

CITY OF LAGUNA BEACH
Laguna Beach, California

Comprehensive Annual Financial Report

Year Ended June 30, 2008

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CITY OF LAGUNA BEACH, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

CITY COUNCIL:

Jane Egly, Mayor
Cheryl Kinsman, Mayor Pro-Tem
Toni Iseman, Council Member
Kelly Boyd, Council Member
Elizabeth Pearson, 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, 2008

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INTRODUCTORY SECTION

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January 9, 2009

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, 2008. 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, 2008, 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, 2008, 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 25,000. 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 15% 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 is a balanced community with commercial, retail, light industrial and residential areas. The overall economy was stable with the City's revenues exceeding estimates and increasing 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. On December 1, 2008, the National Bureau of Economic Research (NBER) officially announced the U.S. economy slipped into recession in 2007. This current recession period is among the longest on record and many economists believe this recession will continue through the middle of 2009. The impact of this recessionary period on the City of Laguna Beach is unknown but it has already had a dramatic effect on the State's revenue base, creating a particularly bleak overall budget outlook for 2008-09. With the passage of proposition 1A it is much more difficult for State legislators to raid local government finances but there is a risk that the State may still attempt to shift some of the burden to local governments by reallocating revenues. 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 with expected completion dates within the next year. 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 an extensive street rehabilitation project which includes resurfacing streets within four different major locations with a budget of approximately \$6.4 million and an estimated completion date of February 2009.

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.

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 12 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 full premiums to the City for health insurance coverage.

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 \$37 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.

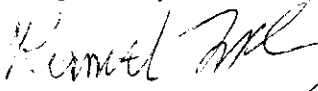
As of June 30, 2008 the City of Laguna Beach had received total reimbursement from FEMA and the State of California Office of Emergency in the amount of \$32 million with the remaining balance expected to be received in 2009.

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 up to six years generating approximately \$2.7 million per year. Revenue received through Measure A will be used toward the emergency repair and permanent restoration of Bluebird Canyon and for a disaster contingency fund for future disasters. The ½% increase became effective July 1, 2006.

