogerman
Council Member



L.Allan Songstad Jr.
Council Member

CITY OF LAGUNA HILLS

APPOINTED OFFICIALS AS OF JUNE 30, 2012



Donald J. White
Assistant City Manager/Deputy Treasurer



Bruce E. Channing
City Manager/Treasurer

- | | |
|---------------------------------|--|
| ♦ Gregory E. Simonian | City Attorney |
| ♦ Peggy J. Johns | City Clerk |
| ♦ David Chantarangsu | Community Development Director |
| ♦ David T. Reynolds | Deputy City Manager |
| ♦ Kenneth H. Rosenfield | Director of Public Works/City Engineer |
| ♦ Lt. Tom Behrens | Police Chief (O.C. Sheriff Department) |
| ♦ Div. Chief Bryan Brice | Fire Chief (OC. Fire Department) |

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FINANCIAL SECTION



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, 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, 2012, 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.

As discussed in Note 1 of the notes to the basic financial statements, effective July 1, 2011, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions*.

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, 2012, 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.

In accordance with Government Auditing Standards, we have also issued a report dated November 16, 2012, 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 and analysis and budgetary comparison information on pages II-3 through II-14 and II-57 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 a required part 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
Culver City, California
November 16, 2012

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, 2012**. 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 \$103,120,187. Of this amount, \$7,041,058 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 increase in the City's net assets resulting from the most recent fiscal year's operation was \$1,715,518, approximately 1.7%.
- Total revenues from all sources were \$24,109,254.
- The total cost of all City programs and projects was \$22,393,736. Approximately 19%, or \$4,300,278, of this amount is attributable to depreciation on the City's capital assets.
- Governmental net assets were \$92,034,229 as of June 30, 2012, after recording the value of the City's infrastructure assets, net of accumulated depreciation and long term debt.
- Governmental activities, which include certain capital projects and depreciation related to capital assets, increased the City's net assets by \$2,257,467.

Fund Based

- As of the close of the current fiscal year, the governmental funds reported combined ending fund balances of \$10,423,381.
- Total non-spendable fund balances, amounts that are either not in spendable form or are legally or contractually required to be maintained, were \$311,223.
- Total spendable fund balances were \$10,112,158. Of this amount,

approximately 13% (\$1,284,939 total assigned) is constrained by the City's intent to be used for a specific purpose and 39% (\$3,916,541 total restricted) is restricted in their use by external restrictions, such as by creditors, debt covenants, grantors, contributors, or by laws and regulations.

- Total governmental fund balances decreased by \$116,925.
- At the end of the most recent fiscal year, the total fund balance for the general fund was \$6,745,572; an increase of \$405,745 over prior year.
- General fund reported revenues exceeded expenditures by \$1,009,594.

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 22 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-55 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, 2012 were \$103,120,187, as shown on Table 1, on the following page.

By far the largest of the City's net assets (roughly \$94 million, or 91% 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 \$15,620,104 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	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 13,891	\$ 14,574	\$ 146	\$ 138	\$ 14,037	\$ 14,712
Capital assets	96,542	95,327	10,989	11,543	107,531	106,870
Total assets	<u>110,433</u>	<u>109,901</u>	<u>11,135</u>	<u>11,681</u>	<u>121,568</u>	<u>121,582</u>
Long-term liabilities outstanding	16,081	17,267	34	35	16,115	17,302
Other liabilities	2,318	2,857	15	18	2,333	2,875
Total liabilities	<u>18,399</u>	<u>20,124</u>	<u>49</u>	<u>53</u>	<u>18,448</u>	<u>20,177</u>
Net assets:						
Invested in capital assets, net of related debt	82,983	78,798	10,989	11,543	93,972	90,341
Restricted	2,107	3,653			2,107	3,653
Unrestricted	6,944	7,326	97	85	7,041	7,411
Total net assets	<u>\$ 92,034</u>	<u>\$ 89,777</u>	<u>\$ 11,086</u>	<u>\$ 11,628</u>	<u>\$ 103,120</u>	<u>\$ 101,405</u>

Another portion of the City's net assets, \$2,106,914 (2% 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 \$7,041,058, 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 81% on June 30, 2012.

During the fiscal year ended June 30, 2012, the total revenue from all sources was \$24,109,254 and the cost of all activities was \$22,393,736, resulting in an overall increase in net assets of \$1,715,518. The City's governmental activities

increased total net assets by \$2,257,467 and the City's business-type activities decreased total net assets by \$541,949. The increase from governmental activities is primarily due to an influx in program revenues, in particular capital contributions and grants for capital improvements. The decrease from business-type activities is largely attributable to depreciation. Of the \$1,154,967 of total operating expenses related to the City's property leasing activities, depreciation represents 60% (\$696,719) of that total.

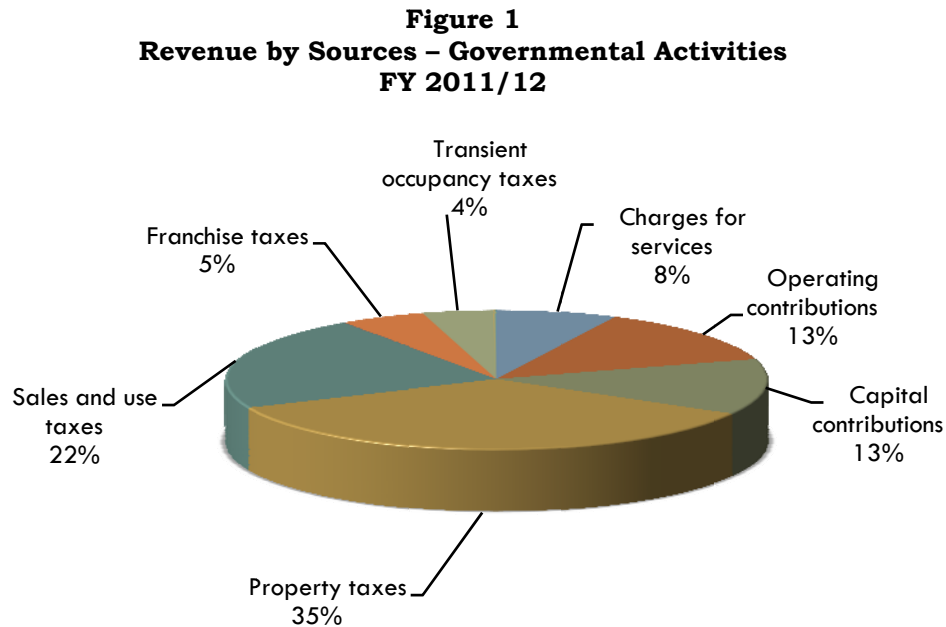
The details of the changes in the City's Net Assets are shown in **Table 2** below.

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

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for services	\$ 1,709	\$ 2,011	\$ 613	\$ 536	\$ 2,322	\$ 2,547
Operating Contributions	3,083	4,738			3,083	4,738
Capital Contributions	3,040	821			3,040	821
General Revenues:						
Property taxes	8,223	8,187			8,223	8,187
Sales and use taxes	5,158	5,239			5,158	5,239
Franchise taxes	1,224	1,200			1,224	1,200
Transient occupancy taxes	1,004	870			1,004	870
Motor Vehicle in lieu taxes	17	155			17	155
Interest earnings	16	25		1	16	26
Miscellaneous revenues	22	4			22	4
Total revenues	<u>23,496</u>	<u>23,250</u>	<u>613</u>	<u>537</u>	<u>24,109</u>	<u>23,787</u>
Expenses:						
Legislative/executive	1,565	1,537			1,565	1,537
Administrative services	1,756	1,772			1,756	1,772
Public services	6,000	5,781			6,000	5,781
Community development	1,127	1,405			1,127	1,405
Community services	3,643	3,703			3,643	3,703
Public safety	6,528	6,488			6,528	6,488
Property leasing			1,155	1,191	1,155	1,191
Interest	620	664			620	664
Total expenses	<u>21,239</u>	<u>21,350</u>	<u>1,155</u>	<u>1,191</u>	<u>22,394</u>	<u>22,541</u>
Change in net assets before transfers	<u>2,257</u>	<u>1,900</u>	<u>(542)</u>	<u>(654)</u>	<u>1,715</u>	<u>1,246</u>
Transfers		75		(75)		
Change in net assets	2,257	1,975	(542)	(729)	1,715	1,246
Net assets, beginning, as restated	89,777	87,802	11,628	12,357	101,405	100,159
Net assets, ending	<u>\$ 92,034</u>	<u>\$ 89,777</u>	<u>\$ 11,086</u>	<u>\$ 11,628</u>	<u>\$ 103,120</u>	<u>\$ 101,405</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.



As shown in the above pie chart, roughly 67% 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 33% of the total resources, comprised of charges for services and operating contributions.

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** on the following page.

Expenses associated with governmental activities experienced only a slight

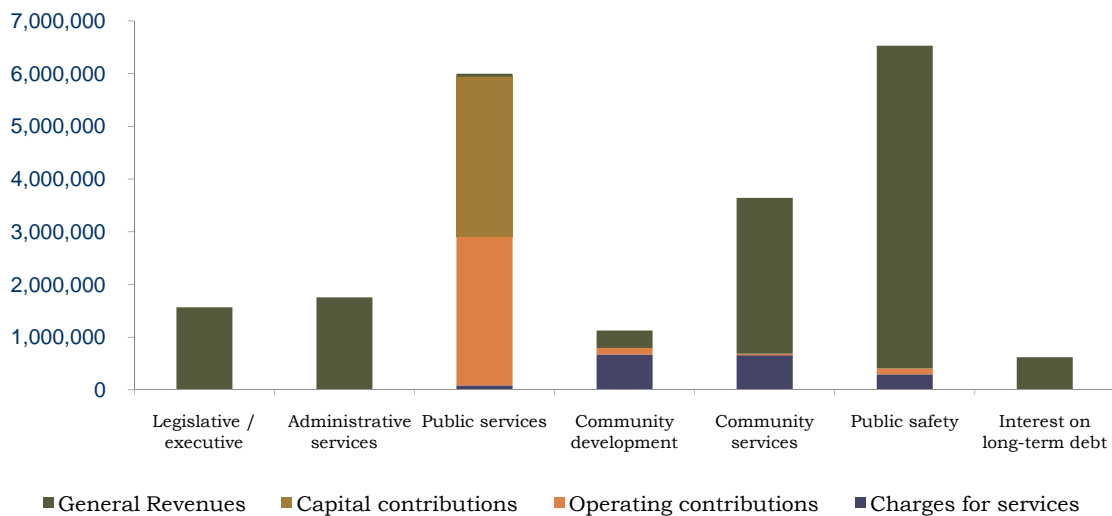
decrease of 1% this past year, which is largely attributable to capital related items in public services. Of the \$21,238,769 of expenses, depreciation of capital assets accounts for \$3,582,163 (17%) and the debt service interest payment on capital related items accounts for \$620,376 (3%).

Program Revenues and Expenses:

Program revenues for the most recent fiscal year were \$7,832,795. Expenses related to governmental activities were \$21,238,769. 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 and public safety are comparatively higher than the other expense categories, as shown in **Figure 2** below. The interest on long-term debt was \$620,376.

Figure2

FUNDING OF GOVERNMENTAL ACTIVITIES FY 2011/12



Business-type Activities

During the most recent fiscal year, the operating revenues of the Laguna Hills Civic Center were \$527,530 and the operating expenses were \$1,154,967, resulting in a net operating loss of \$627,437, which includes a depreciation charge of \$696,719. After interest earnings of \$354, the change in net assets at fiscal year-end was \$(541,949). The net cash used by the leasing activities was \$39,168. The contra rent revenue associated with the occupied spaces for City Hall was \$608,800.

