

CITY OF LAGUNA BEACH
Laguna Beach, California

Comprehensive Annual Financial Report

Year Ended June 30, 2006

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CITY OF LAGUNA BEACH, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

CITY COUNCIL:

Steve Dicterow, Mayor
Toni Iseman, Mayor Pro Tem
Cheryl Kinsman, Council Member
Jane Egly, Council Member
Elizabeth Schneider, Council Member

Laura Parisi, City Treasurer

Martha Anderson, City Clerk

Kenneth Frank, City Manager

**Prepared By:
Finance Department**



CITY OF LAGUNA BEACH
Comprehensive Annual Financial Report
Year Ended June 30, 2006

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INTRODUCTORY SECTION

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December 30, 2006

To the Members of the City Council & Citizens of the City of Laguna Beach:

It is the policy of the City of Laguna Beach to annually publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial statements of the City of Laguna Beach ("the City") for the fiscal year ended June 30, 2006. The financial statements accompanying this transmittal letter are for the primary government only and do not include any component units.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Conrad and Associates, L.L.P., who merged with Mayer Hoffman McCain, P.C. as of January 1, 2006. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2006, were fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City, incorporated in 1927, is located in southwest Orange County, approximately 55 miles southeast of Los Angeles. The City currently occupies a land area of 8.84 square miles and serves a population of approximately 24,900. The City is home of the Pageant of the Masters and the Festival of the Arts. The City attracts approximately three million visitors annually due to its eight miles of coastline, the Mediterranean climate and the summer art festivals and pageants.

The City has operated under the council-manager form of government since 1944. Policy-making and legislative authority are vested in a City Council consisting of the mayor and four other council members. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with new council members elected every two years. The mayor is elected by the council members on an annual basis.

The City provides a full range of services, including police, fire and marine safety protection; maintenance of streets, parks, the sewer system and parking facilities; solid waste; transit operations; community development; recreational activities and cultural events; and administrative services.

The annual budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriation to the City's manager in January. The City Manager uses these requests as the starting point for developing a proposed budget. The City Manager then presents this proposed budget to the council for review in April. The council is required to hold public hearings on the proposed budget and to adopt a final budget by June 30th, the close of the City's fiscal year. The budget is organized by department (e.g., police). The level of budgetary control, i.e. the level at which expenditures cannot legally exceed the appropriated amount, is established at the department level. Within the General Fund, an available fund balance of 10% of appropriations is maintained for economic uncertainties. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and major special revenue funds, this comparison is presented as part of the required supplementary information in the accompanying financial statements. For governmental funds that have appropriated annual budgets, other than the general fund and major special revenue funds, this comparison is presented in the supplementary section of the accompanying financial statements.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local economy. The City currently enjoys a favorable economic environment and local indicators point to continued stability. The City is a balanced community with commercial, retail, light industrial and residential areas. The overall economy has been stable with the City's revenues exceeded estimates and increased modestly from the prior year. The City's property tax base is strong due to the ongoing increase in sales prices for homes in Orange County over the last several years. Even with the passage of proposition 1A by California voters on November 2, 2004 there continues to be concerns that the State's continuing budget dilemmas may impact the City's revenues negatively in the future.

Long-term financial planning. The City plans to undertake two large capital projects in upcoming years. The largest project is construction of a new community/senior center with a budget of approximately \$15 million. The second project is the construction and relocation of the corporate yard with a budget of approximately \$10 million.

The City is continuing its overall rehabilitation of the sewer system. It is anticipated that within the next three years the majority of projects subsidized with a State loan of \$7.0 million will be complete.

Additional transient occupancy tax revenues from the new Montage Resort hotel will be available in FY 2006-2007 after City funds used for paying off a developer loan for a public park in December 2003 are replenished. These funds are being replenished by transient occupancy taxes received from the hotel.

Cash management policies and practices. Cash temporarily idle during the year was invested primarily in the State Local Agency Investment Fund and in securities of U.S. government agencies.

Cash management of the City is facilitated by the pooling of cash and investments, whereby the maximum rate of return and cash flow flexibility can be achieved. Interest earnings are allocated semi-annually to the various funds based on the average cash balance during the preceding six months. The City's investment transactions are conducted in conformance with internal investment policies and the State of California Government Code. The City Council has assigned the responsibility for investing to the elected City Treasurer.

Risk management. The City is a member of the California Insurance Pool Authority (CIPA). CIPA, a consortium of 10 cities, was established to pool resources, share risks, purchase excess insurance and share costs for professional risk management and claims administration. Member cities may be assessed the difference between funds available and the \$20 million annual aggregate coverage in proportion to their annual premiums in the event of an imminent shortfall of funds. Additional information regarding risk management can be found in the notes to the financial statements

Pension and other postemployment benefits. The City contributes to the California Public Employees Retirement System, an agent multiple-employer public employee defined benefit pension plan for its employees. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by this funding policy.

The City allows retirees to pay premiums to the City for health insurance coverage at no cost to the City.

Additional information regarding the City's pension arrangements and post employment benefits can be found in the notes to the financial statements.

Other factors affecting financial condition: On June 1, 2005, the City Council of the City of Laguna Beach proclaimed the existence of a local emergency caused by a landslide that occurred on June 1, 2005 in the Bluebird Canyon resulting in the destruction of and damage to public infrastructure and numerous homes. The cost of the emergency repair and permanent restoration is estimated at \$16 million.

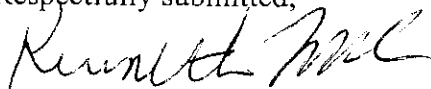
In February 2006, the Federal Emergency Management Agency (FEMA) determined that the landslide was the result of the heavy winter rains that prompted the February 2005 Presidential Disaster Declaration. The City expects that FEMA along with the State of California Office of Emergency Services (OES) will reimburse the City approximately 92% of the estimated cost for the emergency repair and permanent restoration.

Also, on December 13, 2005 voters of the City of Laguna Beach concerned over the cost of the Bluebird Landslide and the possibility of similar catastrophes in the future passed Measure A. This measure temporarily increases the local sales tax in the City of Laguna Beach ½% for six years generating approximately \$1.7 million per year. Revenue received through Measure A will be used toward the emergency repair and permanent restoration of Bluebird Canyon and set aside into a disaster contingency fund for future disasters. The ½% increase is effective beginning July 1, 2006.

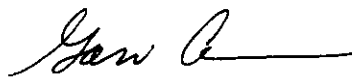
Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Division. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report.

Respectfully submitted,

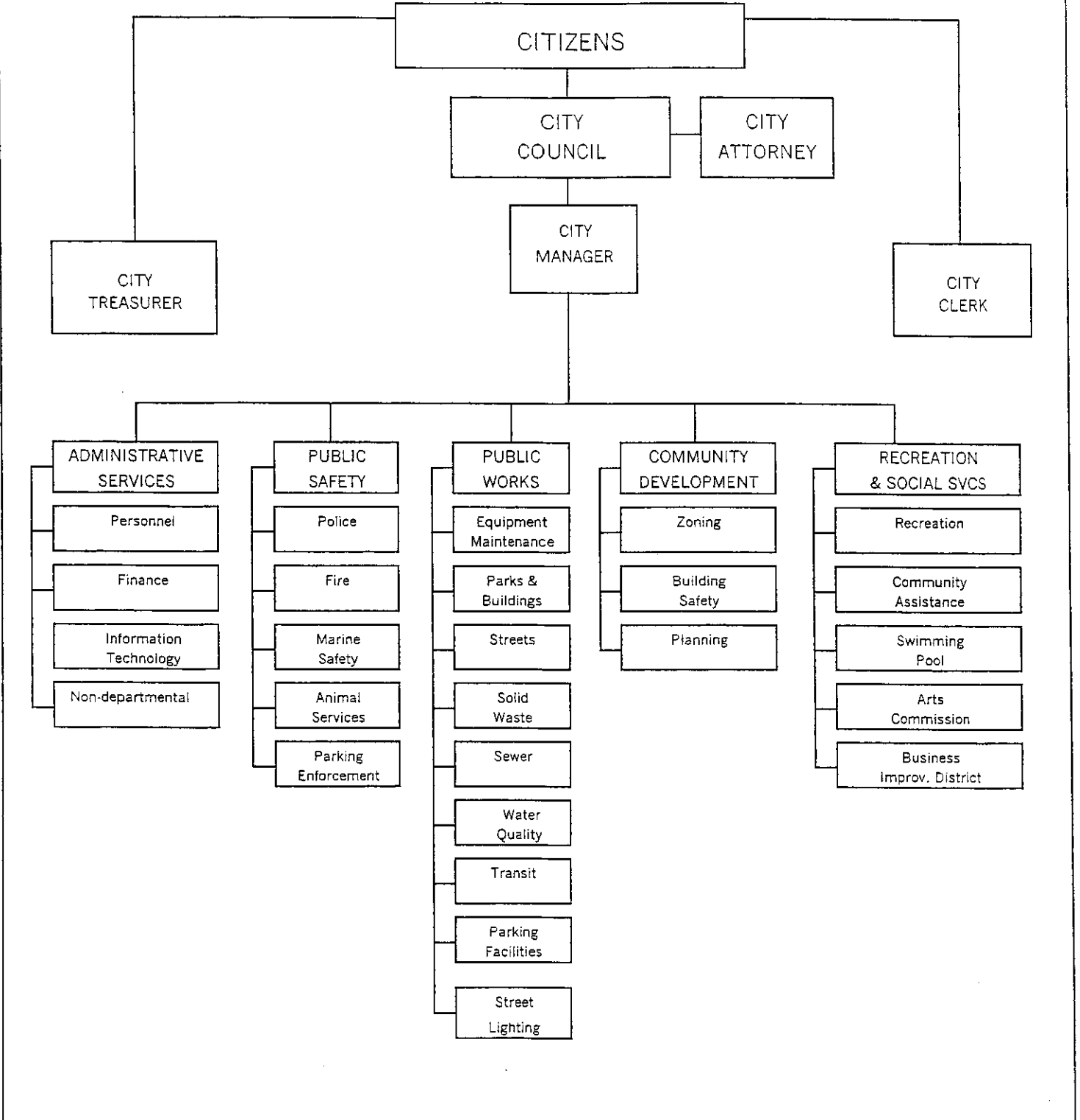


Kenneth Frank
City Manager



Gavin Curran
Finance Officer

CITY OF LAGUNA BEACH ORGANIZATIONAL CHART



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City Council
City of Laguna Beach, California

INDEPENDENT AUDITORS' REPORT

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 Beach, California, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Laguna Beach. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the City's financial statements as of and for the year ended June 30, 2005, which were audited by Conrad and Associates, L.L.P., who merged with Mayer Hoffman McCann P.C. as of January 1, 2006, and whose reported dated December 1, 2005, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Laguna Beach, California, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, of the City of Laguna Beach, California for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A primary government is a single legal entity that includes all funds, agencies, departments, and offices that are not legally separated from the primary government. Component units are other legally separate organizations for which the elected officials of the primary government are financially accountable, as defined by Government Accounting Standards Board Statement No. 14. Because the primary government financial statements do not include the financial data of the component units of the entire reporting entity as defined by Government Accounting Standards Board Statement No. 14, the primary government financial statements of the City of Laguna Beach, do not purport to, and do not, present fairly the financial position of the entire reporting entity of the City of Laguna Beach, California, as of June 30, 2006, and the changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

City Council
City of Laguna Beach, California
Page Two

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Laguna Beach's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules and other information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and other information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2006 on our consideration of the City of Laguna Beach's internal control over financial reporting and 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.

Maya Hoffman McClain P.C.

Irvine, California
December 6, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the City of Laguna Beach provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds and internal service funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services, like public safety, were financed in the short term as well as what remains for future spending.
 - Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the City's transit system.
 - Fiduciary fund statements provide information about the fiduciary relationships – like the agency funds of the City – in which the City acts solely as agent or trustee for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that provides additional financial and budgetary information.

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1
Major Features of the City's Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the City's fiduciary funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid.

Reporting the City as a Whole

The accompanying government-wide financial statements include two statements that present financial data for the City as a whole. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or financial position. Over time, increases and decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here. Sales taxes, property taxes, state subventions, and other revenues finance most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of the services accounted for in these funds.

Reporting the City's Major Funds

The fund financial statements provide detailed information about the City's most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for using certain taxes, grants, or other money (like grants received). The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

- Governmental funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other current financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.
- Proprietary funds – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities.

Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Assets. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A summary of the government-wide statement of net assets follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 63.8	\$ 51.2	.6	.8
Capital assets	<u>127.2</u>	<u>117.0</u>	<u>1.7</u>	<u>1.5</u>
Total assets	191.0	168.2	2.3	2.3
Long-term debt outstanding	18.9	17.8	-	-
Other liabilities	<u>3.3</u>	<u>3.3</u>	<u>.3</u>	<u>.1</u>
Total liabilities	22.2	21.1	.3	.1
Net assets:				
Invested in capital assets, net of debt	124.1	105.4	1.7	1.5
Restricted	10.5	9.7	-	-
Unrestricted	<u>34.2</u>	<u>32.0</u>	<u>.3</u>	<u>.7</u>
Total net assets	<u>\$168.8</u>	<u>\$147.1</u>	<u>2.0</u>	<u>2.2</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$168.8 million as of June 30, 2006.

The largest portion of the City's net assets, \$124.1 million (74%) are reflected in its investment in capital assets (e.g., land, street infrastructure, buildings, 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 will be provided from future revenues and the remaining 26% of the City's net assets, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets of \$10.5 million (6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$34.2 million (20%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City was able to report positive balances in all three categories of net assets for the government as a whole, as well as for just its governmental activities. For its business-type activities, the balance was also positive, except that there were no restricted and net assets.

The City's net assets increased by \$21.5 million during the current fiscal year. The net assets of governmental activities increased by \$21.7 million and business-type activities had a decrease of \$0.2 million.

A summary of the government-wide statement of activities follows:

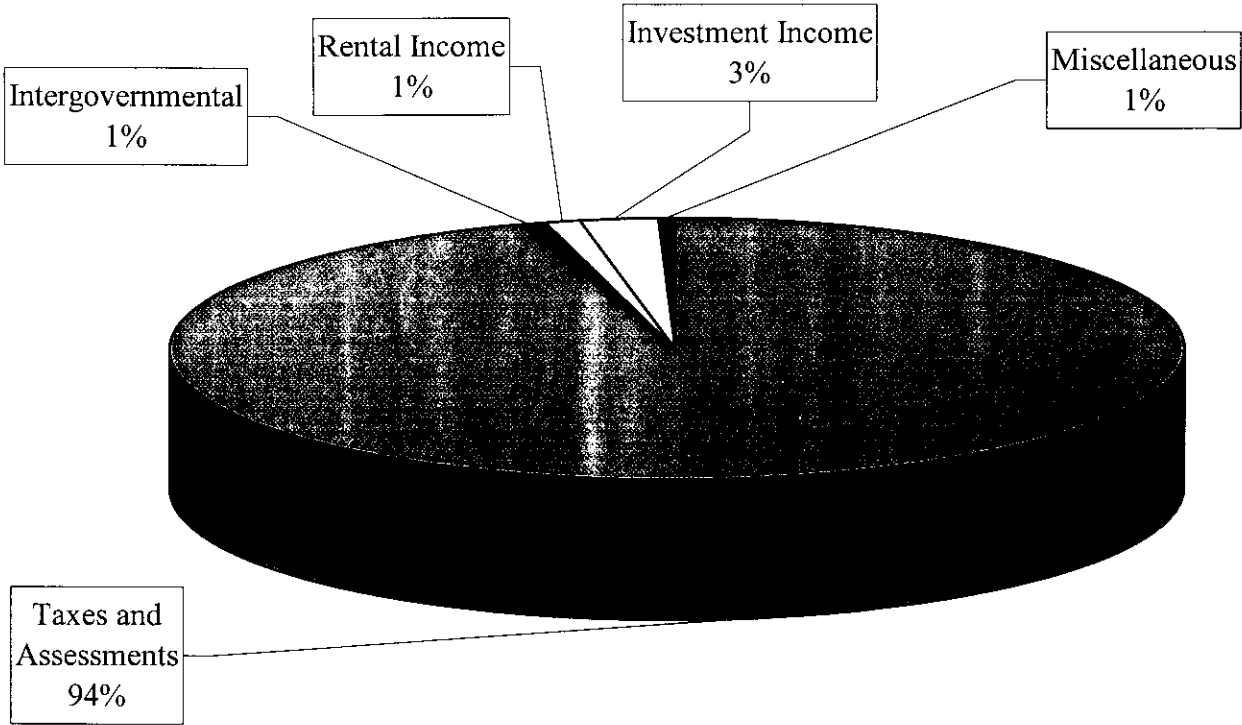
Table 2
Changes in Net Assets
(in Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues				
Program revenues:				
Charges for services	\$ 17,252	\$ 17,272	\$ 325	\$ 224
Operating grants and contributions	3,716	2,805	881	1,201
Capital grants and contributions	14,298	2,454	58	450
General revenues:				
Taxes and special assessments	38,872	33,894	-	-
Intergovernmental	366	464	-	-
Rental income	448	451	-	-
Investment income	1,029	791	-	-
Miscellaneous revenues	193	314	-	-
Transfers in	-	-	173	202
Transfers out	(173)	(220)	-	-
Gain (loss) on sale/disposal of capital assets	(11)	25	-	-
Total revenues and transfers	<u>75,990</u>	<u>58,250</u>	<u>1,437</u>	<u>2,095</u>
Program expenses				
General government	3,911	4,295	-	-
Community development	2,669	2,382	-	-
Public safety	18,865	18,194	-	-
Public works	21,427	11,063	-	-
Recreation and social services	3,415	3,165	-	-
Sewer service operating costs	3,484	3,924	-	-
Interest and fiscal charges	522	518	-	-
Municipal transit	-	-	1,665	1,677
Total expenses	<u>54,293</u>	<u>43,541</u>	<u>1,665</u>	<u>1,677</u>
Increase (decrease) in net assets	21,697	14,709	(228)	418
Beginning net assets	<u>147,103</u>	<u>132,394</u>	<u>2,214</u>	<u>1,796</u>
Ending net assets	<u>\$168,800</u>	<u>\$147,103</u>	<u>\$1,986</u>	<u>\$2,214</u>

The City's total revenues including transfers and gains/losses on the sale of capital assets were \$77.4 million while the total cost of all programs and services was \$55.9 million. Property taxes were the City's largest revenue source at \$18.8 million (24.2% of total revenues and 27.7% of governmental revenues). Transient lodging taxes at \$7.9 million (10.4% of total revenues and 10.2% governmental revenues) and sales tax also at \$4.5 million (5.9% of total revenues and 5.8% of governmental revenues) were the second largest revenue sources for the City this past year. Property taxes have been steadily increasing from year to year while transient lodging and sales taxes have experienced modest increases.

Governmental activities. The governmental activities' increase in net assets of \$21.7 million accounted for 100% of the total growth in net assets for the City this past year. The cost of governmental activities exceeded related program revenues by \$19.0 million, meaning that 35% of the cost to provide services had to be financed from taxes and other general revenues of the City, and it was the strength of these general revenues that accounted for the growth in the City's net assets from governmental activities.

Revenues by Source – Governmental Activities



Public Works expenses comprised the largest component of governmental activities in terms of cost 40% this past year. Charges for services and operating grants and contributions helped to offset 37% of the cost of these activities.

Public Safety was the second largest governmental activity representing 35% of the total cost of governmental activities. Charges for services, operating and capital grants and contributions offset 14% of the cost of providing these services.

