

CITY OF LAGUNA BEACH
Laguna Beach, California

Comprehensive Annual Financial Report

Year Ended June 30, 2007

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CITY OF LAGUNA BEACH, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

CITY COUNCIL:

Toni Iseman, Mayor
Jane Egly, Mayor Pro-Tem
Cheryl Kinsman, Council Member
Elizabeth Pearsol, Council Member
Kelly Boyd, Council Member

Laura Parisi, City Treasurer

Martha Anderson, City Clerk

Kenneth Frank, City Manager

**Prepared By:
Finance Department**

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CITY OF LAGUNA BEACH
Comprehensive Annual Financial Report
Year Ended June 30, 2007

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INTRODUCTORY SECTION

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June 20, 2007

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, 2007. 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 Mayer Hoffman McCain, P.C.. 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, 2007, 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, 2007, 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 continues to remain strong due to the 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 has undertaken two large capital projects in with expected completion dates within the next two years. The largest project is construction of a new community/senior center with a budget of approximately \$15 million expected to be complete early in 2009. The second project is the construction and relocation of the corporate yard with a budget of approximately \$10 million with an estimated completion date of December 2007.

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 became available in FY 2006-2007 after City funds used for paying off a developer loan for a public park in December 2003 were replenished. These funds were 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 \$35 million.

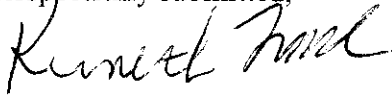
In February 2006, the Federal Emergency Management Agency (FEMA) determined that the landslide was the result of the heavy winter rains that prompted the February 2005 Presidential Disaster Declaration. The City expects that FEMA along with the State of California Office of Emergency Services (OES) will reimburse the City approximately 94% 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 became effective 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,

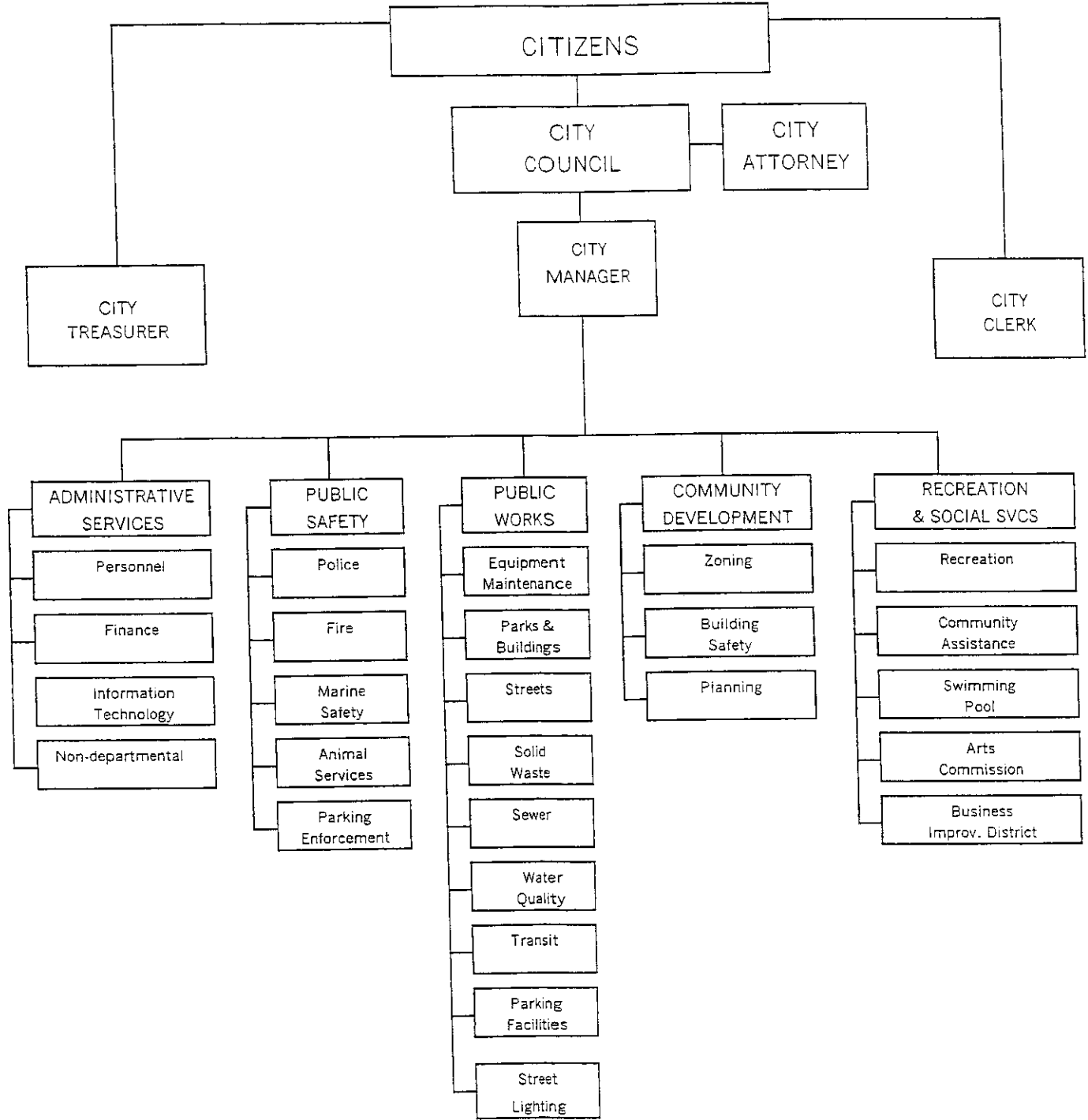


Kenneth Frank
City Manager



Gavin Curran
Finance Officer

CITY OF LAGUNA BEACH ORGANIZATIONAL CHART



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FINANCIAL SECTION

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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, 2007, 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 partial comparative information has been derived from the financial statements of the City of Laguna Beach for the year ended June 30, 2006 and, in our report dated December 6, 2006, we expressed an unqualified opinion on those financial 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, 2007, 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, 2007, 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.

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 June 20, 2008 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.

Mayer Hoffman McCann P.C.

Irvine, California
June 20, 2008

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, 2007. 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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 73.5	\$ 63.8	.6	.6
Capital assets	<u>289.9</u>	<u>127.2</u>	<u>2.7</u>	<u>1.7</u>
Total assets	363.4	191.0	3.3	2.3
Long-term debt outstanding	18.5	18.9	-	-
Other liabilities	<u>4.0</u>	<u>3.3</u>	<u>.1</u>	<u>.3</u>
Total liabilities	22.5	22.2	.1	.3
Net assets:				
Invested in capital assets, net of debt	285.6	124.1	2.7	1.7
Restricted	11.8	10.5	-	-
Unrestricted	<u>43.5</u>	<u>34.2</u>	<u>.5</u>	<u>.3</u>
Total net assets	<u>\$340.9</u>	<u>\$168.8</u>	<u>3.2</u>	<u>2.0</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 \$340.9 million as of June 30, 2007.

The largest portion of the City's net assets, \$285.6 million (84%) 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 16% 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 \$11.8 million (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$43.5 million (13%) 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 \$36.6 million during the current fiscal year. The net assets of governmental activities increased by \$35.4 million and business-type activities had a increased of \$1.2 million.

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

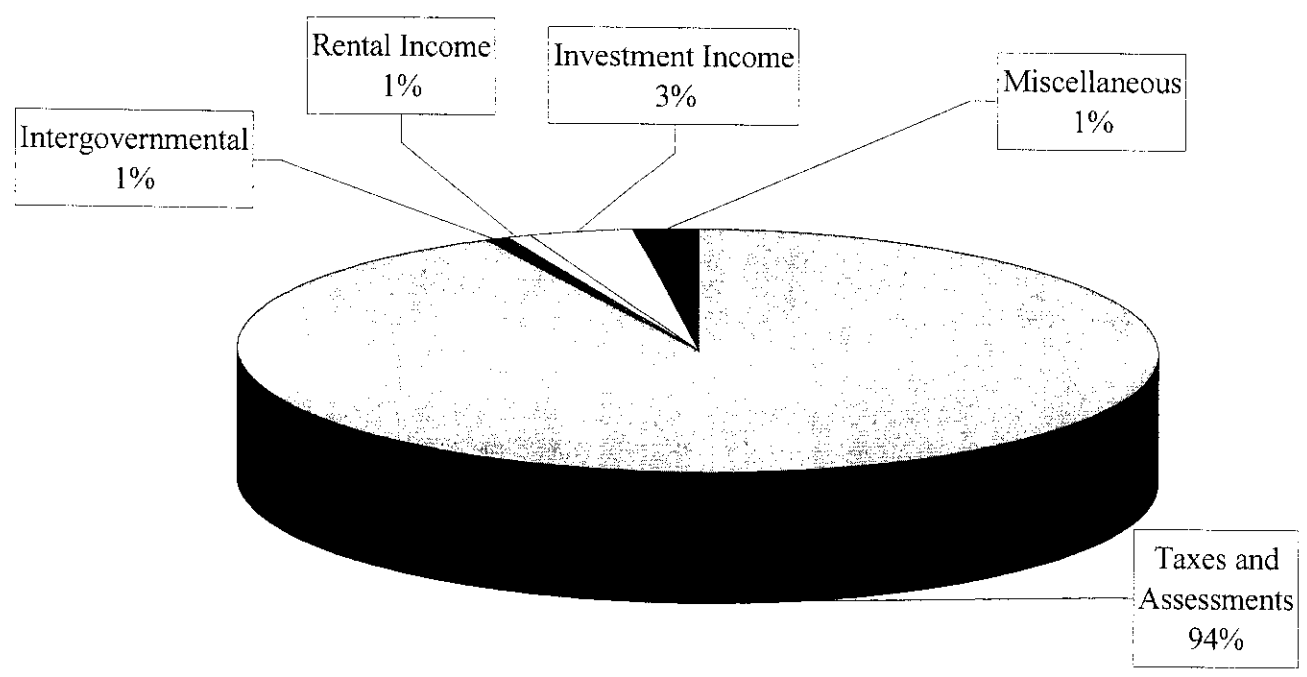
Table 2
Changes in Net Assets
(in Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues				
Program revenues:				
Charges for services	\$ 18,937	\$ 17,252	\$ 340	\$ 325
Operating grants and contributions	5,017	3,716	1,221	881
Capital grants and contributions	15,865	14,298	1,224	58
General revenues:				
Taxes and special assessments	42,969	38,872	-	-
Intergovernmental, unrestricted	333	366	-	-
Rental income	369	448	-	-
Investment income	1,646	1,029	20	-
Miscellaneous revenues	485	193	4	-
Transfers in	-	-	272	173
Transfers out	(272)	(173)	-	-
Gain (loss) on sale/disposal of capital assets	596	(11)	-	-
Total revenues and transfers	<u>85,945</u>	<u>75,990</u>	<u>3,081</u>	<u>1,437</u>
Program expenses				
General government	4,044	3,911	-	-
Community development	2,956	2,669	-	-
Public safety	21,481	18,865	-	-
Public works	13,373	21,427	-	-
Recreation and social services	3,610	3,415	-	-
Sewer service operating costs	4,561	3,484	-	-
Interest and fiscal charges	511	522	-	-
Municipal transit	-	-	1,858	1,665
Total expenses	<u>50,536</u>	<u>54,293</u>	<u>1,858</u>	<u>1,665</u>
Increase (decrease) in net assets	35,409	21,697	1,223	(228)
Beginning net assets as restated	<u>305,555</u>	<u>147,103</u>	<u>1,986</u>	<u>2,214</u>
Ending net assets	<u>\$340,964</u>	<u>\$168,800</u>	<u>\$3,209</u>	<u>\$1,986</u>

The City's total revenues including transfers and gains/losses on the sale of capital assets were \$89.0 million while the total cost of all programs and services was \$52.4 million. Property taxes were the City's largest revenue source at \$23.8 million (26.7% of total revenues and 27.7% of governmental revenues). Transient lodging taxes at \$8.6 million (9.6% of total revenues and 10.0% governmental revenues) and sales tax also at \$4.7 million (5.3% of total revenues and 5.5% 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 \$35.4 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 \$10.7 million, meaning that 21% 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 Safety expenses comprised the largest component of governmental activities in terms of cost 43% this past year. Charges for services, operating and capital grants and contributions offset 13% of the cost of providing these services.

Public Works was the second largest governmental activity representing 26% of the total cost of governmental activities. Charges for services and operating grants and contributions helped to offset 72% of the cost of these activities. Capital grants from the Federal Emergency Management Agency (FEMA) and the State Office of Emergency Services (OES) related to the Bluebird landslide repair offset the remaining 28% cost of governmental activity.

General government expenses (including City Council, City Manager, City Attorney, City Clerk, City Treasurer and Administrative Services) were 8% of the total cost of governmental activities. Charges for services offset 27% of the cost of providing these services.

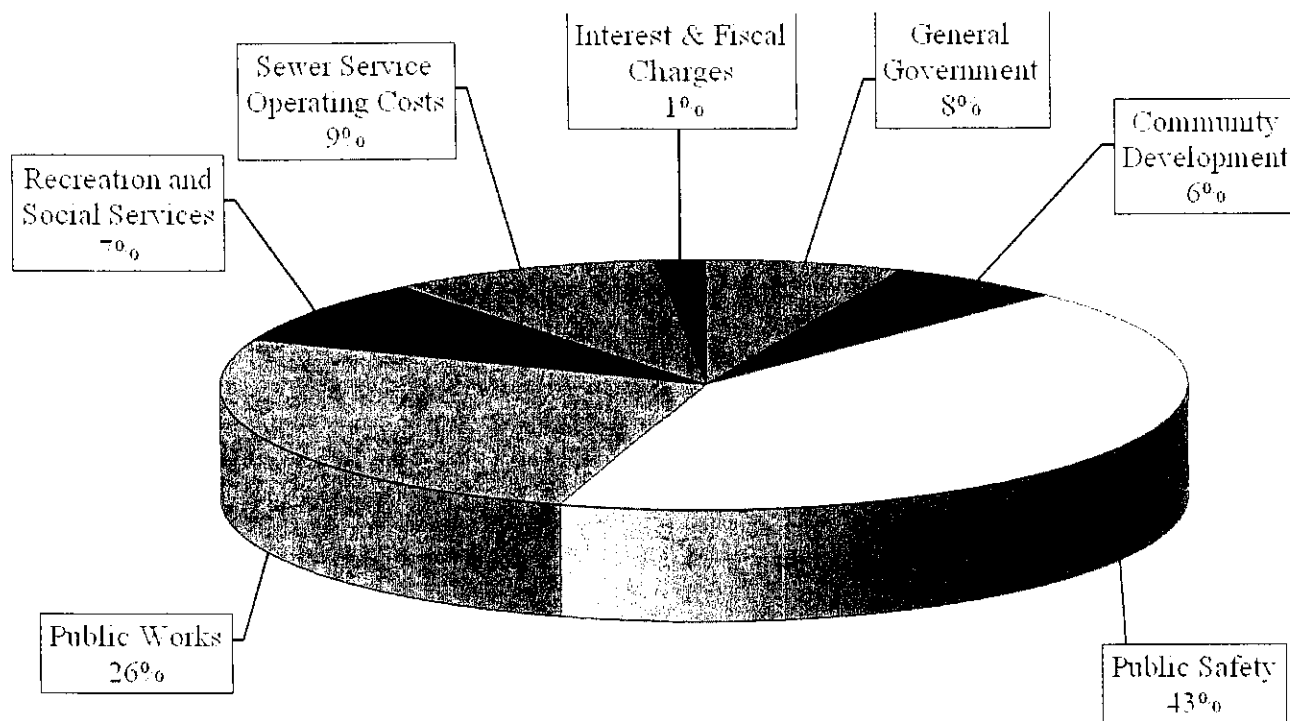
Community development, although only 6% of the total cost of governmental activities, was financed 95% from charges for services.