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, fund balances of the governmental funds are reported separately within classifications based on a hierarchy of constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$10,423,381, a decrease of \$116,925 from prior year's balance. Of the ending fund balance, \$311,223 is non-spendable fund balance, which represents the portion of fund balance that is either not in spendable form or are legally or contractually required to be maintained. Of the remaining \$10,112,158 in spendable fund balance, \$1,284,939 is assigned fund balance and \$4,910,678 is unassigned fund balance. Assigned fund balance includes amounts which are constrained by the City's intent to be used for a specific purpose. These include \$22,700 designated for Claims Liability and a total of \$1,262,239 designated for equipment maintenance of the Civic Center, Community Center, Sports Complex, and various parks.

The fund balance of the City's general fund increased by \$405,745 from the prior fiscal year's balance. The fund balance of the non-major governmental funds decreased by \$504,357 and the fund balance in the Grants and Contributions Special Revenue Fund decreased by \$16,378. These changes in fund balances from the prior fiscal year are largely attributable to the transfers out to fund the capital outlay for certain capital projects in the capital projects fund.

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 \$608,800.

The statement of revenue, expenses, and change in net assets shows a net operating loss of \$627,437, before the interest earnings of \$354 and capital contributions from the City of \$85,134. The net effect is a decrease in the ending net assets of \$541,949, which is largely attributable to depreciation. It should be noted that before accounting for depreciation the net operating income would be \$69,282 from the City's leasing related activities.

General Fund Budgetary Highlights

At fiscal year-end, total revenues were below the budgeted amount by \$1,440,308, as a result of the significant slowdown in California's economy. The slow economic recovery brought in revenues 8% lower than the original estimates in revenues for the fiscal year. The total operating expenditures came in lower than the budgeted amount by \$664,015.

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, 2012 amounted to \$107,531,394 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** on the next page.

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

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land & improvements	\$ 30,881	\$ 32,130	\$ 2,855	\$ 2,855	\$ 33,736	\$ 34,985
Rights of ways/Easements	3,062	3,062			3,062	3,062
Building & improvements	6,603	7,263	8,134	8,687	14,737	15,950
Equipment and machinery	624	835			624	835
Construction in progress	6,133	1,704			6,133	1,704
Infrastructure						
Street signs	131	194			131	194
Storm drains	2,466	2,482			2,466	2,482
Streets	36,346	37,035			36,346	37,035
Parks inventory	1,599	1,590			1,599	1,590
Curbs, sidewalks, gutters	6,809	7,076			6,809	7,076
Bridges	1,887	1,956			1,887	1,956
Total capital assets net of accumulated depreciation	<u>\$ 96,541</u>	<u>\$ 95,327</u>	<u>\$ 10,989</u>	<u>\$ 11,542</u>	<u>\$ 107,530</u>	<u>\$ 106,869</u>

Additional information on the City's capital assets can be found in Note 5 on page II-44 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 fiscal year-end June 30, 2012, the per capita liability of the City of Laguna Hills was \$492.27. Additional information on the City's long-term debt can be found in Note 6 on page II-45 of this report.

Budget and Economic Factors

The City's most recent adopted biennial budget for fiscal years 2011/12 - 2012/13 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

JUNE 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments (note 2)	\$ 6,975,778	\$ 71,707	\$ 7,047,485
Taxes receivable	1,948,390		1,948,390
Accounts receivable, net of allowance	58,453	66,671	125,124
Interest receivable	8,143		8,143
Prepaid items	72,486	7,034	79,520
Deferred charges, net of accumulated amortization	252,904		252,904
Due from other governments	2,766,906		2,766,906
Restricted cash and investments (note 2)	1,808,021		1,808,021
Capital assets, not depreciated (note 5)	26,888,317	2,855,425	29,743,742
Capital assets, net of accumulated depreciation (note 5)	69,653,630	8,134,022	77,787,652
Total assets	<u>110,433,028</u>	<u>11,134,859</u>	<u>121,567,887</u>
LIABILITIES			
Accounts payable	1,220,376		1,220,376
Accrued liabilities	603,610	10,434	614,044
Interest payable	256,808		256,808
Due to other governments	237,020		237,020
Deposits		34,340	34,340
Prepaid rent & CAM		4,127	4,127
Noncurrent Liabilities (note 6):			
Due within one year	1,326,753		1,326,753
Due in more than one year	14,754,232		14,754,232
Total liabilities	<u>18,398,799</u>	<u>48,901</u>	<u>18,447,700</u>
NET ASSETS			
Invested in capital assets, net of related debt	82,982,768	10,989,447	93,972,215
Restricted for:			
Public services	2,035,571		2,035,571
Community services	71,343		71,343
Unrestricted	6,944,547	96,511	7,041,058
Total net assets	<u>\$ 92,034,229</u>	<u>\$ 11,085,958</u>	<u>\$ 103,120,187</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF LAGUNA HILLS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

		Program Revenues			
		Charges for	Operating	Capital	Total
	Expenses	Services	Contributions and Grants	Contributions and Grants	Program Revenues
Governmental activities:					
Legislative/executive	\$ 1,565,164	\$ -	\$ -	\$ -	\$ -
Administrative services	1,755,500	2,838			2,838
Public services	5,999,412	83,989	2,818,113	3,040,344	5,942,446
Community development	1,127,036	669,936	125,103		795,039
Community services	3,642,792	657,129	29,441		686,570
Public safety	6,528,489	295,587	110,315		405,902
Interest expense	620,376				
Total governmental activities	<u>21,238,769</u>	<u>1,709,479</u>	<u>3,082,972</u>	<u>3,040,344</u>	<u>7,832,795</u>
Business-type activities:					
Property leasing	<u>1,154,967</u>	<u>527,530</u>		<u>85,134</u>	<u>612,664</u>
Total business-type activities	<u>1,154,967</u>	<u>527,530</u>		<u>85,134</u>	<u>612,664</u>
Total primary government	<u>\$ 22,393,736</u>	<u>\$ 2,237,009</u>	<u>\$ 3,082,972</u>	<u>\$ 3,125,478</u>	<u>\$ 8,445,459</u>

General revenues:

Taxes:

Property taxes

Sales and use tax

Franchise tax

Transient occupancy tax

Intergovernmental, unrestricted:

Motor vehicle in lieu

Investment earnings

Miscellaneous revenue

Total general revenues

Changes in net assets

Net assets - beginning, as restated (note 13)

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
\$ (1,565,164)	\$ -	\$ (1,565,164)
(1,752,662)		(1,752,662)
(56,966)		(56,966)
(331,997)		(331,997)
(2,956,222)		(2,956,222)
(6,122,587)		(6,122,587)
(620,376)		(620,376)
<u>(13,405,974)</u>		<u>(13,405,974)</u>
	<u>(542,303)</u>	<u>(542,303)</u>
	<u>(542,303)</u>	<u>(542,303)</u>
<u>(13,405,974)</u>	<u>(542,303)</u>	<u>(13,948,277)</u>
8,223,234		8,223,234
5,157,787		5,157,787
1,223,523		1,223,523
1,004,483		1,004,483
16,727		16,727
15,736	354	16,090
21,951		21,951
<u>15,663,441</u>	<u>354</u>	<u>15,663,795</u>
2,257,467	(541,949)	1,715,518
89,776,762	11,627,907	101,404,669
<u>\$ 92,034,229</u>	<u>\$ 11,085,958</u>	<u>\$ 103,120,187</u>

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FUND FINANCIAL STATEMENTS

CITY OF LAGUNA HILLS

GOVERNMENTAL FUNDS

BALANCE SHEET

AS OF JUNE 30, 2012

	<u>General</u>	<u>Grants & Contributions Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Assets						
Cash and investments	\$ 6,975,778	\$ -	\$ -	\$ -	\$ -	\$ 6,975,778
Receivables:						
Taxes	1,948,390					1,948,390
Accounts	167,003					167,003
Interest	6,537			1,606		8,143
Prepaid items	72,486					72,486
Due from other funds (note 3)		8,856			2,098,063	2,106,919
Due from other governments	1,984,318	763,848			18,740	2,766,906
Advances to other funds	238,737					238,737
Restricted assets:						
Cash and investments				1,808,021		1,808,021
Total assets	<u>\$ 11,393,249</u>	<u>\$ 772,704</u>	<u>\$ -</u>	<u>\$ 1,809,627</u>	<u>\$ 2,116,803</u>	<u>\$ 16,092,383</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 1,220,376	\$ -	\$ -	\$ -	\$ -	\$ 1,220,376
Deferred revenues	479,752	763,848			18,740	1,262,340
Accrued liabilities	603,610					603,610
Due to other funds (note 3)	2,106,919					2,106,919
Due to other governments	237,020					237,020
Advances from other funds					238,737	238,737
Total liabilities	<u>4,647,677</u>	<u>763,848</u>			<u>257,477</u>	<u>5,669,002</u>
Fund balances:						
Nonspendable	311,223					311,223
Restricted		8,856		1,809,627	2,098,058	3,916,541
Assigned	1,284,939					1,284,939
Unassigned	5,149,410				(238,732)	4,910,678
Total fund balances	<u>6,745,572</u>	<u>8,856</u>		<u>1,809,627</u>	<u>1,859,326</u>	<u>10,423,381</u>
Total liabilities and fund balances	<u>\$ 11,393,249</u>	<u>\$ 772,704</u>	<u>\$ -</u>	<u>\$ 1,809,627</u>	<u>\$ 2,116,803</u>	<u>\$ 16,092,383</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, 2012

Fund balances of governmental funds	\$ 10,423,381
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Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Accounts receivable allowance for doubtful accounts.	(108,550)
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Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	96,541,947
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Long term debt, deferred charges, compensated absences, and claims and judgements that have not been included in the governmental fund activity.	(15,828,081)
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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.	(256,808)
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>1,262,340</u>
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Net assets of governmental activities	<u><u>\$ 92,034,229</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, 2012

	General	Grants & Contributions Special Revenue	Capital Projects	Debt Service	Other Governmental Funds	Totals
Revenues:						
Taxes	\$ 10,451,240	\$ -	\$ -	\$ -	\$ 82,302	\$ 10,533,542
Licenses and permits	545,882				270,981	816,863
Intergovernmental revenues	5,129,999	3,399,852			2,430,464	10,960,315
Charges for current services	887,126					887,126
Fines and forfeitures	295,587					295,587
Investment income	8,897	37		6,839	14,356	30,129
Total revenues	<u>17,318,731</u>	<u>3,399,889</u>		<u>6,839</u>	<u>2,798,103</u>	<u>23,523,562</u>
Expenditures:						
Current:						
Legislative/executive	1,556,386					1,556,386
Administrative services	1,622,122					1,622,122
Public services	4,106,583				48,803	4,155,386
Community development	1,054,583				72,453	1,127,036
Community services	1,585,758				10,146	1,595,904
Public safety	6,383,705				110,315	6,494,020
Capital outlay		16,415	5,272,975			5,289,390
Debt service:						
Interest				670,243		670,243
Principal retirement				1,130,000		1,130,000
Total expenditures	<u>16,309,137</u>	<u>16,415</u>	<u>5,272,975</u>	<u>1,800,243</u>	<u>241,717</u>	<u>23,640,487</u>
Excess (deficiency) of revenues over expenditures	<u>1,009,594</u>	<u>3,383,474</u>	<u>(5,272,975)</u>	<u>(1,793,404)</u>	<u>2,556,386</u>	<u>(116,925)</u>
Other financing sources (uses):						
Transfers in (note 4)	6,462,624		5,272,975	1,791,469	2,029	13,529,097
Transfers out (note 4)	(7,066,473)	(3,399,852)			(3,062,772)	(13,529,097)
Total other financing sources (uses)	<u>(603,849)</u>	<u>(3,399,852)</u>	<u>5,272,975</u>	<u>1,791,469</u>	<u>(3,060,743)</u>	
Net change in fund balances	<u>405,745</u>	<u>(16,378)</u>		<u>(1,935)</u>	<u>(504,357)</u>	<u>(116,925)</u>
Fund balances, beginning of fiscal year, as restated (note 13)						
	<u>6,339,827</u>	<u>25,234</u>		<u>1,811,562</u>	<u>2,363,683</u>	<u>10,540,306</u>
Fund balances, end of fiscal year	<u>\$ 6,745,572</u>	<u>\$ 8,856</u>	<u>\$ -</u>	<u>\$ 1,809,627</u>	<u>\$ 1,859,326</u>	<u>\$ 10,423,381</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 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds	\$ (116,925)
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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 capital outlays exceeds depreciation & disposals in the current period.	1,215,197
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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.	1,161,565
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To record as an expense the net change in compensated absences and claims and judgments in the Statement of Activities.	4,752
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Accrued interest for Certificates of Participation. This is the net change in accrued interest for the current period.	18,302
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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.	(25,424)
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Change in net assets of governmental activities	<u>\$ 2,257,467</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, 2012