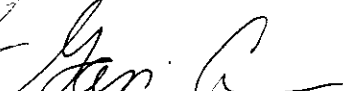
Acknowledgements

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

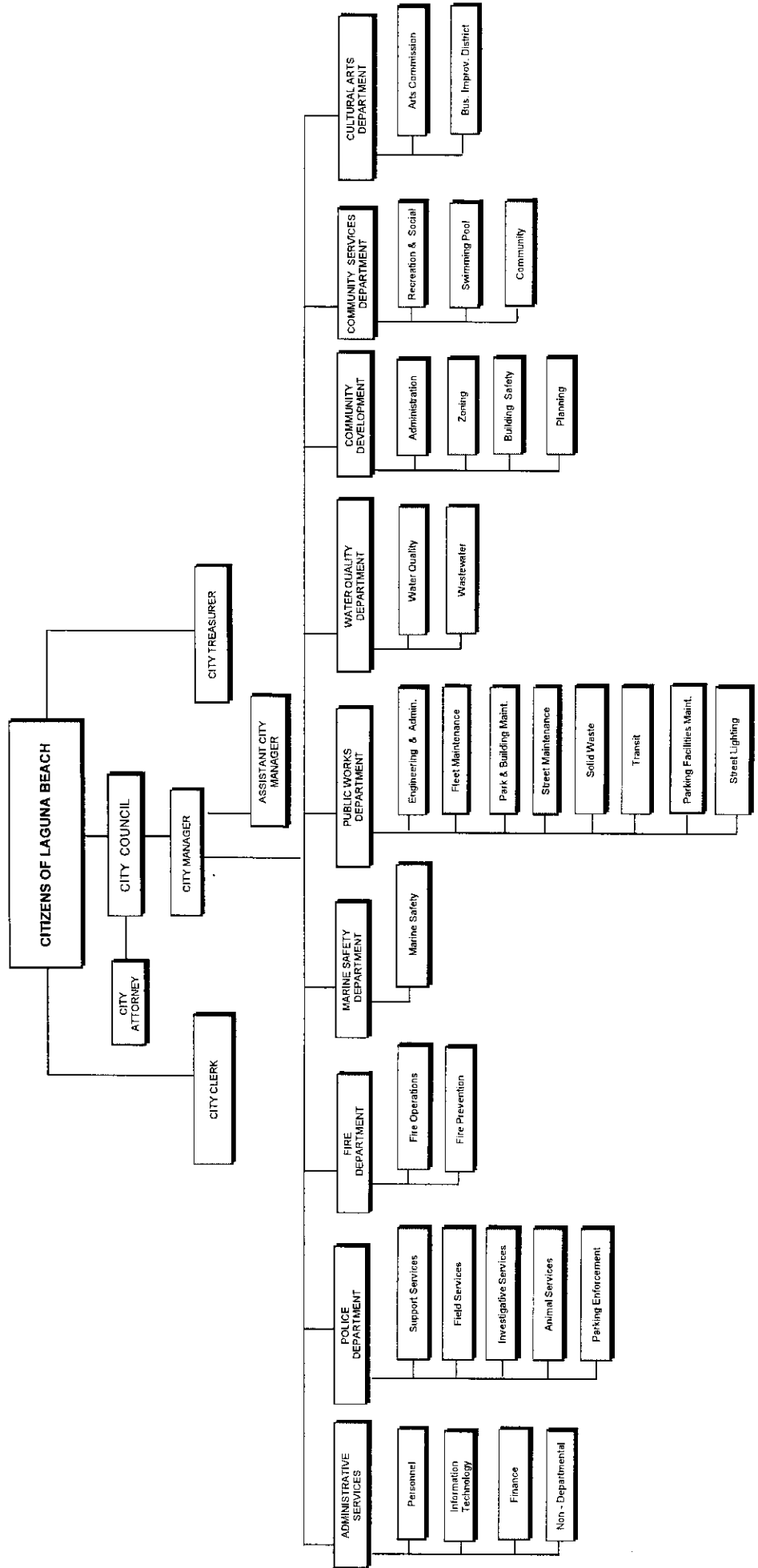


Gavin Curran
Director of Finance and Information Technology



Nancy Pauley
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, 2008, 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, 2007 and, in our report dated June 20, 2008, 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, 2008, 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, 2008, 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 January 9, 2009 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.

Mayor Hoffman McCann A.C.

Irvine, California
January 9, 2009

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, 2008. 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. Charges for Services, grants, sales taxes, property taxes, state subventions, and other revenues finance most of these activities.
- Business-type activities – The City charges user fees to customers to offset all or most of the expenses accounted for in this fund.

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. 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 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:

Table 1
Net Assets
(in Millions)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 71.8	73.5	0.8	0.6	72.6	74.1
Capital Assets	309.8	289.9	3.1	2.7	312.9	292.6
Total Assets	<u>381.6</u>	<u>363.4</u>	<u>3.9</u>	<u>3.3</u>	<u>385.5</u>	<u>366.7</u>
Long-Term Debt Outstanding	11.7	13.2	-	-	11.7	13.2
Other Liabilities	11.6	9.3	0.3	0.1	11.9	9.4
Total Liabilities	<u>23.3</u>	<u>22.5</u>	<u>0.3</u>	<u>0.1</u>	<u>23.6</u>	<u>22.6</u>
Net Assets						
Invested in Capital Assets, Net of Debt	305.8	285.6	3.1	2.7	308.9	288.3
Restricted	10.8	11.8	-	-	10.8	11.8
Unrestricted	41.7	43.5	0.5	0.5	42.2	44.0
Total Net Assets	<u>\$ 358.3</u>	<u>340.9</u>	<u>3.6</u>	<u>3.2</u>	<u>361.9</u>	<u>344.1</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 \$361.9 million as of June 30, 2008.

The largest portion of the City's net assets, \$308.9 million (85%) 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 15% of the City's net assets, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's net assets of \$10.8 million (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$42.2 million (12%) 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 City as a whole, as well as the governmental activities. For the City's business-type activities, the balance was also positive and there were no restricted net assets.

The City's total net assets increased by \$18.9 million during the current fiscal year. The net assets of governmental activities increased by \$18.4 million and business-type activities had an increase of \$382 thousand.