Recreation and social services cost \$3.6 million this past year, representing 7% of the total, but 53% was paid from charges for services, operating grants and contributions.

Sewer service operating costs were \$4.6 million, representing 9% 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 \$511 thousand, 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 increased net assets by \$1,223 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 increased in net assets consisted of Transportation Development Funds in compliance with "50% Limitation" rule.

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, 2007, governmental funds reported combined ending fund balances of \$36.7 million, an increase of \$1.6 million in comparison with the prior year. Approximately 18.8% of this total amount (\$6.8 million) constitutes undesignated fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved or designated 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 (\$27.8 million), and 2) for debt service requirements (\$2.1 million).

The General Fund is the chief operating fund of the City. As of June 30, 2007, the unreserved, undesignated fund balance of the General Fund was \$12.3 million, while total fund balance reached \$36.9 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 22.0% of total general fund expenditures, while total fund balance represents 66.2% of that same amount.

The fund balance of the City's General Fund increased by \$6.6 million during the fiscal year ending June 30, 2007. Reasons for significant changes in the revenues and expenditures of the City's General Fund from the prior year are as follows:

- Revenues increased \$6.5 million with \$2.4 million resulting from property taxes. The remaining difference was primarily due to an increase in the transient occupancy tax revenue of \$.7 million parking permit fees \$1.0 million and intergovernmental revenue of \$1.2 million.
- Even though overall expenditures increased \$13.1 million the City continued to maintain a positive margin of 2.2% in fiscal year 2006-2007 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 \$14.2 million. This deficit is primarily caused by pending receivables of \$13.4 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 \$3.6 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 \$701 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 \$3 thousand was due primarily to interest revenue received in excess of debt service expenditures.

The Capital Projects Fund had a total fund balance of \$4.4 million, of which approximately 100% was reserved and/or designated for projects. The net increase in fund balance during the current year in the Capital Projects Fund of \$1.7 million was primarily due to the receipt of bond proceeds related to a new assessment district.

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 \$506 thousand. The total increase in net assets for the fund was \$1.2 million. 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 \$31.9 million and major items can be briefly summarized as follows:

- \$27.3 million increase in the budget for prior year carry over appropriations.
- \$1.8 million increase for the City Community Center.
- \$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 \$2.2 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 planning fees and intergovernmental revenues (mostly from grant revenue expected in the next fiscal year).
- Total expenditures were under the budgeted amount by \$28.6 million, mostly as a result of capital projects not yet completed at fiscal year end. No City departments exceeded their approved operating budgeted amounts. Administrative Services expenditures were over the approved budget, but this is due to the gas tax exchange program with the Orange County Transportation Authority. The expenditures are offset by an operating transfer from the Gas Tax Fund.

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	\$ 79,010,048	\$ 196,106	\$ 79,206,154
Buildings and improvements	5,445,521	2,703	5,448,224
Office equipment and machinery	2,525,474	10,949	2,536,433
Furniture and fixtures	737,905	65	737,970
Equipment, machinery and tools	487,437	-	487,437
Sewer plant and lines	33,029,266	-	33,029,266
Automotive equipment	3,101,141	1,269,202	4,370,343
Infrastructure	133,994,826	-	133,994,826
Construction in progress	<u>31,606,493</u>	<u>1,223,958</u>	<u>32,830,451</u>
Total	<u>\$289,938,111</u>	<u>\$2,702,993</u>	<u>\$292,641,104</u>

The major change to the capital assets during the year ended June 30, 2007 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 \$11.8 million, all of which comprises debt backed by the full faith and credit of the government.

	Outstanding Debt (In Thousands)		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation bonds	\$7,150	-	\$ 7,150
Installment Agreement	3,468		3,468
Capital Lease	<u>865</u>	<u>-</u>	<u>865</u>
Total	<u>\$11,483</u>	<u>-</u>	<u>\$11,483</u>

The City's total debt decreased by \$387 thousand (1%) 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, 2007
(With Comparative Totals for June 30, 2006)

	Governmental Activities	Business-type Activities	Totals	
			2007	2006
<u>Assets</u>				
Cash and investments (note 2)	\$ 51,934,172	342,219	52,276,391	42,446,541
Investments with fiscal agent (note 2)	22	-	22	40
Receivables:				
Taxes	3,826,618	158,373	3,984,991	3,473,035
Accounts	884,117	19,081	903,198	366,461
Interest	-	-	-	155,158
Intergovernmental	14,458,190	42,292	14,500,482	15,025,522
Notes	577,095	-	577,095	590,821
Other	5,605	-	5,605	2,037
Prepays	195,473	-	195,473	634,449
Inventory	23,132	-	23,132	36,120
Property held for investment (note 10)	1,632,253	-	1,632,253	1,632,253
Capital assets, not being depreciated (note 5)	110,616,541	1,420,064	112,036,605	83,235,797
Capital assets, net of depreciation (note 5)	<u>179,321,570</u>	<u>1,282,929</u>	<u>180,604,499</u>	<u>45,703,996</u>
 Total assets	 <u>363,474,788</u>	 <u>3,264,958</u>	 <u>366,739,746</u>	 <u>193,302,230</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	2,905,198	42,720	2,947,918	2,224,146
Interest payable	215,791	-	215,791	246,876
Retentions payable	804,164	-	804,164	381,669
Due to other government agencies	-	-	-	65,276
Unearned revenue	79,324	13,270	92,594	704,023
Noncurrent liabilities (note 11):				
Due within one year	5,281,167	-	5,281,167	4,729,684
Due in more than one year	<u>13,224,856</u>	<u>-</u>	<u>13,224,856</u>	<u>14,163,699</u>
 Total liabilities	 <u>22,510,500</u>	 <u>55,990</u>	 <u>22,566,490</u>	 <u>22,515,373</u>
<u>Net assets</u>				
Invested in capital assets, net of related debt	285,605,573	2,702,993	288,308,566	125,832,508
Restricted for:				
Capital projects	11,686,490	-	11,686,490	9,372,264
Other purposes	79,966	-	79,966	1,076,796
Unrestricted	<u>43,592,259</u>	<u>505,975</u>	<u>44,098,234</u>	<u>34,505,289</u>
 Total net assets	 <u>\$ 340,964,288</u>	 <u>3,208,968</u>	 <u>344,173,256</u>	 <u>170,786,857</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Statement of Activities
Year Ended June 30, 2007
(With Comparative Totals For Year Ended June 30, 2006)

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Total Program Revenues</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
General government	\$ 4,043,977	1,097,636	-	-	1,097,636
Community development	2,955,670	2,811,790	-	-	2,811,790
Public safety	21,480,996	2,010,319	760,455	-	2,770,774
Public works	13,372,777	6,113,731	3,461,513	15,865,514	25,440,758
Recreation and social services	3,609,896	1,405,718	515,000	-	1,920,718
Sewer service operating costs	4,561,407	5,497,631	280,156	-	5,777,787
Interest and fiscal charges	511,304	-	-	-	-
Total governmental activities	<u>50,536,027</u>	<u>18,936,825</u>	<u>5,017,124</u>	<u>15,865,514</u>	<u>39,819,463</u>
Business-type activities:					
Municipal transit	<u>1,857,979</u>	<u>339,842</u>	<u>1,221,042</u>	<u>1,223,950</u>	<u>2,784,834</u>
Total business-type activities	<u>1,857,979</u>	<u>339,842</u>	<u>1,221,042</u>	<u>1,223,950</u>	<u>2,784,834</u>
Total primary government	<u>\$ 52,394,006</u>	<u>19,276,667</u>	<u>6,238,166</u>	<u>17,089,464</u>	<u>42,604,297</u>

General revenues:
Taxes and special assessments
Intergovernmental, unrestricted
Rental income
Investment income
Gain on sale of property
Miscellaneous
Interfund transfers (note 13)

Total general revenues and transfers

Change in net assets

Net assets at beginning of year,
as restated (note 24)

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	
		2007	2006
(2,946,341)	-	(2,946,341)	(2,936,046)
(143,880)	-	(143,880)	106,548
(18,710,222)	-	(18,710,222)	(16,205,117)
12,067,981	-	12,067,981	845,721
(1,689,178)	-	(1,689,178)	(2,181,743)
1,216,380	-	1,216,380	1,854,831
(511,304)	-	(511,304)	(521,755)
<u>(10,716,564)</u>	<u>-</u>	<u>(10,716,564)</u>	<u>(19,037,561)</u>
-	926,855	926,855	(400,837)
-	926,855	926,855	(400,837)
<u>(10,716,564)</u>	<u>926,855</u>	<u>(9,789,709)</u>	<u>(19,438,398)</u>
42,969,015	-	42,969,015	38,871,382
332,820	-	332,820	366,462
369,318	-	369,318	448,309
1,646,417	19,532	1,665,949	1,028,804
595,802	-	595,802	-
484,834	4,000	488,834	193,330
(272,174)	272,174	-	-
<u>46,126,032</u>	<u>295,706</u>	<u>46,421,738</u>	<u>40,908,287</u>
35,409,468	1,222,561	36,632,029	21,469,889
<u>305,554,820</u>	<u>1,986,407</u>	<u>307,541,227</u>	<u>149,316,968</u>
<u>\$ 340,964,288</u>	<u>3,208,968</u>	<u>344,173,256</u>	<u>170,786,857</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, 2007
 (With Comparative Totals For June 30, 2006)

<u>Assets</u>	<u>General</u>	<u>Special Revenue</u>	
		<u>Bluebird Landslide</u>	<u>Sewer Service</u>
Cash and investments	\$ 23,620,385	-	3,536,385
Investments with fiscal agent	-	-	-
Receivables:			
Taxes	998,608	-	52,446
Accounts	746,040	-	1,562
Interest	-	-	-
Intergovernmental	592,919	13,381,412	389,795
Notes	348,000	-	-
Other	5,605	-	-
Due from other funds (note 4)	13,597,061	-	-
Prepays	-	-	-
Inventory	23,132	-	-
Property held for investment	-	-	-
	<u>\$ 39,931,750</u>	<u>13,381,412</u>	<u>3,980,188</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,600,836	624,780	271,594
Retentions payable	769,062	-	-
Due to other funds (note 4)	-	13,579,134	-
Due to other government agencies	-	-	-
Deferred revenue	634,765	13,381,413	64,650
Advances from other funds	-	-	-
	<u>3,004,663</u>	<u>27,585,327</u>	<u>336,244</u>
Fund balances (deficit) (note 12):			
Reserved	15,920,632	-	533,047
Unreserved:			
Designated, reported in:			
General fund	8,702,239	-	-
Special revenue funds	-	-	1,801,934
Capital projects funds	-	-	-
Undesignated, reported in:			
General fund	12,304,216	-	-
Special revenue funds	-	(14,203,915)	1,308,963
Capital projects funds	-	-	-
	<u>36,927,087</u>	<u>(14,203,915)</u>	<u>3,643,944</u>
Total fund balances (deficit)	<u>\$ 39,931,750</u>	<u>13,381,412</u>	<u>3,980,188</u>
Total liabilities and fund balances	<u>\$ 39,931,750</u>	<u>13,381,412</u>	<u>3,980,188</u>

See accompanying notes to basic financial statements.

Debt Service General Obligation Bonds	Capital Projects Capital Projects	Nonmajor Governmental Funds	Totals	
			2007	2006
			2,044,747 22	4,555,853 -
32,407 - - - - - - - -	- - - - - - - - -	153,300 133,483 - 57,509 - - - - 354,444	1,236,761 881,085 - 14,421,635 348,000 5,605 13,597,061 - 23,132 354,444	998,683 361,306 155,158 14,639,539 348,000 2,037 13,011,278 454,881 36,120 354,444
<u>2,077,176</u>	<u>4,555,853</u>	<u>3,901,192</u>	<u>67,827,571</u>	<u>59,229,758</u>
- - - - - -	93,328 35,102 - - - -	22,320 - 17,927 - 23,128 -	2,612,858 804,164 13,597,061 - 14,103,956 -	2,157,301 381,669 13,011,278 65,276 8,397,903 97,568
-	<u>128,430</u>	<u>63,375</u>	<u>31,118,039</u>	<u>24,110,995</u>
2,077,176	-	729,639	19,260,494	15,814,786
- - -	- - -	- 156,817 -	8,702,239 1,958,751 -	10,612,220 2,915,631 2,009,558
- - -	- - 4,427,423	- 2,951,361 -	12,304,216 (9,943,591) 4,427,423	8,766,994 (5,672,322) 671,896
<u>2,077,176</u>	<u>4,427,423</u>	<u>3,837,817</u>	<u>36,709,532</u>	<u>35,118,763</u>
<u>2,077,176</u>	<u>4,555,853</u>	<u>3,901,192</u>	<u>67,827,571</u>	<u>59,229,758</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, 2007

Fund balances of governmental funds	\$	36,709,532
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		368,851,947
Accumulated depreciation		(81,998,290)
Long term debt from the General Long Term Debt Account Group that have not been included in the governmental fund activity.		
General obligation bonds		(7,150,000)
Capitalized lease obligations		(865,000)
Loan payable		(3,467,538)
Accrued interest payable for the current portion of interest due on debt service has not been reported in the governmental funds.		
		(215,791)
Receivable amounts that were earned in the audit period but not collected within the availability period have not been reported in the governmental funds.		
		16,651,044
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>12,448,384</u>
Net assets of governmental activities	\$	<u>340,964,288</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, 2007
 (With Comparative Totals For Year Ended June 30, 2006)

	General	Special Revenue	
		Bluebird Landslide	Sewer Service
Revenues:			
Taxes	\$ 37,141,616	-	-
Licenses and permits	1,096,008	-	-
Fines and penalties	1,456,680	-	-
Investment income	1,611,864	-	-
Rental	369,318	-	-
Intergovernmental	2,555,937	7,363,450	325,546
Charges for services	6,835,564	-	5,481,368
Parking meters, lots and permits	4,334,250	-	-
Development tax	276,472	-	-
Other	1,298,003	-	19,359
Total revenues	56,975,712	7,363,450	5,826,273
Expenditures:			
Current:			
General government	4,021,299	-	-
Community development	3,041,255	-	-
Public safety	21,885,359	-	-
Public works	8,939,442	-	-
Recreation and social services	3,762,243	-	-
Sewer service operating costs	-	-	3,348,521
Capital expenditures	14,067,572	14,568,186	2,820,488
Debt service:			
Principal	-	-	846,314
Interest and fiscal charges	-	-	181,083
Total expenditures	55,717,170	14,568,186	7,196,406
Excess (deficiency) of revenues over (under) expenditures	1,258,542	(7,204,736)	(1,370,133)
Other financing sources (uses):			
Transfers in (note 13)	1,895,810	150,000	-
Transfers out (note 13)	(1,311,850)	-	-
Issuance of bond	-	-	-
Issuance of loan	-	-	2,071,567
Sale of land and equipment	4,788,172	-	-
Total other financing sources (uses)	5,372,132	150,000	2,071,567
Net change in fund balances	6,630,674	(7,054,736)	701,434
Fund balances (deficit), beginning of year	30,296,413	(7,149,179)	2,942,510
Fund balances (deficit), end of year	\$ 36,927,087	(14,203,915)	3,643,944

See accompanying notes to basic financial statements.