	Enterprise - Property Leasing
ASSETS	
Current assets:	
Cash and investments (note 2)	\$ 71,707
Accounts receivable	66,671
Prepaid items	7,034
Total current assets	<u>145,412</u>
Noncurrent assets:	
Capital assets not depreciated	2,855,425
Capital assets, net of accumulated depreciation	8,134,022
Total noncurrent assets	<u>10,989,447</u>
Total assets	<u>11,134,859</u>
LIABILITIES	
Current liabilities:	
Accrued liabilities	10,434
Prepaid Rent & CAM	4,127
Total current liabilities	<u>14,561</u>
Noncurrent liabilities:	
Deposits	<u>34,340</u>
Total liabilities	<u>48,901</u>
NET ASSETS	
Net assets, invested in capital assets	10,989,447
Unrestricted	<u>96,511</u>
Total net assets	<u>\$ 11,085,958</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, 2012

	<u>Enterprise - Property Leasing</u>
Operating revenues:	
Rental fees	\$ 515,613
CAM revenues	5,213
Other current service fees	6,704
Total operating revenues	<u>527,530</u>
Operating expenses:	
Direct operating expenses	427,743
Advertising and promotion	2,834
Administrative and professional fees	2,879
Bad debts	1,081
Legal fees	6,363
Repairs and maintenance	17,348
Depreciation expense	696,719
Total operating expenses	<u>1,154,967</u>
Operating income/(loss)	<u>(627,437)</u>
Nonoperating revenues (expenses):	
Interest income	354
Total nonoperating revenues (expenses)	<u>354</u>
Income/(loss) before transfers and capital contributions and grants	(627,083)
Capital contributions and grants	<u>85,134</u>
Change in net assets	(541,949)
Net assets, beginning of fiscal year	<u>11,627,907</u>
Net assets, end of fiscal year	<u>\$ 11,085,958</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, 2012

	Enterprise - Property Leasing
Cash flows from operating activities:	
Receipts from tenants	\$ 501,354
Payments to suppliers for goods and services	(540,522)
Net cash provided by (used for) operating activities	(39,168)
Cash flows from capital and related financing:	
Capital contributions	85,134
Acquisition of capital assets	(143,603)
Net cash used for capital and related financing activities	(58,469)
Cash flows from investing activities:	
Interest on investments	354
Net cash provided by investing activities	354
Net increase (decrease) in cash and cash equivalents	(97,283)
Cash and cash equivalents at beginning of fiscal year	168,990
Cash and cash equivalents at end of fiscal year	\$ 71,707
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (627,437)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	696,719
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(29,619)
Increase (decrease) in accrued liabilities	(7,274)
Increase (decrease) in due to other funds	(75,000)
Increase (decrease) in prepaid rent & CAM revenue	4,127
Increase (decrease) in deposits payable	(684)
Total adjustments	588,269
Net cash used by operating activities	\$ (39,168)

Non-cash investing, capital, and financing activities:

During the fiscal year ending June 30, 2012, there were no non-cash investing, 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, 2012

ASSETS

Cash and investments	<u>\$ 371,927</u>
Total assets	<u><u>\$ 371,927</u></u>

LIABILITIES

Deposits	<u>\$ 371,927</u>
Total liabilities	<u><u>\$ 371,927</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, 2012

(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 9, page 131, paragraph 4.

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, 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 another 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.

Grants and Contributions Special Revenue Fund

The Grants and Contributions Special Revenue Fund is used to account for revenues and expenditures made for specific projects including street improvements and other capital expenditures.

Debt Service Fund

The Debt Service Fund is used to pay the City's debt service on its COP issue.

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.

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, \$10,423,381, differs from "net assets" of governmental activities, \$92,034,229 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.

Miscellaneous damages reimbursement	\$7,404
Traffic accidents reimbursement	<u>101,146</u>
	<u>\$108,550</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	\$146,002,824
Accumulated depreciation	<u>(49,460,877)</u>
	<u>\$ 96,541,947</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, 2012 were:

Certificates of Participation	\$14,970,000
COP deferred charges, net accumulated amortization of \$48,573	(252,904)
COP deferred refunding loss, net accumulated amortization of \$69,600	(362,396)
COP bond premium, net of accumulated amortization of \$194,453	1,012,500
Claims and judgments	116,938
Compensated absences	<u>343,943</u>
	<u>\$15,828,081</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>\$ 256,808</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	\$ 360,963
DOT grant receivable	763,848
Housing fund deposits	18,739
Miscellaneous accounts receivable	<u>118,790</u>
	<u>\$ 1,262,340</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, \$(116,925), differs from the “change in net assets” for governmental activities, \$2,257,467, 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	\$ 5,289,390
Less amounts expensed	(444,250)
Less capital asset disposal loss	(26,384)
Depreciation expense	<u>(3,603,559)</u>
	<u>\$ 1,215,197</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	\$ 1,130,000
Issuance cost and premium amortized	<u>31,565</u>
	<u>\$1,161,565</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	\$(2,168)
Compensated absences	<u>(2,584)</u>
	<u><u>\$(4,752)</u></u>

Accrued Interest

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

Accrued interest	<u>\$ (18,302)</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	\$ 44,515
Other government grants receivable	(74,679)
Accounts receivable allowance	1,902
Miscellaneous accounts receivable	<u>2,838</u>
	<u><u>\$ (25,424)</u></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. 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 Developer Traffic Impact Fee fund, Public Art fund, SLESF/COPS fund, and JAG ARRA fund did not have adopted budgets during the current fiscal year.

(o) Deficit Fund Balances/Net Assets

Nonmajor funds

A deficit fund balance of \$238,737 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. 64

For the fiscal year ended June 30, 2012, the City implemented GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions." This Statement is effective for financial statements for periods beginning after June 15, 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. Implementation of the GASB Statement No. 64, did not have an impact on the City's financial statements for the fiscal year ended June 30, 2012.

(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, 2012, are reported in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$ 7,047,485
Restricted cash and investments	1,808,021
Statement of Fiduciary Net Assets:	
Cash and investments	<u>371,927</u>
Total cash and investments	<u>\$ 9,227,433</u>

Cash and investments at June 30, 2012, consisted of the following:

Cash on hand	\$	1,750
Pooled Deposits:		
Demand deposits	\$	566,865
Certificates of deposit		<u>820,956</u>
Total Pooled Deposits		1,387,821
Pooled Investments:		
Local Agency Investment Fund		6,029,841
Restricted cash and investments:		
Local Agency Investment Fund		<u>1,808,021</u>
Total cash and investments		<u>\$ 9,227,433</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, 2012, the carrying amount of the City's deposits was \$566,865 and the bank balance was \$1,493,072. The difference represents outstanding checks and other reconciling items.

<u>Pooled Deposits</u>	<u>Carrying Amount</u>
Demand Deposits:	
Bank Balance	\$ 1,493,072
Plus: Deposits in transit	993
Less: Outstanding warrants	<u>(927,200)</u>
Book Balance	566,865
Certificates of Deposit	<u>820,956</u>
Total Pooled Deposits	<u>\$ 1,387,821</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, 2012, 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, 2012, 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, 2012, 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	\$ 6,029,841	\$ 6,029,841
Investment with Fiscal Agent:		
Local Agency Investment Funds	<u>1,808,021</u>	<u>1,808,021</u>
Total	\$ <u><u>7,837,862</u></u>	\$ <u><u>7,837,862</u></u>

(3) **Interfund Receivables and Payables**

Interfund receivables and payables at June 30, 2012, were as follows.

<u>Funds:</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Major Governmental:</u>		
General	\$	\$ 2,106,919
Grants & Contributions Special Revenue	8,856	
<u>Non-major Governmental:</u>		
<u>Special Revenue Funds:</u>		
Measure M Turn Back & Discretionary	5,709	
Proposition 1B	175,544	
Senior Mobility Program	21,324	
CARITS	875,124	
Gas Tax	949,019	
Beverage Recycling	38,153	
CR&R Recycling Fee	5	
C & D Forfeited Deposits	25,578	
AB 939 Surcharge Grant	7,607	
Total	<u>\$ 2,106,919</u>	<u>\$ 2,106,919</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, 2012, were as follows:

<u>Funds:</u>	<u>Advances to other funds</u>	<u>Advances from other funds</u>
<u>Major Governmental:</u>		
General	\$ 238,737	\$ -
<u>Non-major Governmental:</u>		
<u>Special Revenue Funds:</u>		
Public Art		238,737
Total	<u>\$ 238,737</u>	<u>\$ 238,737</u>

These outstanding balances at the end of the fiscal year are the result of 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.

(4) Transfers In and Out

Transfers in and out for the fiscal year ended June 30, 2012 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	\$ 7,066,473	General	\$ 6,462,624
Grants & Contributions	3,399,852	Capital Projects	5,272,975
		Debt Service	1,791,469
<u>Non-major Governmental:</u>		<u>Non-major Governmental:</u>	
<u>Special Revenue Funds:</u>		<u>Special Revenue Funds:</u>	
Traffic Impact	239,689	Senior Mobility Program	2,029
Measure M Turn Back & Discretionary	1,700,859		
AB 2766	38,218		
Proposition 1B	303,311		
Tax Increment	156,090		
ARRA Energy	144,775		
CARITS	<u>479,830</u>		
Totals	<u>\$ 13,529,097</u>	Totals	<u>\$ 13,529,097</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, 2012, 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, 2012, was as follows:

	<u>Balance at</u> <u>July 1, 2011</u>	<u>Tranfers</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2012</u>
Governmental activities:					
Buildings and improvements	\$ 13,198,419	\$ -	\$ -	\$ -	\$ 13,198,419
Machinery and equipment	2,369,113		12,073	(47,780)	2,333,406
Land improvements	24,986,486				24,986,486
Infrastructure	78,192,445	166,906	236,845		78,596,196
Total cost of depreciable assets	118,746,463	166,906	248,918	(47,780)	119,114,507
Less accumulated depreciation for:					
Buildings and improvements	\$ 5,935,540		659,921		\$ 6,595,461
Machinery and equipment	1,534,279		196,032	(21,396)	1,708,915
Land improvements	10,549,984		1,249,324		11,799,308
Infrastructure	27,858,911		1,498,282		29,357,193
Total accumulated depreciation	45,878,714		3,603,559	(21,396)	49,460,877
Net depreciable assets	72,867,749		(3,354,641)	(26,384)	69,653,630
Land	17,693,529				17,693,529
Rights of way/Easements	3,061,528				3,061,528
Construction in progress	1,703,944	(166,906)	4,596,222		6,133,260
Total cost of non-depreciable assets	22,459,001	(166,906)	4,596,222		26,888,317
Total capital assets, net	\$ 95,326,750	\$ -	\$ 1,241,581	\$ (26,384)	\$ 96,541,947
Business-type activities:					
Buildings and improvements	\$ 13,790,784	\$ -	\$ 143,603	\$ -	\$ 13,934,387
Total cost of depreciable assets	13,790,784		143,603		13,934,387
Less accumulated depreciation for:					
Buildings and improvements	5,103,646		696,719		5,800,365
Total accumulated depreciation	5,103,646		696,719		5,800,365
Net depreciable assets	8,687,138		(553,116)		8,134,022
Land	2,855,425				2,855,425
Total capital assets, net	\$ 11,542,563	\$ -	\$ (553,116)	\$ -	\$ 10,989,447