General government expenses (including City Council, City Manager, City Attorney, City Clerk, City Treasurer and Administrative Services) were 7% of the total cost of governmental activities. Charges for services offset 25.0% of the cost of providing these services.

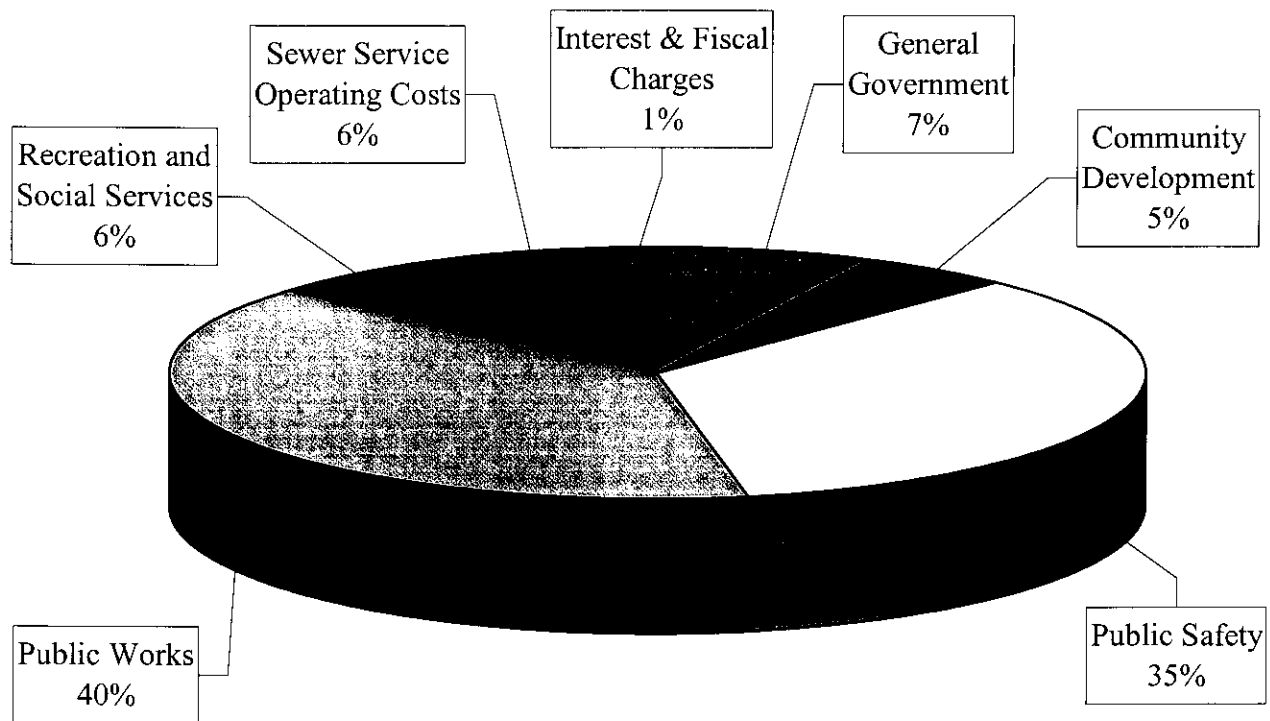
Community development, although only 5% of the total cost of governmental activities, was financed 100% from charges for services.

Recreation and social services cost \$3.4 million this past year, representing 6% of the total, but 36% was paid from charges for services, operating grants and contributions.

Sewer service operating costs were \$3.9 million, representing 6% of the total cost of governmental activities. Charges for services, operating and capital grants and contributions offset 100% of expenses including costs incurred for capitalized assets.

Interest and fiscal charges on long term debt, at \$.5 million, comprised 1% of the total cost of governmental activities with all costs offset by general tax revenues.

Expenses by Function – Governmental Activities



- **Business-type activities.** Business-type activities of the City decreased net assets by \$228 thousand. The combined expenses of the City's business-type activity (the municipal transit system) including costs incurred for capitalized assets were funded by charges for services and operating and capital grants. The majority of the decrease in net assets consisted of the reduction of Transportation Development Funds to comply with "50% Limitation" rule. This deficit will be eliminated in future years.

MAJOR FUNDS

As noted earlier, the City uses fund accounting to provide proper financial management of the City's resources and to demonstrate compliance with finance-related legal requirements.

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

As of June 30, 2006, governmental funds reported combined ending fund balances of \$35.1 million, a increase of \$2.9 million in comparison with the prior year. Approximately 10.5% of this total amount (\$3.7 million) constitutes undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) to liquidate contracts and purchase orders of the prior period, for inventory, long term receivables and other externally restricted balances (\$29.4 million), and 2) for debt service requirements (\$2.0 million).

The General Fund is the chief operating fund of the City. As of June 30, 2006, the unreserved, undesignated fund balance of the General Fund was \$8.7 million, while total fund balance reached \$30.3 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 28.9% of total general fund expenditures, while total fund balance represents 71.1% of that same amount.

The fund balance of the City's General Fund increased by \$9.0 million during the fiscal year ending June 30, 2006. Reasons for significant changes in the revenues and expenditures of the City's General Fund from the prior year are as follows:

- Revenues increased \$3.7 million with \$2.0 million resulting from property taxes. The remaining difference was primarily due to an increase in the transient occupancy tax revenue of \$.6 million and franchise fees of \$.7 million.
- Even though overall expenditures increased \$3.9 million the City continued to maintain a positive margin of 18% in fiscal year 2005-2006 in general fund revenues exceeding expenditures.

The City has four other major funds: the Bluebird Landslide Fund, the Sewer Service Fund, the General Obligation Bonds Debt Service Fund and the Capital Projects Fund.

The Bluebird Landslide Fund had a fund balance deficit of \$7.1 million. This deficit is caused by pending receivables of \$7.1 million due from the Federal Emergency Management Agency (FEMA) and the California Office of Emergency Services (OES). This revenue was not recognized in the reporting period because it was not received within the 120 day availability period.

The Sewer Service Fund had a total fund balance of \$2.9 million, of which approximately 100% was reserved and/or designated for projects. The net increase in fund balance during the current year in the Sewer Service Fund was \$905 thousand.

The General Obligation Bonds Debt Service Fund had a total fund balance of \$2.1 million, all of which was reserved for future debt service payments. The net increase in fund balance during the current year in the General Obligation Bonds Debt Service Fund of \$60 thousand was due primarily to interest revenue received in excess of debt service expenditures.

The Capital Projects Fund had a total fund balance of \$2.6 million, of which approximately 75% was reserved and/or designated for projects. The net decrease in fund balance during the current year in the Capital Projects Fund of \$445 thousand was primarily due to incurring capital project

expenditures for projects for utility undergrounding projects undertaken during the current fiscal year with revenues received in prior years in various assessment districts.

Major Enterprise Funds. The City’s proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Municipal Transit Fund at the end of the fiscal year amounted to \$265 thousand. The total decrease in net assets for the fund was \$228 thousand. Other factors concerning the finances of this fund have already been addressed in the discussion of the City’s business-type activities.

GENERAL FUND BUDGET

Differences between the original budget and the final amended budget of the General Fund totaled \$28.1 million and major items can be briefly summarized as follows:

- \$15.0 million increase in the budget for prior year carry over appropriations.
- \$5.3 million for City Corporate Yard.
- \$3.5 million increase in the community center related to the repayment of the Treasure Island Developer Loan.
- \$1.4 million increase for the Canyon Acers Storm Drain Repair.
- \$1.3 million for open space land acquisitions.

Major deviations between the final budget of the General Fund and its actual operating results were as follows:

- Total revenues exceeded budget by \$1.2 million mostly as a result of increases in property taxes, sales taxes, real property transfer taxes, and planning fee revenue. There were several revenues that were under budget, such as building development fees and intergovernmental revenues (mostly from a loss in Motor Vehicle In Lieu Fees from the State).
- Total expenditures were under the budgeted amount by \$28.9 million, mostly as a result of capital projects not yet completed at fiscal year end. No City departments exceeded their approved budgeted amounts.

These deviations did not significantly affect the City’s liquidity or ability to provide future government services.

CAPITAL ASSETS

Capital Assets
(net of depreciation)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 78,313,737	\$ 196,106	\$ 78,509,843
Buildings and improvements	7,087,241	3,010	7,090,251
Office equipment and machinery	2,780,452	21,940	2,802,392
Furniture and fixtures	666,964	65	667,029
Equipment, machinery and tools	1,062,203	-	1,062,203
Sewer plant and lines	20,837,630	-	20,837,630
Automotive equipment	2,449,910	1,499,447	3,949,357
Infrastructure	9,295,134	-	9,295,134
Construction in progress	<u>4,725,954</u>	<u>-</u>	<u>4,725,954</u>
Total	<u>\$127,219,225</u>	<u>\$1,720,568</u>	<u>\$128,939,793</u>

The major change to the capital assets during the year ended June 30, 2006 was the addition of sewer improvements and city infrastructure. Unexpended construction commitments as of year end are discussed in note 6 to the financial statements. Additional information on the City's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At the end of the current fiscal year, the City had bonded debt outstanding of \$9.8 million, all of which comprises debt backed by the full faith and credit of the government.

	Outstanding Debt (In Thousands)		
	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$8,405	-	\$8,405
Capital Lease	1,405	-	1,405
Total	\$9,810	-	\$9,810

The City's total debt decreased by \$1.7 million (17%) during the current fiscal year. Standard & Poor's has assigned an "AA+" rating for the City's general obligation debt. Additional information on the City's long-term debt can be found in the notes to the accompanying financial statements.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Office, at the City of Laguna Beach, 505 Forest Avenue, Laguna Beach, California 92651.

BASIC FINANCIAL STATEMENTS

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CITY OF LAGUNA BEACH
Statement of Net Assets
June 30, 2006
(With Comparative Totals for June 30, 2005)

<u>Assets</u>	Governmental	Business-type	<u>Totals</u>	
	Activities	Activities	2006	2005
Cash and investments (note 2)	42,248,354	198,187	42,446,541	44,227,349
Investments with fiscal agent (note 2)	40	-	40	38
Receivables:				
Taxes	3,473,035	-	3,473,035	2,714,198
Accounts	362,971	3,490	366,461	251,986
Interest	155,158	-	155,158	296,588
Intergovernmental	14,679,415	346,107	15,025,522	2,696,718
Notes	590,821	-	590,821	602,602
Other	2,037	-	2,037	-
Prepays	634,449	-	634,449	171,297
Inventory	36,120	-	36,120	20,714
Property held for investment	1,632,253	-	1,632,253	1,077,753
Capital assets, not being depreciated (note 6)	83,039,691	196,106	83,235,797	82,734,333
Capital assets, net of depreciation (note 6)	<u>44,179,534</u>	<u>1,524,462</u>	<u>45,703,996</u>	<u>35,782,298</u>
 Total assets	 <u>191,033,878</u>	 <u>2,268,352</u>	 <u>193,302,230</u>	 <u>170,575,874</u>
 <u>Liabilities</u>				
Accounts payable and accrued liabilities	2,191,484	32,662	2,224,146	2,779,841
Interest payable	246,876	-	246,876	193,634
Retentions payable	381,669	-	381,669	162,789
Due to other government agencies	65,276	-	65,276	65,276
Unearned revenue	454,740	249,283	704,023	285,486
Noncurrent liabilities (note 11):				
Due within one year	4,729,684	-	4,729,684	3,545,469
Due in more than one year	14,163,699	-	14,163,699	14,226,411
 Total liabilities	 <u>22,233,428</u>	 <u>281,945</u>	 <u>22,515,373</u>	 <u>21,258,906</u>
 <u>Net assets</u>				
Invested in capital assets, net of related debt	124,111,940	1,720,568	125,832,508	106,907,274
Restricted for:				
Capital projects	9,372,264	-	9,372,264	8,110,073
Other purposes	1,076,796	-	1,076,796	1,616,550
Unrestricted	34,239,450	265,839	34,505,289	32,683,071
 Total net assets	 <u>\$ 168,800,450</u>	 <u>1,986,407</u>	 <u>170,786,857</u>	 <u>149,316,968</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Statement of Activities
Year Ended June 30, 2006
(With Comparative Totals For Year Ended June 30, 2005)

	Expenses	Program Revenues			Total Program Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 3,921,931	985,885	-	-	985,885
Community development	2,668,812	2,775,360	-	-	2,775,360
Public safety	18,864,927	2,050,919	608,891	-	2,659,810
Public works	21,427,184	4,893,227	3,081,541	14,298,137	22,272,905
Recreation and social services	3,415,130	1,217,894	15,493	-	1,233,387
Sewer service operating costs	3,484,183	5,328,527	10,487	-	5,339,014
Interest and fiscal charges	521,755	-	-	-	-
Total governmental activities	<u>54,303,922</u>	<u>17,251,812</u>	<u>3,716,412</u>	<u>14,298,137</u>	<u>35,266,361</u>
Business-type activities:					
Municipal Transit	<u>1,664,811</u>	<u>325,015</u>	<u>881,047</u>	<u>57,912</u>	<u>1,263,974</u>
Total business-type activities	<u>1,664,811</u>	<u>325,015</u>	<u>881,047</u>	<u>57,912</u>	<u>1,263,974</u>
Total primary government	<u>55,968,733</u>	<u>17,576,827</u>	<u>4,597,459</u>	<u>14,356,049</u>	<u>36,530,335</u>
				General revenues:	
				Taxes and special assessments	
				Intergovernmental, unrestricted	
				Rental income	
				Investment income	
				Miscellaneous	
				Transfers in (out) (note 13)	
				Total general revenues and transfers	
				Change in net assets	
				Net assets at beginning of year	
				Net assets at end of year	

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Assets
Primary Government

Governmental Activities	Business-type Activities	Totals	
		2006	2005
(2,936,046)	-	(2,936,046)	(3,340,659)
106,548	-	106,548	297,719
(16,205,117)	-	(16,205,117)	(15,528,852)
845,721	-	845,721	(1,177,616)
(2,181,743)	-	(2,181,743)	(2,007,359)
1,854,831	-	1,854,831	1,264,458
(521,755)	-	(521,755)	(518,189)
<u>(19,037,561)</u>	<u>-</u>	<u>(19,037,561)</u>	<u>(21,010,498)</u>
<u>-</u>	<u>(400,837)</u>	<u>(400,837)</u>	<u>197,647</u>
<u>-</u>	<u>(400,837)</u>	<u>(400,837)</u>	<u>197,647</u>
<u>(19,037,561)</u>	<u>(400,837)</u>	<u>(19,438,398)</u>	<u>(20,812,851)</u>
38,871,382	-	38,871,382	33,894,079
366,462	-	366,462	464,083
448,309	-	448,309	450,735
1,028,804	-	1,028,804	790,686
193,330	-	193,330	314,329
(173,386)	173,386.00	-	-
<u>40,734,901</u>	<u>173,386</u>	<u>40,908,287</u>	<u>35,938,953</u>
21,697,340	(227,451)	21,469,889	15,126,102
<u>147,103,110</u>	<u>2,213,858</u>	<u>149,316,968</u>	<u>134,190,866</u>
<u>\$ 168,800,450</u>	<u>1,986,407</u>	<u>170,786,857</u>	<u>149,316,968</u>

See accompanying notes to basic financial statements.

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GOVERNMENTAL FUNDS

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

The General Fund, which is required to be classified as a major fund, 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.

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues (other than expendable trusts and major capital projects) and the related expenditures which are legally required to be accounted for in a separate fund.

The City of Laguna Beach has the following major Special Revenue Funds:

BLUEBIRD LANDSLIDE – This is used to account for costs incurred for emergency repairs and permanent restoration for Bluebird Canyon related to a landslide that occurred in June of 2005. Funding sources for this fund are from the Federal Emergency Management Agency, the California Office of Emergency Services, and the City's General Fund.

SEWER SERVICE – The purpose of this fund is to account for sewer services provided to the residents in the northern portion of the City. An annual assessment is placed on each affected property owner's tax bill in an amount equal to the estimated cost for sewer service and administration. The City contracts with a joint powers authority for treatment of the sewage.

DEBT SERVICE FUND

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest.

The City of Laguna Beach has the following major Debt Service Fund:

GENERAL OBLIGATION BONDS – This fund is used to account for the resources and payment of general obligation bond principal and interest from a general obligation ad valorem tax levy.

CAPITAL PROJECTS FUND

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

The City of Laguna Beach has the following major Capital Projects Fund:

CAPITAL PROJECTS – This fund is used to account for assessment district utility undergrounding projects which are funded by property owners.

NONMAJOR GOVERNMENTAL FUNDS

These funds constitute all other governmental funds that do not meet the criteria to be a major fund, which are the 10% test of assets, liabilities, revenues or expenditures for the governmental funds and the 5% test of total assets, liabilities, revenues or expenditures for the total governmental and enterprise funds combined. These funds include other Special Revenue Funds of the City.

CITY OF LAGUNA BEACH
Governmental Fund Types
Balance Sheet
June 30, 2006
(With Comparative Totals For June 30, 2005)

<u>Assets</u>	<u>Special Revenue</u>		
	<u>General</u>	<u>Bluebird Landslide</u>	<u>Sewer Service</u>
Cash and investments	\$ 17,098,960	-	3,063,652
Investments with fiscal agent	-	-	-
Receivables:			
Taxes	942,139	-	-
Accounts	211,111	-	94,364
Interest	155,158	-	-
Intergovernmental	575,428	13,585,063	81,329
Notes	348,000	-	-
Other	2,037	-	-
Due from other funds (note 4)	13,011,278	-	-
Prepays	454,881	-	-
Inventory	36,120	-	-
Advances to other funds (note 5)	-	-	-
Property held for investment	-	-	-
	<u>\$ 32,835,112</u>	<u>13,585,063</u>	<u>3,239,345</u>
 <u>Liabilities and Fund Balances</u> 			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,245,218	573,785	49,910
Retentions payable	35,215	-	165,596
Due to other funds (note 4)	-	13,011,278	-
Due to other government agencies	65,276	-	-
Deferred revenue	1,095,422	7,149,179	81,329
Advances from other funds (note 5)	97,568	-	-
	<u>2,538,699</u>	<u>20,734,242</u>	<u>296,835</u>
Fund balances (deficit) (note 12):			
Reserved	10,917,199	1,245,174	1,167,486
Unreserved:			
Designated, reported in:			
General fund	10,612,220	-	-
Special revenue funds	-	-	1,113,956
Capital projects funds	-	-	-
Undesignated, reported in:			
General fund	8,766,994	-	-
Special revenue funds	-	(8,394,353)	661,068
Capital projects funds	-	-	-
	<u>30,296,413</u>	<u>(7,149,179)</u>	<u>2,942,510</u>
Total fund balances (deficit)	<u>\$ 32,835,112</u>	<u>13,585,063</u>	<u>3,239,345</u>

See accompanying notes to basic financial statements.