Debt Service General Obligation Bonds	Capital Projects Capital Projects	Nonmajor Governmental Funds	Totals	
			2007	2006
			1,575,958	-
-	-	-	1,096,008	1,264,362
-	-	20,059	1,476,739	1,598,359
36,340	125,460	63,070	1,836,734	1,277,408
-	-	-	369,318	448,309
7,037	-	1,461,457	11,713,427	9,989,976
-	-	-	12,316,932	11,566,496
-	-	-	4,334,250	3,225,562
-	-	-	276,472	386,146
-	615,097	6,328	1,938,787	806,114
<u>1,619,335</u>	<u>740,557</u>	<u>4,813,831</u>	<u>77,339,158</u>	<u>67,812,094</u>
-	-	-	4,021,299	3,758,978
-	-	-	3,041,255	2,703,135
-	-	207,141	22,092,500	19,267,767
-	-	263,321	9,202,763	9,089,003
-	-	14,982	3,777,225	3,486,067
-	-	-	3,348,521	2,928,237
-	1,264,418	3,684,178	36,404,842	23,871,902
1,255,000	-	-	2,101,314	1,730,000
361,306	-	-	542,389	468,513
<u>1,616,306</u>	<u>1,264,418</u>	<u>4,169,622</u>	<u>84,532,108</u>	<u>67,303,602</u>
<u>3,029</u>	<u>(523,861)</u>	<u>644,209</u>	<u>(7,192,950)</u>	<u>508,492</u>
-	-	955,000	3,000,810	2,905,040
-	-	(2,034,810)	(3,346,660)	(2,651,632)
-	2,269,830	-	2,269,830	524,543
-	-	-	2,071,567	1,632,928
-	-	-	4,788,172	4,344
-	<u>2,269,830</u>	<u>(1,079,810)</u>	<u>8,783,719</u>	<u>2,415,223</u>
3,029	1,745,969	(435,601)	1,590,769	2,923,715
<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>2,077,176</u>	<u>4,427,423</u>	<u>3,837,817</u>	<u>36,709,532</u>	<u>35,118,763</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, 2007

Net change in fund balances - total governmental funds \$ 1,590,769

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	32,210,302
Depreciation expense	(6,639,265)

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.	2,101,314
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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.	(2,071,567)
---	-------------

Accrued interest for debt service. This is the net change in accrued interest for the current period.	31,085
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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.	6,193,653
--	-----------

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.	1,993,177
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Change in net assets of governmental activities	\$ 35,409,468
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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 Revenues, Expenses and Changes in Fund Net Assets

Year Ended June 30, 2007

(With Comparative Totals For Year Ended June 30, 2006)

	Business	Governmental	Totals	
	Type	Activities		
	Municipal Transit	Internal Service Funds	2007	2006
Operating revenues:				
Passenger revenues	\$ 339,842	-	339,842	325,015
Vehicle rentals	-	943,300	943,300	916,200
Employee benefits charges	-	626,401	626,401	600,200
Insurance charges	-	5,520,167	5,520,167	5,736,774
Total operating revenues	<u>339,842</u>	<u>7,089,868</u>	<u>7,429,710</u>	<u>7,578,189</u>
Operating expenses:				
Personnel services	956,368	-	956,368	871,241
Contractual services	226,931	-	226,931	106,108
Materials and supplies	246,262	-	246,262	258,903
Administration	186,885	-	186,885	192,827
Employee benefits	-	700,079	700,079	723,334
Insurance claims and premiums	-	3,865,874	3,865,874	4,947,148
Depreciation	241,533	425,810	667,343	522,998
Total operating expenses	<u>1,857,979</u>	<u>4,991,763</u>	<u>6,849,742</u>	<u>7,622,559</u>
Operating income (loss)	<u>(1,518,137)</u>	<u>2,098,105</u>	<u>579,968</u>	<u>(44,370)</u>
Nonoperating revenues (expenses):				
Local Transportation Fund grant	1,013,750	-	1,013,750	696,597
Investment income	19,532	10,516	30,048	20,243
Intergovernmental	207,292	-	207,292	165,000
Gain (loss) on disposal of capital assets	-	(189,120)	(189,120)	(14,662)
Other	4,000	-	4,000	5,056
Total nonoperating revenues (expenses)	<u>1,244,574</u>	<u>(178,604)</u>	<u>1,065,970</u>	<u>872,234</u>
Income (loss) before capital contributions and transfers	<u>(273,563)</u>	<u>1,919,501</u>	<u>1,645,938</u>	<u>827,864</u>
Capital contributions and transfers:				
Transfers in (note 13)	283,174	73,676	356,850	345,592
Transfers out (note 13)	(11,000)	-	(11,000)	(599,000)
Capital grants	1,223,950	-	1,223,950	57,912
Total capital contributions and transfers	<u>1,496,124</u>	<u>73,676</u>	<u>1,569,800</u>	<u>(195,496)</u>
Change in net assets	<u>1,222,561</u>	<u>1,993,177</u>	<u>3,215,738</u>	<u>632,368</u>
Net assets at beginning of year	<u>1,986,407</u>	<u>10,455,207</u>	<u>12,441,614</u>	<u>11,809,246</u>
Net assets at end of year	<u>\$ 3,208,968</u>	<u>12,448,384</u>	<u>15,657,352</u>	<u>12,441,614</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2007
(With Comparative Totals For Year Ended June 30, 2006)

	Business Type	Governmental Activities	Totals	
	Municipal Transit	Internal Service Funds	2007	2006
Cash flows from operating activities:				
Cash received from customers	\$ 324,251	-	324,251	343,534
Cash received from user departments	-	7,089,053	7,089,053	7,414,811
Cash payments to suppliers for goods and services	(813,992)	(4,207,943)	(5,021,935)	(4,547,620)
Cash payments to employees for services	(956,368)	(473,923)	(1,430,291)	(1,371,765)
Net cash provided by (used for) operating activities	<u>(1,446,109)</u>	<u>2,407,187</u>	<u>961,078</u>	<u>1,838,960</u>
Cash flows from noncapital financing activities:				
Operating grant proceeds received	1,116,282	-	1,116,282	1,696,171
Cash received from other funds	283,174	184,969	468,143	373,305
Cash paid to other funds	(11,000)	-	(11,000)	(673,717)
Loan principal received	-	-	-	11,781
Net cash provided by (used for) noncapital financing activities	<u>1,388,456</u>	<u>184,969</u>	<u>1,573,425</u>	<u>1,407,540</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(1,214,359)	(1,335,120)	(2,549,479)	(1,071,287)
Capital grant proceeds received	1,396,512	-	1,396,512	456,599
Proceeds from sale of capital assets	-	326,712	326,712	11,255
Net cash provided by (used for) capital and related financing activities	<u>182,153</u>	<u>(1,008,408)</u>	<u>(826,255)</u>	<u>(603,433)</u>
Cash flows from investing activities:				
Purchase of property held for investment	-	-	-	(554,500)
Interest received	19,532	10,516	30,048	20,243
Net cash provided by (used for) investing financing activities	<u>19,532</u>	<u>10,516</u>	<u>30,048</u>	<u>(534,257)</u>
Net increase (decrease) in cash and cash equivalents	144,032	1,594,264	1,738,296	2,108,810
Cash and cash equivalents at beginning of year	<u>198,187</u>	<u>13,380,082</u>	<u>13,578,269</u>	<u>11,469,459</u>
Cash and cash equivalents at end of year	<u>\$ 342,219</u>	<u>14,974,346</u>	<u>15,316,565</u>	<u>13,578,269</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	2007	2006
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (1,518,137)	2,098,105	579,968	(44,370)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	241,533	425,810	667,343	522,998
Miscellaneous income	4,000	-	4,000	5,056
Loss on disposal of capital assets	(9,599)	-	(9,599)	(21,262)
(Increase) decrease in accounts receivable	(15,591)	(1,367)	(16,958)	16,854
(Increase) decrease in taxes receivable	(158,373)	-	(158,373)	-
(Increase) decrease in prepaids	-	(15,905)	(15,905)	(8,271)
(Increase) decrease in other assets	-	-	-	152,047
Increase (decrease) in accounts payable and accrued liabilities	10,058	258,157	268,215	(2,667)
increase (decrease) in compensated absences payable	-	226,156	226,156	222,810
Increase (decrease) in insurance claims payable	-	(583,769)	(583,769)	995,765
Net cash provided by (used for) operating activities	<u>\$ (1,446,109)</u>	<u>2,407,187</u>	<u>961,078</u>	<u>1,838,960</u>
Supplemental schedule of noncash capital, financing and investing activities:				
Forgiven loan made to General Fund	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>550,000</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
 Agency Funds
 Statement of Fiduciary Assets and Liabilities
 June 30, 2007
 (With Comparative Totals For June 30, 2006)

	Totals	
<u>Assets</u>	<u>2007</u>	<u>2006</u>
Cash and investments (note 2)	\$ 5,410,126	4,886,925
Investments with fiscal agent (note 2)	1,687,131	1,423,624
Receivables:		
Intergovernmental	45,138	51,152
Total assets	\$ 7,142,395	6,361,701
<u>Liabilities</u>		
Accounts payable and accrued liabilities	\$ 52,461	816
Deposits	2,756,649	2,493,710
Due to bondholders	4,333,285	3,867,175
Total liabilities	\$ 7,142,395	6,361,701

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

Year Ended June 30, 2007

(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 (180 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.

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

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

Governmental Funds, (Continued)

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.

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.

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)

(I) 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, 2007 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$52,276,392
Investments with fiscal agent	22
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	5,410,126
Investments with fiscal agent	<u>1,687,131</u>
Total cash and investments	<u>\$59,373,671</u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand (petty cash and change funds)	\$ 2,616
Deposits with financial institutions	1,763,081
Investments	<u>57,607,974</u>
Total cash and investments	<u>\$59,373,671</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

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)

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 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>Total</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	\$35,011,702	20,011,952	1,000,000	13,999,750
Medium term notes	3,971,962	-	-	3,971,962
State investment pool	16,937,157	16,937,157	-	-
Held by bond fiscal agent:				
Money market funds	<u>1,687,153</u>	<u>1,687,153</u>	<u>-</u>	<u>-</u>
Total	<u>\$57,607,974</u>	<u>38,636,262</u>	<u>1,000,000</u>	<u>17,971,712</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>Total</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	\$35,011,702	N/A	35,011,702	-	-
Medium term notes	3,971,962	A	2,978,442	993,520	-
State investment pool	16,937,157	N/A	-	-	16,937,157
Held by bond fiscal agent:					
Money market funds	<u>1,687,153</u>	A	<u>-</u>	<u>1,687,153</u>	<u>-</u>
Total	<u>\$57,607,974</u>		<u>37,990,144</u>	<u>2,680,973</u>	<u>16,937,157</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	\$ 6,000,000
Federal Home Loan Bank	Federal agency securities	21,999,750
Federal Home Loan Mortgage Corporation	Federal agency securities	4,997,400

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, 2007 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Bluebird Landslide Fund	\$13,579,134
General Fund	Nonmajor Governmental Funds	<u>17,927</u>
Total		<u>\$13,597,061</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) Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Balance at July 1, 2006 as Restated*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2007</u>
Governmental activities:				
Capital assets, not depreciated:				
Land	\$ 78,313,737	696,311	-	79,010,048
Construction in progress	<u>4,725,954</u>	<u>28,162,413</u>	<u>(1,281,874)</u>	<u>31,606,490</u>
Total capital assets, not depreciated	<u>83,039,691</u>	<u>28,858,724</u>	<u>(1,281,874)</u>	<u>110,616,541</u>
Capital assets, being depreciated:				
Buildings and improvements	18,244,196	1,729,814	(1,527,105)	18,446,905
Office equipment & machinery	5,096,097	314,655	(121,851)	5,288,901
Furniture and fixtures	901,613	93,482	(5,000)	990,095
Equipment, machinery & tools	2,387,660	491,284	(5,089)	2,873,855
Sewer plant and lines	58,630,220	932,336	(332,339)	59,230,217
Automotive equipment	5,897,120	1,344,058	(602,310)	6,638,868
Infrastructure	<u>168,549,108</u>	<u>5,748,624</u>	<u>(2,983,606)</u>	<u>171,314,126</u>
Total capital assets, being depreciated	<u>259,706,014</u>	<u>10,654,253</u>	<u>(5,577,300)</u>	<u>264,782,967</u>
Less accumulated depreciation for:				
Buildings and improvements	(11,156,955)	(1,844,429)	-	(13,001,384)
Office equipment & machinery	(2,315,645)	(447,782)	-	(2,763,427)
Furniture and fixtures	(234,649)	(17,541)	-	(252,190)
Equipment, machinery & tools	(1,325,457)	(1,060,961)	-	(2,386,418)
Sewer plant and lines	(25,112,561)	(1,088,390)	-	(26,200,951)
Automotive equipment	(3,447,210)	(466,305)	375,788	(3,537,727)
Infrastructure	<u>(35,179,633)</u>	<u>(2,139,667)</u>	<u>-</u>	<u>(37,319,300)</u>
Total accumulated depreciation	<u>(78,772,110)</u>	<u>(7,065,075)</u>	<u>375,788</u>	<u>(85,461,397)</u>
Total capital assets being depreciated, net	<u>180,933,904</u>	<u>3,589,178</u>	<u>(5,201,512)</u>	<u>179,321,570</u>
Governmental activities capital assets, net	<u>\$263,973,595</u>	<u>32,447,902</u>	<u>(6,483,386)</u>	<u>289,938,111</u>

* Additional information can be found in note 24.

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(6) Capital Assets, (Continued)

	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2007</u>
Business-type activities:				
Capital assets, not depreciated:				
Land	\$ 196,106	-	-	196,106
Construction in progress	<u>-</u>	<u>1,223,958</u>	<u>-</u>	<u>1,223,958</u>
Total capital assets, not depreciated	<u>196,106</u>	<u>1,223,958</u>	<u>-</u>	<u>1,420,064</u>
Capital assets, being depreciated:				
Buildings and improvements	64,672	-	-	64,672
Office equipment and machinery	114,006	-	(9,599)	104,407
Furniture and fixtures	1,500	-	-	1,500
Equipment, machinery and tools	29,369	-	-	29,369
Automotive equipment	<u>2,595,411</u>	<u>-</u>	<u>-</u>	<u>2,595,411</u>
Total capital assets, being depreciated	<u>2,804,958</u>	<u>-</u>	<u>(9,599)</u>	<u>2,795,359</u>
Less accumulated depreciation for:				
Buildings and improvements	(61,662)	(307)	-	(61,969)
Office equipment and machinery	(92,066)	(10,981)	9,599	(93,448)
Furniture and fixtures	(1,435)	-	-	(1,435)
Equipment, machinery and tools	(29,369)	-	-	(29,369)
Automotive equipment	<u>(1,095,964)</u>	<u>(230,245)</u>	<u>-</u>	<u>(1,326,209)</u>
Total accumulated depreciation	<u>(1,280,496)</u>	<u>(241,533)</u>	<u>9,599</u>	<u>(1,512,430)</u>
Total capital assets being depreciated, net	<u>1,524,462</u>	<u>(241,533)</u>	<u>-</u>	<u>1,282,929</u>
Business-type capital assets, net	<u>\$ 1,720,568</u>	<u>982,425</u>	<u>-</u>	<u>2,702,933</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	\$ 208,176
Community development	54,705
Public safety	407,598
Public works	5,020,337
Recreation and social services	6,910
Sewer service operating costs	<u>1,367,349</u>
 Total	 <u>\$7,065,075</u>

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

Municipal Transit	<u>\$ 241,533</u>
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Capital Projects

As of June 30, 2007, 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	\$15,845,010	2,171,518	13,673,492
Park Avenue Sidewalk Construction	621,156	590,955	30,201
S. Laguna Sidewalk Construction	1,000,000	-	1,000,000
Heisler Park Preservation and Restoration	503,215	469,452	33,763
Corporation Yard Relocation	10,190,000	6,786,628	3,403,372
Canyon Acres Storm Drain	3,283,000	3,231,446	51,554
Alta Vista/Terry/Temple Hills Resurfacing	1,286,426	1,042,602	243,824
Temple Hills Resurfacing	606,750	574,358	32,392
Citywide Mainlining	1,742,093	1,135,638	606,455
Upper Bluebird Canyon Road	1,463,800	1,463,775	25

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	\$2,429,888	103,344	2,326,544
Mountain/Nyes Street Rehabilitation	3,677,067	3,427,675	249,392
Heisler Park Improvements	1,600,000	-	1,600,000
250 Manholes Rehabilitation	600,000	-	600,000
High Drive/Virginia Way/Ocean Vista Drive Utility Undergrounding	1,145,788	1,003,483	142,306
Diamond, Crestview Sewer Facilities	1,669,710	1,139,024	530,686
Arch Beach Heights Utility Undergrounding	3,230,110	2,937,450	292,660
Emergency Power – NYCS/Victoria	440,000	375,626	64,374
Shaw’s Cove Reconstruction	1,400,000	117,545	1,282,455
Nyes Pl Steel Pipe Rehabilitation	1,015,996	159,932	856,064
Cerritos Duming Undergrounding	2,923,954	405,024	2,518,930
Mystic Hill Utility Undergrounding	3,186,798	3,024,334	162,464
Loma Terrace/Bent St. Undergrounding	468,230	468,230	-
Dyer Place/Wykoff Way 95-3	<u>430,102</u>	<u>288,530</u>	<u>141,572</u>
Total	<u>\$60,759,093</u>	<u>31,916,569</u>	<u>29,842,524</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 13 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 \$4,197,362 reported in the Insurance and Employee Benefits Internal Service Fund, at June 30, 2007, 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 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Beginning of year liability	\$4,781,132	3,785,367
Current year claims and changes in estimates	732,138	2,533,644
Claims payments	<u>(1,315,908)</u>	<u>(1,537,879)</u>
Insurance claims payable	<u>\$4,197,362</u>	<u>4,781,132</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, 2007, contributions from property owners were \$1,985,165. At June 30, 2007, the unpaid principal assessments in the 1915 Bond Improvement Districts were \$15,601,951.