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

Governmental activities:

Legislative/executive	\$ 8,778
Administrative services	140,032
Public services	1,484,910
Community services	1,961,754
Public safety	<u>8,085</u>
	3,603,559

Business-type activities:

Property leasing	<u>696,719</u>
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Total \$ 4,300,278

(6) Long-term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2012, was as follows:

Governmental Activities :

	<u>Balance at</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>June 30, 2012</u>	<u>Amounts Due</u> <u>in One Year</u>
Certificates of Participation:					
2010 COP	\$ 16,100,000	\$ -	\$ 1,130,000	\$ 14,970,000	\$ 1,180,000
Deferred loss on refunding	(391,196)		(28,800)	(362,396)	(28,800)
Unamortized premium	<u>1,092,964</u>		<u>80,464</u>	<u>1,012,500</u>	<u>80,464</u>
Total Certificates of Participation	<u>16,801,768</u>		<u>1,181,664</u>	<u>15,620,104</u>	<u>1,231,664</u>
Other Liabilities:					
Compensated absences	346,527	162,910	165,494	343,943	83,395
Claims and judgments	<u>119,106</u>	<u>105,866</u>	<u>108,034</u>	<u>116,938</u>	<u>11,694</u>
Total Other Liabilities	<u>465,633</u>	<u>268,776</u>	<u>273,528</u>	<u>460,881</u>	<u>95,089</u>
Totals	<u>\$ 17,267,401</u>	<u>\$ 268,776</u>	<u>\$ 1,455,192</u>	<u>\$ 16,080,985</u>	<u>\$ 1,326,753</u>

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

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 February 1st and August 1st 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, 2012, are as follows:

Fiscal Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,300,000	501,386	1,801,386
2017	1,350,000	449,386	1,799,386
2018 - 2022	7,610,000	1,353,916	8,963,916
2023 - 2025	<u>1,075,000</u>	<u>90,901</u>	<u>1,165,901</u>
Totals	<u>\$14,970,000</u>	<u>\$4,167,749</u>	<u>\$19,139,749</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 \$260,548 at June 30, 2012 will be paid from fund balance.

(7) General Liability Insurance

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 Praetorian 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, 2012, 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
Difference in Conditions (DIC) (Multi-peril)	<ul style="list-style-type: none">• \$25,000• 5% earthquake	Beazley	<ul style="list-style-type: none">• \$5M per occurrence and annual aggregate• \$18.8M TIV

Area of Risk	City Self-Insurance	Carrier	Risk Coverage
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
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
Business Auto	<ul style="list-style-type: none"> • \$500 	Praetorian	<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
Workers' Compensation & Employers' Liability	<ul style="list-style-type: none"> • None 	SDRMA	<ul style="list-style-type: none"> • Statutory Workers' Compensation per occurrence • \$5M Employer's Liability per occurrence

Claims Liability

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, 2012 is \$22,700.

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:

	FY2011/12	FY2010/11
Claims payable, beginning	\$ 119,106	\$ 93,931
Payments/changes in estimate	(2,168)	25,175
Claims payable, ending	\$ 116,938	\$ 119,106

(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 11.537% of annual covered payroll. The rate as of June 30, 2012 was 11.271%. The contribution requirements of plan members and the City are established by contract and may be amended by PERS.

Annual Pension Cost

For 2011-2012, the City's annual pension cost of \$494,848 for PERS was equal to the City's required and actual contributions.

THREE YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	\$463,107	100%	\$0
6/30/2011	\$475,185	100%	\$0
6/30/2012	\$494,848	100%	\$0

For fiscal years 2003-2011, 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 \$589,913 as of June 30, 2012.

(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 a maximum of \$16,500 for calendar year 2011 and \$17,000 for calendar year 2012. 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) Fund Equity

GASB Statement No. 34 adds the concepts of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

Net Assets

Net Assets are divided into three captions under GASB Statement No. 34. These captions apply only to Net Assets as determined at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less outstanding balance of any debt issued to finance these capital assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter.

Unrestricted describes the portion of Net Assets which is not restricted as to use.

Restricted net assets are net assets that are subject to constraints either by (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulation of other governments or (2) imposed by law through constitutional provisions or enabling legislation. There were no net assets at June 30, 2012 that were restricted by enabling legislation.

Restricted net assets at June 30, 2012 for governmental activities are as follows:

Public Services	\$ 2,035,571
Community Services	<u>71,343</u>
Total Restricted Net Assets-Governmental Activities	\$ <u><u>2,106,914</u></u>

Fund Balances

Fund Balances of the governmental funds are reported separately within classifications based on a hierarchy of constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance.

The *nonspendable* fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations.

Committed fund balances are those constrained to specific purposes by a government itself, using its highest level of decision-making authority. The City does not have any committed fund balances at June 30, 2012.

Assigned fund balances include amounts that are constrained by the City's intent to be used for specific purposes. The City Manager has the authority to assign the portion of the fund balance in the general fund that are constrained by the City's intent to be used for reserves as established in the City's Financial Policy No. 105 Section G.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

Fund balances are presented in the following categories: spendable, restricted, assigned, and unassigned. A detailed schedule of fund balances at June 30, 2012 is as follows:

	General Fund	Grants & Contribution Fund	Debt Service Fund	Other Governmental Funds	Total
Nonspendable:					
Prepaid Items	\$ 72,486	\$ -	\$ -	\$ -	\$ 72,486
Advances	238,737				238,737
Total	311,223				311,223
Restricted:					
Debt Service			1,809,627		1,809,627
Measure M Turn Back				5,709	5,709
Prop 1B				175,544	175,544
CARITS				875,124	875,124
Gas Tax				949,019	949,019
Beverage Recycling				38,153	38,153
Senior Mobility Program				21,324	21,324
C & D Forfeited Deposits				25,578	25,578
AB 939 Surcharge Grant				7,607	7,607
Grants & Contributions		8,856			8,856
Total	\$ -	\$ 8,856	\$ 1,809,627	\$ 2,098,058	\$ 3,916,541

	General Fund	Grants & Contribution Fund	Debt Service Fund	Other Governmental Funds	Total
Assigned:					
Claims Liability	22,700				22,700
Community Center Mtnc	444,922				444,922
Parks Maintenance	200,000				200,000
Sports Complex Mtnc	277,886				277,886
Civic Center EqptMtnc	213,850				213,850
Slopes/Storm Drain Mtnc	125,581				125,581
Total Assigned	1,284,939				1,284,939
Unassigned	5,149,410			(238,732)	4,910,674
Total Fund Balances	\$ 6,745,572	\$ 8,856	\$ 1,809,627	\$ 1,859,326	\$ 10,423,381

(11) 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, 2012. 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, 2012 is as follows.

	<u>Government-Wide</u>
Total Assets	\$376,665,967
Total Liabilities	<u>(108,120,816)</u>
Total Net Assets	<u>\$268,545,151</u>
Total Revenues	\$ 265,212,548
Total Expenditures	<u>(284,296,768)</u>
Net Change in Net Assets	<u>\$ (19,084,220)</u>

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

(12) 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 \$608,800.

(13) 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	\$ 88,956,306	\$ 7,160,283
Adjustment of prior year revenues	820,456	
Adjustment of prior year transfers in		(820,456)
Beginning balance, as restated	<u>\$ 89,776,762</u>	<u>\$ 6,339,827</u>
<u>Non-Major Governmental Funds</u>		
Beginning balance, as previously reported		\$ 1,543,227
Adjustment of prior year transfers out		820,456
Beginning balance, as restated		<u>\$ 2,363,683</u>

(14) Subsequent Event

During the most recent General Plan update in 2009, an 11.3 acre area located on the north side of La Paz Road between Moulton Parkway to the west and Alameda to the east was identified as an "opportunity area". Following the rezoning of this parcel from open space to commercial retail, a

tentative map was processed which essentially created a 3.055 acre lot with a 50-foot-wide open space/trail easement along La Paz Road. A title action was filed in court, giving the City clear title on the property. On April 24, 2012, the City Council approved the sale of the property to Vintage Real Estate, the owner of the adjacent Moulton-La Paz shopping center, for approximately \$2.75 million. City Council also approved the addition of 29,098 square feet of general commercial space. This approved purchase and sale agreement included a creative and first-of-its-kind water quality easement over a portion of contiguous city-owned open space, which allowed the project to move forward. The City negotiated an additional \$211,416 in exchange for the use of these easements. The quiet title action was completed in June 2012 and escrow on the property closed on September 13, 2012, in the amount of \$2,952,352. Construction on the property is anticipated to begin in January 2013 and be completed in the spring of 2014. The rehabilitation of the open space along the La Paz Road between Alameda and Moulton Parkway should be completed in the summer of 2013.

The City's Management has evaluated subsequent events through November 16, 2012, the date these financial statements were available to be issued, and has determined there were no other material events requiring disclosure.

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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 are 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 fiscal year for the governmental type funds.

2. EXPENDITURES IN EXCESS OF APPROPRIATIONS

Expenditures exceeded appropriations in the following General Fund departments:

	Appropriations	Expenditures	Variance Positive (Negative)
General Fund:			
Legislative/executive	\$1,435,674	\$1,556,386	\$ (120,712)
Public services	\$4,018,945	\$4,106,583	\$ (87,638)

The over-expenditure in the Legislative/Executive Department is attributable to legal services for general counsel and litigation. The over-expenditure in the Public Services Department is attributable to an increased water cost for landscape maintenance as a result of a change in the water rate structure.

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, 2012

	Budgeted Amounts			Variances with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 10,687,890	\$ 10,687,890	\$ 10,451,240	\$ (236,650)
Licenses and permits	805,600	805,600	545,882	(259,718)
Intergovernmental revenues	5,615,936	5,615,936	5,129,999	(485,937)
Charges for current services	1,117,613	1,117,613	887,126	(230,487)
Fines and forfeitures	500,000	500,000	295,587	(204,413)
Investment income	32,000	32,000	8,897	(23,103)
Total Revenues	18,759,039	18,759,039	17,318,731	(1,440,308)
Expenditures:				
Legislative/executive	1,437,504	1,435,674	1,556,386	(120,712)
Administrative services	1,633,227	1,648,535	1,622,122	26,413
Public services	4,020,445	4,018,945	4,106,583	(87,638)
Community development	1,363,286	1,360,257	1,054,583	305,674
Community services	1,758,347	1,750,495	1,585,758	164,737
Public safety	6,760,343	6,759,246	6,383,705	375,541
Total Expenditures	16,973,152	16,973,152	16,309,137	664,015
Excess (Deficiency) of Revenues over Expenditures	1,785,887	1,785,887	1,009,594	(776,293)
Other Financing Sources (Uses):				
Transfers in	220,000	6,119,494	6,462,624	343,130
Transfers out	(2,563,387)	(9,237,172)	(7,066,473)	2,170,699
Total Other Financing Sources (Uses)	(2,343,387)	(3,117,678)	(603,849)	2,513,829
Net Change in Fund Balance	(557,500)	(1,331,791)	405,745	1,737,536
Fund Balance, beginning, as restated	6,339,827	6,339,827	6,339,827	
Fund Balance, Ending	\$ 5,782,327	\$ 5,008,036	\$ 6,745,572	\$ 1,737,536

See Notes to Required Supplementary Information

SUPPLEMENTARY SCHEDULES

NON-MAJOR FUNDS

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

Measure M Fund - Used to account for revenues and expenditures made for street improvement and transportation system maintenance financed through 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 1B Fund - Used to account for revenues and expenditures related to Proposition 1B, a voter-approved transportation bond for transportation related projects that relieve traffic congestion and improve air quality.