Debt Service General Obligation Bonds	Capital Projects Capital Projects	Nonmajor Governmental Funds	Totals	
			2006	2005
2,036,113	2,981,907	3,687,640	28,868,272	32,757,890
40	-	-	40	38
37,994	-	18,550	998,683	1,070,790
-	55,831	-	361,306	202,264
-	-	-	155,158	296,588
-	-	397,719	14,639,539	1,175,198
-	-	-	348,000	348,000
-	-	-	2,037	-
-	-	-	13,011,278	685,450
-	-	-	454,881	-
-	-	-	36,120	20,714
-	-	-	-	750,000
-	-	354,444	354,444	354,444
<u>2,074,147</u>	<u>3,037,738</u>	<u>4,458,353</u>	<u>59,229,758</u>	<u>37,661,376</u>
-	249,328	39,060	2,157,301	2,710,329
-	106,956	73,902	381,669	162,789
-	-	-	13,011,278	11,733
-	-	-	65,276	65,276
-	-	71,973	8,397,903	1,118,633
-	-	-	97,568	1,397,568
-	<u>356,284</u>	<u>184,935</u>	<u>24,110,995</u>	<u>5,466,328</u>
2,074,147	-	410,780	15,814,786	8,742,291
-	-	-	10,612,220	12,846,643
-	-	1,801,675	2,915,631	1,114,988
-	2,009,558	-	2,009,558	1,622,520
-	-	-	8,766,994	6,468,066
-	-	2,060,963	(5,672,322)	921,947
-	671,896	-	671,896	478,593
<u>2,074,147</u>	<u>2,681,454</u>	<u>4,273,418</u>	<u>35,118,763</u>	<u>32,195,048</u>
<u>2,074,147</u>	<u>3,037,738</u>	<u>4,458,353</u>	<u>59,229,758</u>	<u>37,661,376</u>

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CITY OF LAGUNA BEACH
 Governmental Funds
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Assets
 June 30, 2006

Fund balances of governmental funds	\$ 35,118,763
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	
Capital assets	159,287,453
Accumulated depreciation	(34,759,200)
Long term debt from the General Long Term Debt Account Group that not have been included in the governmental fund activity.	
General obligation bonds	(8,405,000)
Capitalized lease obligations	(1,405,000)
Loan payable	(1,702,285)
Accrued interest payable for the current portion of interest due on debt service has not been reported in the governmental funds.	
	(246,876)
Receivable amounts that were earned in the audit period but not collected within the availability period have not been reported in the governmental funds.	
	10,457,388
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.	
	<u>10,455,207</u>
Net assets of governmental activities	<u>\$ 168,800,450</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Governmental Fund Types
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2006
(With Comparative Totals For Year Ended June 30, 2005)

	Special Revenue		
	General	Bluebird Landslide	Sewer Service
Revenues:			
Taxes	\$ 34,390,755	-	-
Licenses and permits	1,264,362	-	-
Fines and penalties	1,559,859	-	-
Investment income	966,015	-	-
Rental	448,309	-	-
Intergovernmental	1,329,931	6,972,070	1,344
Charges for services	6,467,863	-	5,098,633
Parking meters, lots and permits	3,225,562	-	-
Development tax	386,146	-	-
Contributions from property owners	-	-	-
Other	462,420	-	223,553
Total revenues	<u>50,501,222</u>	<u>6,972,070</u>	<u>5,323,530</u>
Expenditures:			
Current:			
General government	3,758,978	-	-
Community development	2,703,135	-	-
Public safety	19,226,875	-	-
Public works	8,892,309	-	-
Recreation and social services	3,471,671	-	-
Sewer service operating costs	-	-	2,928,237
Capital expenditures	4,639,419	13,955,209	2,543,886
Debt service:			
Principal	-	-	520,000
Interest and fiscal charges	-	-	58,885
Total expenditures	<u>42,692,387</u>	<u>13,955,209</u>	<u>6,051,008</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,808,835</u>	<u>(6,983,139)</u>	<u>(727,478)</u>
Other financing sources (uses):			
Transfers in (note 13)	2,027,040	200,000	-
Transfers out (note 13)	(823,592)	(366,040)	-
Issuance of bond	-	-	-
Issuance of loan	-	-	1,632,928
Sale of land and equipment	4,344	-	-
Total other financing sources (uses)	<u>1,207,792</u>	<u>(166,040)</u>	<u>1,632,928</u>
Net change in fund balances	9,016,627	(7,149,179)	905,450
Fund balances, beginning of year	<u>21,279,786</u>	<u>-</u>	<u>2,037,060</u>
Fund balances (deficit), end of year	<u>\$ 30,296,413</u>	<u>(7,149,179)</u>	<u>2,942,510</u>

See accompanying notes to basic financial statements.
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Debt Service General Obligation Bonds	Capital Projects Capital Projects	Nonmajor Governmental Funds	Totals	
			2006	2005
1,619,814	-	1,238,793	37,249,362	33,632,030
-	-	-	1,264,362	1,189,531
-	-	38,500	1,598,359	1,529,719
51,769	145,378	114,246	1,277,408	932,572
-	-	-	448,309	450,735
8,129	-	1,678,502	9,989,976	2,924,122
-	-	-	11,566,496	11,282,059
-	-	-	3,225,562	3,862,436
-	-	-	386,146	356,855
-	-	-	-	578,739
-	111,662	8,479	806,114	547,486
<u>1,679,712</u>	<u>257,040</u>	<u>3,078,520</u>	<u>67,812,094</u>	<u>57,286,284</u>
-	-	-	3,758,978	4,181,073
-	-	-	2,703,135	2,416,040
-	-	40,892	19,267,767	18,641,992
-	-	196,694	9,089,003	8,584,263
-	-	14,396	3,486,067	3,230,652
-	-	-	2,928,237	3,389,582
-	1,227,116	1,506,272	23,871,902	6,865,535
1,210,000	-	-	1,730,000	1,660,000
409,628	-	-	468,513	543,296
<u>1,619,628</u>	<u>1,227,116</u>	<u>1,758,254</u>	<u>67,303,602</u>	<u>49,512,433</u>
<u>60,084</u>	<u>(970,076)</u>	<u>1,320,266</u>	<u>508,492</u>	<u>7,773,851</u>
-	-	678,000	2,905,040	1,557,042
-	-	(1,462,000)	(2,651,632)	(3,581,690)
-	524,543	-	524,543	1,627,140
-	-	-	1,632,928	69,357
-	-	-	4,344	6,923
-	524,543	(784,000)	2,415,223	(321,228)
60,084	(445,533)	536,266	2,923,715	7,452,623
2,014,063	3,126,987	3,737,152	32,195,048	24,742,425
<u>2,074,147</u>	<u>2,681,454</u>	<u>4,273,418</u>	<u>35,118,763</u>	<u>32,195,048</u>

CITY OF LAGUNA BEACH
 Governmental Funds
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 2,923,715

Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities 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 exceeded depreciation in the current period.

Capital outlay	11,848,516
Depreciation expense	(1,810,338)

Repayment of debt service principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,730,000
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Proceeds of debt is a revenue in the governmental funds, but an increase in long-term liabilities in the statement of net assets.	(1,632,928)
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Accrued interest for debt service. This is the net change in accrued interest for the current period.	(53,242)
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Receivable amounts that were earned in the audit period but not collected within the availability period have not been reported in the governmental funds.	7,831,798
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Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The net revenues (expenses) of the internal service funds must be added to the statement of net assets.	859,819
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Change in net assets of governmental activities	\$ 21,697,340
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See accompanying notes to basic financial statements.

PROPRIETARY FUNDS

MAJOR ENTERPRISE FUNDS

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise – where the intent of the City Council is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The City of Laguna Beach has the following major Enterprise Fund:

MUNICIPAL TRANSIT FUND – This fund is used to account for the operations of the City's transit system. All activities necessary to provide such services are accounted for in this fund, including but not limited to, administration, operations and maintenance.

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency of a government to other departments or agencies on a cost reimbursement basis.

CITY OF LAGUNA BEACH
Proprietary Funds
Statement of Net Assets
June 30, 2006
(With Comparative Totals For June 30, 2005)

	Business Type	Governmental Activities	Totals	
	Municipal Transit	Internal Service Funds	2006	2005
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 198,187	13,380,082	13,578,269	11,469,459
Receivables:				
Accounts	3,490	1,665	5,155	22,009
Intergovernmental	346,107	-	346,107	1,481,924
Due from other funds	-	-	-	27,713
Prepays	-	179,568	179,568	171,297
Total current assets	<u>547,784</u>	<u>13,561,315</u>	<u>14,109,099</u>	<u>13,172,402</u>
Noncurrent assets:				
Advances to other funds (note 5)	-	97,568	97,568	647,568
Notes receivable	-	242,821	242,821	254,602
Property held for investment	-	1,277,809	1,277,809	723,309
Capital assets, not being depreciated	196,106	289,309	485,415	196,106
Capital assets, net of depreciation	<u>1,524,462</u>	<u>2,401,666</u>	<u>3,926,128</u>	<u>3,830,450</u>
Total noncurrent assets	<u>1,720,568</u>	<u>4,309,173</u>	<u>6,029,741</u>	<u>5,652,035</u>
Total assets	<u>2,268,352</u>	<u>17,870,488</u>	<u>20,138,840</u>	<u>18,824,437</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	18,124	34,183	52,307	69,512
Due to other funds	-	-	-	673,717
Compensated absences due within one year	14,538	1,500,344	1,514,882	679,859
Insurance claims payable due within one year	-	1,434,340	1,434,340	1,135,610
Unearned revenue	<u>249,283</u>	<u>-</u>	<u>249,283</u>	<u>109,439</u>
Total current liabilities	<u>281,945</u>	<u>2,968,867</u>	<u>3,250,812</u>	<u>2,668,137</u>
Non-current liabilities:				
Compensated absences	-	1,099,622	1,099,622	1,697,297
Insurance claims payable	<u>-</u>	<u>3,346,792</u>	<u>3,346,792</u>	<u>2,649,757</u>
Total noncurrent liabilities	<u>-</u>	<u>4,446,414</u>	<u>4,446,414</u>	<u>4,347,054</u>
Total liabilities	<u>281,945</u>	<u>7,415,281</u>	<u>7,697,226</u>	<u>7,015,191</u>
<u>Net assets</u>				
Net assets:				
Invested in capital assets	1,720,568	2,690,975	4,411,543	4,026,556
Unrestricted	<u>265,839</u>	<u>7,764,232</u>	<u>8,030,071</u>	<u>7,782,690</u>
Total net assets	<u>\$ 1,986,407</u>	<u>10,455,207</u>	<u>12,441,614</u>	<u>11,809,246</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2006
(With Comparative Totals For Year Ended June 30, 2005)

	Business Type	Governmental Activities	Totals	
	Municipal Transit	Internal Service Funds	2006	2005
Operating revenues:				
Passenger revenues	\$ 325,015	-	325,015	333,662
Vehicle rentals	-	916,200	916,200	852,900
Employee benefits charges	-	600,200	600,200	556,000
Insurance charges	-	5,736,774	5,736,774	5,451,472
Total operating revenues	<u>325,015</u>	<u>7,253,174</u>	<u>7,578,189</u>	<u>7,194,034</u>
Operating expenses:				
Personnel services	871,241	-	871,241	897,118
Contractual services	106,108	-	106,108	138,563
Materials and supplies	258,903	-	258,903	249,667
Administration	192,827	-	192,827	102,663
Employee benefits	-	723,334	723,334	664,193
Insurance claims and premiums	-	4,947,148	4,947,148	4,663,159
Depreciation	235,732	287,266	522,998	849,263
Total operating expenses	<u>1,664,811</u>	<u>5,957,748</u>	<u>7,622,559</u>	<u>7,564,626</u>
Operating income (loss)	<u>(1,339,796)</u>	<u>1,295,426</u>	<u>(44,370)</u>	<u>(370,592)</u>
Nonoperating revenues (expenses):				
Local Transportation Fund grant	696,597	-	696,597	926,453
Investment income	7,794	12,449	20,243	13,023
Intergovernmental	165,000	-	165,000	165,000
Gain (loss) on disposal of capital assets	6,600	(21,262)	(14,662)	18,118
Other	5,056	-	5,056	-
Total nonoperating revenues (expenses)	<u>881,047</u>	<u>(8,813)</u>	<u>872,234</u>	<u>1,122,594</u>
Income (loss) before capital contributions and transfers	<u>(458,749)</u>	<u>1,286,613</u>	<u>827,864</u>	<u>752,002</u>
Capital contributions and transfers:				
Transfers in (note 13)	222,386	123,206	345,592	2,024,648
Transfers out (note 13)	(49,000)	(550,000)	(599,000)	-
Capital grants	57,912	-	57,912	450,000
Total capital contributions and transfers	<u>231,298</u>	<u>(426,794)</u>	<u>(195,496)</u>	<u>2,474,648</u>
Change in net assets	<u>(227,451)</u>	<u>859,819</u>	<u>632,368</u>	<u>3,226,650</u>
Net assets at beginning of year	<u>2,213,858</u>	<u>9,595,388</u>	<u>11,809,246</u>	<u>8,582,596</u>
Net assets at end of year	<u>\$ 1,986,407</u>	<u>10,455,207</u>	<u>12,441,614</u>	<u>11,809,246</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2006
(With Comparative Totals For Year Ended June 30, 2005)

	Business Type	Governmental Activities	Totals	
	Municipal Transit	Internal Service Funds	2006	2005
Cash flows from operating activities:				
Cash received from customers	\$ 343,534	-	343,534	382,082
Cash received from user departments	-	7,414,811	7,414,811	6,871,269
Cash payments to suppliers for goods and services	(553,690)	(3,993,930)	(4,547,620)	(5,343,835)
Cash payments to employees for services	(871,241)	(500,524)	(1,371,765)	(1,384,781)
Net cash provided by (used for) operating activities	<u>(1,081,397)</u>	<u>2,920,357</u>	<u>1,838,960</u>	<u>524,735</u>
Cash flows from noncapital financing activities:				
Operating grant proceeds received	1,696,171	-	1,696,171	248,393
Cash received from other funds	250,099	123,206	373,305	2,709,572
Cash paid to other funds	(673,717)	-	(673,717)	(15,300)
Loan principal received	-	11,781	11,781	-
Net cash provided by (used for) noncapital financing activities	<u>1,272,553</u>	<u>134,987</u>	<u>1,407,540</u>	<u>2,942,665</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(457,362)	(613,925)	(1,071,287)	(318,042)
Capital grant proceeds received	456,599	-	456,599	89,044
Proceeds from sale of capital assets	-	11,255	11,255	68,101
Net cash provided by (used for) capital and related financing activities	<u>(763)</u>	<u>(602,670)</u>	<u>(603,433)</u>	<u>(160,897)</u>
Cash flows from investing activities:				
Purchase of property held for investment	-	(554,500)	(554,500)	-
Interest received	7,794	12,449	20,243	13,023
Net cash provided by (used for) investing financing activities	<u>7,794</u>	<u>(542,051)</u>	<u>(534,257)</u>	<u>13,023</u>
Net increase (decrease) in cash and cash equivalents	198,187	1,910,623	2,108,810	3,319,526
Cash and cash equivalents at beginning of year	-	11,469,459	11,469,459	8,149,933
Cash and cash equivalents at end of year	<u>\$ 198,187</u>	<u>13,380,082</u>	<u>13,578,269</u>	<u>11,469,459</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Proprietary Funds
Statement of Cash Flows
(Continued)

	Business Type	Governmental Activities	Totals	
	Municipal Transit	Internal Service Funds	2006	2005
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (1,339,796)	1,295,426	(44,370)	(370,592)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	235,732	287,266	522,998	849,263
Miscellaneous income	5,056	-	5,056	-
Loss on disposal of capital assets	-	(21,262)	(21,262)	-
(Increase) decrease in accounts receivable	18,519	(1,665)	16,854	59,317
(Increase) decrease in prepaids	-	(8,271)	(8,271)	(171,297)
(Increase) decrease in other assets	-	152,047	152,047	(57,690)
Increase (decrease) in accounts payable and accrued liabilities	(908)	(1,759)	(2,667)	(426,747)
Increase (decrease) in compensated absences payable	-	222,810	222,810	176,530
Increase (decrease) in insurance claims payable	-	995,765	995,765	465,951
Net cash provided by (used for) operating activities	<u>\$ (1,081,397)</u>	<u>2,920,357</u>	<u>1,838,960</u>	<u>524,735</u>
Supplemental schedule of noncash capital, financing and investing activities:				
Forgiven loan made to General Fund	<u>\$ -</u>	<u>550,000</u>	<u>550,000</u>	<u>-</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
 Agency Funds
 Statement of Fiduciary Assets and Liabilities
 June 30, 2006
 (With Comparative Totals for June 30, 2005)

	Totals	
	2006	2005
<u>Assets</u>		
Cash and investments (note 2)	\$ 4,886,925	4,170,717
Investments with fiscal agent (note 2)	1,423,624	1,256,470
Receivables:		
Intergovernmental	51,152	32,950
Total assets	\$ 6,361,701	5,460,137
<u>Liabilities</u>		
Accounts payable and accrued liabilities	\$ 816	15,647
Due to other funds	-	27,713
Deposits	2,493,710	2,017,291
Due to bondholders	3,867,175	3,399,486
Total liabilities	\$ 6,361,701	5,460,137

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies

The financial statements of the City of Laguna Beach, California have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies:

(a) Reporting Entity

The City of Laguna Beach was incorporated in 1927 under the General Laws of the State of California. The City operates under a Council-Manager form of government governed by a five member council and provides the following services: public safety (police, fire, paramedic, marine safety, and ambulance), highways and streets, parks and recreation, public improvements, planning and zoning and general administrative service. The primary government financial statements do not include the financial activities of the component units of the City.

(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 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.

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.

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Government-wide Financial Statements, (Continued)

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.

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 an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other 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 an expenditure.

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 the major fund individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or organizations.

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

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. The City uses an availability period of 30 days for most of its material revenues, except for property tax (60 days) and grants (120 days).

Sales taxes, property taxes, franchise taxes, gas taxes, motor vehicles in lieu, transient occupancy taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available where cash is received by the government.

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 nonexchange 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 nonexchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

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

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets.

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Governmental Funds, (Continued)

Revenues, expenses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 which requires that local governments defer grant revenue that is not received within the "availability period". In the past, the industry practice for grants was to recognize revenue in the fiscal year in which the related expense was incurred. Therefore 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 noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *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 and Fiduciary Funds

The City's enterprise funds and internal service funds are proprietary funds. In the fund financial statements, the 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 are presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or noncurrent) 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.

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Proprietary and Fiduciary Funds, (Continued)

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the 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 subsidies, taxes, and investment earnings result from nonexchange transactions or ancillary activities. Amounts paid to acquire capital assets are capitalized as assets in the enterprise fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the enterprise fund financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the enterprise fund are reported as a reduction of the related liability, rather than as an expenditure. Agency funds are custodial in nature (assets equal liabilities) and do not involve the recording of City revenues and expenses.

(c) Fund Classifications

The City of Laguna Beach reports the following major governmental funds:

General Fund – This is the primary operating fund of the City. It accounts for all activities of the general government, except those required to be accounted for in another fund.

Bluebird Landslide Fund – This special revenue fund is used to account for the costs incurred for emergency repairs and permanent restoration of Bluebird Canyon related to a landslide that occurred in June of 2005. Funding sources for this fund are from the Federal Emergency Management Agency, the California Office of Emergency Services, and the City's General Fund.

Sewer Service Fund – This special revenue fund is used to account for sewer services provided to the residents in the northern portion of the City. An annual assessment is placed on each affected property owner's tax bill in an amount equal to the estimated cost for sewer service and administration. The City contracts with a joint powers authority for treatment of the sewage.

General Obligation Bonds Fund – This debt service fund is used to account for the resources and payment of general obligation bond principal and interest from a general obligation ad valorem tax levy.

Capital Projects Fund – This fund is used to account for assessment district utility undergrounding projects which are funded by property owners.