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(9) Deferred Compensation Plan

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, 2007, 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 \$27,934 for the year ended June 30, 2007. The minimum future rental payments under this lease are as follows:

Year ending June 30:

2008	\$25,509
2009	25,509
2010	<u>25,509</u>
	<u>\$76,527</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, 2007:

	<u>Balance at</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2007</u>	<u>Due within</u> <u>one year</u>	<u>Due beyond</u> <u>one year</u>
Governmental activities:						
General obligation bonds	\$8,405,000	-	(1,255,000)	7,150,000	1,310,000	5,840,000
I-Bank installment sale agreement	1,702,285	2,071,567	(306,314)	3,467,538	-	3,467,538
Capitalized lease obligations	1,405,000	-	(540,000)	865,000	575,000	290,000
Compensated absences	2,599,966	2,300,872	(2,074,716)	2,826,121	2,136,958	689,164
Insurance claims payable	<u>4,781,132</u>	<u>732,139</u>	<u>(1,315,908)</u>	<u>4,197,363</u>	<u>1,259,209</u>	<u>2,938,154</u>
Total long-term liabilities	<u>\$18,893,383</u>	<u>5,104,578</u>	<u>(5,491,938)</u>	<u>18,506,023</u>	<u>5,281,167</u>	<u>13,224,856</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, 2007, the outstanding balance is \$7,150,000.

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>
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>\$7,150,000</u>	<u>898,190</u>	<u>8,048,190</u>

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(11) Long-Term Liabilities, (Continued)

I-Bank Installment Sale Agreement

On June 1, 2004, the City entered into an I-Bank 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, 2007, \$3,773,852 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 \$3,226,148 will be invested by the CIEDB, and the City will be credited for actual interest earnings on any undisbursed funds up to 2.73%. As of June 30, 2007, the outstanding principal amount was \$3,467,538.

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 \$583,335 to \$620,130 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, 2007, the outstanding balance is \$865,000.

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>
2008	\$575,000	45,130	620,130
2009	<u>290,000</u>	<u>23,100</u>	<u>313,100</u>
Total	<u>\$865,000</u>	<u>68,230</u>	<u>933,230</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, 2007 were as follows:

	<u>General*</u>	<u>Bluebird Landslide</u>	<u>Sewer Service</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
Reserved for:							
Inventory	\$ 20,012	-	-	-	-	-	20,012
Notes receivable	348,000	-	-	-	-	-	348,000
Encumbrances	15,478,937	-	533,047	-	-	375,195	16,387,179
Solid waste	73,683	-	-	-	-	-	73,683
Property held for investment	-	-	-	-	-	354,444	354,444
Debt service	-	-	-	2,077,176	-	-	2,077,176
Subtotal	<u>15,920,632</u>	<u>-</u>	<u>533,047</u>	<u>2,077,176</u>	<u>-</u>	<u>729,639</u>	<u>19,260,494</u>
Unreserved:							
Designated:							
Reappropriations for continuing projects							
	8,702,239	-	1,801,934	-	-	156,817	10,660,990
Undesignated	<u>12,304,216</u>	<u>(14,203,915)</u>	<u>1,308,963</u>	<u>-</u>	<u>4,427,423</u>	<u>2,951,361</u>	<u>6,788,048</u>
Total	<u>\$36,927,087</u>	<u>(14,203,915)</u>	<u>3,643,944</u>	<u>2,077,176</u>	<u>4,427,423</u>	<u>3,837,817</u>	<u>36,709,532</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, 2007 consisted of the following:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$1,884,810
General Fund	Municipal Transit Enterprise Fund	<u>11,000</u>
	Sub-total	<u>1,895,810</u>
Municipal Transit Enterprise Fund	General Fund	283,174
Internal Service Funds	General Fund	73,676
Nonmajor Governmental Funds	General Fund	<u>955,000</u>
	Sub-total	<u>1,311,850</u>
Bluebird Landslide Special Revenue Fund	Nonmajor Governmental Funds	<u>150,000</u>
	Total	<u>\$3,357,660</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, 2007, SOCWA had total assets of \$48,383,347, total liabilities of \$1,724,078, and total equity of \$46,659,269.

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 2007 was \$1,315,400. 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, 2007 were 16.151% for safety employees and 9.135% 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 2006-07, the City's annual pension cost of \$1,668,833 for safety and \$886,762 for miscellaneous employees to PERS was equal to the required and actual contributions. The required contribution for fiscal year 2006-07 was determined as part of the June 30, 2004 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 14.45%, 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, 2004 for miscellaneous and safety employees is through June 30, 2034.

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>
6/30/05	\$1,071,435	100%	0
6/30/06	2,021,163	100%	0
6/30/07	1,668,833	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>
6/30/05	\$399,606	100%	0
6/30/06	863,603	100%	0
6/30/07	886,762	100%	0

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(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 2007 was \$21,963,271 and covered payroll was \$1,580,160. Both the City and covered employees made the required 3.75% contributions amounting to \$59,256 from each source, or \$118,512 in total. Vested funds can be withdrawn upon termination or retirement from the City.

(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, 25 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, 2007:

	<u>Deficit Balance</u>
Special Revenue Funds:	
Bluebird Landslide	(\$14,203,915)

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

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(19) Excess of Expenditures Over Appropriations

Expenditures for the year ended June 30, 2007 exceeded appropriations in the following funds:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess over Appropriations</u>
General Fund:			
Administrative services	\$ 1,957,767	2,403,955	(446,188)
Bluebird Landslide Special Revenue Fund:			
Capital expenditures	13,026,910	14,568,186	(1,541,276)

Administrative Services expenditures are in excess of appropriations due to the gas tax exchange program with the Orange County Transportation Authority (OCTA). The expenditures are offset by transfers from the Gas Tax Fund. Expenditures for the Bluebird Landslide Special Revenue fund will be reimbursed primarily by grants from the Federal Emergency Management Agency (FEMA) and the State Office of Emergency Services (OES).

(20) Transportation Development Act

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

TDA 50% Limitation:		\$1,857,979
Total Operating Costs		928,990
50% Limitation (Line 1x50%)		
TDA Financial Need Limitation:		
Total Operating Costs		\$1,857,979
Depreciation Current	(\$241,533)	
OCTA Operating Assistance	(165,000)	
Passenger Revenues	(212,704)	
Taxi Voucher Program	(4,696)	
Park and Ride	(122,443)	<u>(746,376)</u>
Financial Need		<u>\$1,111,603</u>
Lesser of "Financial Need" or "50% Limitation"		<u>\$ 928,990</u>

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(21) 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 \$213,542.

(22) 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, 2007, the outstanding balance of this loan was \$230,447.

(23) Grants and Allocations

The City is a recipient of State and Federal grants, which are governed by laws and regulations established by the granting agencies. Costs charged to the respective grant programs are subject to review and adjustment by the granting agencies. Certain requests relating to this funding are pending approval by the funding agency.

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

(24) Prior Period Adjustment

The City implemented GASB Statement No. 34 during the fiscal year ended June 30, 2004, however, was not required to retroactively report infrastructure assets until the fiscal year ended June 30, 2007. The table below summarizes the results of an infrastructure valuation inventory the City completed as of July 1, 2006 to report all infrastructure placed into service within the City since 1980:

	<u>Governmental Activities</u>
Beginning net assets, as previously reported	\$168,800,450
Historical cost of infrastructure placed into service from 1980 through June 30, 2006, net of accumulated depreciation as of June 30, 2006	<u>136,754,370</u>
Beginning net assets, as restated	<u>\$305,554,820</u>

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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, 2007
 (With Comparative Totals For Year Ended June 30, 2006)

	Budgeted Amounts		Actual	Variance with	2006 Actual
	Original	Final		Final Budget Positive/ (Negative)	
Revenues:					
Taxes:					
Property taxes	\$ 20,291,000	20,491,000	21,243,729	752,729	18,816,898
Sales and use taxes	4,560,000	4,560,000	4,694,534	134,534	4,542,213
Transient lodging taxes	7,335,000	7,820,839	8,661,017	840,178	7,900,582
Franchise taxes	970,000	970,000	1,152,272	182,272	1,702,725
Business license taxes	740,000	740,000	850,073	110,073	777,976
Real property transfer taxes	550,000	550,000	539,991	(10,009)	650,361
Total taxes	34,446,000	35,131,839	37,141,616	2,009,777	34,390,755
Licenses and permits:					
Construction permits	1,021,000	1,021,000	1,070,558	49,558	1,170,760
Other	23,000	23,000	25,450	2,450	93,602
Total licenses and permits	1,044,000	1,044,000	1,096,008	52,008	1,264,362
Fines and penalties					
Vehicle codes	1,305,000	1,305,000	1,391,374	86,374	357,692
Other	86,000	86,000	65,306	(20,694)	1,202,167
Total fines and penalties	1,391,000	1,391,000	1,456,680	65,680	1,559,859
Investment income	1,050,000	1,050,000	1,611,864	561,864	966,015
Rental income	400,000	400,000	369,318	(30,682)	448,309
Intergovernmental	1,844,000	4,881,487	2,555,937	(2,325,550)	1,329,931
Charges for services:					
Planning fees	1,570,000	1,630,000	1,394,077	(235,923)	1,302,728
Building department fees	354,000	354,000	356,058	2,058	273,634
Refuse service charges	1,670,000	1,670,000	1,615,211	(54,789)	1,627,518
Medical fees	55,000	55,000	37,340	(17,660)	50,588
Parks and recreation fees	1,077,000	1,077,000	1,194,724	117,724	1,164,001
Parking fees	165,000	165,000	164,778	(222)	175,668
Other	1,726,000	1,726,000	2,073,376	347,376	1,873,726
Total charges for services	6,617,000	6,677,000	6,835,564	158,564	6,467,863
Parking meters, lots and permits	3,763,000	3,763,000	4,334,250	571,250	3,225,562
Development tax:					
Building construction tax	-	-	214,370	214,370	296,126
Other	-	-	62,102	62,102	90,020
Total development tax	-	-	276,472	276,472	386,146

CITY OF LAGUNA BEACH

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual

(Continued)

	Budgeted Amounts		Actual	Variance with	2006
	Original	Final		Final Budget	
				Positive/ (Negative)	Actual
Other:					
Reimbursed expenditures	229,000	362,000	554,827	192,827	413,951
Other	46,000	56,000	743,176	687,176	48,469
Total other	<u>275,000</u>	<u>418,000</u>	<u>1,298,003</u>	<u>880,003</u>	<u>462,420</u>
Total revenues	<u>50,830,000</u>	<u>54,756,326</u>	<u>56,975,712</u>	<u>2,219,386</u>	<u>50,501,222</u>
Expenditures:					
General government:					
City Council	75,000	75,000	51,971	23,029	50,493
City Manager	665,050	691,650	656,518	35,132	600,641
City Clerk	321,450	323,751	270,210	53,541	315,048
City Treasurer	114,300	114,900	111,645	3,255	107,372
City Attorney	465,000	527,000	527,000	-	391,248
Administrative services	1,921,900	1,957,767	2,403,955	(446,188)	2,294,176
Total general government	<u>3,562,700</u>	<u>3,690,068</u>	<u>4,021,299</u>	<u>(331,231)</u>	<u>3,758,978</u>
Community development	<u>3,049,500</u>	<u>3,049,500</u>	<u>3,041,255</u>	<u>8,245</u>	<u>2,703,135</u>
Public safety:					
Police protection	10,881,500	11,824,528	10,900,399	924,129	9,704,300
Fire protection	8,200,500	8,944,350	8,280,440	663,910	7,142,711
Marine safety	1,979,100	2,118,491	2,033,700	84,791	1,674,528
Parking enforcement	735,500	735,500	670,820	64,680	705,336
Total public safety	<u>21,796,600</u>	<u>23,622,869</u>	<u>21,885,359</u>	<u>1,737,510</u>	<u>19,226,875</u>
Public works	<u>9,722,200</u>	<u>10,058,430</u>	<u>8,939,442</u>	<u>1,118,988</u>	<u>8,892,309</u>
Recreation and social services	<u>3,698,100</u>	<u>4,126,467</u>	<u>3,762,243</u>	<u>364,224</u>	<u>3,471,671</u>
Capital expenditures	<u>10,581,600</u>	<u>39,785,823</u>	<u>14,067,572</u>	<u>25,718,251</u>	<u>4,639,419</u>
Total expenditures	<u>52,410,700</u>	<u>84,333,157</u>	<u>55,717,170</u>	<u>28,615,987</u>	<u>42,692,387</u>
Excess of revenues over (under) expenditures	<u>(1,580,700)</u>	<u>(29,576,831)</u>	<u>1,258,542</u>	<u>30,835,373</u>	<u>7,808,835</u>
Other financing sources (uses):					
Transfers in	2,663,000	5,142,680	1,895,810	(3,246,870)	2,027,040
Transfers out	(1,508,400)	(4,352,400)	(1,311,850)	3,040,550	(823,592)
Sale of land and equipment	1,516,000	6,835,000	4,788,172	(2,046,828)	4,344
Total other financing sources (uses)	<u>2,670,600</u>	<u>7,625,280</u>	<u>5,372,132</u>	<u>(2,253,148)</u>	<u>1,207,792</u>
Net change in fund balances	1,089,900	(21,951,551)	6,630,674	28,582,225	9,016,627
Fund balances, beginning of year	<u>30,296,413</u>	<u>30,296,413</u>	<u>30,296,413</u>	<u>-</u>	<u>21,279,786</u>
Fund balances, end of year	<u>\$ 31,386,313</u>	<u>8,344,862</u>	<u>36,927,087</u>	<u>28,582,225</u>	<u>30,296,413</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, 2007

(With Comparative Totals for Year Ended June 30, 2006)

	Budgeted Amounts		Actual	Variance with Final Budget Positive/ (Negative)	2006 Actual
	Original	Final			
Revenues:					
Intergovernmental	\$ -	12,876,910	7,363,450	(5,513,460)	6,972,070
Total revenues	-	12,876,910	7,363,450	(5,513,460)	6,972,070
Expenditures:					
Capital expenditures	-	13,026,910	14,568,186	(1,541,276)	13,955,209
Total expenditures	-	13,026,910	14,568,186	(1,541,276)	13,955,209
Excess of revenues over (under) expenditures	-	(150,000)	(7,204,736)	(7,054,736)	(6,983,139)
Other financing sources (uses):					
Transfers in	-	150,000	150,000	-	200,000
Transfers out	-	-	-	-	(366,040)
Total other financing sources (uses)	-	150,000	150,000	-	(166,040)
Net change in fund balances	-	-	(7,054,736)	(7,054,736)	(7,149,179)
Fund balances, beginning of year	(7,149,179)	(7,149,179)	(7,149,179)	-	-
Fund balances (deficit), end of year	\$ (7,149,179)	(7,149,179)	(14,203,915)	(7,054,736)	(7,149,179)