Senior Mobility Program Fund - Used to account for revenues and expenditures related to help design and operate a transit program that best fits the needs of older adults under the OCTA Senior Mobility Program.

Developer Traffic Impact Fees Fund - Used to account for revenues and expenditures related to fees imposed on developers for the purpose of defraying costs of improved traffic signal, operation, and infrastructure generated by the new development.

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.

CDBG 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.

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 by the applicant, 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 for the purpose of implementing and supporting regional recycling and waste diversion within the City.

Housing Set Aside Fund - 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.

ARRA Energy Fund - Used to account for revenues and expenditures related to the energy efficiency program as part of the American Recovery and Reinvestment Act.

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.

SLESF/COPS Brulte Fund - Used to account for revenues received and expenditures made for front line law enforcement services related to the allocations received through the State Supplemental Law Enforcement Services Fund (SLESF)/COPS program.

JAG ARRA Fund - Used to account for revenues received and expenditures made for law enforcement services provided by funding through the American Recovery and Reinvestment Act - Justice Assistance Grant Funding program.

CITY OF LAGUNA HILLS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
AS OF JUNE 30, 2012

	Special Revenue							
	Gas Tax	Measure M	AB 2766	Prop 1B	Senior	Developer	CARITS	CDBG
		Turn Back & Discretionary			Mobility Program	Traffic Impact Fees		
Assets								
Due from other funds	\$ 949,019	\$ 5,709	\$ -	\$ 175,544	\$ 21,324	\$ -	\$ 875,124	\$ -
Due from other governments								
Total Assets	<u>\$ 949,019</u>	<u>\$ 5,709</u>	<u>\$ -</u>	<u>\$ 175,544</u>	<u>\$ 21,324</u>	<u>\$ -</u>	<u>\$ 875,124</u>	<u>\$ -</u>
Liabilities and Fund Balances								
Liabilities:								
Deferred revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Advances from other funds								
Total Liabilities								
Fund Balances:								
Restricted	949,019	5,709		175,544	21,324		875,124	
Unassigned								
Total Fund Balance	<u>949,019</u>	<u>5,709</u>		<u>175,544</u>	<u>21,324</u>		<u>875,124</u>	
Total Liabilities and Fund Balance	<u>\$ 949,019</u>	<u>\$ 5,709</u>	<u>\$ -</u>	<u>\$ 175,544</u>	<u>\$ 21,324</u>	<u>\$ -</u>	<u>\$ 875,124</u>	<u>\$ -</u>

										Total
Redevelopment	Tax	Beverage	CR&R	C & D	AB 939	Housing	ARRA	Public	SLEFS/COPS	JAG
Increment	Increment	Recycling	Recycling	Forfeited	Surcharge	Set Aside	Energy	Art	BRULTE	ARRA
		Fee	Deposits	Grant						Funds
\$ -	\$ 38,153	\$ 5	\$ 25,578	\$ 7,607	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,098,063
					18,740					18,740
\$ -	\$ 38,153	\$ 5	\$ 25,578	\$ 7,607	\$ 18,740	\$ -	\$ -	\$ -	\$ -	\$ 2,116,803
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,740	\$ -	\$ -	\$ -	\$ -	\$ 18,740
							238,737			238,737
					18,740		238,737			257,477
	38,153	5	25,578	7,607						2,098,063
							(238,737)			(238,737)
	38,153	5	25,578	7,607			(238,737)			1,859,326
\$ -	\$ 38,153	\$ 5	\$ 25,578	\$ 7,607	\$ 18,740	\$ -	\$ -	\$ -	\$ -	\$ 2,116,803

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, 2012

	Special Revenue							
	Gas Tax	Measure M Turn Back & Discretionary	AB 2766	Prop 1B	Senior Mobility Program	Developer Traffic Impact Fees	CARITS	CDBG
Revenues:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits						238,754		
Intergovernmental	946,723	517,810	38,150		29,387		545,476	62,130
Investment income	2,296	2,593	69	2,021	54	935	5,147	
Total Revenues	949,019	520,403	38,219	2,021	29,441	239,689	550,623	62,130
Expenditures:								
Current:								
Public services								
Community development								62,130
Community services					10,146			
Public safety								
Total Expenditures					10,146			62,130
Excess (Deficiency) of Revenues over Expenditures	949,019	520,403	38,219	2,021	19,295	239,689	550,623	
Other Financing Sources (Uses):								
Transfers in					2,029			
Transfers out		(1,700,859)	(38,219)	(303,310)		(239,689)	(479,830)	
Total Other Financing Sources (Uses)		(1,700,859)	(38,219)	(303,310)	2,029	(239,689)	(479,830)	
Net Change in Fund Balances	949,019	(1,180,456)		(301,289)	21,324		70,793	
Fund Balances (Deficit), Restated		1,186,165		476,833			804,331	
Fund Balances (Deficit), Ending	\$ 949,019	\$ 5,709	\$ -	\$ 175,544	\$ 21,324	\$ -	\$ 875,124	\$ -

										Total
Redevelopment		CR&R	C & D	AB 939						Nonmajor
Tax	Beverage	Recycling	Forfeited	Surcharge	Housing	ARRA	Public	SLEFS/COPS	JAG	Governmental
Increment	Recycling	Fee	Deposits	Grant	Set Aside	Energy	Art	BRULTE	ARRA	Funds
\$ 62,302	\$ -	\$ 20,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 82,302
			32,227							270,981
	8,461					144,399	27,613	100,000	10,315	2,430,464
671	160			34		376				14,356
62,973	8,621	20,000	32,227	34		144,775	27,613	100,000	10,315	2,798,103
	15,621	13,019	17,178	2,985						48,803
10,323										72,453
										10,146
								100,000	10,315	110,315
10,323	15,621	13,019	17,178	2,985				100,000	10,315	241,717
52,650	(7,000)	6,981	15,049	(2,951)		144,775	27,613			2,556,386
(156,090)						(144,775)				2,029
										(3,062,772)
(156,090)						(144,775)				(3,060,743)
(103,440)	(7,000)	6,981	15,049	(2,951)			27,613			(504,357)
103,440	45,153	(6,976)	10,529	10,558			(266,350)			2,363,683
\$ -	\$ 38,153	\$ 5	\$ 25,578	\$ 7,607	\$ -	\$ -	\$ (238,737)	\$ -	\$ -	\$ 1,859,326

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, 2012

	Budgeted Amounts			Variance with Final Budget- Positive(Negative)
	Original	Final	Actual	
Revenues:				
Investment income	\$ -	\$ -	\$ -	\$ -
Total Revenues				
Expenditures:				
Capital Outlay	765,000	7,438,785	5,272,975	2,165,810
Total Expenditures	765,000	7,438,785	5,272,975	2,165,810
Excess (Deficiency) of Revenues over Expenditures	(765,000)	(7,438,785)	(5,272,975)	2,165,810
Other Financing Sources (Uses):				
Transfers in	765,000	7,438,785	5,272,975	(2,165,810)
Total Other Financing Sources (Uses)	765,000	7,438,785	5,272,975	(2,165,810)
Net change in Fund Balance				
Fund Balance, Beginning				
Fund Balance, Ending	\$ -	\$ -	\$ -	\$ -

CITY OF LAGUNA HILLS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget- Positive(Negative)
Revenues:				
Investment income	\$ -	\$ -	\$ 6,839	\$ 6,839
Total Revenues			6,839	6,839
Expenditures:				
Debt Service:				
Interest	668,387	668,387	670,243	(1,856)
Principal	1,130,000	1,130,000	1,130,000	
Total Expenditures	1,798,387	1,798,387	1,800,243	(1,856)
Excess (Deficiency) of Revenues over Expenditures	(1,798,387)	(1,798,387)	(1,793,404)	4,983
Other Financing Sources (Uses):				
Transfers in	1,798,387	1,798,387	1,791,469	(6,918)
Total Other Financing Sources (Uses)	1,798,387	1,798,387	1,791,469	(6,918)
Net Change in Fund Balance			(1,935)	(1,935)
Fund Balance, Beginning	1,811,562	1,811,562	1,811,562	
Fund Balance, Ending	\$ 1,811,562	\$ 1,811,562	\$ 1,809,627	\$ (1,935)

CITY OF LAGUNA HILLS
GRANTS AND CONTRIBUTIONS SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget- Positive(Negative)
Revenues:				
Intergovernmental	\$ 75,000	\$ 4,990,000	\$ 3,399,852	\$ (1,590,148)
Investment income	3,200	3,200	37	(3,163)
Total Revenues	78,200	4,993,200	3,399,889	(1,593,311)
Expenditures:				
Capital Outlay			16,415	(16,415)
Total Expenditures			16,415	(16,415)
Excess (Deficiency) of Revenues over Expenditures	78,200	4,993,200	3,383,474	(1,609,726)
Other Financing Sources (Uses):				
Transfers out	(75,000)	(4,990,000)	(3,399,852)	1,590,148
Total Other Financing Sources (Uses)	(75,000)	(4,990,000)	(3,399,852)	1,590,148
Net Change in Fund Balance	3,200	3,200	(16,378)	(19,578)
Fund Balance, Beginning	25,234	23,234	25,234	
Fund Balance, Ending	\$ 28,434	\$ 26,434	\$ 8,856	\$ (19,578)

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, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Intergovernmental	\$ 912,629	\$ 912,629	\$ 946,723	\$ 34,094
Investment income	7,600	7,600	2,296	(5,304)
Total Revenues	920,229	920,229	949,019	28,790
Net Change in Fund Balance	920,229	920,229	949,019	28,790
Fund Balance, Beginning				
Fund Balance, Ending	\$ 920,229	\$ 920,229	\$ 949,019	\$ 28,790

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, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Intergovernmental	\$ 513,290	\$ 628,290	\$ 517,810	\$ (110,480)
Investment income	8,700	8,700	2,593	(6,107)
Total Revenues	521,990	636,990	520,403	(116,587)
Other Financing Sources (Uses):				
Transfers out	(513,290)	(1,814,455)	(1,700,859)	113,596
Total Other Financing Sources (Uses)	(513,290)	(1,814,455)	(1,700,859)	113,596
Net Change in Fund Balance	8,700	(1,177,465)	(1,180,456)	(2,991)
Fund Balance, Beginning	1,186,165	1,186,165	1,186,165	
Fund Balance, Ending	\$ 1,194,865	\$ 8,700	\$ 5,709	\$ (2,991)

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, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Intergovernmental	\$ 40,000	\$ 40,000	\$ 38,150	\$ (1,850)
Investment income	200	200	69	(131)
Total Revenues	40,200	40,200	38,219	(1,981)
Other Financing Sources (Uses):				
Transfers out			(38,219)	(38,219)
Total Other Financing Sources (Uses)			(38,219)	(38,219)
Net Change in Fund Balance	40,200	40,200		(40,200)
Fund Balance, Beginning				
Fund Balance, Ending	\$ 40,200	\$ 40,200	\$ -	\$ (40,200)