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(c) Fund Classifications, (Continued)

The City of Laguna Beach reports the following major enterprise fund:

Municipal Transit Fund – This fund is used to account for the operations of the City's transit system. All activities necessary to provide such service are accounted for in this fund, including, but not limited to, administration, operations and maintenance.

The City's fund structure also includes the following fund types:

Internal Service Funds – The Internal Service Funds are used to account for the City's cost of providing employee benefits and various forms of insurance provided to the City departments, and the cost of maintaining and replacing the City's vehicles.

Agency Funds – Various fiduciary funds are used to account for assets held by the City as an agent for bondholders, property owners, contractors, developers and other individuals who have made miscellaneous deposits to the City.

(d) Encumbrances

The City utilizes an encumbrance system as a management control technique to assist in controlling expenditures. Under this system, encumbrances of the general, special revenue and capital projects funds - representing purchase orders, contracts and other commitments - are reported as reservations of fund balances at year-end. These reservations of fund balances do not constitute expenditures or liabilities and are reappropriated in the subsequent year.

(e) Cash and Investments

All cash and investments other than that held by fiscal agents are either held in savings accounts or in a City-wide investment pool. Accordingly, all cash and investments in the proprietary fund types are considered cash and cash equivalents.

Investments are reported in the accompanying balance sheet at fair value, except for nonparticipating 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.

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(e) Cash and Investments, (Continued)

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 and losses realized upon the liquidation, maturity, or sale of investments.

(f) Advances to Other Funds

Long-term interfund advances are recorded as a receivable and as reserved fund balance by the advancing governmental fund.

(g) Inventory

Inventories are valued at cost, and are consumed using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

(h) Investments with Fiscal Agent

Certain proceeds from the issuance of debt, as well as certain resources set aside for the payment of debt, are classified as restricted assets on the balance sheet because their use is limited by applicable debt agreements. Certain agency fund resources are also restricted for improvement districts.

(i) Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$1,000 are capitalized if they have an expected useful life of three years or more.

Capital assets include public domain (infrastructure) general capital assets consisting of certain improvements other than buildings, including storm drains, beach stairways, streets, sidewalks, sewer line relinings, sewer lines and nuisance water diversification units. The City has recorded in its Statement of Net Assets only those infrastructure additions made since July 1, 2002. No later than June 30, 2007, the City will record infrastructure assets acquired between July 1, 1980 and June 30, 2002.

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(i) Capital Assets, (Continued)

Capital assets used in operations are depreciated over their estimated useful lives. The City uses the straight-line method in the government-wide financial statements for depreciating storm drains, beach stairways, streets, sidewalks, sewer line relinings, sewer lines, nuisance water diversification units, buildings and improvements, office equipment and machines, furniture and fixtures, equipment, machinery and tools, and automotive equipment. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. The range of lives used for depreciation purposes for each fixed asset class are as follows:

	<u>Years</u>
Storm drains	40 years
Beach stairways	30 years
Streets	50 years
Sidewalks	50 years
Sewer line relining	40 years
Sewer lines	50 years
Nuisance water diversification units	30 years
Buildings and improvements	30 years
Office equipment and machines	5 years
Furniture and fixtures	3 to 8 years
Equipment, machinery and tools	3 to 8 years
Automotive equipment	2 to 30 years

(j) Compensated Absences

Accumulated unpaid vacation and sick leave amounts are currently funded and recorded as expenditures in the individual funds. These amounts are recorded as employee benefit charges and are accrued when incurred in the Insurance and Employee Benefits Internal Service Fund.

(k) Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or are legally restricted by outside parties for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(l) Comparative Data

Comparative total data for the prior year has been presented in the accompanying basic financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data has not been presented in each of the statements since its inclusion would make the statements unduly complex and difficult to understand. Certain minor reclassifications of prior year data have been made in order to enhance its comparability with current year figures.

(2) Cash and Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$42,446,541
Investments with fiscal agent	40
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	4,886,925
Investments with fiscal agent	<u>1,423,624</u>
Total cash and investments	<u>\$48,757,130</u>

Cash and investments as of June 30, 2006 consist of the following:

Cash on hand (petty cash and change funds)	\$ 45,620
Deposits with financial institutions	623,298
Investments	<u>48,088,212</u>
Total cash and investments	<u>\$48,757,130</u>

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

Investments Authorized by the California Government Code and the City's Investment Policy, (Continued)

of the City, rather than the general provisions of the California Government Code or the City's investment policy.

<u>Investment Types Authorized by State Law</u>	<u>Authorized by Investment Policy</u>	<u>Maximum Maturity*</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment In One Issuer*</u>
Local City Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
Federal Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	25%	None
Repurchase Agreements	No	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	25%	None
Mutual Funds	Yes	N/A	15%	10%
Money Market Mutual Funds	No	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
Passbook savings accounts	Yes	N/A	25%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The debt agreements permit the investments held by bond trustee to be invested in investment types that are permitted by California Government Code Section 53601 as illustrated in the previous table.

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

<u>Investment Type</u>		<u>Remaining Maturing (in Months)</u>		
		<u>18 Months Or Less</u>	<u>19 to 24 Months</u>	<u>43 to 60 Months</u>
Federal agency securities	\$34,994,325	9,997,400	19,998,800	4,998,125
Medium term notes	990,690	990,690	-	-
State investment pool	10,679,534	10,679,534	-	-
Held by bond trustee:				
Money market funds	<u>1,423,663</u>	<u>1,423,663</u>	<u>-</u>	<u>-</u>
Total	<u>\$48,088,212</u>	<u>23,091,287</u>	<u>19,998,800</u>	<u>4,998,125</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
Federal agency securities	\$34,994,325	N/A	34,994,325	-	-
Medium term notes	990,690	A	-	990,690	-
State investment pool	10,679,534	N/A	-	-	10,679,534
Held by bond trustee:					
Money market funds	<u>1,423,663</u>	A	<u>-</u>	<u>1,423,663</u>	<u>-</u>
Total	<u>\$48,088,212</u>		<u>34,994,325</u>	<u>2,414,353</u>	<u>10,679,534</u>

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Farm Credit Bank	Federal agency securities	\$ 8,000,000
Federal Home Loan Bank	Federal agency securities	21,998,125
Federal Home Loan Mortgage Corporation	Federal agency securities	4,996,200

Custodial Credit Risk

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 its 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 (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

Investment in State Investment Pool

The City is a voluntary participant in the Local City Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

(3) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. The County bills and collects the property taxes and remits them to the City in installments during the year. City property tax revenues are recognized when levied to the extent that they result in current receivables.

The County is permitted by State law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax value base no more than 2% per year. The City receives a share of this basic levy proportionate to what it received in the 1976 to 1978 period.

(4) Due From/Due To Other Funds

Interfund balances at June 30, 2006 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Bluebird Landslide Fund	<u>\$13,011,278</u>

The interfund balance reflected above represents short-term borrowings of cash pending receipt of grant reimbursements.

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(5) Advances To/Advances From Other Funds

Interfund advances at June 30, 2006 consisted of the following:

<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>	<u>Amount</u>
Internal Service Funds	General Fund	<u>\$ 97,568</u>

Interfund advances consist of money loaned by the Insurance and Employee Benefits Fund to the General Fund to finance the project of relocating the corporate yard and the 450 Glenneyre affordable housing project. No interest is recorded or payable.

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(6) Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>
Governmental activities:				
Capital assets, not depreciated:				
Land	\$ 77,690,920	622,817	-	78,313,737
Construction in progress	<u>4,847,307</u>	<u>3,725,828</u>	<u>(3,847,181)</u>	<u>4,725,954</u>
Total capital assets, not depreciated	<u>82,538,227</u>	<u>4,348,645</u>	<u>(3,847,181)</u>	<u>83,039,691</u>
Capital assets, being depreciated:				
Buildings and improvements	16,729,408	1,556,465	(41,677)	18,244,196
Office equipment and machinery	4,799,372	301,151	(4,426)	5,096,097
Furniture and fixtures	818,913	82,700	-	901,613
Equipment, machinery and tools	2,307,415	80,245	-	2,387,660
Sewer plant and lines	37,239,514	3,160,897	-	40,400,411
Automotive equipment	5,686,641	324,616	(114,137)	5,897,120
Infrastructure	<u>2,969,823</u>	<u>6,454,900</u>	<u>-</u>	<u>9,424,723</u>
Total capital assets, being depreciated	<u>70,551,086</u>	<u>11,960,974</u>	<u>(160,240)</u>	<u>82,351,820</u>
Less accumulated depreciation for:				
Buildings and improvements	(10,529,242)	(669,390)	41,677	(11,156,955)
Office equipment and machinery	(1,954,568)	(365,504)	4,426	(2,315,645)
Furniture and fixtures	(210,280)	(24,369)	-	(234,649)
Equipment, machinery and tools	(1,176,929)	(148,528)	-	(1,325,457)
Sewer plant and lines	(19,028,327)	(534,454)	-	(19,562,781)
Automotive equipment	(3,110,777)	(427,287)	90,855	(3,447,210)
Infrastructure	<u>(61,497)</u>	<u>(68,092)</u>	<u>-</u>	<u>(129,589)</u>
Total accumulated depreciation	<u>(36,071,620)</u>	<u>(2,237,624)</u>	<u>136,958</u>	<u>(38,172,286)</u>

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements

(Continued)

(6) Capital Assets, (Continued)

	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>
Total capital assets being depreciated, net	<u>34,479,466</u>	<u>9,723,350</u>	<u>(23,282)</u>	<u>44,179,534</u>
Governmental activities capital assets, net	<u>\$117,017,693</u>	<u>14,071,995</u>	<u>(3,870,463)</u>	<u>127,219,225</u>
Business-type activities:				
Capital assets, not depreciated:				
Land	\$ <u>196,106</u>	<u>-</u>	<u>-</u>	<u>196,106</u>
Total capital assets, not depreciated	<u>196,106</u>	<u>-</u>	<u>-</u>	<u>196,106</u>
Capital assets, being depreciated:				
Buildings and improvements	64,672	-	-	64,672
Office equipment and machinery	114,006	-	-	114,006
Furniture and fixtures	1,500	-	-	1,500
Equipment, machinery and tools	29,369	-	-	29,369
Automotive equipment	<u>2,369,025</u>	<u>457,362</u>	<u>(230,976)</u>	<u>2,595,411</u>
Total capital assets, being depreciated	<u>2,578,572</u>	<u>457,362</u>	<u>(230,976)</u>	<u>2,804,958</u>
Less accumulated depreciation for:				
Buildings and improvements	(61,358)	(304)	-	(61,662)
Office equipment and machinery	(85,038)	(7,028)	-	(92,066)
Furniture and fixtures	(1,435)	-	-	(1,435)
Equipment, machinery and tools	(29,369)	-	-	(29,369)
Automotive equipment	<u>(1,098,540)</u>	<u>(228,400)</u>	<u>230,976</u>	<u>(1,095,964)</u>
Total accumulated depreciation	<u>(1,275,740)</u>	<u>(235,732)</u>	<u>230,976</u>	<u>(1,280,496)</u>
Total capital assets being depreciated, net	<u>1,302,832</u>	<u>221,630</u>	<u>-</u>	<u>1,524,462</u>
Business-type capital assets, net	<u>\$1,498,938</u>	<u>221,630</u>	<u>-</u>	<u>1,720,568</u>

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(6) Capital Assets, (Continued)

Depreciation expense was charged to the following functions of governmental activities in the Statement of Activities:

General government	\$ 246,500
Community development	29,972
Public safety	478,926
Public works	831,003
Recreation and social services	11,338
Sewer service operating costs	<u>639,885</u>
	<u>\$2,237,624</u>

Depreciation expense was charged to the following function of business-type activities as follows:

Municipal Transit	<u>\$235,732</u>
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Capital Projects

As of June 30, 2006, budgeted funds committed for major capital projects included the following:

	<u>Project Budget</u>	<u>Expenditures To Date</u>	<u>Unexpended Balance</u>
Community/Senior Center Construction	\$8,781,010	702,029	8,078,981
Park Avenue Sidewalk Construction	621,156	415,520	205,636
S. Laguna Sidewalk Construction	620,000	-	620,000
Heisler Park Preservation and Restoration	503,215	438,522	64,693
Corporation Yard Relocation	10,190,000	666,837	9,523,163
Canyon Acres Storm Drain	3,283,000	459,037	2,823,963
450 Glenneyre Low/Moderate Income Housing	1,571,163	1,379,000	192,163
North Laguna Hillcrest/West of North Pacific Coast Highway Resurfacing	1,299,380	1,299,371	9
Alta Vista/Terry/Temple Hills Resurfacing	1,286,426	1,042,602	243,824
Temple Hills Resurfacing	606,750	574,358	32,392
Mystic/Atlantic Storm Drain	642,000	639,322	2,678
Downtown Undergrounding/ Lighting Conversion	1,950,000	1,941,466	8,534
Downtown Street Rehabilitation	567,639	557,378	10,261
Citywide Sewer Reconstruction	3,800,000	3,780,475	19,525
Upper Bluebird Canyon Road	1,602,000	1,331,613	270,387

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(6) Capital Assets, (Continued)

	<u>Project Budget</u>	<u>Expenditures To Date</u>	<u>Unexpended Balance</u>
Lifeguard Headquarters and Restroom	\$ 1,829,888	63,851	1,766,037
Mountain/Nyes Street Rehabilitation	1,000,000	69,790	930,210
West of PCH, Cleo/Nyes Street Rehabilitation	500,000	11,733	488,267
250 Manholes Rehabilitation	600,000	-	600,000
High Drive/Virginia Way/Ocean Vista Drive Utility Undergrounding	1,145,788	1,001,677	144,111
Arch Beach Heights Utility Undergrounding	3,230,110	2,685,921	544,189
Terry/Alexander/Rounseval/Ashton/ Hinkle/Mystic Hill Utility Undergrounding	3,186,798	3,269,921	-
Citywide Mainlining 5.5 miles	1,742,093	2,089	1,740,004
Shaw's Cove Reconstruction	1,400,000	2,444	1,397,556
Nyes Pl Steel Pipe Rehabilitation	1,015,996	1,561	1,014,435
Ocean Vista Drive Utility Undergrounding	1,669,710	961,216	708,494
Loma Terrace Utility Undergrounding	468,230	5,006	463,224
Dyer Place/Wyckoff Way 95-3	<u>430,102</u>	<u>288,530</u>	<u>141,572</u>
Total	<u>\$55,542,454</u>	<u>23,591,267</u>	<u>31,951,185</u>

(7) Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

The City retains the risk of loss for general/auto liability claims of up to \$400,000 per occurrence and workers' compensation claims of up to \$300,000 per person per occurrence. Additionally, the City has retained risk of loss for employee dental insurance claims. The City is fully insured for medical claims. The City has established the Insurance and Employee Benefits Internal Service Fund to account for and finance these uninsured risks of loss, and liabilities are accrued when incurred, whether or not reported, in this fund. An estimate for incurred but not reported claims for dental coverage has not been accrued because management believes the liability for incurred but not recorded claims would be immaterial to the financial statements.

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(7) Risk Management, (Continued)

The City is also a member of the California Insurance Pool Authority (CIPA), a public entity risk pool consisting of 10 member cities in Southern California, which was established to pool resources, share risks, purchase excess insurance, and share costs for professional risk management and claims administration. The coverage for general and auto liability extends to \$1,600,000 per occurrence with a \$20,000,000 annual aggregate. The coverage for workers' compensation extends to a limit of \$3,000,000. Member cities make payments to CIPA based on underwriting estimates and may be assessed the difference between funds available and the \$20,000,000 annual aggregate in proportion to their annual premium.

All funds of the City participate in the risk management program and make payments to the Insurance and Employee Benefits Internal Service Fund based on estimates of the amounts needed to pay prior-year and current-year claims. The claims liability of \$4,781,132 reported in the Insurance and Employee Benefits Internal Service Fund, at June 30, 2006, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and amount of the loss can be reasonably estimated. Changes in the Insurance and Employee Benefits Internal Service Fund's claims liability amounts in fiscal years 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Beginning of year liability	\$3,785,367	3,319,416
Current year claims and changes in estimates	2,533,644	1,961,656
Claims payments	<u>(1,537,879)</u>	<u>(1,495,705)</u>
Insurance claims payable	<u>\$4,781,132</u>	<u>3,785,367</u>

For the past three fiscal years, claims paid did not significantly exceed the amount of applicable insurance coverage.

(8) Improvement Districts

Bonds issued for improvement districts are liabilities of the property owners and are secured by liens against the assessed property. The City is not liable for repayment, but is only acting as an agent to expend the project funds on behalf of the property owners and to collect principal and interest payments from property owners and remit such monies to the bondholders. During the fiscal year ended June 30, 2006, contributions from property owners were \$1,980,879. At June 30, 2006, the unpaid principal assessments in the 1915 Bond Improvement Districts were \$14,200,951.

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(9) Deferred Compensation Plan, (Continued)

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Recently approved federal legislation requires that the Section 457 plan assets be held in trust for employees. This change, which was implemented in the 1999 fiscal year, means that employee assets held in Section 457 plans are no longer the property of the City and are no longer subject to claims of the City's general creditors.

The City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. At June 30, 2006, the deferred compensation assets are held in a trust account and are not reflected on the City's balance sheet.

(10) Operating Lease

The City rents a community center under an operating lease. Total expenditures under this lease were \$29,781 for the year ended June 30, 2006. The minimum future rental payments under this lease are as follows:

Year ending June 30:

2007	\$ 25,509
2008	25,509
2009	25,509
2010	<u>25,509</u>
	<u>\$102,036</u>

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(11) Long-Term Liabilities

The following is a summary of the changes in the principal balance of long-term liabilities for the year ended June 30, 2006:

	Balance at <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2006</u>	Due within <u>one year</u>	Due beyond <u>one year</u>
Governmental activities:						
General obligation bonds	\$9,615,000	-	(1,210,000)	8,405,000	1,255,000	7,150,000
Enterprise fund installment sale agreement	69,357	1,632,928	-	1,702,285	-	1,702,285
Capitalized lease obligations	1,925,000	-	(520,000)	1,405,000	540,000	865,000
Compensated absences	2,377,156	1,456,644	(1,233,834)	2,599,966	1,500,344	1,099,622
Insurance claims payable	<u>3,785,367</u>	<u>2,533,644</u>	<u>(1,537,879)</u>	<u>4,781,132</u>	<u>1,434,340</u>	<u>3,346,792</u>
Total general long-term liabilities	<u>\$17,771,880</u>	<u>5,623,216</u>	<u>(4,501,713)</u>	<u>18,893,383</u>	<u>4,729,684</u>	<u>14,163,699</u>

General Obligation Bonds

On May 22, 2001, the City issued \$12,870,000 in General Obligation Bonds to refund its 1990 General Obligation Bonds. The principal is due annually on August 15 in amounts ranging from \$970,000 to \$1,565,000, commencing in 2002 and ending in 2011. Interest is payable semiannually on February 15 and August 15 of each year commencing February 15, 2002, at rates ranging from 4% to 5%. As of June 30, 2006, the outstanding balance is \$8,405,000.