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, 2007

(With Comparative Totals For Year Ended June 30, 2006)

	Budgeted Amounts		Actual	Variance with Final Budget Positive/ (Negative)	2006 Actual
	Original	Final			
Revenues:					
Intergovernmental	\$ -	234,852	325,546	90,694	1,344
Charges for services	5,375,000	5,375,000	5,481,368	106,368	5,098,633
Other	326,000	326,000	19,359	(306,641)	223,553
Total revenues	<u>5,701,000</u>	<u>5,935,852</u>	<u>5,826,273</u>	<u>(109,579)</u>	<u>5,323,530</u>
Expenditures:					
Current:					
Sewer service operating costs	3,469,800	3,469,800	3,348,521	121,279	2,928,237
Capital expenditures	924,300	9,238,309	2,820,488	6,417,821	2,543,886
Debt service:					
Principal	610,000	610,000	846,314	(236,314)	520,000
Interest and fiscal charges	462,000	462,000	181,083	280,917	58,885
Total expenditures	<u>5,466,100</u>	<u>13,780,109</u>	<u>7,196,406</u>	<u>6,583,703</u>	<u>6,051,008</u>
Excess of revenues over (under) expenditures	<u>234,900</u>	<u>(7,844,257)</u>	<u>(1,370,133)</u>	<u>6,474,124</u>	<u>(727,478)</u>
Other financing sources (uses):					
Proceeds of loan	-	5,297,715	2,071,567	(3,226,148)	1,632,928
Total other financing sources (uses)	<u>-</u>	<u>5,297,715</u>	<u>2,071,567</u>	<u>(3,226,148)</u>	<u>1,632,928</u>
Net change in fund balances	234,900	(2,546,542)	701,434	3,247,976	905,450
Fund balances, beginning of year	<u>2,942,510</u>	<u>2,942,510</u>	<u>2,942,510</u>	<u>-</u>	<u>2,037,060</u>
Fund balances, end of year	<u>\$ 3,177,410</u>	<u>395,968</u>	<u>3,643,944</u>	<u>3,247,976</u>	<u>2,942,510</u>

CITY OF LAGUNA BEACH

Note to Required Supplementary Information

Year Ended June 30, 2007

(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 \$31,922,457 were made in the General Fund and \$21,340,919 was made in the special revenue, capital projects, and debt service funds during the year.

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, 2007
 (With Comparative Totals for June 30, 2006)

<u>Assets</u>	<u>General</u>	<u>Open Space</u>	<u>Capital Improvement</u>	<u>Parking Authority</u>
Cash and investments	\$ 11,092,866	177,394	8,800,812	2,977,676
Receivables:				
Taxes	939,014	-	59,594	-
Accounts	326,515	-	363,555	55,970
Interest	-	-	-	-
Intergovernmental	11,603	-	581,316	-
Notes	-	-	-	-
Other	5,605	-	-	-
Due from other funds	-	-	13,597,061	-
Prepays	-	-	-	-
Inventory	23,132	-	-	-
	<u>11,092,866</u>	<u>177,394</u>	<u>8,800,812</u>	<u>2,977,676</u>
Total assets	<u>\$ 12,398,735</u>	<u>177,394</u>	<u>23,402,338</u>	<u>3,033,646</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 869,425	-	705,934	25,477
Retentions payable	-	-	769,062	-
Due to other government agencies	-	-	-	-
Deferred revenue	-	-	634,765	-
Advances from other funds	-	-	-	-
	<u>869,425</u>	<u>-</u>	<u>705,934</u>	<u>25,477</u>
Total liabilities	<u>869,425</u>	<u>-</u>	<u>2,109,761</u>	<u>25,477</u>
Fund balances:				
Reserved for:				
Inventory	20,012	-	-	-
Prepays	-	-	-	-
Notes receivable	-	-	-	-
Encumbrances	469,671	-	14,979,302	29,964
Solid waste	73,683	-	-	-
Unreserved:				
Designated for:				
Contingencies	-	-	-	-
Reappropriations for continuing projects	2,632,786	5,000	5,952,321	93,726
Undesignated	8,333,158	172,394	360,954	2,884,479
	<u>11,529,310</u>	<u>177,394</u>	<u>21,292,577</u>	<u>3,008,169</u>
Total fund balances	<u>11,529,310</u>	<u>177,394</u>	<u>21,292,577</u>	<u>3,008,169</u>
Total liabilities and fund balances	<u>\$ 12,398,735</u>	<u>177,394</u>	<u>23,402,338</u>	<u>3,033,646</u>

Parking In-Lieu	Park In-Lieu	Art In-Lieu	Drainage	Housing In-Lieu	Totals	
					2007	2006
23,293	197,233	142,583	168,614	39,914	23,620,385	17,098,960
-	-	-	-	-	998,608	942,139
-	-	-	-	-	746,040	211,111
-	-	-	-	-	-	155,158
-	-	-	-	-	592,919	575,428
-	-	-	-	348,000	348,000	348,000
-	-	-	-	-	5,605	2,037
-	-	-	-	-	13,597,061	13,011,278
-	-	-	-	-	-	454,881
-	-	-	-	-	23,132	36,120
<u>23,293</u>	<u>197,233</u>	<u>142,583</u>	<u>168,614</u>	<u>387,914</u>	<u>39,931,750</u>	<u>32,835,112</u>
-	-	-	-	-	1,600,836	1,245,218
-	-	-	-	-	769,062	35,215
-	-	-	-	-	-	65,276
-	-	-	-	-	634,765	1,095,422
-	-	-	-	-	-	97,568
-	-	-	-	-	3,004,663	2,538,699
-	-	-	-	-	20,012	36,120
-	-	-	-	-	-	454,881
-	-	-	-	348,000	348,000	348,000
-	-	-	-	-	15,478,937	9,972,961
-	-	-	-	-	73,683	105,237
-	-	-	-	-	-	389,761
-	-	18,406	-	-	8,702,239	10,222,459
<u>23,293</u>	<u>197,233</u>	<u>124,177</u>	<u>168,614</u>	<u>39,914</u>	<u>12,304,216</u>	<u>8,766,994</u>
<u>23,293</u>	<u>197,233</u>	<u>142,583</u>	<u>168,614</u>	<u>387,914</u>	<u>36,927,087</u>	<u>30,296,413</u>
<u>23,293</u>	<u>197,233</u>	<u>142,583</u>	<u>168,614</u>	<u>387,914</u>	<u>39,931,750</u>	<u>32,835,112</u>

CITY OF LAGUNA BEACH

General Fund

Consolidating Statement of Revenues, Expenditures and Changes in Fund Balances by Sub-Fund

Year Ended June 30, 2007

(With Comparative Totals For Year Ended June 30, 2006)

	<u>General</u>	<u>Open Space</u>	<u>Capital Improvement</u>	<u>Parking Authority</u>	<u>Parking In-Lieu</u>
Revenues:					
Taxes	\$ 33,103,088	-	4,038,528	-	-
Licenses and permits	1,096,008	-	-	-	-
Fines and penalties	22,705	-	1,433,975	-	-
Investment income	1,596,066	-	-	-	599
Rental	369,318	-	-	-	-
Intergovernmental	722,242	-	1,833,695	-	-
Charges for services	6,833,599	-	1,965	-	-
Parking meters, lots and permits	-	-	-	4,334,250	-
Development tax	-	-	-	-	-
Other	759,756	-	538,247	-	-
	<u>44,502,782</u>	<u>-</u>	<u>7,846,410</u>	<u>4,334,250</u>	<u>599</u>
Total revenues					
Expenditures:					
Current:					
General government	4,021,299	-	-	-	-
Community development	3,041,255	-	-	-	-
Public safety	21,214,539	-	-	670,820	-
Public works	8,193,990	-	-	745,452	-
Recreation and social services	3,762,243	-	-	-	-
Capital expenditures	-	696,311	13,306,353	41,908	-
	<u>40,233,326</u>	<u>696,311</u>	<u>13,306,353</u>	<u>1,458,180</u>	<u>-</u>
Total expenditures					
Excess (deficiency) of revenues over (under) expenditures	<u>4,269,456</u>	<u>(696,311)</u>	<u>(5,459,943)</u>	<u>2,876,070</u>	<u>599</u>
Other financing sources (uses):					
Transfers in	1,460,000	200,000	4,154,810	-	-
Transfers out	(3,273,676)	-	(955,000)	(1,002,174)	-
Sale of land and equipment	-	-	4,788,172	-	-
	<u>(1,813,676)</u>	<u>200,000</u>	<u>7,987,982</u>	<u>(1,002,174)</u>	<u>-</u>
Total other financing sources (uses)					
Net change in fund balances	2,455,780	(496,311)	2,528,039	1,873,896	599
Fund balances, beginning 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>
Fund balances, end of year	<u>\$ 11,529,310</u>	<u>177,394</u>	<u>21,292,577</u>	<u>3,008,169</u>	<u>23,293</u>

Park In-Lieu	Art In-Lieu	Drainage	Housing In-Lieu	Eliminations (1)	Totals	
					2007	2006
-	-	-	-	-	37,141,616	34,390,755
-	-	-	-	-	1,096,008	1,264,362
-	-	-	-	-	1,456,680	1,559,859
4,501	3,716	3,399	3,583	-	1,611,864	966,015
-	-	-	-	-	369,318	448,309
-	-	-	-	-	2,555,937	1,329,931
-	-	-	-	-	6,835,564	6,467,863
-	-	-	-	-	4,334,250	3,225,562
62,102	-	83,111	131,259	-	276,472	386,146
-	-	-	-	-	1,298,003	462,420
<u>66,603</u>	<u>3,716</u>	<u>86,510</u>	<u>134,842</u>	<u>-</u>	<u>56,975,712</u>	<u>50,501,222</u>
-	-	-	-	-	4,021,299	3,758,978
-	-	-	-	-	3,041,255	2,703,135
-	-	-	-	-	21,885,359	19,226,875
-	-	-	-	-	8,939,442	8,892,309
-	-	-	-	-	3,762,243	3,471,671
-	23,000	-	-	-	14,067,572	4,639,419
-	<u>23,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,717,170</u>	<u>42,692,387</u>
<u>66,603</u>	<u>(19,284)</u>	<u>86,510</u>	<u>134,842</u>	<u>-</u>	<u>1,258,542</u>	<u>7,808,835</u>
-	-	-	-	(3,919,000)	1,895,810	2,027,040
-	-	-	-	3,919,000	(1,311,850)	(823,592)
-	-	-	-	-	4,788,172	4,344
-	-	-	-	-	5,372,132	1,207,792
66,603	(19,284)	86,510	134,842	-	6,630,674	9,016,627
<u>130,630</u>	<u>161,867</u>	<u>82,104</u>	<u>253,072</u>	<u>-</u>	<u>30,296,413</u>	<u>21,279,786</u>
<u>197,233</u>	<u>142,583</u>	<u>168,614</u>	<u>387,914</u>	<u>-</u>	<u>36,927,087</u>	<u>30,296,413</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.

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:

Measure A Fund

This fund accounts for revenues received and expenditures made related to the voter approved temporary sales tax increase of one-half of one percent (0.5%). The funds will be used to finance the costs incurred to remedy the damage imposed by the June 2005 Bluebird Canyon Landslide. The temporary sales tax increase will be imposed for a period not to exceed six years.

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, 2007
 (With Comparative Totals for June 30, 2006)

	<u>Measure</u> <u>A</u>	<u>Gas</u> <u>Tax</u>	<u>Street Lighting</u> <u>District</u>
<u>Assets</u>			
Cash and investments	\$ 1,750,707	213,230	1,175,007
Receivables:			
Taxes	153,300	-	-
Accounts	-	116,378	17,105
Intergovernmental	-	-	-
Property held for investment	-	-	354,444
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,904,007</u>	<u>329,608</u>	<u>1,546,556</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	10,515	11,805
Retentions payable	-	-	-
Due to other funds	-	-	-
Deferred revenue	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>-</u>	<u>10,515</u>	<u>11,805</u>
Fund balances:			
Reserved:			
Encumbrances	-	375,195	-
Property held for investment	-	-	354,444
Unreserved:			
Designated for reappropriations for continuing projects	-	-	156,817
Undesignated	1,904,007	(56,102)	1,023,490
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>1,904,007</u>	<u>319,093</u>	<u>1,534,751</u>
Total liabilities and fund balances	<u>\$ 1,904,007</u>	<u>329,608</u>	<u>1,546,556</u>

Miscellaneous Grants	Asset Forfeiture	Disaster Grants	Totals	
			2007	2006
7,874	55,638	-	3,202,456	3,687,640
-	-	-	153,300	18,550
-	-	-	133,483	-
37,450	20,059	-	57,509	397,719
-	-	-	354,444	354,444
<u>45,324</u>	<u>75,697</u>	<u>-</u>	<u>3,901,192</u>	<u>4,458,353</u>
-	-	-	22,320	39,060
-	-	-	-	73,902
17,927	-	-	17,927	-
<u>23,128</u>	<u>-</u>	<u>-</u>	<u>23,128</u>	<u>71,973</u>
<u>41,055</u>	<u>-</u>	<u>-</u>	<u>63,375</u>	<u>184,935</u>
-	-	-	375,195	56,336
-	-	-	354,444	354,444
-	-	-	156,817	1,801,675
<u>4,269</u>	<u>75,697</u>	<u>-</u>	<u>2,951,361</u>	<u>2,060,963</u>
<u>4,269</u>	<u>75,697</u>	<u>-</u>	<u>3,837,817</u>	<u>4,273,418</u>
<u>45,324</u>	<u>75,697</u>	<u>-</u>	<u>3,901,192</u>	<u>4,458,353</u>

CITY OF LAGUNA BEACH
 Nonmajor Special Revenue Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended June 30, 2007
 (With Comparative Totals For Year Ended June 30, 2006)

	Measure A	Gas Tax	Street Lighting District
Revenues:			
Taxes	\$ 2,000,512	342,939	919,466
Fines and penalties	-	-	-
Investment income	3,495	58,132	-
Intergovernmental	-	1,117,138	-
Other	-	-	6,328
Total revenues	<u>2,004,007</u>	<u>1,518,209</u>	<u>925,794</u>
Expenditures:			
Current:			
Public safety	-	-	-
Public works	-	-	263,321
Recreation and social services	-	-	-
Capital expenditures	-	3,657,463	26,715
Total expenditures	<u>-</u>	<u>3,657,463</u>	<u>290,036</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,004,007</u>	<u>(2,139,254)</u>	<u>635,758</u>
Other financing sources (uses):			
Transfers in	-	955,000	-
Transfers out	<u>(100,000)</u>	<u>(660,000)</u>	<u>(685,680)</u>
Total other financing sources (uses)	<u>(100,000)</u>	<u>295,000</u>	<u>(685,680)</u>
Net change in fund balances	1,904,007	(1,844,254)	(49,922)
Fund balances (deficit), beginning of year	<u>-</u>	<u>2,163,347</u>	<u>1,584,673</u>
Fund balances, end of year	<u>\$ 1,904,007</u>	<u>319,093</u>	<u>1,534,751</u>