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, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Investment income	\$ 6,800	\$ 6,800	\$ 2,021	\$ (4,779)
Total Revenues	6,800	6,800	2,021	(4,779)
Other Financing Sources (Uses):				
Transfers out		(453,785)	(303,310)	150,475
Total Other Financing Sources (Uses)		(453,785)	(303,310)	150,475
Net Change in Fund Balance	6,800	(446,985)	(301,289)	145,696
Fund Balance, Beginning	476,833	476,833	476,833	
Fund Balance, Ending	\$ 483,633	\$ 29,848	\$ 175,544	\$ 145,696

CITY OF LAGUNA HILLS
SENIOR MOBILITY PROGRAM SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Intergovernmental	\$ 34,226	\$ 34,226	\$ 29,387	\$ (4,839)
Investment income	200	200	54	(146)
Total Revenues	34,426	34,426	29,441	(4,985)
Expenditures:				
Current:				
Community services	63,721	63,721	10,146	53,575
Total Expenditures	63,721	63,721	10,146	53,575
Excess (deficiency) of Revenues over Expenditures	(29,295)	(29,295)	19,295	48,590
Other Financing Sources (Uses):				
Transfers in			2,029	2,029
Total Other Financing Sources (Uses)			2,029	2,029
Net Change in Fund Balance	(29,295)	(29,295)	21,324	50,619
Fund Balance, Beginning				
Fund Balance, Ending	\$ (29,295)	\$ (29,295)	\$ 21,324	\$ 50,619

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, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 545,476	\$ 545,476
Investment income	17,000	17,000	5,147	(11,853)
Total Revenues	17,000	17,000	550,623	533,623
Other Financing Sources (Uses):				
Transfers out	(1,283,400)	(1,283,400)	(479,830)	803,570
Total Other Financing Sources (Uses)	(1,283,400)	(1,283,400)	(479,830)	803,570
Net Change in Fund Balance	(1,266,400)	(1,266,400)	70,793	1,337,193
Fund Balance, Beginning	804,331	804,331	804,331	
Fund Balance, Ending	\$ (462,069)	\$ (462,069)	\$ 875,124	\$ 1,337,193

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, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Intergovernmental	\$ 228,750	\$ 228,750	\$ 62,130	\$ (166,620)
Total Revenues	228,750	228,750	62,130	(166,620)
Expenditures:				
Current:				
Community development	228,750	228,750	62,130	166,620
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, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 70,000	\$ 70,000	\$ 62,302	\$ (7,698)
Investment income	2,200	2,200	671	(1,529)
Total Revenues	72,200	72,200	62,973	(9,227)
Expenditures:				
Current:				
Community development	47,515	47,515	10,323	37,192
Excess of Revenues over Expenditures	24,685	24,685	52,650	27,965
Other Financing Sources (Uses):				
Transfers out			(156,090)	(156,090)
Total Other Financing Sources (Uses)			(156,090)	(156,090)
Net Change in Fund Balance	24,685	24,685	(103,440)	(128,125)
Fund Balance, Beginning	103,440	103,440	103,440	
Fund Balance, Ending	\$ 128,125	\$ 128,125	\$ -	\$ (128,125)

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, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Intergovernmental	\$ 8,826	\$ 8,826	\$ 8,461	\$ (365)
Investment income	600	600	160	(440)
Total Revenues	9,426	9,426	8,621	(805)
Expenditures:				
Current:				
Public Services	34,000	34,000	15,621	18,379
Net Change in Fund Balance	(24,574)	(24,574)	(7,000)	17,574
Fund Balance, Beginning	45,153	45,153	45,153	
Fund Balance, Ending	\$ 20,579	\$ 20,579	\$ 38,153	\$ 17,574

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, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Taxes	\$ 20,000	\$ 20,000	\$ 20,000	\$ -
Total Revenues	20,000	20,000	20,000	
Expenditures:				
Current:				
Public Services	13,019	13,019	13,019	
Net Change in Fund Balance	6,981	6,981	6,981	
Fund Balance (Deficit), Beginning	(6,976)	(6,976)	(6,976)	
Fund Balance, Ending	\$ 5	\$ 5	\$ 5	\$ -

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, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Licenses and permits	\$ 50,000	\$ 50,000	\$ 32,227	\$ (17,773)
Total Revenues	50,000	50,000	32,227	(17,773)
Expenditures:				
Current:				
Public Services	58,981	58,981	17,178	41,803
Net Change in Fund Balance	(8,981)	(8,981)	15,049	24,030
Fund Balance, Beginning	10,529	10,529	10,529	
Fund Balance, Ending	\$ 1,548	\$ 1,548	\$ 25,578	\$ 24,030

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, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Investment income	\$ 200	\$ 200	\$ 34	\$ (166)
Total Revenues	200	200	34	(166)
Expenditures:				
Current:				
Public Services	7,468	7,468	2,985	4,483
Net Change in Fund Balance	(7,268)	(7,268)	(2,951)	4,317
Fund Balance, Beginning	10,558	10,558	10,558	
Fund Balance, Ending	\$ 3,290	\$ 3,290	\$ 7,607	\$ 4,317

CITY OF LAGUNA HILLS
ARRA ENERGY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive (Negative)
Revenues:				
Intergovernmental revenues	\$ 175,000	\$ 175,000	\$ 144,399	\$ (30,601)
Investment income			376	376
Total Revenues	175,000	175,000	144,775	(30,225)
Other Financing Sources (Uses):				
Transfers out	(175,000)	(175,000)	(144,775)	30,225
Total Other Financing Sources (Uses)	(175,000)	(175,000)	(144,775)	30,225
Net Change in Fund Balance				
Fund Balance, Beginning				
Fund Balance, Ending	\$ -	\$ -	\$ -	\$ -

CITY OF LAGUNA HILLS
AGENCY FUND
STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Assets				
Cash and investments	\$ <u>285,009</u>	\$ <u>86,918</u>	\$ <u>-</u>	\$ <u>371,927</u>
Total assets	\$ <u><u>285,009</u></u>	\$ <u><u>86,918</u></u>	\$ <u><u>-</u></u>	\$ <u><u>371,927</u></u>
Liabilities				
Deposits	\$ <u>285,009</u>	\$ <u>86,918</u>	\$ <u>-</u>	\$ <u>371,927</u>
Total liabilities	\$ <u><u>285,009</u></u>	\$ <u><u>86,918</u></u>	\$ <u><u>-</u></u>	\$ <u><u>371,927</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 TEN FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year									
	2003	2004 ^(a)	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	\$ 17,736,446	\$ 42,960,776	\$ 44,165,410	\$ 46,474,237	\$ 50,728,980	\$ 52,338,159	\$ 56,606,677	\$ 76,364,755	\$ 78,797,985	\$ 82,982,768
Restricted	2,043,428	2,531,175	3,246,346	3,839,611	3,023,222	4,701,017	3,356,723	3,935,701	3,653,349	2,106,914
Unrestricted	10,633,566	10,050,219	9,308,718	9,377,131	10,606,335	10,230,570	7,858,499	7,501,713	7,325,428	6,944,547
Total government activities net assets	<u>\$ 30,413,440</u>	<u>\$ 55,542,170</u>	<u>\$ 56,720,474</u>	<u>\$ 59,690,979</u>	<u>\$ 64,358,537</u>	<u>\$ 67,269,746</u>	<u>\$ 67,821,899</u>	<u>\$ 87,802,169</u>	<u>\$ 89,776,762</u>	<u>\$ 92,034,229</u>
Business-type activities										
Invested in capital assets, net of related debt	\$ 6,023,608	\$ 12,744,792	\$ 14,413,461	\$ 14,163,874	\$ 13,796,813	\$ 13,292,252	\$ 12,720,481	\$ 12,206,656	\$ 11,542,563	\$ 10,989,447
Restricted										
Unrestricted	207,205	298,992	169,956	540,017	359,254	195,703	134,998	150,668	85,344	96,511
Total business-type activities net assets	<u>\$ 6,230,813</u>	<u>\$ 13,043,784</u>	<u>\$ 14,583,417</u>	<u>\$ 14,703,891</u>	<u>\$ 14,156,067</u>	<u>\$ 13,487,955</u>	<u>\$ 12,855,479</u>	<u>\$ 12,357,324</u>	<u>\$ 11,627,907</u>	<u>\$ 11,085,958</u>
Primary government										
Invested in capital assets, net of related debt	\$ 23,760,054	\$ 55,705,568	\$ 58,578,871	\$ 60,638,111	\$ 64,525,793	\$ 65,630,411	\$ 69,327,158	\$ 88,571,411	\$ 90,340,548	\$ 93,972,215
Restricted	2,043,428	2,531,175	3,246,346	3,839,611	3,023,222	4,701,017	3,356,723	3,935,701	3,653,349	2,106,914
Unrestricted	10,840,771	10,349,211	9,478,674	9,917,148	10,965,589	10,426,273	7,993,497	7,652,381	7,410,772	7,041,058
Total primary government net assets	<u>\$ 36,644,253</u>	<u>\$ 68,585,954</u>	<u>\$ 71,303,891</u>	<u>\$ 74,394,870</u>	<u>\$ 78,514,604</u>	<u>\$ 80,757,701</u>	<u>\$ 80,677,378</u>	<u>\$ 100,159,493</u>	<u>\$ 101,404,669</u>	<u>\$ 103,120,187</u>

^(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.

CITY OF LAGUNA HILLS

CHANGE IN NET ASSETS

LAST TEN FISCAL YEARS

(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
Legislative/executive	\$ 1,669,415	\$ 1,246,684	\$ 1,299,424	\$ 1,389,720	\$ 1,441,763	\$ 1,534,942	\$ 1,542,082	\$ 1,592,070	\$ 1,537,287	\$ 1,565,164
Administrative services	2,457,364	1,795,147	2,593,403	2,357,409	1,928,022	1,785,896	1,719,314	1,724,356	1,771,910	1,755,500
Public services	7,174,054	6,970,973	6,650,188	7,360,168	9,507,357	6,814,629	8,318,347	7,389,564	5,781,123	5,999,412
Community development	733,724	785,278	1,060,418	1,247,350	1,541,295	1,775,552	1,523,476	1,595,670	1,404,624	1,127,036
Community services	1,751,118	1,892,812	3,225,589	1,554,514	1,651,779	1,771,671	1,776,257	1,769,589	3,702,911	3,642,792
Public safety	4,999,520	5,109,994	5,288,663	5,598,571	5,893,769	6,503,096	6,422,802	6,597,894	6,487,711	6,528,489
Interest expense	1,086,092	1,044,572	1,002,505	973,024	942,801	910,500	875,447	636,441	663,944	620,376
Total governmental activities expenses	19,871,287	18,845,460	21,120,190	20,480,756	22,906,786	21,096,286	22,177,725	21,305,584	21,349,510	21,238,769
Business-type activities:										
Property leasing	618,621	427,492	1,035,344	1,087,912	1,139,550	1,162,891	1,117,002	1,125,330	1,190,752	1,154,967
Total business-type activities expenses	618,621	427,492	1,035,344	1,087,912	1,139,550	1,162,891	1,117,002	1,125,330	1,190,752	1,154,967
Total primary government expenses	\$ 20,489,908	\$ 19,272,952	\$ 22,155,534	\$ 21,568,668	\$ 24,046,336	\$ 22,259,177	\$ 23,294,727	\$ 22,430,914	\$ 22,540,262	\$ 22,393,736
Program Revenues										
Government activities:										
Charges for Services:										
Legislative/executive	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,236	\$ -
Administrative services									96,726	2,838
Public services	82,679	56,665	48,696	38,683	59,584	58,539	98,818	86,176	155,373	83,989
Community development	664,189	924,056	552,029	535,973	672,168	616,819	544,227	514,162	653,918	669,936
Community services	390,960	468,773	511,766	540,369	562,584	683,911	687,987	703,099	701,040	657,129
Public safety	379,792	381,119	405,000	533,977	475,214	485,376	435,452	542,732	401,665	295,587
Operating Contributions	3,369,544	2,795,098	2,583,927	4,774,223	6,826,309	3,486,884	4,217,578	3,059,335	4,738,096	3,082,972
Capital Contributions	11,320	55,545	19,665	40,771	57,282	24,674			820,456	3,040,344
Total governmental activities program revenues	4,898,484	4,681,256	4,121,083	6,463,996	8,653,141	5,356,203	5,984,062	4,905,504	7,569,510	7,832,795
Business-type activities:										
Charges for Services:										
Property Leasing	473,102	455,298	406,721	588,842	688,215	790,817	591,665	649,270	535,455	527,530
Operating grants and contributions										
Capital grants and contributions			2,134,938							85,134
Total business-type activities program revenues	473,102	455,298	2,541,659	588,842	688,215	790,817	591,665	649,270	535,455	612,664
Total primary government program revenues	\$ 5,371,586	\$ 5,136,554	\$ 6,662,742	\$ 7,052,838	\$ 9,341,356	\$ 6,147,020	\$ 6,575,727	\$ 5,554,774	\$ 8,104,965	\$ 8,445,459