The annual requirements to amortize all general obligation bonds outstanding are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$1,255,000	359,056	1,614,056
2008	1,310,000	307,756	1,617,756
2009	1,360,000	250,106	1,610,106
2010	1,425,000	185,703	1,610,703
2011	1,490,000	115,500	1,605,500
2012	<u>1,565,000</u>	<u>39,125</u>	<u>1,604,125</u>
Total	<u>\$8,405,000</u>	<u>1,257,246</u>	<u>9,662,246</u>

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(11) Long-Term Liabilities, (Continued)

Enterprise Fund Installment Sale Agreement

On June 1, 2004, the City entered into an Enterprise Fund Installment Sale Agreement with the California Infrastructure and Economic Development Bank (CIEDB). The agreement was amended on August 1, 2005 to increase the maximum loan amount to \$7,000,000, which will be used for the City's Sewer Line Reconstruction, Line and Manhole Rehabilitation Project. The loan is secured by revenues generated by the Sewer Service Special Revenue Fund and bears interest at a rate of 2.73% per annum. As of June 30, 2006, \$1,702,285 of the \$7,000,000 loan proceeds have been disbursed under the loan agreement, and accordingly interest is due semiannually on February 1 and August 1 commencing on August 1, 2005. As stated in the agreement, the undisbursed funds of \$5,297,715 will be invested by the CIEDB, and the City will be credited for actual interest earnings on any undisbursed funds up to 2.73%.

Capitalized Lease Obligations

Payable under a Revised Public Facilities Lease and a Revised Coastal Treatment Plant Facilities Lease with the South Orange County Wastewater Authority (SOCWA) (formerly Aliso Viejo Water Management Agency) for the purchase of the City's share of plant capacities. The leases require annual payments ranging from \$576,510 to \$609,600 including interest. The payments will continue until 2008, or until the bonds supported with the lease revenue become fully paid and retired. As of June 30, 2006, the outstanding balance is \$1,405,000.

The annual requirements to amortize all capitalized lease obligations outstanding are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2007	\$ 540,000	65,540	605,540
2008	575,000	45,130	620,130
2009	<u>290,000</u>	<u>23,100</u>	<u>313,100</u>
Total	<u>\$1,405,000</u>	<u>133,770</u>	<u>1,538,770</u>

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(12) Fund Balances (Deficit)

Reserved fund balances and fund balances (deficit) available for new appropriations at June 30, 2006 were as follows:

	General*	Bluebird Landslide	Sewer Service	Debt Service	Capital Projects	Nonmajor Governmental Funds	Totals
Reserved for:							
Inventory	\$ 36,120	-	-	-	-	-	36,120
Prepays	454,881	-	-	-	-	-	454,881
Notes receivable	348,000	-	-	-	-	-	348,000
Encumbrances	9,972,961	1,245,174	1,167,486	-	-	56,336	12,441,957
Solid waste	105,237	-	-	-	-	-	105,237
Property held for investment	-	-	-	-	-	354,444	354,444
Debt service	-	-	-	2,074,147	-	-	2,074,147
Subtotal	<u>10,917,199</u>	<u>1,245,174</u>	<u>1,167,486</u>	<u>2,074,147</u>	<u>-</u>	<u>410,780</u>	<u>15,814,786</u>
Unreserved:							
Designated:							
Contingencies	389,761	-	-	-	-	-	389,761
Reappropriations for continuing projects	10,222,459	-	1,113,956	-	2,009,558	1,801,675	15,147,648
Undesignated	<u>8,766,994</u>	<u>(8,394,353)</u>	<u>661,068</u>	<u>-</u>	<u>671,896</u>	<u>2,060,963</u>	<u>3,766,568</u>
Total	<u>\$30,296,413</u>	<u>(7,149,179)</u>	<u>2,942,510</u>	<u>2,074,147</u>	<u>2,681,454</u>	<u>4,273,418</u>	<u>35,118,763</u>

* Includes General, Open Space, Capital Improvement, Parking Authority, Parking In-Lieu, Park In-Lieu, Art In-Lieu, Drainage and Housing In-Lieu Funds.

Reserves for inventory, prepaids, notes receivables, solid waste, and property held for investment are established to show that certain assets are already committed to other purposes and are not available for discretionary expenditures.

Reserves for encumbrances represent commitments related to unperformed contracts for services and undelivered goods.

Reserves for debt service represent resources legally restricted to the payment of long-term debt principal and interest maturing in future years.

Unreserved-undesignated represents the fund balance remaining after reduction for reserved and designated fund balances.

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(13) Interfund Transfers

Interfund transfers at June 30, 2006 consisted of the following:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$1,062,000
General Fund	Internal Services Funds	550,000
General Fund	Bluebird Landslide Fund	366,040
General Fund	Municipal Transit Enterprise Fund	<u>49,000</u>
	Sub-total	<u>2,027,040</u>
Nonmajor Governmental Funds	Nonmajor Governmental Funds	400,000
Nonmajor Governmental Funds	General Fund	<u>278,000</u>
	Sub-total	<u>678,000</u>
Bluebird Landslide Fund	General Fund	200,000
Internal Service Funds	General Fund	123,206
Municipal Transit Fund	General Fund	<u>222,386</u>
	Total	<u>\$3,250,632</u>

Transfers are used to: (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) reimburse funds for expenditures incurred, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

(14) Sewage Treatment Facilities

In March 1972, the City, five water districts and one sanitation district entered into a joint exercise of powers agreement which created the South Orange County Wastewater Authority (SOCWA), a public corporation. SOCWA was formed to develop a total water management program for its members' consolidated service areas. Specifically, SOCWA is to provide for construction, maintenance and operation of a regional wastewater transmission, treatment and disposal system. This system consists of an interceptor system, pumping stations, wastewater treatment plants and an ocean outfall.

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(14) Sewage Treatment Facilities, (Continued)

The governing board is comprised of one member from each participating agency and is responsible for the selection of management and for the budgeting and financial management of the Agency. As of June 30, 2006, SOCWA had total assets of \$49,030,485, total liabilities of \$2,781,805, and total equity of \$46,248,680.

The City's share of ownership varies depending upon the purchased capacities of each subsystem. The City's overall share is approximately 20% and is recorded in the general fixed assets of the City. Each member is responsible for its share of maintenance and operations costs proportional to its purchased capacity which is billed to each member by SOCWA. Sewer service charges are assessed to fund these and other operating costs. The City's share of costs to operate the sewage treatment facilities for fiscal year 2006 was \$1,237,280. A separate financial report may be obtained from the South Orange County Wastewater Authority office.

(15) Pension Plan (Defined Benefit)

Plan Description

The City's cost-sharing multiple-employer defined benefit pension plan, State of California Public Employees' Retirement System (PERS), provides retirement benefits, disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS is a multiple-employer plan, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement law. The City selects optional benefit provisions from the benefit menu and adopts those benefits through local ordinance. PERS issues a separate comprehensive annual financial report. Copies of the PERS' annual financial report may be obtained from their City executive office - 400 P Street - Sacramento, California 95814.

Funding Policy

Active plan members in PERS are required to contribute 7% (9% for safety employees) of their annual covered salary. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rates for the year ended June 30, 2006 were 15.612% for safety employees and 10.705% for miscellaneous employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS.

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(15) Pension Plan (Defined Benefit), (Continued)

Annual Pension Cost

For fiscal year 2006, the City's annual pension cost of \$2,021,163 for safety and \$863,603 for miscellaneous employees to PERS was equal to the required and actual contributions. The required contribution for fiscal year 2006 was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected annual salary increases that vary by duration of service ranging from 3.25% to 13.15%, and (c) 3.25% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of PERS assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period depending on the size of investment gains and/or losses. PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period as of June 30, 2003 for miscellaneous and safety employees is through June 30, 2032 and June 30, 2016, respectively.

Three-Year Trend Information for PERS (Safety)

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$274,620	100%	0
6/30/05	1,071,435	100%	0
6/30/06	2,021,163	100%	0

Three-Year Trend Information for PERS (Miscellaneous)

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$0	100%	0
6/30/05	399,606	100%	0
6/30/06	863,603	100%	0

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(15) Pension Plan (Defined Benefit), (Continued)

Required Supplementary Information

Funded Status of Plan (Safety)

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess) Assets	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
6/30/02	\$44,577,006	44,883,014	(306,008)	100.7%	6,631,521	(4.6%)
6/30/03	47,270,404	45,413,891	1,856,513	96.1%	7,087,520	26.2%
6/30/04*	996,203,370	885,549,650	110,653,720	88.9%	149,407,703	74.1%

Funded Status of Plan (Miscellaneous)

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability/ (Excess) Assets	Funded Status	Annual Covered Payroll	UAAL As a % of Payroll
6/30/02	\$28,824,803	33,202,989	(4,378,186)	115.2%	7,529,254	(58.1%)
6/30/03	33,825,495	33,292,460	533,035	98.4%	8,319,398	6.4%
6/30/04	36,997,561	35,420,791	1,576,770	95.7%	8,370,059	18.8%

* Agencies with less than 100 members have been placed in a pool with other agencies that have similar benefit provisions. With the implementation of risk pooling, individual stand-alone valuations are no longer prepared. Instead, the plan's financial results are pooled with the plans of other agencies. The data shown beginning with the June 30, 2004 valuation date represents data for the pool, rather than the individual City.

(16) Pension Plan (Defined Contribution)

The City provides pension benefits for all of its part-time employees through an agent multiple employer defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are required to participate from the date of employment. The City requires the employee to contribute 3.75% of the 7.5% required by the Federal Government. The City's contribution for each employee and interest allocated to the employee's account are fully vested immediately.

The City's total payroll in fiscal year 2006 was \$20,907,894 and covered payroll was \$1,825,514. Both the City and covered employees made the required 3.75% contributions amounting to \$68,457 from each source, or \$136,914 in total. Vested funds can be withdrawn upon termination or retirement from the City.

CITY OF LAGUNA BEACH
Notes to Basic Financial Statements
(Continued)

(17) Post-Employment Health Care Benefits

Effective July 1, 1987, the City began providing for the continuation of health and dental insurance for retired employees. The retired employee is responsible for 100% of the current premium; the City has no requirement to contribute. Potentially all full time employees may become eligible for this benefit if they reach normal retirement and retire from the City with three years of service. Currently, 29 of the eligible retirees have elected to continue health and/or dental insurance.

(18) Fund Deficits

The following fund reported a deficit in fund balance as of June 30, 2006:

	<u>Deficit Balance</u>
Special Revenue Funds:	
Miscellaneous Grants	\$ (17,927)
Bluebird Landslide	(7,149,179)

These deficits will be remedied as grants are billed and received.

(19) Transportation Development Act

In accordance with the requirement of the Transportation Development Act, the following information is presented:

TDA 50% Limitation:

Total Operating Costs	\$1,664,811
50% Limitation (Line 1 x 50%)	832,406

TDA Financial Need Limitation:

Total Operating Costs		\$1,664,811
Depreciation Current	\$(235,732)	
OCTA Operating Assistance	(165,000)	
Passenger Revenues	(202,581)	
Taxi Voucher Program	(2,900)	
Park and Ride	(119,534)	<u>(725,747)</u>
Financial Need		<u>\$939,064</u>
Lesser of "Financial Need" or "50% Limitation"		<u>\$832,406</u>

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(20) Significant Operating Lease for Which the City is Lessor

For the period of October 1, 2001 through September 30, 2041, the City of Laguna Beach has leased to the Festival of Arts of Laguna Beach (an unrelated non-profit organization) parcels of land and related structures associated with the operation of certain community events relating to the arts. At all times throughout the term of this operating lease and at the termination of the lease, title to these assets remains with the City of Laguna Beach. The rental payment to be received by the City will be an amount equal to 3.5% of certain gross revenues relating to the use of the property without limitation (no maximum rental payment). In addition, the Festival of Arts of Laguna Beach will pay 6% of the gross revenues described above, which the City will deposit into a capital improvement fund. The money in the capital improvement fund is to be used solely for capital improvements to the premises being rented and debt associated with such improvements, and insurance premiums. All rentals are considered to be contingent upon the amount of gross revenues and the lease does not provide for minimum rental payments to be made to the City. The carrying amount of the land involved in this lease is \$405,040. The carrying amount of the structures and improvements being leased is \$1,022,667. These assets are recorded in the capital assets of the City of Laguna Beach. The land was originally donated to the City under the condition that if it is used for other than park and/or arts-related purposes, then title to the land would revert to the donor. Rental income associated with this lease has been recognized in the accompanying financial statements in the amount of \$213,118.

(21) Housing Program to Enhance Emergency Response

In order to enhance the ability of key personnel to respond to emergency situations within the community, the City is providing assistance for those employees to reside in close proximity to their response area. The accompanying financial statements reflect the City's investment in four such properties in the amount of \$1,632,253 and a loan to one of these respective employees in the amount of \$303,500. As of June 30, 2006, the outstanding balance of this loan was \$242,821.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAGUNA BEACH
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual
 Year Ended June 30, 2006
 (With Comparative Totals For Year Ended June 30, 2005)

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with	<u>2005 Actual</u>
	<u>Original</u>	<u>Final</u>		Final Budget Positive/ (Negative)	
Revenues:					
Taxes:					
Property taxes	\$ 17,561,000	17,911,000	18,816,898	905,898	16,817,056
Sales and use taxes	4,291,000	4,291,000	4,542,213	251,213	4,353,664
Transient lodging taxes	3,800,000	7,890,787	7,900,582	9,795	7,251,883
Franchise taxes	1,513,000	1,513,000	1,702,725	189,725	968,084
Business license taxes	720,000	720,000	777,976	57,976	766,222
Real property transfer taxes	500,000	500,000	650,361	150,361	628,794
Total taxes	<u>28,385,000</u>	<u>32,825,787</u>	<u>34,390,755</u>	<u>1,564,968</u>	<u>30,785,703</u>
Licenses and permits:					
Construction permits	903,000	918,000	1,170,760	252,760	1,051,968
Other	77,000	77,000	93,602	16,602	137,563
Total licenses and permits	<u>980,000</u>	<u>995,000</u>	<u>1,264,362</u>	<u>269,362</u>	<u>1,189,531</u>
Fines and penalties					
Vehicle codes	260,000	260,000	357,692	97,692	336,229
Other	1,016,000	1,016,000	1,202,167	186,167	1,097,057
Total fines and penalties	<u>1,276,000</u>	<u>1,276,000</u>	<u>1,559,859</u>	<u>283,859</u>	<u>1,433,286</u>
Investment income	<u>875,000</u>	<u>875,000</u>	<u>966,015</u>	<u>91,015</u>	<u>748,395</u>
Rental income	<u>427,000</u>	<u>427,000</u>	<u>448,309</u>	<u>21,309</u>	<u>450,735</u>
Intergovernmental	<u>2,419,557</u>	<u>3,398,062</u>	<u>1,329,931</u>	<u>(2,068,131)</u>	<u>1,314,413</u>
Charges for services:					
Planning fees	910,000	910,000	1,302,728	392,728	1,255,895
Building department fees	274,000	274,000	273,634	(366)	302,138
Refuse service charges	1,666,000	1,666,000	1,627,518	(38,482)	1,619,845
Medical fees	50,000	50,000	50,588	588	62,171
Parks and recreation fees	1,120,000	1,120,000	1,164,001	44,001	1,076,427
Parking fees	155,000	155,000	175,668	20,668	165,724
Other	1,702,000	1,894,000	1,873,726	(20,274)	1,708,221
Total charges for services	<u>5,877,000</u>	<u>6,069,000</u>	<u>6,467,863</u>	<u>398,863</u>	<u>6,190,421</u>
Parking meters, lots and permits	<u>2,696,000</u>	<u>2,696,000</u>	<u>3,225,562</u>	<u>529,562</u>	<u>3,862,436</u>
Development tax:					
Building construction tax	300,000	300,000	296,126	(3,874)	234,514
Other	-	-	90,020	90,020	122,341
Total development tax	<u>300,000</u>	<u>300,000</u>	<u>386,146</u>	<u>86,146</u>	<u>356,855</u>

CITY OF LAGUNA BEACH
 General Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual
 (Continued)

	<u>Budgeted Amounts</u>			Variance with Final Budget	2005 Actual
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Positive/ (Negative)	
Other:					
Reimbursed expenditures	301,000	399,021	413,951	14,930	305,137
Other	20,000	20,000	48,469	28,469	94,053
Total other	<u>321,000</u>	<u>419,021</u>	<u>462,420</u>	<u>43,399</u>	<u>399,190</u>
Total revenues	<u>43,556,557</u>	<u>49,280,870</u>	<u>50,501,222</u>	<u>1,220,352</u>	<u>46,730,965</u>
Expenditures:					
General government:					
City council	57,500	57,500	50,493	7,007	48,716
City manager	595,930	617,530	600,641	16,889	561,211
City clerk	263,030	340,530	315,048	25,482	291,209
City treasurer	110,530	110,530	107,372	3,158	95,998
City attorney	450,000	422,000	391,248	30,752	309,374
Administrative services	2,068,560	2,408,318	2,294,176	114,142	2,874,565
Total general government	<u>3,545,550</u>	<u>3,956,408</u>	<u>3,758,978</u>	<u>197,430</u>	<u>4,181,073</u>
Community development	<u>2,683,800</u>	<u>2,828,942</u>	<u>2,703,135</u>	<u>125,807</u>	<u>2,416,040</u>
Public safety:					
Police protection	9,970,400	10,212,703	9,704,300	508,403	9,312,320
Fire protection	7,259,200	7,328,120	7,142,711	185,409	6,844,313
Marine safety	1,697,600	1,733,216	1,674,528	58,688	1,696,211
Parking enforcement	726,200	726,200	705,336	20,864	633,137
Total public safety	<u>19,653,400</u>	<u>20,000,239</u>	<u>19,226,875</u>	<u>773,364</u>	<u>18,485,981</u>
Public works	<u>9,082,300</u>	<u>9,391,807</u>	<u>8,892,309</u>	<u>499,498</u>	<u>8,393,834</u>
Recreation and social services	<u>3,229,100</u>	<u>3,907,756</u>	<u>3,471,671</u>	<u>436,085</u>	<u>3,218,953</u>
Capital expenditures	<u>5,336,157</u>	<u>31,571,355</u>	<u>4,639,419</u>	<u>26,931,936</u>	<u>2,053,135</u>
Total expenditures	<u>43,530,307</u>	<u>71,656,507</u>	<u>42,692,387</u>	<u>28,964,120</u>	<u>38,749,016</u>
Excess of revenues over (under) expenditures	<u>26,250</u>	<u>(22,375,637)</u>	<u>7,808,835</u>	<u>30,184,472</u>	<u>7,981,949</u>
Other financing sources (uses):					
Transfers in	9,821,396	9,821,396	2,027,040	(7,794,356)	1,008,042
Transfers out	(8,899,001)	(8,899,001)	(823,592)	8,075,409	(2,573,648)
Issuance of loan	-	192,163	-	(192,163)	-
Sale of land and equipment	5,000	5,324,000	4,344	(5,319,656)	6,923
Total other financing sources (uses)	<u>927,395</u>	<u>6,438,558</u>	<u>1,207,792</u>	<u>(5,230,766)</u>	<u>(1,558,683)</u>
Net change in fund balances	953,645	(15,937,079)	9,016,627	24,953,706	6,423,266
Fund balances, beginning of year	<u>21,279,786</u>	<u>21,279,786</u>	<u>21,279,786</u>	<u>-</u>	<u>14,856,520</u>
Fund balances, end of year	<u>\$ 22,233,431</u>	<u>5,342,707</u>	<u>30,296,413</u>	<u>24,953,706</u>	<u>21,279,786</u>