Miscellaneous Grants	Asset Forfeiture	Disaster Grants	Totals	
			2007	2006
-	-	-	3,262,917	1,238,793
-	20,059	-	20,059	38,500
-	1,443	-	63,070	114,246
344,319	-	-	1,461,457	1,678,502
-	-	-	6,328	8,479
<u>344,319</u>	<u>21,502</u>	<u>-</u>	<u>4,813,831</u>	<u>3,078,520</u>
207,141	-	-	207,141	40,892
-	-	-	263,321	196,694
14,982	-	-	14,982	14,396
-	-	-	3,684,178	1,506,272
<u>222,123</u>	<u>-</u>	<u>-</u>	<u>4,169,622</u>	<u>1,758,254</u>
<u>122,196</u>	<u>21,502</u>	<u>-</u>	<u>644,209</u>	<u>1,320,266</u>
-	-	-	955,000	678,000
(100,000)	-	(489,130)	(2,034,810)	(1,462,000)
<u>(100,000)</u>	<u>-</u>	<u>(489,130)</u>	<u>(1,079,810)</u>	<u>(784,000)</u>
22,196	21,502	(489,130)	(435,601)	536,266
<u>(17,927)</u>	<u>54,195</u>	<u>489,130</u>	<u>4,273,418</u>	<u>3,737,152</u>
<u>4,269</u>	<u>75,697</u>	<u>-</u>	<u>3,837,817</u>	<u>4,273,418</u>

CITY OF LAGUNA BEACH

Non-Major Special Revenue Fund

Measure A Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual

Year Ended June 30, 2007

(With Comparative Totals For Year Ended June 30, 2006)

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2006 Actual
Revenues:				
Taxes	\$ 1,700,000	2,000,512	300,512	-
Investment income	-	3,495	3,495	-
Intergovernmental	-	-	-	-
Total revenues	<u>1,700,000</u>	<u>2,004,007</u>	<u>304,007</u>	<u>-</u>
Expenditures:				
Capital expenditures	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>1,700,000</u>	<u>2,004,007</u>	<u>304,007</u>	<u>-</u>
Other financing sources (uses):				
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	1,600,000	1,904,007	304,007	-
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,600,000</u>	<u>1,904,007</u>	<u>304,007</u>	<u>-</u>

CITY OF LAGUNA BEACH

Non-Major Special Revenue Fund

Gas Tax Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual

Year Ended June 30, 2007

(With Comparative Totals For Year Ended June 30, 2006)

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget <u>Positive/ (Negative)</u>	<u>2006 Actual</u>
Revenues:				
Taxes	\$ 350,000	342,939	(7,061)	375,882
Investment income	35,000	58,132	23,132	111,932
Intergovernmental	<u>560,000</u>	<u>1,117,138</u>	<u>557,138</u>	<u>1,507,185</u>
Total revenues	<u>945,000</u>	<u>1,518,209</u>	<u>573,209</u>	<u>1,994,999</u>
Expenditures:				
Capital expenditures	<u>4,040,217</u>	<u>3,657,463</u>	<u>382,754</u>	<u>1,384,281</u>
Total expenditures	<u>4,040,217</u>	<u>3,657,463</u>	<u>382,754</u>	<u>1,384,281</u>
Excess of revenues over (under) expenditures	<u>(3,095,217)</u>	<u>(2,139,254)</u>	<u>955,963</u>	<u>610,718</u>
Other financing sources (uses):				
Transfers in	955,000	955,000	-	678,000
Transfers out	<u>-</u>	<u>(660,000)</u>	<u>(660,000)</u>	<u>(756,000)</u>
Total other financing sources (uses)	<u>955,000</u>	<u>295,000</u>	<u>(660,000)</u>	<u>(78,000)</u>
Net change in fund balances	(2,140,217)	(1,844,254)	295,963	532,718
Fund balances, beginning of year	<u>2,163,347</u>	<u>2,163,347</u>	<u>-</u>	<u>1,630,629</u>
Fund balances, end of year	<u>\$ 23,130</u>	<u>319,093</u>	<u>295,963</u>	<u>2,163,347</u>

CITY OF LAGUNA BEACH

Non-Major Special Revenue Fund

Street Lighting District Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual

Year Ended June 30, 2007

(With Comparative Totals For Year Ended June 30, 2006)

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget <u>Positive/ (Negative)</u>	<u>2006 Actual</u>
Revenues:				
Taxes	\$ 905,000	919,466	14,466	862,911
Other	<u>5,000</u>	<u>6,328</u>	<u>1,328</u>	<u>6,479</u>
Total revenues	<u>910,000</u>	<u>925,794</u>	<u>15,794</u>	<u>869,390</u>
Expenditures:				
Current:				
Public works	270,200	263,321	6,879	196,694
Capital expenditures	<u>193,794</u>	<u>26,715</u>	<u>167,079</u>	<u>114,582</u>
Total expenditures	<u>463,994</u>	<u>290,036</u>	<u>173,958</u>	<u>311,276</u>
Excess of revenues over (under) expenditures	<u>446,006</u>	<u>635,758</u>	<u>189,752</u>	<u>558,114</u>
Other financing sources (uses):				
Transfers out	<u>(685,000)</u>	<u>(685,680)</u>	<u>(680)</u>	<u>(406,000)</u>
Total other financing sources (uses)	<u>(685,000)</u>	<u>(685,680)</u>	<u>(680)</u>	<u>(406,000)</u>
Net change in fund balances	(238,994)	(49,922)	189,072	152,114
Fund balances, beginning of year	<u>1,584,673</u>	<u>1,584,673</u>	<u>-</u>	<u>1,432,559</u>
Fund balances, end of year	<u>\$ 1,345,679</u>	<u>1,534,751</u>	<u>189,072</u>	<u>1,584,673</u>

CITY OF LAGUNA BEACH

Non-Major Special Revenue Fund

Miscellaneous Grants Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual

Year Ended June 30, 2007

(With Comparative Totals For Year Ended June 30, 2006)

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget <u>Positive/ (Negative)</u>	<u>2006 Actual</u>
Revenues:				
Intergovernmental	\$ 362,480	344,319	(18,161)	171,317
Other	-	-	-	2,000
Total revenues	<u>362,480</u>	<u>344,319</u>	<u>(18,161)</u>	<u>173,317</u>
Expenditures:				
Current:				
Public safety	270,352	207,141	63,211	40,892
Recreation and social services	<u>15,000</u>	<u>14,982</u>	18	<u>14,396</u>
Total expenditures	<u>285,352</u>	<u>222,123</u>	<u>63,229</u>	<u>55,288</u>
Excess of revenues over (under) expenditures	<u>77,128</u>	<u>122,196</u>	<u>45,068</u>	<u>118,029</u>
Other financing sources (uses):				
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	-	<u>(100,000)</u>
Total other financing sources (uses):	<u>(100,000)</u>	<u>(100,000)</u>	-	<u>(100,000)</u>
Net change in fund balances	(22,872)	22,196	45,068	18,029
Fund balances (deficit), beginning of year	<u>(17,927)</u>	<u>(17,927)</u>	-	<u>(35,956)</u>
Fund balances (deficit), end of year	<u>\$ (40,799)</u>	<u>4,269</u>	<u>45,068</u>	<u>(17,927)</u>

CITY OF LAGUNA BEACH

Non-Major Special Revenue Fund

Asset Forfeiture Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual

Year Ended June 30, 2007

(With Comparative Totals For Year Ended June 30, 2006)

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget <u>Positive/ (Negative)</u>	<u>2006 Actual</u>
Revenues:				
Fines and penalties	\$ -	20,059	20,059	38,500
Investment income	<u>-</u>	<u>1,443</u>	<u>1,443</u>	<u>2,314</u>
Total revenues	<u>-</u>	<u>21,502</u>	<u>21,502</u>	<u>40,814</u>
Expenditures:				
Capital expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,409</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,409</u>
Excess of revenues over (under) expenditures	-	21,502	21,502	33,405
Other financing sources (uses):				
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>
Net change in fund balances	-	21,502	21,502	(166,595)
Fund balances, beginning of year	<u>54,195</u>	<u>54,195</u>	<u>-</u>	<u>220,790</u>
Fund balances, end of year	<u>\$ 54,195</u>	<u>75,697</u>	<u>21,502</u>	<u>54,195</u>

CITY OF LAGUNA BEACH

Major Debt Service Fund

General Obligation Bonds

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual

Year Ended June 30, 2007

(With Comparative Totals For Year Ended June 30, 2006)

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive/ (Negative)	<u>2006 Actual</u>
Revenues:				
Taxes	\$ 1,664,000	1,575,958	(88,042)	1,619,814
Investment income	25,000	36,340	11,340	51,769
Intergovernmental	9,000	7,037	(1,963)	8,129
Total revenues	<u>1,698,000</u>	<u>1,619,335</u>	<u>(78,665)</u>	<u>1,679,712</u>
Expenditures:				
Debt service:				
Principal	1,255,000	1,255,000	-	1,210,000
Interest and fiscal charges	364,100	361,306	2,794	409,628
Total expenditures	<u>1,619,100</u>	<u>1,616,306</u>	<u>2,794</u>	<u>1,619,628</u>
Excess of revenues over (under) expenditures	78,900	3,029	(75,871)	60,084
Fund balances, beginning of year	<u>2,074,147</u>	<u>2,074,147</u>	-	<u>2,014,063</u>
Fund balances, end of year	<u>\$ 2,153,047</u>	<u>2,077,176</u>	<u>(75,871)</u>	<u>2,074,147</u>

CITY OF LAGUNA BEACH

Major Capital Projects Fund

Capital Projects

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual

Year Ended June 30, 2007

(With Comparative Totals For Year Ended June 30, 2006)

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2006 Actual
Revenues:				
Investment income	\$ -	125,460	125,460	145,378
Other	<u>198,110</u>	<u>615,097</u>	<u>416,987</u>	<u>111,662</u>
Total revenues	<u>198,110</u>	<u>740,557</u>	<u>542,447</u>	<u>257,040</u>
Expenditures:				
Capital expenditures	<u>5,029,323</u>	<u>1,264,418</u>	<u>3,764,905</u>	<u>1,227,116</u>
Total expenditures	<u>5,029,323</u>	<u>1,264,418</u>	<u>3,764,905</u>	<u>1,227,116</u>
Excess of revenues over (under) expenditures	<u>(4,831,213)</u>	<u>(523,861)</u>	<u>4,307,352</u>	<u>(970,076)</u>
Other financing sources (uses):				
Proceeds of bond	<u>-</u>	<u>2,269,830</u>	<u>2,269,830</u>	<u>524,543</u>
Total other financing sources (uses)	<u>-</u>	<u>2,269,830</u>	<u>2,269,830</u>	<u>524,543</u>
Net change in fund balances	(4,831,213)	1,745,969	6,577,182	(445,533)
Fund balances, beginning of year	<u>2,681,454</u>	<u>2,681,454</u>	<u>-</u>	<u>3,126,987</u>
Fund balances (deficit), end of year	<u>\$ (2,149,759)</u>	<u>4,427,423</u>	<u>6,577,182</u>	<u>2,681,454</u>

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, 2007
(With Comparative Totals For June 30, 2006)

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2007	2006
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 12,707,607	2,266,739	14,974,346	13,380,082
Receivables:				
Accounts	-	3,032	3,032	1,665
Prepays	195,473	-	195,473	179,568
Total current assets	<u>12,903,080</u>	<u>2,269,771</u>	<u>15,172,851</u>	<u>13,561,315</u>
Noncurrent assets:				
Advances to other funds	-	-	-	97,568
Notes receivable	-	229,095	229,095	242,821
Property held for investment	956,153	321,657	1,277,810	1,277,809
Capital assets, not being depreciated	-	-	-	289,309
Capital assets, net of depreciation	-	3,084,453	3,084,453	2,401,666
Total noncurrent assets	<u>956,153</u>	<u>3,635,205</u>	<u>4,591,358</u>	<u>4,309,173</u>
Total assets	<u>13,859,233</u>	<u>5,904,976</u>	<u>19,764,209</u>	<u>17,870,488</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	291,788	552	292,340	34,183
Compensated absences due within one year	2,136,958	-	2,136,958	1,500,344
Insurance claims payable due within one year	1,259,209	-	1,259,209	1,434,340
Total current liabilities	<u>3,687,955</u>	<u>552</u>	<u>3,688,507</u>	<u>2,968,867</u>
Non-current liabilities:				
Compensated absences	689,164	-	689,164	1,099,622
Insurance claims payable	2,938,154	-	2,938,154	3,346,792
Total non-current liabilities	<u>3,627,318</u>	<u>-</u>	<u>3,627,318</u>	<u>4,446,414</u>
Total liabilities	<u>7,315,273</u>	<u>552</u>	<u>7,315,825</u>	<u>7,415,281</u>
<u>Net Assets</u>				
Net assets:				
Invested in capital assets	-	3,084,453	3,084,453	2,690,975
Unrestricted	6,543,960	2,819,971	9,363,931	7,764,232
Total net assets	<u>\$ 6,543,960</u>	<u>5,904,424</u>	<u>12,448,384</u>	<u>10,455,207</u>

CITY OF LAGUNA BEACH
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2007
(With Comparative Totals For Year Ended June 30, 2006)

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2007	2006
Operating revenues:				
Vehicle rentals	\$ -	943,300	943,300	916,200
Employee benefits charges	626,401	-	626,401	600,200
Insurance charges	5,520,167	-	5,520,167	5,736,774
Total operating revenues	6,146,568	943,300	7,089,868	7,253,174
Operating expenses:				
Employee benefits	700,079	-	700,079	723,334
Insurance claims and premiums	3,865,874	-	3,865,874	4,947,148
Depreciation	-	425,810	425,810	287,266
Total operating expenses	4,565,953	425,810	4,991,763	5,957,748
Operating income (loss)	1,580,615	517,490	2,098,105	1,295,426
Nonoperating revenues (expenses):				
Investment income	-	10,516	10,516	12,449
Gain (loss) on disposal of capital assets	-	(189,120)	(189,120)	(21,262)
Total nonoperating revenues (expenses)	-	(178,604)	(178,604)	(8,813)
Income (loss) before transfers	1,580,615	338,886	1,919,501	1,286,613
Transfers:				
Transfers in	73,676	-	73,676	123,206
Transfers out	-	-	-	(550,000)
Total transfers	73,676	-	73,676	(426,794)
Change in net assets	1,654,291	338,886	1,993,177	859,819
Net assets at beginning of year	4,889,669	5,565,538	10,455,207	9,595,388
Net assets at end of year	\$ 6,543,960	5,904,424	12,448,384	10,455,207

CITY OF LAGUNA BEACH
Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2007
(With Comparative Totals For Year Ended June 30, 2006)

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2007	2006
Cash flows from operating activities:				
Cash received from user departments	\$ 6,146,568	942,485	7,089,053	7,414,811
Cash payments to suppliers for goods and services	(4,207,943)	-	(4,207,943)	(3,993,930)
Cash payments to employees for services	(473,923)	-	(473,923)	(500,524)
Net cash provided by (used for) operating activities	<u>1,464,702</u>	<u>942,485</u>	<u>2,407,187</u>	<u>2,920,357</u>
Cash flows from noncapital financing activities:				
Cash received from other funds	171,244	13,725	184,969	123,206
Loan principal received	-	-	-	11,781
Net cash provided by (used for) noncapital financing activities	<u>171,244</u>	<u>13,725</u>	<u>184,969</u>	<u>134,987</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	(1,335,120)	(1,335,120)	(613,925)
Proceeds from sale of capital assets	-	326,712	326,712	11,255
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>(1,008,408)</u>	<u>(1,008,408)</u>	<u>(602,670)</u>
Cash flows from investing activities:				
Purchase of property held for investment	-	-	-	(554,500)
Interest received	-	10,516	10,516	12,449
Net cash provided by (used for) investing activities	<u>-</u>	<u>10,516</u>	<u>10,516</u>	<u>(542,051)</u>
Net increase (decrease) in cash and cash equivalents	1,635,946	(41,682)	1,594,264	1,910,623
Cash and cash equivalents at beginning of year	<u>11,071,661</u>	<u>2,308,421</u>	<u>13,380,082</u>	<u>11,469,459</u>
Cash and cash equivalents at end of year	<u>\$ 12,707,607</u>	<u>2,266,739</u>	<u>14,974,346</u>	<u>13,380,082</u>

(Continued)