(Continued)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
(Continued)										
Net (expense)/revenue										
Governmental activities	\$ (14,972,803)	\$ (14,164,204)	\$ (16,999,107)	\$ (14,016,760)	\$ (14,253,645)	\$ (15,740,083)	\$ (16,193,663)	\$ (16,400,080)	\$ (13,780,000)	\$ (13,405,974)
Business- type activities	(145,519)	27,806	1,506,315	(499,070)	(451,335)	(372,074)	(525,337)	(476,060)	(655,297)	(542,303)
	<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>	<u>\$ (14,435,297)</u>	<u>\$ (13,948,277)</u>
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes										
Property taxes	\$ 4,532,842	\$ 4,836,439	\$ 4,892,577	\$ 5,219,940	\$ 6,000,932	\$ 6,310,302	\$ 8,624,076	\$ 8,573,008	\$ 8,186,735	\$ 8,223,234
Sales and use taxes	6,799,566	6,746,046	7,964,948	6,868,829	6,811,004	6,368,887	5,522,204	5,197,367	5,238,949	5,157,787
Motor vehicle in lieu taxes	1,951,508	1,546,339	2,724,783	2,591,236	2,575,919	2,690,646	114,895	99,167	154,787	16,727
Other State subvention	24,944	1,108	1,919	95,072	25,026					
Franchise taxes	851,198	888,821	920,778	1,006,109	1,218,116	1,202,702	1,237,335	1,217,595	1,199,882	1,223,523
Transient occupancy taxes	830,935	967,378	980,585	1,156,409	1,227,989	1,219,609	915,807	752,478	869,505	1,004,483
Investment earnings	201,246	120,274	134,912	210,046	325,266	469,876	119,006	29,205	25,267	15,736
Miscellaneous revenue	147,002	56,056	111,761	404,382	620,465	44,312	62,493	21,389	4,468	21,951
Lawsuit settlement		1,349,451								
Transfers	(130,000)		(30,000)	(599,379)	100,000	300,000	150,000	24,790	75,000	-
Total governmental activities	<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>	<u>15,754,593</u>	<u>15,663,441</u>
Business-type activities:										
Investment earnings	150	2,016	3,318	30	3,511	3,962	2,877	2,695	880	354
Transfers	130,000		30,000	599,379	(100,000)	(300,000)	(150,000)	(24,790)	(75,000)	-
Total business-type activities	<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>	<u>(74,120)</u>	<u>354</u>
Total primary government	<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>	<u>\$ 15,680,473</u>	<u>\$ 15,663,795</u>
Change in Net Assets										
Governmental activities	236,438	2,347,708	703,156	2,935,884	4,651,072	2,866,251	552,153	(485,081)	1,974,593	2,257,467
Business-type activities	(15,369)	29,822	1,539,633	100,339	(547,824)	(668,112)	(672,460)	(498,155)	(729,417)	(541,949)
Total primary government	<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>	<u>\$ 1,245,176</u>	<u>\$ 1,715,518</u>

CITY OF LAGUNA HILLS
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN 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
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	980,585	17,485,590
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
2011	8,186,735	5,238,949	154,787		1,199,882	869,505	15,649,858
2012	8,223,234	5,157,787	16,727		1,223,523	1,004,483	15,625,754

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General fund										
Reserved	\$ 187,690	\$ 127,613	\$ 52,957	\$ 40,016	\$ 30,745	\$ 186,524	\$ 44,610	\$ 15,624	\$	\$
Unreserved	10,710,922	10,556,528	9,252,463	10,074,573	11,019,918	10,313,093	8,582,945	8,611,931		
Nonspendable									305,302	311,223
Restricted										
Committed										
Assigned									1,318,164	1,284,939
Unassigned									4,716,361	5,149,410
Total general fund	<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>	<u>\$ 6,339,827</u>	<u>\$ 6,745,572</u>
All other governmental funds										
Reserved	\$ 4,584,721	\$ 614,510	\$ 628,258	\$ 652,694	\$ 419,790	\$ 421,484	\$ 415,078	\$ 1,817,086	\$	\$
Unreserved, reported in:										
Special revenue funds	1,627,814	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						
Nonspendable										
Restricted									4,473,805	3,916,541
Committed										
Assigned										
Unassigned									(273,326)	(238,732)
Total all other governmental funds	<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>	<u>\$ 4,200,479</u>	<u>\$ 3,677,809</u>

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues:										
Taxes	\$ 6,214,974	\$ 6,803,566	\$ 7,312,670	\$ 7,412,442	\$ 8,598,829	\$ 8,843,272	\$ 10,858,989	\$ 10,553,196	\$ 10,513,681	\$ 10,533,542
Licenses and permits	319,494	854,948	530,839	505,608	599,423	579,915	521,724	423,012	550,155	816,863
Intergovernmental	12,105,317	10,515,416	12,348,515	14,796,110	16,153,141	12,364,967	9,727,124	7,975,877	10,023,285	10,960,315
Charges for current services	1,021,335	1,111,839	743,414	828,054	815,148	951,289	909,504	946,119	1,047,727	887,126
Fines and forfeitures	323,792	333,119	357,000	485,977	426,060	437,376	435,452	542,732	401,665	295,587
Miscellaneous				25,914						
Investment income	252,812	224,829	222,313	363,044	552,887	494,550	223,846	45,732	36,906	30,129
Total revenues	<u>20,237,724</u>	<u>19,843,717</u>	<u>21,514,751</u>	<u>24,417,149</u>	<u>27,145,488</u>	<u>23,671,369</u>	<u>22,676,639</u>	<u>20,486,668</u>	<u>22,573,419</u>	<u>23,523,562</u>
Expenditures:										
Current:										
Legislative/executive	1,673,657	1,264,822	1,296,945	1,389,261	1,431,276	1,521,937	1,527,927	1,583,009	1,528,226	1,556,386
Administrative services	1,677,304	1,816,417	1,811,903	1,663,400	1,804,671	1,863,562	1,664,029	1,537,841	1,591,486	1,622,122
Public services	3,413,539	3,445,753	3,441,494	3,551,780	4,050,846	4,897,258	4,419,088	4,088,538	4,190,842	4,155,386
Community development	732,057	748,454	1,050,679	1,239,540	1,533,319	1,823,818	1,660,768	1,593,187	1,404,624	1,127,036
Community services	1,124,936	1,230,118	1,378,890	1,518,157	1,679,248	1,717,124	1,733,464	1,570,196	1,646,388	1,595,904
Public safety	4,998,999	4,883,141	5,303,888	5,630,812	5,915,809	6,524,289	6,427,542	6,585,639	6,475,456	6,494,020
Capital outlay	5,758,801	9,764,192	6,128,394	5,337,802	8,991,937	2,619,246	7,102,899	2,013,797	5,013,252	5,289,390
Debt service:										
Interest	1,067,963	1,048,504	1,004,910	975,512	945,372	913,325	878,480	427,854	712,976	670,243
Cost of bond issuance								301,477		
Payment to bond escrow agent										
Discount on bond										
Principal retirement	640,000	849,844	1,216,000	1,130,000	1,160,000	1,016,178	1,010,000	820,000	1,090,000	1,130,000
Total expenditures	<u>21,087,256</u>	<u>25,051,245</u>	<u>22,633,103</u>	<u>22,436,264</u>	<u>27,512,478</u>	<u>22,896,737</u>	<u>26,424,197</u>	<u>20,521,538</u>	<u>23,653,250</u>	<u>23,640,487</u>
Excess (deficiency) of revenues over expenditures	(849,532)	(5,207,528)	(1,118,352)	1,980,885	(366,990)	774,632	(3,747,558)	(34,870)	(1,079,831)	(116,925)

(Continued)

(Continued)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Other financing sources (uses):										
Transfers in	\$ 11,515,391	\$ 18,075,145	\$ 10,035,905	\$ 10,928,487	\$ 17,968,939	\$ 5,956,627	\$ 13,800,602	\$ 7,868,431	\$ 12,431,918	\$ 13,529,097
Transfers out	(11,645,391)	(18,075,145)	(10,065,905)	(11,527,866)	(17,868,939)	(5,656,627)	(13,650,602)	(7,843,641)	(12,356,918)	(13,529,097)
Bond Proceeds	5,660,000							17,190,000		
Payment to bond escrow agent								(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)	(105,365)	
Total other financing sources (uses)	5,530,000	1,349,451	(30,000)	(599,379)	291,091	230,000	94,250	332,247	(30,365)	
Net change in fund balances	<u>\$ 4,680,468</u>	<u>\$ (3,858,077)</u>	<u>\$ (1,148,352)</u>	<u>\$ 1,381,506</u>	<u>\$ (75,899)</u>	<u>\$ 1,004,632</u>	<u>\$ (3,653,308)</u>	<u>\$ 297,377</u>	<u>\$ (1,110,196)</u>	<u>\$ (116,925)</u>
Debt service as a percentage of noncapital expenditures	8.35%	9.63%	9.95%	10.01%	8.77%	8.67%	8.16%	5.63%	8.07%	8.03%

CITY OF LAGUNA HILLS
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN 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		
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%
2011	2,767,424	2,707,753	126,552	141,164	5,460,565	1.03533	1.01471	5,460,470	100.002%
2012	2,771,545	2,709,285	124,794	143,665	5,461,959	1.03615	1.01521	5,463,649	99.969%

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.

CITY OF LAGUNA HILLS
PROPERTY TAX RATES
DIRECT AND OVERLAPPING ^(a) GOVERNMENTS
LAST TEN 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				City, School & District			
	Assessments Basic Levy- Operating	School District Debt Service	Special Districts	Direct & Overlapping Rates	Assessments Basic Levy- Operating	School District Debt Service	Special Districts	Direct & Overlapping Rates
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
2011	1.00000	0.03163	0.00370	1.03533	1.00000	0.01101	0.00370	1.01471
2012	1.00000	0.03265	0.00350	1.03615	1.00000	0.01171	0.00350	1.01521

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.)