CITY OF LAGUNA BEACH
Major Special Revenue Fund
Bluebird Landslide Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive/ (Negative)
Revenues:				
Intergovernmental	\$ -	18,163,250	6,972,070	(11,191,180)
Total revenues	<u>-</u>	<u>18,163,250</u>	<u>6,972,070</u>	<u>(11,191,180)</u>
Expenditures:				
Capital expenditures	-	18,363,250	13,955,209	4,408,041
Total expenditures	<u>-</u>	<u>18,363,250</u>	<u>13,955,209</u>	<u>4,408,041</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>(200,000)</u>	<u>(6,983,139)</u>	<u>(6,783,139)</u>
Other financing sources (uses):				
Transfers in	-	200,000	200,000	-
Transfers out	<u>-</u>	<u>(300,000)</u>	<u>(366,040)</u>	<u>(66,040)</u>
Total other financing sources (uses)	<u>-</u>	<u>(100,000)</u>	<u>(166,040)</u>	<u>(66,040)</u>
Net change in fund balances	<u>-</u>	<u>(300,000)</u>	<u>(7,149,179)</u>	<u>(6,849,179)</u>
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances (deficit), end of year	<u>\$ -</u>	<u>(300,000)</u>	<u>(7,149,179)</u>	<u>(6,849,179)</u>

CITY OF LAGUNA BEACH
Major Special Revenue Fund
Sewer Services Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2006
(With Comparative Totals For Year Ended June 30, 2005)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>	<u>2005</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>	
				<u>Positive/ (Negative)</u>	
Revenues:					
Intergovernmental	\$ -	1,100,852	1,344	(1,099,508)	79,987
Charges for services	5,190,000	5,190,000	5,098,633	(91,367)	5,091,638
Other	70,000	70,000	223,553	153,553	17,083
Total revenues	<u>5,260,000</u>	<u>6,360,852</u>	<u>5,323,530</u>	<u>(1,037,322)</u>	<u>5,188,708</u>
Expenditures:					
Current:					
Sewer service operating costs	3,025,400	3,042,879	2,928,237	114,642	3,389,582
Capital expenditures	5,156,800	11,046,994	2,543,886	8,503,108	1,398,417
Debt service:					
Principal	610,000	610,000	520,000	90,000	495,000
Interest and fiscal charges	355,000	355,000	58,885	296,115	86,168
Total expenditures	<u>9,147,200</u>	<u>15,054,873</u>	<u>6,051,008</u>	<u>9,003,865</u>	<u>5,369,167</u>
Excess of revenues over (under) expenditures	<u>(3,887,200)</u>	<u>(8,694,021)</u>	<u>(727,478)</u>	<u>7,966,543</u>	<u>(180,459)</u>
Other financing sources (uses):					
Proceeds of loan	<u>3,000,000</u>	<u>6,930,643</u>	<u>1,632,928</u>	<u>(5,297,715)</u>	<u>69,357</u>
Total other financing sources (uses)	<u>3,000,000</u>	<u>6,930,643</u>	<u>1,632,928</u>	<u>(5,297,715)</u>	<u>69,357</u>
Net change in fund balances	(887,200)	(1,763,378)	905,450	2,668,828	(111,102)
Fund balances, beginning of year	<u>2,037,060</u>	<u>2,037,060</u>	<u>2,037,060</u>	-	<u>2,148,162</u>
Fund balances (deficit), end of year	<u>\$ 1,149,860</u>	<u>273,682</u>	<u>2,942,510</u>	<u>2,668,828</u>	<u>2,037,060</u>

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CITY OF LAGUNA BEACH

Note to Required Supplementary Information

Year Ended June 30, 2006

(1) Budgetary Policy and Control

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end, except for encumbered amounts and capital expenditures which are reappropriated in the next year's budget until such time as the project is completed or terminated.

The City is required by ordinance to adopt an annual budget on or before June 30 for the ensuing fiscal year. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by motion during the fiscal year. The City Manager may transfer funds from one object or purpose to another within the same department, excluding capital outlay. Actual expenditures may not exceed budgeted appropriations at the department level within the General Fund and at the fund level for special revenue, debt service, and capital projects funds; therefore, the legal level of budgetary control is at the department level.

Budget information is presented for the general and certain special revenue fund types. Budgeted revenue amounts represent the original budget modified by Council-authorized adjustments during the year which were contingent upon new or additional revenue sources. Budgeted expenditures amount represent original appropriations adjusted for supplemental appropriations during the year. Supplemental appropriations include carryover appropriations from the prior year. Supplemental budgetary appropriations of \$28,126,200 were made in the General Fund and \$29,462,943 was made in the special revenue, capital projects, and debt service funds during the year.

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SUPPLEMENTARY SCHEDULES

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GENERAL FUND

The General Fund is used to account for financial resources applicable to the general government operations of the City of Laguna Beach, which are not required to be accounted for in another fund. This includes some operations that are budgeted as separate operating funds.

CITY OF LAGUNA BEACH
General Fund
Consolidating Balance Sheet by Sub-Fund
June 30, 2006
(With Comparative Totals for June 30, 2005)

<u>Assets</u>	General	Open Space	Capital Improvement	Parking Authority
Cash and investments	\$ 8,372,986	673,705	6,175,480	1,476,854
Receivables:				
Taxes	942,139	-	-	-
Accounts	120,217	-	42,671	48,223
Interest	155,158	-	-	-
Intergovernmental	30,123	-	545,305	-
Notes	-	-	-	-
Other	2,037	-	-	-
Due from other funds	-	-	13,011,278	-
Prepays	29,881	-	425,000	-
Inventory	36,120	-	-	-
	<u>\$ 9,688,661</u>	<u>673,705</u>	<u>20,199,734</u>	<u>1,525,077</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 562,396	-	622,050	60,772
Retentions payable	-	-	35,215	-
Due to other government agencies	-	-	65,276	-
Deferred revenue	52,735	-	712,655	330,032
Advances from other funds	-	-	-	-
	<u>615,131</u>	<u>-</u>	<u>1,435,196</u>	<u>390,804</u>
Fund balances:				
Reserved for:				
Inventory	36,120	-	-	-
Prepays	29,881	-	425,000	-
Notes receivable	-	-	-	-
Encumbrances	134,000	-	9,838,961	-
Solid waste	105,237	-	-	-
Unreserved:				
Designated for:				
Contingencies	389,761	-	-	-
Reappropriations for continuing projects	1,404,118	650,000	7,755,404	394,531
Undesignated	6,974,413	23,705	745,173	739,742
	<u>9,073,530</u>	<u>673,705</u>	<u>18,764,538</u>	<u>1,134,273</u>
Total liabilities and fund balances	<u>\$ 9,688,661</u>	<u>673,705</u>	<u>20,199,734</u>	<u>1,525,077</u>

Parking In-Lieu	Park In-Lieu	Art In-Lieu	Drainage	Housing In-Lieu	Totals	
					2006	2005
22,694	130,630	161,867	82,104	2,640	17,098,960	21,572,101
-	-	-	-	-	942,139	1,005,246
-	-	-	-	-	211,111	120,155
-	-	-	-	-	155,158	296,588
-	-	-	-	-	575,428	975,971
-	-	-	-	348,000	348,000	348,000
-	-	-	-	-	2,037	-
-	-	-	-	-	13,011,278	685,450
-	-	-	-	-	454,881	-
-	-	-	-	-	36,120	20,714
<u>22,694</u>	<u>130,630</u>	<u>161,867</u>	<u>82,104</u>	<u>350,640</u>	<u>32,835,112</u>	<u>25,024,225</u>
-	-	-	-	-	1,245,218	1,364,591
-	-	-	-	-	35,215	19,852
-	-	-	-	-	65,276	65,276
-	-	-	-	-	1,095,422	897,152
-	-	-	-	97,568	97,568	1,397,568
-	-	-	-	97,568	2,538,699	3,744,439
-	-	-	-	-	36,120	20,714
-	-	-	-	-	454,881	-
-	-	-	-	348,000	348,000	348,000
-	-	-	-	-	9,972,961	1,497,844
-	-	-	-	-	105,237	98,519
-	-	-	-	-	389,761	250,000
-	-	-	18,406	-	10,222,459	12,596,643
<u>22,694</u>	<u>130,630</u>	<u>161,867</u>	<u>63,698</u>	<u>(94,928)</u>	<u>8,766,994</u>	<u>6,468,066</u>
<u>22,694</u>	<u>130,630</u>	<u>161,867</u>	<u>82,104</u>	<u>253,072</u>	<u>30,296,413</u>	<u>21,279,786</u>
<u>22,694</u>	<u>130,630</u>	<u>161,867</u>	<u>82,104</u>	<u>350,640</u>	<u>32,835,112</u>	<u>25,024,225</u>

CITY OF LAGUNA BEACH
General Fund
Consolidating Statement of Revenues, Expenditures and Changes in Fund Balances by Sub-Fund
Year Ended June 30, 2006
(With Comparative Totals For Year Ended June 30, 2005)

	General	Open Space	Capital Improvement	Parking Authority	Parking In-Lieu
Revenues:					
Taxes	\$ 33,740,394	-	650,361	-	-
Licenses and permits	1,264,362	-	-	-	-
Fines and penalties	16,822	-	1,543,037	-	-
Investment income	952,890	-	-	-	575
Rental	448,309	-	-	-	-
Intergovernmental	503,034	-	826,897	-	-
Charges for services	6,465,133	-	2,730	-	-
Parking meters, lots and permits	-	-	-	3,225,562	-
Development tax	-	-	296,126	-	8,000
Other	427,807	-	376	33,237	-
Total revenues	43,818,751	-	3,319,527	3,258,799	8,575
Expenditures:					
Current:					
General government	3,758,978	-	-	-	-
Community development	2,703,135	-	-	-	-
Public safety	18,521,539	-	-	705,336	-
Public works	8,140,209	-	-	752,100	-
Recreation and social services	3,471,671	-	-	-	-
Capital expenditures	321,087	624,882	3,661,540	1,910	-
Total expenditures	36,916,619	624,882	3,661,540	1,459,346	-
Excess (deficiency) of revenues over (under) expenditures	6,902,132	(624,882)	(342,013)	1,799,453	8,575
Other financing sources (uses):					
Transfers in	2,122,040	255,000	8,016,351	-	-
Transfers out	(7,462,232)	-	(278,000)	(1,099,711)	-
Sale of land and equipment	4,344	-	-	-	-
Total other financing sources (uses)	(5,335,848)	255,000	7,738,351	(1,099,711)	-
Net change in fund balances	1,566,284	(369,882)	7,396,338	699,742	8,575
Fund balances, beginning of year	7,507,246	1,043,587	11,368,200	434,531	14,119
Fund balances, end of year	<u>\$ 9,073,530</u>	<u>673,705</u>	<u>18,764,538</u>	<u>1,134,273</u>	<u>22,694</u>

Park In-Lieu	Art In-Lieu	Drainage	Housing In-Lieu	Eliminations (1)	Totals	
					2006	2005
-	-	-	-	-	34,390,755	30,785,703
-	-	-	-	-	1,264,362	1,189,531
-	-	-	-	-	1,559,859	1,433,286
4,910	2,422	5,151	67	-	966,015	748,395
-	-	-	-	-	448,309	450,735
-	-	-	-	-	1,329,931	1,314,413
-	-	-	-	-	6,467,863	6,190,421
-	-	-	-	-	3,225,562	3,862,436
18,877	-	63,143	-	-	386,146	356,855
-	-	-	1,000	-	462,420	399,190
<u>23,787</u>	<u>2,422</u>	<u>68,294</u>	<u>1,067</u>	-	<u>50,501,222</u>	<u>46,730,965</u>
-	-	-	-	-	3,758,978	4,181,073
-	-	-	-	-	2,703,135	2,416,040
-	-	-	-	-	19,226,875	18,485,981
-	-	-	-	-	8,892,309	8,393,834
-	-	-	-	-	3,471,671	3,218,953
-	30,000	-	-	-	4,639,419	2,053,135
-	30,000	-	-	-	42,692,387	38,749,016
<u>23,787</u>	<u>(27,578)</u>	<u>68,294</u>	<u>1,067</u>	-	<u>7,808,835</u>	<u>7,981,949</u>
-	-	-	-	(8,366,351)	2,027,040	1,008,042
-	-	(350,000)	-	8,366,351	(823,592)	(2,573,648)
-	-	-	-	-	4,344	6,923
-	-	(350,000)	-	-	1,207,792	(1,558,683)
23,787	(27,578)	(281,706)	1,067	-	9,016,627	6,423,266
<u>106,843</u>	<u>189,445</u>	<u>363,810</u>	<u>252,005</u>	-	<u>21,279,786</u>	<u>14,856,520</u>
<u>130,630</u>	<u>161,867</u>	<u>82,104</u>	<u>253,072</u>	-	<u>30,296,413</u>	<u>21,279,786</u>

(1) Transfers within the group of funds that are consolidated together to form the general fund for purposes of the combined financial statements have been eliminated on this schedule.

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NONMAJOR SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues (other than expendable trusts and major capital projects) and the related expenditures which are legally required to be accounted for in a separate fund.

The City of Laguna Beach has the following non-major Special Revenue Funds:

Gas Tax Fund

This fund is used to account for the gasoline tax revenues and Measure M sales taxes which are used for maintenance and improvements of City streets.

Street Lighting District Fund

This fund is used to account for revenue and expenditures associated with maintenance and use of the City's street lighting system.

Miscellaneous Grants Fund

This fund is used to account for grant programs such as the Community Development Block Grant, police grants such as Citizens Option for Public Safety and water quality grants.

Asset Forfeiture Fund

This fund is used to account for money received under federal and state programs distributing property confiscated from illegal activities.

Disaster Grants Fund

This fund is used to account for costs incurred for damage from flooding during December 1997 and February 1998. Funding sources for this fund are from the Federal Emergency Management Agency, the California Office of Emergency Services, and the City's General Fund.

DEBT SERVICE FUND

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest.

The City of Laguna Beach has the following major Debt Service Fund:

GENERAL OBLIGATION BONDS – This fund is used to account for the resources and payment of general obligation bond principal and interest from a general obligation ad valorem tax levy.

CAPITAL PROJECTS FUND

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

The City of Laguna Beach has the following major Capital Projects Fund:

CAPITAL PROJECTS – This fund is used to account for assessment district utility undergrounding projects which are funded by property owners.

CITY OF LAGUNA BEACH
 Nonmajor Special Revenue Funds
 Combining Balance Sheet
 June 30, 2006
 (With Comparative Totals for June 30, 2005)

	<u>Gas Tax</u>	<u>Street Lighting District</u>	<u>Miscellaneous Grants</u>
<u>Assets</u>			
Cash and investments	\$ 1,916,122	1,224,463	3,730
Receivables:			
Taxes	-	18,550	-
Intergovernmental	385,050	-	12,669
Advances from other funds	-	-	-
Property held for investment	-	354,444	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 2,301,172</u>	<u>1,597,457</u>	<u>16,399</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 14,822	12,784	11,454
Retentions payable	73,902	-	-
Due to other funds	-	-	-
Deferred revenue	49,101	-	22,872
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>137,825</u>	<u>12,784</u>	<u>34,326</u>
Fund balances (deficit):			
Reserved:			
Encumbrances	56,336	-	-
Advances to other funds	-	-	-
Property held for investment	-	354,444	-
Unreserved:			
Designated for reappropriations for continuing projects	1,632,881	168,794	-
Undesignated	474,130	1,061,435	(17,927)
	<u> </u>	<u> </u>	<u> </u>
Total fund balances (deficit)	<u>2,163,347</u>	<u>1,584,673</u>	<u>(17,927)</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and and fund balances	<u>\$ 2,301,172</u>	<u>1,597,457</u>	<u>16,399</u>

Asset Forfeiture	Disaster Grants	Totals	
		2006	2005
54,195	489,130	3,687,640	1,053,729
-	-	18,550	18,874
-	-	397,719	13,210
-	-	-	750,000
-	-	354,444	354,444
<u>54,195</u>	<u>489,130</u>	<u>4,458,353</u>	<u>2,190,257</u>
-	-	39,060	34,568
-	-	73,902	-
-	-	-	11,733
-	-	71,973	37,433
-	-	184,935	83,734
-	-	56,336	-
-	-	-	750,000
-	-	354,444	354,444
-	-	1,801,675	75,786
<u>54,195</u>	<u>489,130</u>	<u>2,060,963</u>	<u>926,293</u>
<u>54,195</u>	<u>489,130</u>	<u>4,273,418</u>	<u>2,106,523</u>
<u>54,195</u>	<u>489,130</u>	<u>4,458,353</u>	<u>2,190,257</u>

CITY OF LAGUNA BEACH
 Nonmajor Special Revenue Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended June 30, 2006
 (With Comparative Totals For Year Ended June 30, 2005)

	<u>Gas Tax</u>	<u>Street Lighting District</u>	<u>Miscellaneous Grants</u>
Revenues:			
Taxes	\$ 375,882	862,911	-
Fines and penalties	-	-	-
Investment income	111,932	-	-
Intergovernmental	1,507,185	-	171,317
Other	<u>-</u>	<u>6,479</u>	<u>2,000</u>
Total revenues	<u>1,994,999</u>	<u>869,390</u>	<u>173,317</u>
Expenditures:			
Current:			
Public safety	-	-	40,892
Public works	-	196,694	-
Recreation and social services	-	-	14,396
Capital expenditures	<u>1,384,281</u>	<u>114,582</u>	<u>-</u>
Total expenditures	<u>1,384,281</u>	<u>311,276</u>	<u>55,288</u>
Excess (deficiency) of revenues over (under) expenditures	<u>610,718</u>	<u>558,114</u>	<u>118,029</u>
Other financing sources (uses):			
Transfers in	678,000	-	-
Transfers out	<u>(756,000)</u>	<u>(406,000)</u>	<u>(100,000)</u>
Total other financing sources (uses)	<u>(78,000)</u>	<u>(406,000)</u>	<u>(100,000)</u>
Net change in fund balances	532,718	152,114	18,029
Fund balances (deficit), beginning of year	<u>1,630,629</u>	<u>1,432,559</u>	<u>(35,956)</u>
Fund balances (deficit), end of year	<u>\$ 2,163,347</u>	<u>1,584,673</u>	<u>(17,927)</u>

Asset Forfeiture	Disaster Grants	Totals	
		2006	2005
-	-	1,238,793	814,133
38,500	-	38,500	96,433
2,314	-	114,246	6,133
-	-	1,678,502	239,317
-	-	8,479	16,450
<u>40,814</u>	<u>-</u>	<u>3,078,520</u>	<u>1,172,466</u>
-	-	40,892	156,011
-	-	196,694	190,429
-	-	14,396	11,699
<u>7,409</u>	<u>-</u>	<u>1,506,272</u>	<u>847,640</u>
<u>7,409</u>	<u>-</u>	<u>1,758,254</u>	<u>1,205,779</u>
<u>33,405</u>	<u>-</u>	<u>1,320,266</u>	<u>(33,313)</u>
-	-	678,000	-
<u>(200,000)</u>	<u>-</u>	<u>(1,462,000)</u>	<u>(192,042)</u>
<u>(200,000)</u>	<u>-</u>	<u>(784,000)</u>	<u>(192,042)</u>
(166,595)	-	536,266	(225,355)
<u>220,790</u>	<u>489,130</u>	<u>3,737,152</u>	<u>2,331,878</u>
<u>54,195</u>	<u>489,130</u>	<u>4,273,418</u>	<u>2,106,523</u>