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

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2007	2006
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 1,580,615	517,490	2,098,105	1,295,426
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	-	425,810	425,810	287,266
Loss on disposal of capital assets	-	-	-	(21,262)
(Increase) decrease in accounts receivable	-	(1,367)	(1,367)	(1,665)
(Increase) decrease in prepaids	(15,905)	-	(15,905)	(8,271)
(Increase) decrease in other assets	-	-	-	152,047
Increase (decrease) in accounts payable and accrued liabilities	257,605	552	258,157	(1,759)
Increase (decrease) in compensated absences payable	226,156	-	226,156	222,810
Increase (decrease) in insurance claims payable	(583,769)	-	(583,769)	995,765
Net cash provided by (used for) operating activities	<u>\$ 1,464,702</u>	<u>942,485</u>	<u>2,407,187</u>	<u>2,920,357</u>
Supplemental schedule of noncash capital, financing, and investing activities:				
Forgiven loan made to General Fund	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>550,000</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, 2007
 (With Comparative Totals For June 30, 2006)

	<u>1911 Act Bonds</u>	<u>1915 Act Bonds</u>	<u>Deposits</u>	<u>Totals</u>	
				2007	2006
<u>Assets</u>					
Cash and investments	\$ 13,995	2,594,814	2,801,317	5,410,126	4,886,925
Investments with fiscal agent	-	1,687,131	-	1,687,131	1,423,624
Receivables:					
Intergovernmental	<u>-</u>	<u>37,345</u>	<u>7,793</u>	<u>45,138</u>	<u>51,152</u>
 Total assets	 <u>\$ 13,995</u>	 <u>4,319,290</u>	 <u>2,809,110</u>	 <u>7,142,395</u>	 <u>6,361,701</u>
 <u>Liabilities</u>					
Accounts payable and accrued liabilities	\$ -	-	52,461	52,461	816
Deposits	-	-	2,756,649	2,756,649	2,493,710
Due to bondholders	<u>13,995</u>	<u>4,319,290</u>	<u>-</u>	<u>4,333,285</u>	<u>3,867,175</u>
 Total liabilities	 <u>\$ 13,995</u>	 <u>4,319,290</u>	 <u>2,809,110</u>	 <u>7,142,395</u>	 <u>6,361,701</u>

CITY OF LAGUNA BEACH
 Agency Funds
 Combining Statement of Changes in Fiduciary Assets and Liabilities
 June 30, 2007

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
1911 Act Bonds				
<u>Assets</u>				
Cash and Investments	\$ 12,194	13,995	12,194	13,995
<u>Liabilities</u>				
Due to bondholders	\$ 12,194	13,995	12,194	13,995
1915 Act Bonds				
<u>Assets</u>				
Cash and investments	\$ 2,467,807	2,594,814	2,467,807	2,594,814
Investments with fiscal agent	1,423,624	1,687,131	1,423,624	1,687,131
Receivables:				
Intergovernmental	35,683	37,345	35,683	37,345
Total assets	<u>\$ 3,927,114</u>	<u>4,319,290</u>	<u>3,927,114</u>	<u>4,319,290</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 816	-	816	-
Deposits	71,317	-	71,317	-
Due to bondholders	3,854,981	4,319,290	3,854,981	4,319,290
Total liabilities	<u>\$ 3,927,114</u>	<u>4,319,290</u>	<u>3,927,114</u>	<u>4,319,290</u>
<u>Deposits</u>				
<u>Assets</u>				
Cash and investments	\$ 2,406,924	2,801,317	2,406,924	2,801,317
Receivables:				
Intergovernmental	15,469	7,793	15,469	7,793
Total assets	<u>\$ 2,422,393</u>	<u>2,809,110</u>	<u>2,422,393</u>	<u>2,809,110</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ -	52,461	-	52,461
Deposits	2,422,393	2,756,649	2,422,393	2,756,649
Total liabilities	<u>\$ 2,422,393</u>	<u>2,809,110</u>	<u>2,422,393</u>	<u>2,809,110</u>
TOTALS				
<u>Assets</u>				
Cash and investments	\$ 4,886,925	5,410,126	4,886,925	5,410,126
Investments with fiscal agent	1,423,624	1,687,131	1,423,624	1,687,131
Receivables:				
Intergovernmental	51,152	45,138	51,152	45,138
Total assets	<u>\$ 6,361,701</u>	<u>7,142,395</u>	<u>6,361,701</u>	<u>7,142,395</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 816	52,461	816	52,461
Deposits	2,493,710	2,756,649	2,493,710	2,756,649
Due to bondholders	3,867,175	4,333,285	3,867,175	4,333,285
Total liabilities	<u>\$ 6,361,701</u>	<u>7,142,395</u>	<u>6,361,701</u>	<u>7,142,395</u>

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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, 2007

	2007	2006
Governmental funds capital assets:		
Land	\$ 79,010,049	78,313,737
Buildings and improvements	18,446,906	18,244,196
Office equipment and machinery	5,288,901	5,096,097
Furniture and fixtures	990,095	901,613
Equipment, machinery and tools	2,873,854	2,387,660
Sewer plant lines	59,230,217	40,400,411
Automotive equipment	91,306	82,369
Infrastructure	171,314,125	9,424,723
Construction in progress	9,930,399	4,436,645
Total governmental funds capital assets	\$ 347,175,852	159,287,451
Investments in governmental funds capital assets by source:		
General and special revenue funds and contributions	\$ 324,302,538	136,414,137
Capitalized lease obligations	6,388,800	6,388,800
Grants	16,484,514	16,484,514
Total governmental funds capital assets	\$ 347,175,852	159,287,451

CITY OF LAGUNA BEACH
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity
Year Ended June 30, 2007

Function	Governmental Funds Capital Assets June 30, 2006	Additions	Deletions	Governmental Funds Capital Assets June 30, 2007
General government	\$ 23,732,479	832,150	3,572	24,561,057
Community development	376,232	39,051	36,955	378,328
Public safety	4,557,179	484,182	4,224	5,037,137
Public works	124,503,577	183,743,778	226,025	308,021,330
Recreation and social services	<u>6,117,984</u>	<u>3,065,016</u>	<u>5,000</u>	<u>9,178,000</u>
Total governmental funds capital assets	<u>\$ 159,287,451</u>	<u>188,164,177</u>	<u>275,776</u>	<u>347,175,852</u>

CITY OF LAGUNA BEACH
Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity
June 30, 2007

Function	Land	Buildings and Improvements	Office Equipment and Machinery	Furniture and Fixtures
General government	\$ 18,979,078	4,305,606	1,124,147	149,134
Community development	101,653	20,602	207,253	48,820
Public safety	225,990	1,208,080	1,920,855	165,940
Public works	55,455,895	12,816,216	1,991,300	29,171
Recreation and social services	4,247,433	96,402	45,346	597,030
	<u>\$ 79,010,049</u>	<u>18,446,906</u>	<u>5,288,901</u>	<u>990,095</u>

Equipment Machinery and Tools	Sewer plant lines	Automotive Equipment	Infrastructure	Construction in Progress	Total
3,092	-	-	-	-	24,561,057
-	-	-	-	-	378,328
1,431,903	-	84,369	-	-	5,037,137
1,388,230	59,230,217	6,937.00	171,314,125	5,789,239	308,021,330
50,629	-	-	-	4,141,160	9,178,000
<u>2,873,854</u>	<u>59,230,217</u>	<u>91,306</u>	<u>171,314,125</u>	<u>9,930,399</u>	<u>347,175,852</u>

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OTHER INFORMATION

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CITY OF LAGUNA BEACH
Net Assets by Component
Last Five Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
Governmental activities:					
Invested in capital assets, net of related debt	\$ 88,025,542	\$ 100,630,789	\$ 105,408,336	\$ 124,111,940	\$ 285,605,573
Restricted	10,032,695	8,324,762	9,726,623	10,449,060	11,766,456
Unrestricted	23,241,494	23,439,204	31,968,151	34,239,450	43,592,259
Total governmental activities	<u>\$ 121,299,731</u>	<u>\$ 132,394,755</u>	<u>\$ 147,103,110</u>	<u>\$ 168,800,450</u>	<u>\$ 340,964,288</u>
Business-type activities:					
Invested in capital assets, net of related debt	\$ 1,429,586	1,773,060	\$ 1,498,938	\$ 1,720,568	\$ 2,702,993
Restricted					
Unrestricted	23,050	23,051	714,920	265,839	505,975
Total business type activities	<u>\$ 1,452,636</u>	<u>1,796,111</u>	<u>\$ 2,213,858</u>	<u>\$ 1,986,407</u>	<u>\$ 3,208,968</u>
Primary Government:					
Invested in capital assets, net of related debt	\$ 89,455,128	\$ 102,403,849	\$ 106,907,274	\$ 125,832,508	\$ 288,308,566
Restricted	10,032,695	8,324,762	9,726,623	10,449,060	11,766,456
Unrestricted	23,264,544	23,462,255	32,683,071	34,505,289	44,098,234
Total business type activities	<u>\$ 122,752,367</u>	<u>\$ 134,190,866</u>	<u>\$ 149,316,968</u>	<u>\$ 170,786,857</u>	<u>\$ 344,173,256</u>

*The City of Laguna Beach implemented GASB 34 for the fiscal year ended June 30, 2003.
Information prior to the implementation of GASB 34 is not available*

CITY OF LAGUNA BEACH
 Changes in Net Assets
 Last Five Fiscal Years
 (accrual basis of accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
Expenses:					
Governmental activities:					
General government	\$ 3,124,084	\$ 2,904,607	\$ 4,294,820	\$ 3,921,931	\$ 4,043,977
Community development	2,337,716	2,355,274	2,382,329	2,668,812	2,955,670
Public Safety	16,112,020	16,049,217	18,193,401	18,864,927	21,480,996
Public Works	16,998,409	13,172,223	11,063,217	21,427,184	13,372,777
Recreation and social services	2,895,627	2,851,119	3,164,928	3,415,130	3,609,896
Sewer service operating costs	3,551,289	3,147,888	3,924,249	3,484,183	4,561,407
Interest on long-term debt	1,344,024	968,961	518,189	521,755	511,304
Total governmental activities expenses	46,363,169	41,449,289	43,541,133	54,303,922	50,536,027
Business-type activities:					
Municipal transit	\$ 1,289,289	\$ 1,453,091	\$ 1,677,468	\$ 1,664,811	\$ 1,857,979
Total business-type activities expenses	\$ 1,289,289	\$ 1,453,091	\$ 1,677,468	\$ 1,664,811	\$ 1,857,979
Total primary government expenses	\$ 47,652,458	\$ 42,902,380	\$ 45,218,601	\$ 55,968,733	\$ 52,394,006
Program revenues:					
Governmental activities:					
Charges for Services:					
General Government	\$ 763,533	\$ 895,538	\$ 954,161	\$ 985,885	\$ 1,097,636
Community development	1,728,284	2,317,751	2,680,048	2,775,360	2,811,790
Public safety	1,575,897	1,685,647	1,877,297	2,050,919	2,010,319
Public works	5,176,964	4,410,512	5,523,490	4,893,227	6,113,731
Recreation and social services	1,154,832	1,204,292	1,145,857	1,217,894	1,405,718
Sewer service operating costs	4,542,347	4,997,882	5,091,637	5,328,527	5,497,631
Operating Grants and Contributions:	2,491,136	2,445,247	2,804,549	3,716,412	5,017,124
Capital Grants and Contributions:	5,147,937	909,854	2,453,596	14,298,137	15,865,514
Total governmental activities program revenues	\$ 22,580,930	\$ 18,866,723	\$ 22,530,635	\$ 35,266,361	\$ 39,819,463
Business-type activities					
Charges for Services:					
Municipal Transit	\$ 160,217	\$ 184,466	\$ 223,662	\$ 325,015	\$ 339,842
Operating Grants and Contributions:	973,931	1,085,797	1,201,453	881,047	1,221,042
Capital Grants and Contributions:	668,724	526,303	450,000	57,912	1,223,950
Total business-type activities program revenues	\$ 1,802,872	\$ 1,796,566	\$ 1,875,115	\$ 1,263,974	\$ 2,784,834
Total primary government program revenues	\$ 24,383,802	\$ 20,663,289	\$ 24,405,750	\$ 36,530,335	\$ 42,604,297
Net revenues (expenses):					
Governmental activities	\$ (23,782,239)	\$ (22,582,566)	\$ (21,010,498)	\$ (19,037,561)	\$ (10,716,564)
Business-type activities	513,583	343,475	197,647	(400,837)	926,855
Total net revenues (expenses)	\$ (23,268,656)	\$ (22,239,091)	\$ (20,812,851)	\$ (19,438,398)	\$ (9,789,709)

The City of Laguna Beach implemented GASB 34 for the fiscal year ended June 30, 2003.
 Information prior to the implementation of GASB 34 is not available

CITY OF LAGUNA BEACH
Changes in Net Assets
Last Five Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
General Revenues and other changes in net assets:					
Governmental activities:					
Taxes:					
Property taxes	\$ 14,987,265	\$ 16,295,123	\$ 19,355,411	\$ 21,284,138	\$ 23,447,241
Sales Tax	3,714,249	3,757,472	3,153,636	3,623,610	5,925,132
Sales tax in-lieu		0	910,621	918,602	1,112,853
Transient occupancy taxes	3,694,378	6,770,614	7,251,883	7,900,582	5,445,283
Other taxes	3,093,474	3,425,828	3,197,487	5,144,450	7,038,506
Motor vehicle license fees, unrestricted	1,416,513	1,073,809	266,988	171,850	144,395
Investment Income	1,035,339	866,479	790,686	952,890	1,646,417
Other general revenue	1,113,806	1,450,806	987,200	912,165	1,042,577
Gain on sale of assets		37,459	25,041		595,802
Transfers	(27,738)	0	(220,100)	(173,386)	(272,174)
Total governmental activities	\$ 29,027,286	\$ 33,677,590	\$ 35,718,853	\$ 40,734,901	\$ 46,126,032
Business-type activities					
Investment Income					\$ 19,532
Other general revenue					4,000
Gain or loss on sale of assets	\$ (9,403)				
Transfers	27,738	\$ -	\$ 220,100	\$ 173,386	272,174
Total Business-type activities	18,335	\$ -	220,100	173,386	295,706
Total Primary government	\$ 29,045,621	\$ -	\$ 35,938,953	\$ 40,908,287	\$ 46,421,738
Changes in net assets					
Governmental activities	5,245,047	11,095,024	14,708,355	21,697,340	35,409,468
Business-type activities	531,918	343,475	417,747	(227,451)	1,222,561
Total primary government	\$ 5,776,965	\$ 11,438,499	\$ 15,126,102	\$ 21,469,889	\$ 36,632,029

*The City of Laguna Beach implemented GASB 34 for the fiscal year ended June 30, 2003.
Information prior to the implementation of GASB 34 is not available*