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

Taxpayer	2012			2003		
	Taxable	Rank	Percentage of	Taxable	Rank	Percentage of
	Assessed Value		Total Taxable Assessed Value	Assessed Value		Total Taxable Assessed Value
Shopping Center Associates	\$ 120,922	1	2.21%	\$ 85,665	1	2.16%
Acquiport Three Corporation	73,898	2	1.35%	56,975	2	1.44%
TGM Prado LLC	51,535	3	0.94%			
SPRTMRT Properties Trust	37,996	4	0.70%	29,407	6	0.74%
LHT Saddleback LLC	35,617	5	0.65%			
Lakehills at Laguna LLC	34,000	6	0.62%			
La Paz Office Plaza LLC	30,379	7	0.56%			
Memorial Health Services	23,969	8	0.44%			
Moulton Plaza LLC	22,445	9	0.41%			
Laguna Hills Investment Co.	22,083	10	0.40%	20,437	9	0.52%
Landmark Laguna LP				38,964	3	0.98%
Pinebrook Apartments				35,020	4	0.88%
Saddleback Partners LLC				29,940	5	0.75%
SPK- Oakbrook Plaza Laguna				21,510	7	0.54%
VV California				21,404	8	0.54%
EQR- Villa Solana Vistas				18,613	10	0.47%
Totals	<u>\$ 452,844</u>		<u>8.29%</u>	<u>\$ 357,935</u>		<u>9.02%</u>

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

CITY OF LAGUNA HILLS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN 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>
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%
2011	5,489	248	5,737	5,577	97.2%	126	5,702	99%
2012	5,526	246	5,772	5,605	97.1%	87	5,693	99%

Source: County of Orange 2011 Tax Ledger Detail & Summary Reports, A43 Laguna Hills City

CITY OF LAGUNA HILLS

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

(amounts expressed in thousands, except per capita amounts)

Fiscal Year	Total Government Certificates of Participation	Personal Income ^(b)	Per Capita Personal Income ^(b)	Percentage of Personal Income ^(b)	Per Capita ^(a)
2003	24,020	1,226,811	\$ 37,369	1.96%	731.58
2004	23,180	1,275,828	\$ 38,677	1.82%	702.55
2005	22,300	1,321,554	\$ 39,938	1.69%	673.70
2006	21,390	1,384,623	\$ 41,813	1.54%	645.66
2007	20,450	1,425,961	\$ 43,058	1.43%	617.02
2008	19,480	1,441,089	\$ 43,346	1.35%	582.87
2009	18,470	1,417,282	\$ 42,444	1.30%	554.99
2010	17,190	1,500,666	\$ 44,672	1.15%	511.71
2011	16,100	1,445,996	\$ 47,227	1.11%	529.43
2012	14,970	-	-	-	492.27

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

Source: 2002-2009 Income Data: ESRI-Demographic Estimates are based on the latest available Census 2010 and later -Income Data-US Census Bureau, most recent American Community Survey

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

^(b) *2012 personal income data not available at time of print; Hence, table provides personal income history for years 2002-2011.*

CITY OF LAGUNA HILLS

RATIOS OF GENERAL BONDED DEBT OUTSTANDING LAST TEN 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 ten fiscal years.

CITY OF LAGUNA HILLS
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2012

	Debt Outstanding	Estimated Percentage Applicable ^a	Estimated Share of Overlapping Debt
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District	196,545,000	0.302%	593,566
Saddleback Valley Unified School District	131,925,000	18.723%	24,700,318
Capistrano Unified School District Facilities Improvement District No. 1	45,509,930	0.020%	9,102
Moulton-Niguel Water District and, I.D.'s 6 & 8	22,630,000	3.354 & 94.959%	832,294
Orange County Community Facilities District #88-2	483,304	100.000%	483,304
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 26,618,584
<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</u>			
		% Applicable	Debt
Orange County General Fund Obligations	233,751,000	1.446%	\$ 3,380,039
Orange County Pension Obligations	214,405,353	1.446%	3,100,301
Orange County Board of Education Certificates of Participation	16,000,000	1.446%	231,360
Municipal Water District of Orange County Water Facilities Corporation	12,145,000	1.707%	207,315
Capistrano Unified School District Certificates of Participation	22,005,000	0.013%	2,861
Irvine Ranch Water District Certificates of Participation	77,190,000	0.001%	772
Moulton-Niguel Water District Certificates of Participation	85,215,000	13.888%	11,834,659
SUBTOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT			\$ 18,757,307
City of Laguna Hills Certificates of Participation, Direct Debt	14,970,000	100.000%	14,970,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT			33,727,307
Less: MWDOC Water Facilities Corporation (100% self-supporting)			<u>207,315</u>
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT			\$ 33,519,992
GROSS COMBINED TOTAL DEBT			\$ 60,345,891 ^b
NET COMBINED TOTAL DEBT			\$ 60,138,576

(a) Percentage of overlapping agency's assessed valuation located within boundaries of the city.

(b) Excludes tax and revenue anticipation notes, 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 TEN FISCAL YEARS
(amounts expressed in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	\$ 595,127	\$ 629,679	\$ 676,321	\$ 736,414	\$ 797,096	\$ 860,479	\$ 853,897	\$ 838,413	\$ 819,070	\$ 819,547
Total net debt applicable to limit	<u>24,020</u>	<u>23,180</u>	<u>22,300</u>	<u>21,390</u>	<u>20,450</u>	<u>19,480</u>	<u>18,470</u>	<u>17,190</u>	<u>16,100</u>	<u>14,970</u>
Legal debt margin	<u>\$ 571,107</u>	<u>\$ 606,499</u>	<u>\$ 654,021</u>	<u>\$ 715,024</u>	<u>\$ 776,646</u>	<u>\$ 840,999</u>	<u>\$ 835,427</u>	<u>\$ 821,223</u>	<u>\$ 802,970</u>	<u>\$ 804,577</u>
Total net debt applicable to limit as a percentage of debt limit	4.04%	3.68%	3.30%	2.90%	2.57%	2.26%	2.16%	2.05%	1.97%	1.83%

Legal Debt Margin Calculation for Fiscal Year 2012

Assessed value	\$ 5,569,303
Add back: exempt real property	<u>105,657</u>
Total assessed value	5,463,646
Debt limit (15% of total assessed value)	819,547
Debt applicable to limit:	
Certificates of Participation	<u>14,970</u>
Total net debt applicable to limit	14,970
Legal debt margin	<u>\$ 804,577</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.

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

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



CITY OF LAGUNA HILLS

DEMOGRAPHIC & ECONOMIC STATISTICS

2010 Population by Race/Ethnicity

White	18,725	61.7%
Hispanic	6,242	20.6%
Asian & Pacific Islander	3,790	12.5%
Black	373	1.2%
Other	1,214	4.0%

Year	Total Personal Income (thousands) ⁽¹⁾	Per Capita Income
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
2010	1,500,666	44,672
2011	1,445,996	47,227

Consumer Price Index

Year	CPI	% Change
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%
2010	225.8	1.2%
2011	231.9	2.7%

2010 Housing Units

	Quantity	%
Total Housing Units	11,049	-
Occupied	10,469	94.8%
Vacant	577	5.22%
Persons Per Renter-Occupied Unit	2.89	
Persons per Owner-Occupied Unit	2.85	

Population

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
2011	30,341
2012	30,410

Unemployment Rate

Year	Labor Force	Unemployed	Rate
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
2011	17,800	1,200	6.6

Building Activity and Valuation (in thousands)

	2009	2010	2011
Residential			
New Single Family	0	2,905	0
New Multi-Family	0	0	0
Addition, alterations	5,626	12,608	6,939
Total Residential	5,626	15,513	6,939
Commercial			
New Commercial	0	0	0
New Industrial	0	0	0
Addition, alterations	5,111	5,949	11,578
Total Non-Residential	5,111	5,949	11,578
Total Valuation	10,737	21,462	18,517
No. of New Dwelling Units	0	3	3

2010 Population by Age

Age	Population	%
0-4	1,563	5.2%
5-14	3,804	12.5%
15-24	4,012	13.2%
25-34	3,412	11.4%
35-54	9,319	30.7%
55-64	4,214	14.1%
65-74	2,106	6.90%
75+	1,784	5.9%



Sources: Cal State Fullerton Center for Demographic Research, HDL Reported City of Laguna Hills' Demographic and Economic Statistics, US Census Bureau and Department of Labor and Statistics

⁽¹⁾ Demographic Data is totaled from Census Block Groups that overlap the City's boundaries.

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

Employer	2012 ⁽¹⁾			2003		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Saddleback Memorial Medical	1,020	1	6.14%	1,800	1	8.68%
Hines Growers LLC	600	2	3.61%			
Professional Community Management	350	3	2.11%			
JC Penney Corp Inc.	250	4	1.51%			
Allied Business Schools, Inc.	235	5	1.42%			
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>2,455</u>		14.79%	<u>2,234</u>		10.77%

Source: California State University, Fullerton, Center for Demographic Research, Orange County Progress Report 2012 & 2003

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

Function	Full-time Equivalent Personnel at June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Legislative/executive	5.06	5.06	4.31	5.31	5.31	5.31	5.72	5.72	5.72	5.72
Administrative services	8.28	8.28	9.03	7.28	7.78	6.78	6.18	6.18	6.18	6.18
Public services	30.25	30.00	30.00	30.00	41.00	41.00	42.00	42.00	44.00	44.00
Community development	5.50	6.00	6.00	7.85	8.30	8.30	8.15	7.15	8.15	8.15
Community services	14.50	15.50	14.25	14.25	14.25	14.25	15.61	15.61	15.75	15.75
Public safety	<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>	<u>29.20</u>	<u>29.20</u>
Total	<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>	<u>109.00</u>	<u>109.00</u>

Source: City of Laguna Hills' Biennial Budget

CITY OF LAGUNA HILLS
OPERATING INDICATORS BY FUNCTION
FOR THE FISCAL YEAR ENDING JUNE 30, 2012

Function	FY 04/05	FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY 11/12
Police ^(b)								
Physical arrests	468	487	579	460	740	721	684	468
Parking violations	897	1,799	3,162	2,757	3,636	2,662	2,087	1,107
Traffic violations	3,637	5,367	3,846	5,566	4,886	5,781	4,089	3,074
Fire ^(c)								
Number of calls answered	2,211	2,373	2,424	2,434	2,421	2,558	2,614	2,550
Inspections	651	586	549	309	387	439	393	308
Highways and Streets ^(d)								
Sidewalk replacement (sq. ft.)	10,190	7,610	3,450	1,850	4,660	22,266	8,592	13,482
Curb & gutter replacement (linear ft.)	1,678	626	90	110	2,374	1,030	1,727	3,990
Asphalt concrete placed (tons)	12,244	15,203	13,385	11,362	21,291	15,695	14,454	15,692
Street sweeping debris collected (tons)	315	922	546	265	449	294	290	374
New sign installations	23	37	65	37	64	92	102	28
Sign Replacements	102	161	304	238	277	168	173	161
Trees trimmed	1,493	2,370	1,815	1,763	1,774	2,273	1,872	1,474
Trees removed	349	247	265	207	214	81	114	166
Trees planted	90	67	108	262	82	43	39	649
Sanitation ^(a)								
Refuse collected (tons/day)	83	80	70	63	50	46	46	44
Recyclables collected (tons/day)	72	77	65	55	52	50	47	45
Culture and Recreation ^(e)								
Community center programs (participants)	7,877	8,215	8,650	8,173	9,538	7,262	6,876	5,682
Athletic permits	70	74	71	70	76	69	57	44
Waste Stream ^(a)								
Refuse collected (tons)	30,124	29,126	25,705	22,981	18,089	16,698	16,814	15,932
Recyclables collected (tons)	26,102	27,927	23,691	20,120	19,081	18,162	17,325	16,391

^(a) CR&R Monthly Tonnage Report, 6/30/12

^(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 TEN FISCAL YEARS

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Highways and streets										
Streets (miles)	83	83	83	83	83	83	83	83	83	83
Traffic signals	44	45	45	45	45	45	45	45	45	45
Culture and recreation										
Parks acreage	83	83	83	83	83	83	83	83	83	83
Parks	15	15	15	15	15	15	15	15	15	15
Community centers	1	1	1	1	1	1	1	1	1	1
Civic Center			1	1	1	1	1	1	1	1

Source: Various City Departments

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 30,410 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.