CITY OF LAGUNA BEACH
Special Revenue Fund
Gas Tax Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2006
(With Comparative Totals For Year Ended June 30, 2005)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>	<u>2005</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>	
				<u>Positive/ (Negative)</u>	
Revenues:					
Taxes	\$ 330,000	410,000	375,882	(34,118)	310,761
Investment income	20,000	20,000	111,932	91,932	52,549
Intergovernmental	455,000	559,000	1,507,185	948,185	1,280,933
Total revenues	<u>805,000</u>	<u>989,000</u>	<u>1,994,999</u>	<u>1,005,999</u>	<u>1,644,243</u>
Expenditures:					
Capital expenditures	1,600,000	3,349,386	1,384,281	1,965,105	785,133
Total expenditures	<u>1,600,000</u>	<u>3,349,386</u>	<u>1,384,281</u>	<u>1,965,105</u>	<u>785,133</u>
Excess of revenues over (under) expenditures	<u>(795,000)</u>	<u>(2,360,386)</u>	<u>610,718</u>	<u>2,971,104</u>	<u>859,110</u>
Other financing sources (uses):					
Transfers in	681,300	681,300	678,000	(3,300)	549,000
Transfers out	-	-	(756,000)	(756,000)	(816,000)
Total other financing sources (uses)	<u>681,300</u>	<u>681,300</u>	<u>(78,000)</u>	<u>(759,300)</u>	<u>(267,000)</u>
Net change in fund balances	(113,700)	(1,679,086)	532,718	2,211,804	592,110
Fund balances, beginning of year	<u>1,630,629</u>	<u>1,630,629</u>	<u>1,630,629</u>	-	<u>1,038,519</u>
Fund balances (deficit), end of year	<u>\$ 1,516,929</u>	<u>(48,457)</u>	<u>2,163,347</u>	<u>2,211,804</u>	<u>1,630,629</u>

CITY OF LAGUNA BEACH
Special Revenue Fund
Street Lighting District Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2006
(With Comparative Totals For Year Ended June 30, 2005)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>	<u>2005</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>	
				<u>Positive/ (Negative)</u>	
Revenues:					
Taxes	\$ 787,000	787,000	862,911	75,911	814,133
Other	6,000	6,000	6,479	479	14,781
Total revenues	<u>793,000</u>	<u>793,000</u>	<u>869,390</u>	<u>76,390</u>	<u>828,914</u>
Expenditures:					
Current:					
Public works	222,900	222,900	196,694	26,206	190,429
Capital expenditures	<u>150,000</u>	<u>283,377</u>	<u>114,582</u>	<u>168,795</u>	<u>777,178</u>
Total expenditures	<u>372,900</u>	<u>506,277</u>	<u>311,276</u>	<u>195,001</u>	<u>967,607</u>
Excess of revenues over (under) expenditures	<u>420,100</u>	<u>286,723</u>	<u>558,114</u>	<u>271,391</u>	<u>(138,693)</u>
Other financing sources (uses):					
Transfers out	<u>(406,000)</u>	<u>(406,000)</u>	<u>(406,000)</u>	<u>-</u>	<u>(92,000)</u>
Total other financing sources (uses)	<u>(406,000)</u>	<u>(406,000)</u>	<u>(406,000)</u>	<u>-</u>	<u>(92,000)</u>
Net change in fund balances	14,100	(119,277)	152,114	271,391	(230,693)
Fund balances, beginning of year	<u>1,432,559</u>	<u>1,432,559</u>	<u>1,432,559</u>	<u>-</u>	<u>1,663,252</u>
Fund balances, end of year	<u>\$ 1,446,659</u>	<u>1,313,282</u>	<u>1,584,673</u>	<u>271,391</u>	<u>1,432,559</u>

CITY OF LAGUNA BEACH
Special Revenue Funds
Miscellaneous Grants Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2006
(With Comparative Totals For Year Ended June 30, 2005)

	<u>Budgeted Amounts</u>			Variance with Final Budget	2005 Actual
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive/ (Negative)</u>	
Revenues:					
Intergovernmental	\$ 110,000	181,240	171,317	(9,923)	239,317
Other	-	2,000	2,000	-	1,669
Total revenues	<u>110,000</u>	<u>183,240</u>	<u>173,317</u>	<u>(9,923)</u>	<u>240,986</u>
Expenditures:					
Current:					
Public safety	-	71,239	40,892	30,347	156,011
Recreation and social services	<u>10,000</u>	<u>14,691</u>	<u>14,396</u>	<u>295</u>	<u>11,699</u>
Total expenditures	<u>10,000</u>	<u>85,930</u>	<u>55,288</u>	<u>30,642</u>	<u>167,710</u>
Excess of revenues over (under) expenditures	<u>100,000</u>	<u>97,310</u>	<u>118,029</u>	<u>20,719</u>	<u>73,276</u>
Other financing sources (uses):					
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>	<u>(100,042)</u>
Total other financing sources (uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>	<u>(100,042)</u>
Net change in fund balances	-	(2,690)	18,029	20,719	(26,766)
Fund balances (deficit), beginning of year	<u>(35,956)</u>	<u>(35,956)</u>	<u>(35,956)</u>	<u>-</u>	<u>(9,190)</u>
Fund balances (deficit), end of year	<u>\$ (35,956)</u>	<u>(38,646)</u>	<u>(17,927)</u>	<u>20,719</u>	<u>(35,956)</u>

CITY OF LAGUNA BEACH

Special Revenue Funds

Asset Forfeiture Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual

Year Ended June 30, 2006

(With Comparative Totals For Year Ended June 30, 2005)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>	<u>2005</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>	
				<u>Positive/ (Negative)</u>	
Revenues:					
Fines and penalties	\$ -	-	38,500	38,500	96,433
Investment income	-	-	2,314	2,314	6,133
Total revenues	-	-	40,814	40,814	102,566
Expenditures:					
Capital expenditures	-	7,409	7,409	-	70,462
Total expenditures	-	7,409	7,409	-	70,462
Excess of revenues over (under) expenditures	-	(7,409)	33,405	40,814	32,104
Other financing sources (uses):					
Transfers out	(200,000)	(200,000)	(200,000)	-	-
Total other financing sources (uses)	(200,000)	(200,000)	(200,000)	-	-
Net change in fund balances	(200,000)	(207,409)	(166,595)	40,814	32,104
Fund balances, beginning of year	220,790	220,790	220,790	-	188,686
Fund balances, end of year	20,790	13,381	54,195	40,814	220,790

CITY OF LAGUNA BEACH
Debt Service Funds
General Obligation Bonds
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
Year Ended June 30, 2006
(With Comparative Totals For Year Ended June 30, 2005)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>	<u>2005</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>	
				<u>Positive/ (Negative)</u>	
Revenues:					
Taxes	\$ 1,676,000	1,676,000	1,619,814	(56,186)	1,721,433
Investment income	20,000	20,000	51,769	31,769	39,263
Intergovernmental	10,000	10,000	8,129	(1,871)	9,472
Total revenues	<u>1,706,000</u>	<u>1,706,000</u>	<u>1,679,712</u>	<u>(26,288)</u>	<u>1,770,168</u>
Expenditures:					
Principal	1,210,000	1,210,000	1,210,000	-	1,165,000
Interest and fiscal charges	413,400	413,400	409,628	3,772	457,128
Total expenditures	<u>1,623,400</u>	<u>1,623,400</u>	<u>1,619,628</u>	<u>3,772</u>	<u>1,622,128</u>
Excess of revenues over (under) expenditures	82,600	82,600	60,084	(22,516)	148,040
Fund balances, beginning of year	<u>2,014,063</u>	<u>2,014,063</u>	<u>2,014,063</u>	-	<u>1,866,023</u>
Fund balances, end of year	<u>\$ 2,096,663</u>	<u>2,096,663</u>	<u>2,074,147</u>	<u>(22,516)</u>	<u>2,014,063</u>

CITY OF LAGUNA BEACH
 Capital Projects Fund
 Capital Projects
 Schedule of Revenues, Expenditures and Changes in Fund Balances -
 Budget and Actual
 Year Ended June 30, 2006
 (With Comparative Totals For Year Ended June 30, 2005)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>	<u>2005</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>	
				<u>Positive/ (Negative)</u>	
Revenues:					
Investment income	\$ -	-	145,378	145,378	86,232
Contribution from property owners	-	-	-	-	578,739
Other	-	252,059	111,662	(140,397)	114,763
Total revenues	-	252,059	257,040	4,981	779,734
Expenditures:					
Capital expenditures	-	3,225,918	1,227,116	1,998,802	1,781,210
Total expenditures	-	3,225,918	1,227,116	1,998,802	1,781,210
Excess of revenues over (under) expenditures	-	(2,973,859)	(970,076)	2,003,783	(1,001,476)
Other financing sources (uses):					
Proceeds of bond	-	517,412	524,543	7,131	1,627,140
Total other financing sources (uses)	-	517,412	524,543	7,131	1,627,140
Net change in fund balances	-	(2,456,447)	(445,533)	2,010,914	625,664
Fund balances, beginning of year	3,126,987	3,126,987	3,126,987	-	2,501,323
Fund balances, end of year	<u>\$ 3,126,987</u>	<u>670,540</u>	<u>2,681,454</u>	<u>2,010,914</u>	<u>3,126,987</u>

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INTERNAL SERVICE FUNDS

Insurance and Employee Benefits Fund

This fund is used to account for the cost of providing employee benefits and various forms of insurance (general liability, workers' compensation, and all other forms of employee group insurance) provided to the various City departments.

Vehicle Replacement Fund

This fund was created to acquire vehicles and other significant equipment for rental to the operating departments.

CITY OF LAGUNA BEACH
Internal Service Funds
Combining Statement of Net Assets
June 30, 2006
(With Comparative Totals For June 30, 2005)

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2006	2005
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 11,071,661	2,308,421	13,380,082	11,469,459
Receivables:				
Accounts	-	1,665	1,665	-
Prepays	179,568	-	179,568	171,297
Total current assets	11,251,229	2,310,086	13,561,315	11,640,756
Noncurrent assets:				
Advances to other funds	97,568	-	97,568	647,568
Notes receivable	-	242,821	242,821	254,602
Property held for investment	956,153	321,656	1,277,809	723,309
Capital assets, not being depreciated	-	289,309	289,309	-
Capital assets, net of depreciation	-	2,401,666	2,401,666	2,527,618
Total noncurrent assets	1,053,721	3,255,452	4,309,173	4,153,097
Total assets	12,304,950	5,565,538	17,870,488	15,793,853
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	34,183	-	34,183	35,942
Compensated absences due within one year	1,500,344	-	1,500,344	679,859
Insurance claims payable due within one year	1,434,340	-	1,434,340	1,135,610
Total current liabilities	2,968,867	-	2,968,867	1,851,411
Non-current liabilities:				
Compensated absences	1,099,622	-	1,099,622	1,697,297
Insurance claims payable	3,346,792	-	3,346,792	2,649,757
Total non-current liabilities	4,446,414	-	4,446,414	4,347,054
Total liabilities	7,415,281	-	7,415,281	6,198,465
<u>Net Assets</u>				
Net assets:				
Invested in capital assets	-	2,690,975	2,690,975	2,527,618
Unrestricted	4,889,669	2,874,563	7,764,232	7,067,770
Total net assets	\$ 4,889,669	5,565,538	10,455,207	9,595,388

CITY OF LAGUNA BEACH
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2006
(With Comparative Totals For Year Ended June 30, 2005)

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2006	2005
Operating revenues:				
Vehicle rentals	\$ -	916,200	916,200	852,900
Employee benefits charges	600,200	-	600,200	556,000
Insurance charges	5,736,774	-	5,736,774	5,451,472
Total operating revenues	6,336,974	916,200	7,253,174	6,860,372
Operating expenses:				
Employee benefits	723,334	-	723,334	664,193
Insurance claims and premiums	4,947,148	-	4,947,148	4,663,159
Depreciation	-	287,266	287,266	559,806
Total operating expenses	5,670,482	287,266	5,957,748	5,887,158
Operating income (loss)	666,492	628,934	1,295,426	973,214
Nonoperating revenues (expenses):				
Investment income	-	12,449	12,449	13,023
Gain (loss) on disposal of capital assets	-	(21,262)	(21,262)	18,118
Total nonoperating revenues (expenses)	-	(8,813)	(8,813)	31,141
Income (loss) before transfers	666,492	620,121	1,286,613	1,004,355
Transfers:				
Transfers in	123,206	-	123,206	1,804,548
Transfers out	(550,000)	-	(550,000)	-
Total capital transfers	(426,794)	-	(426,794)	1,804,548
Change in net assets	239,698	620,121	859,819	2,808,903
Net assets at beginning of year	4,649,971	4,945,417	9,595,388	6,786,485
Net assets at end of year	\$ 4,889,669	5,565,538	10,455,207	9,595,388

CITY OF LAGUNA BEACH
Internal Service Funds
Combining Statement of Cash Flows
Year ended June 30, 2006
(With Comparative Totals For Year Ended June 30, 2005)

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2006	2005
Cash flows from operating activities:				
Cash received from user departments	\$ 6,336,974	1,077,837	7,414,811	6,871,269
Cash payments to suppliers for goods and services	(3,957,990)	(35,940)	(3,993,930)	(4,418,288)
Cash payments to employees for services	(500,524)	-	(500,524)	(487,663)
Net cash provided by (used for) operating activities	<u>1,878,460</u>	<u>1,041,897</u>	<u>2,920,357</u>	<u>1,965,318</u>
Cash flows from noncapital financing activities:				
Cash received from other funds	123,206	-	123,206	1,815,755
Loan principal received	-	11,781	11,781	-
Net cash provided by (used for) noncapital financing activities	<u>123,206</u>	<u>11,781</u>	<u>134,987</u>	<u>1,815,755</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	(613,925)	(613,925)	(302,707)
Proceeds from sale of capital assets	-	11,255	11,255	68,101
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>(602,670)</u>	<u>(602,670)</u>	<u>(234,606)</u>
Cash flows from investing activities:				
Purchase of property held for investment	(554,500)	-	(554,500)	-
Interest received	-	12,449	12,449	13,023
Net cash provided by (used for) investing activities	<u>(554,500)</u>	<u>12,449</u>	<u>(542,051)</u>	<u>13,023</u>
Net increase (decrease) in cash and cash equivalents	1,447,166	463,457	1,910,623	3,559,490
Cash and cash equivalents at beginning of year	<u>9,624,495</u>	<u>1,844,964</u>	<u>11,469,459</u>	<u>7,909,969</u>
Cash and cash equivalents at end of year	<u>\$ 11,071,661</u>	<u>2,308,421</u>	<u>13,380,082</u>	<u>11,469,459</u>

(Continued)

CITY OF LAGUNA BEACH
Internal Service Funds
Combining Statement of Cash Flows
(Continued)

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2006	2005
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 666,492	628,934	1,295,426	973,214
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	-	287,266	287,266	559,806
Loss on disposal of capital assets	-	(21,262)	(21,262)	-
(Increase) decrease in accounts receivable	-	(1,665)	(1,665)	10,897
(Increase) decrease in prepaids	(8,271)	-	(8,271)	(171,297)
(Increase) decrease in other assets	-	152,047	152,047	(57,690)
Increase (decrease) in accounts payable and accrued liabilities	1,664	(3,423)	(1,759)	7,907
Increase (decrease) in compensated absences payable	222,810	-	222,810	176,530
Increase (decrease) in insurance claims payable	995,765	-	995,765	465,951
Net cash provided by (used for) operating activities	<u>\$ 1,878,460</u>	<u>1,041,897</u>	<u>2,920,357</u>	<u>1,965,318</u>
Supplemental schedule of noncash capital, financing, and investing activities:				
Forgiven loan made to General Fund	<u>\$ 550,000</u>	<u>-</u>	<u>550,000</u>	<u>-</u>

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AGENCY FUNDS

1911 Act Bonds Fund

The City Treasurer of the City of Laguna Beach acts as the agent for the bondholders. The City Treasurer receives the monies for assessments and disburses the monies collected to the bondholders.

1915 Act Bonds Fund

This fund was created to account for the debt service and reserves required by the bond indentures related to undergrounding and infrastructure improvements associated with various assessment districts.

Deposits Fund

The purpose of this fund is to account for deposits placed by developers and individuals for performance bonds or safe keeping.

CITY OF LAGUNA BEACH
Agency Funds
Combining Statement of Fiduciary Assets and Liabilities
June 30, 2006
(With Comparative Totals For June 30, 2005)

	<u>1911 Act</u> <u>Bonds</u>	<u>1915 Act</u> <u>Bonds</u>	<u>Deposits</u>	<u>Totals</u>	
				<u>2006</u>	<u>2005</u>
<u>Assets</u>					
Cash and investments	\$ 12,194	2,467,807	2,406,924	4,886,925	4,170,717
Investments with fiscal agent	-	1,423,624	-	1,423,624	1,256,470
Receivables:					
Intergovernmental	<u>-</u>	<u>35,683</u>	<u>15,469</u>	<u>51,152</u>	<u>32,950</u>
 Total assets	 <u>\$ 12,194</u>	 <u>3,927,114</u>	 <u>2,422,393</u>	 <u>6,361,701</u>	 <u>5,460,137</u>
 <u>Liabilities</u>					
Accounts payable and accrued liabilities	\$ -	816	-	816	15,647
Due to other funds	-	-	-	-	27,713
Deposits	-	71,317	2,422,393	2,493,710	2,017,291
Due to bondholders	<u>12,194</u>	<u>3,854,981</u>	<u>-</u>	<u>3,867,175</u>	<u>3,399,486</u>
 Total liabilities	 <u>\$ 12,194</u>	 <u>3,927,114</u>	 <u>2,422,393</u>	 <u>6,361,701</u>	 <u>5,460,137</u>

CITY OF LAGUNA BEACH
Agency Funds
Combining Statement of Changes in Fiduciary Assets and Liabilities
June 30, 2006

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<u>1911 Act Bonds</u>				
<u>Assets</u>				
Cash and Investments	\$ 10,818	12,194	10,818	12,194
<u>Liabilities</u>				
Due to bondholders	\$ 10,818	12,194	10,818	12,194
<u>1915 Act Bonds</u>				
<u>Assets</u>				
Cash and investments	\$ 2,273,555	2,467,807	2,273,555	2,467,807
Investments with fiscal agent	1,256,470	1,423,624	1,256,470	1,423,624
Receivables:				
Intergovernmental	32,950	35,683	32,950	35,683
Total assets	\$ 3,562,975	3,927,114	3,562,975	3,927,114
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 4,659	816	4,659	816
Deposits	169,648	71,317	169,648	71,317
Due to bondholders	3,388,668	3,854,981	3,388,668	3,854,981
Total liabilities	\$ 3,562,975	3,927,114	3,562,975	3,927,114
<u>Deposits</u>				
<u>Assets</u>				
Cash and investments	\$ 1,886,344	2,406,924	1,886,344	2,406,924
Receivables:				
Intergovernmental	-	15,469	-	15,469
Total assets	\$ 1,886,344	2,422,393	1,886,344	2,422,393
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 10,988	-	10,988	-
Due to other funds	27,713	-	27,713	-
Deposits	1,847,643	574,750	-	2,422,393
Total liabilities	\$ 1,886,344	574,750	38,701	2,422,393
TOTALS				
<u>Assets</u>				
Cash and investments	\$ 4,170,717	4,886,925	4,170,717	4,886,925
Investments with fiscal agent	1,256,470	1,423,624	1,256,470	1,423,624
Receivables:				
Accounts	32,950	35,683	32,950	35,683
Intergovernmental	-	15,469	-	15,469
Total assets	\$ 5,460,137	6,361,701	5,460,137	6,361,701
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 15,647	816	15,647	816
Due to other funds	27,713	-	27,713	-
Deposits	2,017,291	646,067	169,648	2,493,710
Due to bondholders	3,399,486	3,867,175	3,399,486	3,867,175
Total liabilities	\$ 5,460,137	4,514,058	3,612,494	6,361,701