CITY OF LAGUNA BEACH
Fund Balances of Governmental Funds
Last Five Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
General fund:					
Reserved	\$ 2,631,536	\$ 1,762,179	\$ 1,965,077	\$ 10,917,199	\$ 15,920,632
Unreserved	17,023,558	13,094,341	19,314,709	19,379,214	21,006,455
Total general fund	<u>\$ 19,655,094</u>	<u>\$ 14,856,520</u>	<u>\$ 21,279,786</u>	<u>\$ 30,296,413</u>	<u>\$ 36,927,087</u>
Gas Tax Fund					
Reserved	\$ 236,402	\$ 232,777	\$ 250,484		
Unreserved	563,013	805,742	1,380,145		
Total gas tax fund	<u>\$ 799,415</u>	<u>\$ 1,038,519</u>	<u>\$ 1,630,629</u>	<u>\$ -</u>	<u>\$ -</u>
Bluebird Landslide					
Reserved				\$ 1,245,174	
Unreserved				(8,394,353)	(14,203,915)
Total bluebird fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,149,179)</u>	<u>\$ (14,203,915)</u>
Sewer service fund					
Reserved	\$ 697,135	\$ 75,373	\$ 2,382,349	\$ 1,167,486	\$ 533,047
Unreserved	1,164,929	2,072,789	(345,289)	1,775,024	3,110,897
Total sewer service fund	<u>\$ 1,862,064</u>	<u>\$ 2,148,162</u>	<u>\$ 2,037,060</u>	<u>\$ 2,942,510</u>	<u>\$ 3,643,944</u>
General obligation bonds fund					
reserved	\$ 1,761,187	\$ 1,866,023	\$ 2,014,063	\$ 2,174,147	\$ 2,077,176
unreserved					
Total general obligation bonds fund	<u>\$ 1,761,187</u>	<u>\$ 1,866,023</u>	<u>\$ 2,014,063</u>	<u>\$ 2,174,147</u>	<u>\$ 2,077,176</u>
Capital projects fund					
reserved	\$ 1,461,671	\$ 353,459	\$ 1,025,874		
unreserved	418,017	2,147,864	2,101,113	2,681,454	4,427,423
Total capital projects fund	<u>\$ 1,879,688</u>	<u>\$ 2,501,323</u>	<u>\$ 3,126,987</u>	<u>\$ 2,681,454</u>	<u>\$ 4,427,423</u>
All other governmental funds					
Reserved	\$ 1,553,324	\$ 1,324,428	\$ 1,104,444	\$ 410,780	\$ 729,639
Unreserved, reported in:					
Special revenue funds	1,644,335	1,007,450	1,002,079	3,862,638	3,108,178
Capital project funds					
Permanent funds					
Total all other governmental funds	<u>\$ 3,197,659</u>	<u>\$ 2,331,878</u>	<u>\$ 2,106,523</u>	<u>\$ 4,273,418</u>	<u>\$ 3,837,817</u>

The City of Laguna Beach has elected to show only five years of data for this schedule

CITY OF LAGUNA BEACH
Changes in Fund Balances of Governmental Funds
Last Five Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2003	2004	2005	2006	2007
Revenues:					
Taxes and Special Assessments	\$ 24,645,650	\$ 27,674,519	\$ 33,632,030	\$ 37,249,362	\$ 41,980,491
License and permits	882,545	998,849	1,189,531	1,264,362	1,096,008
Fines and penalties	1,171,368	1,284,874	1,529,719	1,598,359	1,476,739
Investment income	1,120,290	960,226	932,572	1,277,408	1,836,734
Rental income	400,928	403,376	450,735	448,309	369,318
Intergovernmental	4,227,651	3,577,569	2,924,122	9,989,976	11,713,427
Charges for services	9,383,066	10,871,092	11,282,059	11,566,496	12,316,932
Parking meters, lots and permits	3,449,024	2,805,707	3,862,436	3,225,562	4,334,250
Development tax	627,812	372,123	356,855	386,146	276,472
Contributions from property owners	4,012,814	358,686	578,739		
Other	572,059	677,375	547,486	806,114	1,938,787
Total Revenue	<u>\$ 50,493,207</u>	<u>\$ 49,984,396</u>	<u>\$ 57,286,284</u>	<u>\$ 67,812,094</u>	<u>\$ 77,339,158</u>
Expenditures					
Current:					
General government	\$ 2,881,158	\$ 2,930,520	\$ 4,181,073	\$ 3,758,978	\$ 3,361,299
Community development	2,283,465	2,490,925	2,416,040	2,703,135	3,041,255
Public Safety	15,646,840	16,758,061	18,641,992	19,267,767	22,092,500
Public works	8,468,281	8,426,182	8,584,263	9,089,003	9,202,763
Recreation and social services	2,847,479	3,039,009	3,230,652	3,486,067	4,437,225
Sewer service operating costs	2,785,101	2,848,097	3,389,582	2,928,237	3,348,521
Capital expenditures	22,180,636	10,216,779	6,865,535	23,870,902	36,404,842
Debt service:					
Principle	1,425,000	9,286,834	1,660,000	1,730,000	2,101,314
Interest and fiscal charges	613,869	992,687	543,296	468,513	542,389
Total Expenditures	<u>\$ 59,131,829</u>	<u>\$ 56,989,094</u>	<u>\$ 49,512,433</u>	<u>\$ 67,302,602</u>	<u>\$ 84,532,108</u>
Excess (deficiency) of revenues over (under) expenditures	\$ (8,638,622)	\$ (7,004,698)	\$ 7,773,851	\$ 509,492	\$ (7,192,950)
Other financing sources (uses):					
Transfer In	\$ 1,013,001	\$ 2,397,537	\$ 1,557,042	\$ 2,905,040	\$ 3,000,810
Transfer Out	(1,214,051)	(1,809,812)	(3,581,690)	(2,651,632)	(3,346,660)
Proceeds of Bond			1,627,140	524,543	2,269,830
Issuance of Loan			69,357	1,632,928	2,071,567
Developer loan	8,707,000				
Sales of land and equipment	5,198	3,991	6,923	4,344	4,788,172
Total other financing sources (uses)	<u>8,511,148</u>	<u>591,716</u>	<u>(321,228)</u>	<u>2,415,223</u>	<u>8,783,719</u>
Net change in fund balances	<u>\$ (127,474)</u>	<u>\$ (6,412,982)</u>	<u>\$ 7,452,623</u>	<u>\$ 2,924,715</u>	<u>\$ 1,590,769</u>
Debt service as a percentage of noncapital expenditures	5.8%	28.2%	5.4%	5.3%	5.8%

The City of Laguna Beach has elected to show only five years of data for this schedule

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

Fiscal Year Ended June 30	Secured	Unsecured	Taxable Assessed Value	Total Direct Tax Rate
1998	3,428,240,980	72,053,682	3,500,294,662	0.149%
1999	3,687,534,309	65,764,810	3,753,299,119	0.149%
2000	4,076,837,369	79,043,412	4,155,880,781	0.149%
2001	4,472,147,085	75,997,407	4,548,144,492	0.147%
2002	4,975,476,933	73,338,031	5,048,814,964	0.146%
2003	5,410,641,646	75,742,398	5,486,384,044	0.146%
2004	5,945,977,936	91,846,719	6,037,824,655	0.146%
2005	6,670,751,744	156,881,531	6,827,633,275	0.146%
2006	7,462,406,353	89,524,835	7,551,931,188	0.146%
2007	8,192,343,413	92,175,078	8,284,518,491	0.146%

NOTE:

In 1978 the voters of the State of California passed Proposition 13 which limited the property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Source: Orange County Auditor Controller's Office

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CITY OF LAGUNA BEACH
 Direct and Overlapping Property Tax Rates (1)
 (Rate per \$100 of assessed value)
 Last Ten Fiscal Years

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
City Direct Rates:				
City basic rate	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Total City Direct Rate	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Overlapping Rates:				
City of Laguna Beach Bonds	0.0497	0.0458	0.0418	0.0372
Unified School District Bonds				
South Coast Water District	0.0502	0.0451	0.0407	0.0216
Metro Water District	0.0089	0.0089	0.0089	0.0088
Orange County	0.0090	0.0014	0.0007	
Total Direct Rate	<u>\$ 1.11779</u>	<u>\$ 1.10121</u>	<u>\$ 1.09207</u>	<u>\$ 1.06760</u>

NOTE:

- (1) Tax rates are for tax rate 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) In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of other debt obligations.

Source: Orange County Auditor Controller's Office

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
0.0320	0.0291	0.0223	0.0197	0.0179	0.0179
0.0376	0.0290	0.0202	0.0190	0.0172	0.0172
0.0193	0.0166	0.0108	0.0098	0.0090	0.0090
0.0070	0.0067	0.0058	0.0052	0.0047	0.0047
<u>\$ 1.09598</u>	<u>\$ 1.08129</u>	<u>\$ 1.05909</u>	<u>\$ 1.05370</u>	<u>\$ 1.04883</u>	<u>\$ 1.04883</u>

CITY OF LAGUNA BEACH
Principle Property Tax Payers
Current Year and Four Years Ago

Taxpayer	2007			2003*		
	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percent of Total City Taxable Assessed Value
Laguna Beach Luxury Hotel	159,359,869	1	1.95%	N/A		0.00%
Club Laguna Partnership	42,340,919	2	0.51%	36,167,537	2	0.69%
Nevills Neil D Trust	29,580,000	3	0.36%	N/A		0.00%
Aliso Creek Properties	28,408,181	4	0.34%	N/A		0.00%
Gary J. Daichendt Trust	18,682,029	5	0.22%	N/A		0.00%
Laguna Hotels LP	18,662,200	6	0.22%	N/A		0.00%
David Merage Trust	14,565,598	7	0.17%	N/A		0.00%
Emerald Financial LLC	13,966,000	8	0.17%	N/A		0.00%
Ted Tomasek Trust	13,662,631	9	0.16%	11,880,000		0.21%
Yousefi Nariman	13,024,713	10	0.15%	N/A		0.00%
	<u>352,252,140</u>		<u>4.25%</u>	<u>48,047,537</u>		<u>0.90%</u>

Source: 2003 data HDL, Coren and Cone Company
2007 data 2006-2007 County Assesor data, MuniServices, LLC

* Data prior to 2003 ws not available at time of printing.

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

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collections within the Fiscal Year of Levy		Collection in Subsequent Years	Total Collection to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
1998	8,082,658	7,919,881	97.99%	162,777	8,082,658	100%
1999	8,719,787	8,545,931	98.01%	173,856	8,719,787	100%
2000	9,858,834	9,669,463	98.08%	189,371	9,858,834	100%
2001	10,760,392	10,543,374	97.98%	217,018	10,760,392	100%
2002	11,938,774	11,686,447	97.89%	252,327	11,938,774	100%
2003	12,895,845	12,655,796	98.14%	240,049	12,895,845	100%
2004	14,215,094	14,006,384	98.53%	208,710	14,215,094	100%
2005	16,207,471	16,492,734	101.76%	285,263	16,777,997	104%
2006	18,222,850	17,817,435	97.78%	405,415	18,222,850	100%
2007	19,684,235	18,984,179	96.44%	700,056.00	19,684,235	100%

Source: Orange County Auditor Controller's Office

CITY OF LAGUNA BEACH
 Legal Debt Margin
 Last Ten Fiscal Years

	Fiscal Year			
	1998	1999	2000	2001
Assessed valuation	3,500,294,662	3,753,299,119	4,155,880,781	4,548,144,492
Conversion percentage	25%	25%	25%	25%
Adjusted assessed valuation	875,073,666	938,324,780	1,038,970,195	1,137,036,123
Debt limit percentage	15%	15%	15%	15%
Debt limit	131,261,050	140,748,717	155,845,529	170,555,418
Total net debt applicable to limit: General obligation bonds	<u>15,092,851</u>	<u>14,314,783</u>	<u>13,362,089</u>	<u>12,692,076</u>
Legal debt margin	<u>\$ 116,168,199</u>	<u>\$ 126,433,934</u>	<u>\$ 142,483,440</u>	<u>\$ 157,863,342</u>
Total debt applicable to the limit as a percentage of debt limit	11.5%	10.2%	8.6%	7.4%

Note:

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

Source: City Administrative Services Department

Fiscal Year					
2002	2003	2004	2005	2006	2007
5,048,814,964	5,486,384,044	6,037,824,655	6,827,633,275	7,551,931,188	8,284,518,491
25%	25%	25%	25%	25%	25%
1,262,203,741	1,371,596,011	1,509,456,164	1,706,908,319	1,887,982,797	2,071,129,623
15%	15%	15%	15%	15%	15%
189,330,561	205,739,402	226,418,425	256,036,248	283,197,420	310,669,443
11,346,297	10,138,813	8,913,977	7,600,937	6,330,853	5,072,824
<u>\$ 177,984,264</u>	<u>\$ 195,600,589</u>	<u>\$ 217,504,448</u>	<u>\$ 248,435,311</u>	<u>\$ 276,866,567</u>	<u>\$ 305,596,619</u>
6.0%	4.9%	3.9%	3.0%	2.2%	1.6%

CITY OF LAGUNA BEACH
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year*	Population (1)	Personal Income (in thousands) (2)	Per Capita Income (2)	Unemployment Rates (3)
1997	24,083	83,635	30,870	3.3
1998	24,527	90,579	32,663	2.9
1999	24,928	96,288	34,194	2.7
2000	25,282	106,003	37,097	3.5
2001	24,157	109,010	37,638	4.0
2002	24,313	111,750	38,168	5.0
2003	24,589	117,722	39,828	4.8
2004	24,774	125,798	42,260	4.3
2005	24,969	135,587	45,465	3.8
2006	24,963	143,949	48,209	3.4

Sources: (1) State Department of Finance
(2) Office of Economic Development (date shown is for the County)
(3) State of California Employment Development Department (data shown is for the County)

* *Data for 2007 was not available at time of printing.*

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CITY OF LAGUNA BEACH
 Full-time City Employees by Function
 Last Ten Fiscal Years

Function	Fiscal Year			
	1998	1999	2000	2001
General Government	13.90	14.00	14.00	15.00
Public Safety	127.00	128.00	128.00	132.00
Public Works	49.00	50.00	50.00	55.00
Community Development	20.00	20.20	21.40	21.40
Recreational and Cultural	5.25	5.75	6.75	6.75
Water Quality				
Total	<u>215.15</u>	<u>217.95</u>	<u>220.15</u>	<u>230.15</u>

Source: City Administrative Services Department

Fiscal Year					
2002	2003	2004	2005	2006	2007
15.00	17.10	17.63	17.63	18.03	18.03
133.00	134.00	131.00	131.75	132.00	133.00
66.00	69.00	54.00	56.00	56.00	56.00
22.60	23.60	23.60	24.00	24.00	26.00
6.75	6.75	7.50	7.50	7.50	7.50
		15.00	15.00	15.00	15.00
<u>243.35</u>	<u>250.45</u>	<u>248.73</u>	<u>251.88</u>	<u>252.53</u>	<u>255.53</u>

CITY OF LAGUNA BEACH
 Operating Indicators
 Last Ten Fiscal Years

	Fiscal Year			
	1998	1999	2000	2001
Police				
Custodial Arrests	3,037	1,223	1,350	1,441
Traffic Violations	12,478	12,388	11,213	11,020
Parking Violations	52,633	52,045	45,997	48,697
Fire Protection:				
Number of Calls Answered	2,446	3,696	2,033	2,090
Number of Inspections	1,440	1,507	294	299
Water Quality:				
Number of Service Connections	7,699	7,699	7,699	7,838
Daily Average Treatment in gallons	2	2	2	2
Maximum daily capacity of treatment plant in gallons	4	4	4	4

Source: City Administrative Services Department

Fiscal Year					
2002	2003	2004	2005	2006	2007
2,467	2,936	3,358	1,997	1,823	1,474
8,519	6,945	579	9,934	7,089	6,093
42,496	43,786	38,335	38,335	38,335	45,500
2,309	2,432	2,432	2,454	2,446	2,614
500	709	709	709	714	652
7,838	8,504	8,504	8,504	8,504	8,504
2	2	2	2	2	2
4	4	4	4	4	4

CITY OF LAGUNA BEACH
Capital Asset Statistics by Function
Last Ten Fiscal Years

	Fiscal Year			
	1998	1999	2000	2001
Police				
Stations	1	1	1	1
Fire:				
Fire Stations	4	4	4	4
Public Works				
Streets (miles)	93	93	93	93
Streetlights	1,241	1,241	1,241	1,241
Culture and Recreation				
Community Centers	3	3	3	3
Parks	16	16	16	16
Park Acreage	57	57	57	57
Tennis Courts	12	12	12	12
Water Quality				
Miles of sanitary sewers		90.00		95.00
Miles of storm drains	78.00	78.00	78.00	78.00

Source: City Administrative Services Department

Fiscal Year					
2002	2003	2004	2005	2006	2007
1	1	1	1	1	1
4	4	4	4	4	4
93	93	93	93	93	93
1,241	1,241	1,241	1,241	1,241	1,241
3	3	3	3	3	3
16	17	17	17	17	17
60	47	47	47	47	47
12	12	12	12	12	12
95.00	95.00	95.00	95.00	95.00	95.00
78.00	78.00	78.00	78.00	78.00	78.00

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