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CAPITAL ASSETS USED IN THE
OPERATION OF GOVERNMENTAL FUNDS

CITY OF LAGUNA BEACH
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedules by Source
June 30, 2006

	<u>2006</u>	<u>2005</u>
Governmental funds capital assets:		
Land	\$ 78,313,737	77,690,920
Buildings and improvements	18,244,196	16,729,407
Office equipment and machinery	5,096,097	4,799,372
Furniture and fixtures	901,613	818,913
Equipment, machinery and tools	2,387,660	2,307,415
Sewer plant lines	40,400,411	37,239,514
Automotive equipment	82,369	82,369
Infrastructure	9,424,723	2,969,823
Construction in progress	<u>4,436,645</u>	<u>4,847,307</u>
 Total governmental funds capital assets	 <u>\$ 159,287,451</u>	 <u>147,485,040</u>
 Investments in governmental funds capital assets by source:		
General and special revenue funds and contributions	\$ 136,414,137	124,531,738
Capitalized lease obligations	6,388,800	6,468,788
Grants	<u>16,484,514</u>	<u>16,484,514</u>
 Total governmental funds capital assets	 <u>\$ 159,287,451</u>	 <u>147,485,040</u>

CITY OF LAGUNA BEACH
 Capital Assets Used in the Operation of Governmental Funds
 Schedule of Changes by Function and Activity
 Year Ended June 30, 2006

Function	Governmental Funds Capital Assets June 30, 2005	Additions	Deletions	Governmental Funds Capital Assets June 30, 2006
General government	\$ 23,102,192	631,472	1,185	23,732,479
Community development	363,829	12,403	-	376,232
Public safety	4,219,708	337,471	-	4,557,179
Public works	114,430,846	10,117,649	44,918	124,503,577
Recreation and social services	5,368,465	749,519	-	6,117,984
 Total governmental funds capital assets	 <u>\$ 147,485,040</u>	 <u>11,848,514</u>	 <u>46,103</u>	 <u>159,287,451</u>

CITY OF LAGUNA BEACH
 Capital Assets Used in the Operation of Governmental Funds
 Schedule by Function and Activity
 June 30, 2006

Function	Land	Buildings and Improvements	Office Equipment and Machinery	Furniture and Fixtures
General government	\$ 18,282,767	4,305,606	1,044,946	99,160
Community development	101,653	20,602	205,157	48,820
Public safety	225,990	1,155,010	1,800,806	156,432
Public works	55,455,894	12,666,576	2,001,672	29,171
Recreation and social services	4,247,433	96,402	43,516	568,030
	<u>\$ 78,313,737</u>	<u>18,244,196</u>	<u>5,096,097</u>	<u>901,613</u>

<u>Equipment Machinery and Tools</u>	<u>Sewer plant lines</u>	<u>Automotive Equipment</u>	<u>Infrastructure</u>	<u>Construction in Progress</u>	<u>Total</u>
-	-	-	-	-	23,732,479
-	-	-	-	-	376,232
1,136,572	-	82,369	-	-	4,557,179
1,203,606	40,400,411	-	9,424,723	3,321,524	124,503,577
<u>47,482</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,115,121</u>	<u>6,117,984</u>
<u>2,387,660</u>	<u>40,400,411</u>	<u>82,369</u>	<u>9,424,723</u>	<u>4,436,645</u>	<u>159,287,451</u>

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OTHER INFORMATION

CITY OF LAGUNA BEACH

General Governmental Expenditures by Function (1)

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Government</u>	<u>Community Development</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Recreation and Social Service</u>
1996-1997	\$1,737,641	1,373,762	11,613,915	4,652,335	1,056,908
1997-1998	3,651,963	1,529,090	13,538,054	5,236,092	1,350,995
1998-1999	2,425,793	1,565,064	12,754,523	5,782,362	1,467,391
1999-2000	2,786,505	1,619,139	12,678,430	6,665,065	1,555,733
2000-2001	3,025,853	1,886,975	13,259,333	7,493,647	1,981,202
2001-2002	3,189,601	2,074,057	14,190,600	7,816,538	2,273,824
2002-2003	2,881,158	2,283,465	15,646,840	8,468,281	2,847,479
2003-2004	2,930,520	2,490,925	16,758,061	8,426,182	3,039,009
2004-2005	4,181,073	2,416,040	18,641,992	8,584,263	3,230,652
2005-2006	3,758,978	2,703,135	19,267,767	9,089,003	3,486,067

(1) Includes General, Special Revenue, Debt Service and Capital Projects Funds.

Source: City Finance Department

<u>Sewer Service Operating Costs</u>	<u>Capital Expenditures</u>	<u>Debt Service</u>	<u>Totals</u>
2,103,295	7,458,132	2,796,039	32,792,027
1,927,691	7,077,006	2,784,625	37,095,516
1,831,808	8,685,155	2,641,990	37,154,086
1,804,059	10,333,153	1,934,830	39,376,914
2,312,078	11,170,834	4,441,023	45,570,945
2,715,127	7,028,332	1,012,872	40,300,951
2,785,101	22,180,636	2,038,869	59,131,829
2,848,097	10,216,779	10,279,521	56,989,094
3,389,582	6,865,535	2,203,296	49,512,433
2,928,237	23,871,902	2,198,513	67,303,602

CITY OF LAGUNA BEACH

General Governmental Revenues by Source (1)

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Taxes and Special Assessments</u>	<u>Licenses and Permits</u>	<u>Fines and Penalties</u>	<u>Investment Income</u>	<u>Rental Income</u>
1996-1997	\$16,579,755	472,656	1,106,911	1,121,858	980,492
1997-1998	17,812,257	536,890	1,119,212	1,427,185	890,922
1998-1999	18,705,344	701,265	1,588,383	1,343,639	669,144
1999-2000	20,666,799	703,079	1,376,508	1,650,528	682,597
2000-2001	22,369,752	665,272	1,330,104	2,147,028	827,798
2001-2002	23,218,325	723,384	1,185,993	1,555,356	849,367
2002-2003	24,645,650	882,545	1,171,368	1,120,290	400,928
2003-2004	27,674,519	998,849	1,284,874	960,226	403,376
2004-2005	33,632,030	1,189,531	1,529,719	932,572	450,735
2005-2006	37,249,362	1,264,362	1,598,359	1,277,408	448,309

(1) Includes General, Special Revenue, Debt Service and Capital Projects Funds.

Source: City Finance Department

<u>Intergovernmental</u>	<u>Charges for Services</u>	<u>Parking Meters, Lots and Permits</u>	<u>All Other Revenue</u>	<u>Totals</u>
2,737,730	6,558,543	2,786,154	4,286,401	36,630,500
4,090,501	6,819,830	2,247,407	3,718,702	38,662,906
4,683,428	7,164,311	2,907,804	2,693,942	40,457,260
4,989,943	11,484,204	2,464,671	4,740,071	48,758,400
3,598,132	7,789,183	3,125,781	1,874,381	43,727,431
3,088,456	8,473,752	2,555,889	1,384,417	43,034,939
4,227,651	9,383,066	3,449,024	5,212,685	50,493,207
3,577,569	10,871,092	2,805,707	1,408,184	49,984,396
2,924,122	11,282,059	3,862,436	1,483,080	57,286,284
9,989,976	11,566,496	3,225,562	1,192,260	67,812,094

CITY OF LAGUNA BEACH
Property Tax Levies and Collections
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Total Tax Levy (1)</u>	<u>Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Taxes Receivable</u>
1996-1997	\$ 7,423,780	7,249,351	97.65%	174,429
1997-1998	8,082,658	7,919,881	97.99%	162,777
1998-1999	8,719,787	8,545,931	98.01%	173,856
1999-2000	9,858,834	9,669,463	98.08%	189,371
2000-2001	10,760,392	10,543,374	97.98%	217,018
2001-2002	11,938,774	11,686,447	97.89%	252,327
2002-2003	12,895,845	12,655,796	98.14%	240,049
2003-2004	14,215,094	14,006,384	98.53%	208,710
2004-2005	16,207,471	16,492,734	98.27%	285,263
2005-2006	18,222,850	17,817,435	97.78%	405,415

(1) Property tax levies include ad valorem taxes only.

Source: County of Orange Tax Ledger 2005-2006

CITY OF LAGUNA BEACH
 Assessed and Estimated Actual Value
 of Taxable Property
 Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Assessed Value (in thousands)</u>	<u>Estimated Actual Value (in thousands)</u>
1996-1997	\$3,328,259	3,328,259
1997-1998	3,473,714	3,473,714
1998-1999	3,699,260	3,699,260
1999-2000	4,076,837	4,076,837
2000-2001	4,472,147	4,472,147
2001-2002	4,975,477	4,975,477
2002-2003	5,486,384	5,486,384
2003-2004	6,037,825	6,037,825
2004-2005	6,827,633	6,827,633
2005-2006	7,551,931	7,551,931

Source: County of Orange

CITY OF LAGUNA BEACH

Property Tax Rates (1)

Direct and Overlapping Governments
(Per \$100 Assessed Valuation)

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>City of Laguna Beach</u>	<u>School District</u>	<u>Orange County</u>	<u>County, City and School Levy (2)</u>	<u>South Coast Water District</u>	<u>Metro Water District</u>	<u>Total</u>
1996-1997	0.05322	-	0.00012	1.00000	0.06504	0.00890	1.12728
1997-1998	0.04972	-	0.00900	1.00000	0.05017	0.00890	1.11779
1998-1999	0.04582	-	0.00143	1.00000	0.04506	0.00890	1.10121
1999-2000	0.04176	-	0.00069	1.00000	0.04072	0.00890	1.09207
2000-2001	0.03724	-	-	1.00000	0.02156	0.00880	1.06760
2001-2002	0.03203	0.03763	-	1.00000	0.01932	0.00770	1.09668
2002-2003	0.02905	0.02897	-	1.00000	0.01657	0.00670	1.08129
2003-2004	0.02234	0.02020	-	1.00000	0.01075	0.00580	1.05909
2004-2005	0.01973	0.01897	-	1.00000	0.00980	0.00520	1.05370
2005-2006	0.01789	0.01720	-	1.00000	0.00904	0.00470	1.04883

- (1) Tax rates are for area 05-015. This area encompasses a majority of the total areas of the City. There are a total of 48 tax rate areas in the City with tax rates from 1.03979 to 1.04883.
- (2) Basis tax levy per Proposition 13 (Property tax limitation ballot initiative).

Source: Tax Rate Book 2005-2006

CITY OF LAGUNA BEACH
Special Assessments Levies and Collections
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Improvement District</u>	<u>Weed Abatement</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total Levied</u>	<u>Collections</u>	<u>Percent of Levy Collected</u>
1996-1997	\$ 758,061	69,817	3,531,934	1,184,064	5,543,876	5,403,212	97.46%
1997-1998	983,145	92,694	3,558,580	1,188,232	5,822,651	5,697,272	97.85%
1998-1999	1,050,182	119,493	3,562,147	1,355,983	6,087,805	5,961,909	97.93%
1999-2000	1,338,933	41,723	3,566,099	1,442,273	6,389,028	6,280,002	98.29%
2000-2001	1,078,233	52,708	3,778,767	1,484,523	6,394,231	6,272,665	98.10%
2001-2002	1,140,997	56,761	3,939,037	1,531,246	6,668,041	6,552,536	98.27%
2002-2003	1,428,985	47,059	4,350,751	1,544,441	7,371,236	7,259,794	98.49%
2003-2004	1,760,469	36,387	4,762,701	1,560,658	8,120,215	8,038,942	99.00%
2004-2005	1,725,456	34,139	4,947,185	1,617,547	8,324,287	8,315,397	99.89%
2005-2006	1,979,832	18,030	5,146,271	1,611,328	8,755,461	8,655,841	98.86%

Source: County of Orange Tax Ledger 2005-2006

CITY OF LAGUNA BEACH
Computation of Legal Debt Margin
June 30, 2006

Assessed Value		<u>\$7,551,931,188</u>
Debt limit: 15 percent of assessed value		<u>\$1,132,789,678</u>
Amount of debt applicable to debt limit - bonded debt	\$ 8,405,000	
Less amounts available - assets held in Debt Service Fund	<u>2,074,063</u>	
Total debt applicable to limitation	<u>6,330,937</u>	
Legal debt margin		<u>\$1,126,458,741</u>

Source: City Finance Department

CITY OF LAGUNA BEACH

Ratio of Net General Bonded Debt to Assessed
Value and Net Bonded Debt per Capita

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Assessed Value (In Thousands)</u>	<u>Gross Bonded Debt</u>
1996-1997	24,083	3,328,259	17,640,000
1997-1998	24,550	3,473,714	16,945,000
1998-1999	24,950	3,699,260	16,195,000
1999-2000	25,300	4,076,837	15,385,000
2000-2001	24,150	4,472,147	12,870,000
2001-2002	24,300	4,975,477	12,870,000
2002-2003	24,600	5,487,179	11,900,000
2003-2004	24,750	6,038,548	10,780,000
2004-2005	24,798	6,826,992	9,615,000
2005-2006	24,963	7,551,931	8,405,000

(1) California Department of Finance estimates as of January 1, 2006.

Source: City Finance Department

CITY OF LAGUNA BEACH

Ratio of Annual Debt Service Expenditures for
General Obligation Bonded Debt to Total General Governmental Expenditures

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Governmental Expenditures (1)</u>	<u>Ratio of Debt Service to General Governmental Expenditures</u>
1996-1997	\$ 645,000	1,182,525	1,827,525	32,792,027	5.57%
1997-1998	695,000	1,132,375	1,827,375	37,095,516	4.93%
1998-1999	750,000	1,071,125	1,821,125	37,154,087	4.90%
1999-2000	810,000	1,008,725	1,818,725	39,376,914	4.62%
2000-2001	2,884,346*	947,013	3,831,359	45,570,945	8.41%
2001-2002	-	440,689	440,689	40,300,951	1.09%
2002-2003	970,000	543,356	1,513,356	50,424,829	3.00%
2003-2004	1,120,000	502,828	1,622,828	56,989,094	2.84%
2004-2005	1,165,000	455,856	1,620,856	49,512,433	3.27%
2005-2006	1,210,000	408,356	1,618,356	67,303,602	2.41%

(1) Includes General, Special Revenue, Debt Service and Capital Projects Funds.

* Includes refinancing principal.

Source: City Finance Department

CITY OF LAGUNA BEACH

Demographic Statistics

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population(1)</u>	<u>School Enrollment (2)</u>	<u>Per Capital Income (3)</u>	<u>Orange County</u>	
				<u>Consumer Price Index (4)</u>	<u>Unemployment Rate (4)</u>
1996-1997	24,083	2,548	44,322	159.4	3.3%
1997-1998	24,550	2,573	47,835	162.6	3.1%
1998-1999	24,950	2,631	50,104	167.2	5.8%
1999-2000	25,300	2,618	50,104	170.1	2.9%
2000-2001	24,150	2,649	40,537	176.5	3.2%
2001-2002	24,300	2,700	58,732	181.1	4.1%
2002-2003	24,600	2,620	58,732	186.3	4.0%
2003-2004	24,750	2,700	58,732	193.4	4.6%
2004-2005	24,798	2,700	58,732	201.4	4.6%
2005-2006	24,963	2,700	58,820	211.4	3.6%

* Laguna Beach is located in Orange County, California.

Sources:

- (1) California Department of Finance estimate as of January 1, 2006
- (2) Laguna Beach Unified School District
- (3) U.S. Census Bureau
- (4) U.S. Department of Labor, Bureau of Labor Statistics

CITY OF LAGUNA BEACH
Property Values and Construction
Last Ten Fiscal Years

Fiscal Year	Property Value (in thousands) (1)				Commercial Construction (2)		Residential Construction (2)	
	Land	Improvements and Personal Property	Exemptions	Total	Number of Units	Value (in thousands)	Number of Units	Value (in thousands)
1996-1997	\$2,237,444	1,187,360	96,545	3,328,259	1	22	55	19,050
1997-1998	2,343,291	1,227,500	97,077	3,473,714	3	878	52	21,541
1998-1999	2,492,290	1,251,154	44,184	3,699,260	1	133	74	27,643
1999-2000	2,806,470	1,329,566	59,199	4,076,837	2	3,758	61	26,703
2000-2001	3,118,180	1,398,253	44,286	4,472,147	1	37,241	55	21,258
2001-2002	3,496,945	1,525,988	47,456	4,975,477	-	-	46	22,107
2002-2003	3,876,541	1,457,378	153,260	5,487,179	1	335	46	22,572
2003-2004	4,065,394	1,906,505	66,649	6,038,548	2	1,094	39	20,391
2004-2005	4,772,273	1,969,943	71,531	6,670,685	1	1,357	48	26,346
2005-2006	5,469,748	2,063,185	70,596	7,460,337	2	948	48	26,916

Source:

- (1) County of Orange Assessed Valuation
- (2) City Community Development Department

CITY OF LAGUNA BEACH

Principal Taxpayers

June 30, 2006

<u>Taxpayer</u>	<u>Type of Business</u>	2005-2006 Assessed Valuation at <u>January 1, 2005(1)</u>
Laguna Beach Luxury Hotel	Real Estate/Hotel	\$162,920,061
Club Laguna Partnership	Real Estate	41,510,705
Gary J. Daichendt	Real Estate	18,329,933
211 North Coast Highway LLC	Hotel	18,296,275
Aliso Creek Properties LLC	Real Estate	18,360,000
Ted Tomasek Trust	Real Estate	13,137,449
Donald J. Crevick	Real Estate	12,984,721
Regency Associates Limited	Real Estate	12,781,105
Nariman Yousefi	Real Estate	12,780,107
Cox Communications Orange	Telecommunications	12,608,932

(1) Represents the most current data available.

Source:HdL Coren and Cone

CITY OF LAGUNA BEACH

Miscellaneous Statistics

June 30, 2006

	June 29, 1927
Date of Incorporation	General Law
Type of City	Council/Manager (1944)
Form of Government	
Number of Non-Seasonal Employees (Excluding police and fire):	
Full-time	120
Part time	70
Area in square miles	8.1
Coastline	8.0
City of Laguna Beach Facilities and Services:	
Miles of streets	93
Number of street lights	1,241
Culture and Recreation:	
Community centers	3
Parks	17
Park acreage	47
Tennis courts	12
Fire Protection:	
Number of stations	4
Number of personnel and officers	41
Number of calls answered	2,446
Number of inspections	714
Police Protection:	
Number of stations	1
Number of police personnel and officers	86
Number of patrol units	24
Calls for service	49,731
Number of law violations:	
Custodial arrests	1,823
Traffic violations	7,089
Parking violations	38,335
Facilities and Service not Included in Reporting Entity:	
Water System:	
Miles of water mains	134
Number of service connections	8,468
Number of fire hydrants	663
Daily average consumption in gallons	3.9 mil
Maximum daily capacity of plant in gallons	7.2 mil
Education:	
Number of elementary schools	2
Number of middle schools	1
Number of high schools	1
Hospitals:	
Number of hospitals	1
Number of patient beds	210
Sewage System:	
Miles of sanitary sewers	95
Miles of storm drains	78
Number of service connections	8,504 (1)
Daily average treatment in gallons	2.0 mil
Maximum daily capacity of treatment plant in gallons	4.0 mil

Sources:

City Finance Department
 Laguna Beach Unified School District
 Laguna Beach County Water District