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

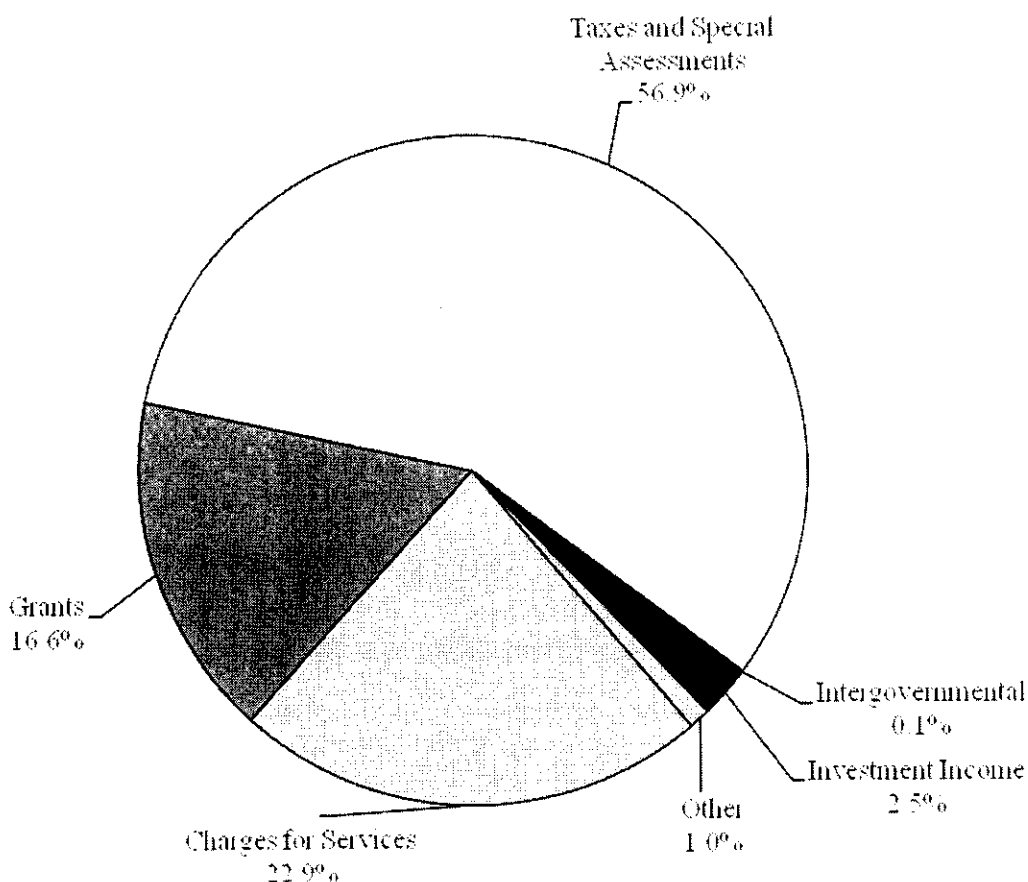
Table 2
Changes in Net Assets
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program Revenues						
Charges for Services	\$ 18,551	18,937	349	340	18,900	19,277
Operating Grants/Contributions	6,159	5,017	952	1,221	7,111	6,238
Capital Grants/Contributions	7,300	15,865	862	1,224	8,162	17,089
General Revenues						
Taxes and special assessments	46,129	42,969	-	-	46,129	42,969
Intergovernmental	118	333	-	-	118	333
Rental income	355	369	-	-	355	369
Investment income	1,952	1,646	13	20	1,965	1,666
Miscellaneous revenues	191	485	4	4	195	489
Gain (loss) on sale/disposal of capital assets	303	596	-	-	303	596
Total Revenues	<u>81,058</u>	<u>86,217</u>	<u>2,180</u>	<u>2,809</u>	<u>83,238</u>	<u>89,026</u>
Expenses:						
General Government	4,326	4,044	-	-	4,326	4,044
Community development	3,423	2,956	-	-	3,423	2,956
Public safety	23,134	21,481	-	-	23,134	21,481
Public works	22,374	13,373	-	-	22,374	13,373
Recreation and social services	3,839	3,610	-	-	3,839	3,610
Sewer service operating costs	4,682	4,561	-	-	4,682	4,561
Interest and fiscal charges	409	511	-	-	409	511
Municipal transit	-	-	2,184	1,858	2,184	1,858
Total Expenses	<u>62,187</u>	<u>50,536</u>	<u>2,184</u>	<u>1,858</u>	<u>64,371</u>	<u>52,394</u>
Increase in Net Assets Before Transfers	18,871	35,681	(4)	951	18,867	36,632
Transfers	<u>(386)</u>	<u>(272)</u>	<u>386</u>	<u>272</u>	<u>-</u>	<u>-</u>
Increase in Net Assets	18,485	35,409	382	1,223	18,867	36,632
Net Assets-Beginning, as Restated	<u>339,884</u>	<u>305,555</u>	<u>3,140</u>	<u>1,986</u>	<u>343,024</u>	<u>307,541</u>
Net Assets-Ending	<u>\$ 358,369</u>	<u>340,964</u>	<u>3,522</u>	<u>3,209</u>	<u>361,891</u>	<u>344,173</u>

The City's total revenues were \$83.2 million while the total expenditures were \$64.4 million. Property taxes were the City's largest revenue source at \$25.5 million (26.7% of total revenues and 27.7% of governmental revenues). Transient lodging taxes at \$8.7 million (9.6% of total revenues and 10.0% of governmental revenues) and sales tax also at \$4 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 \$18.4 million accounted for 100% of the total growth in net assets for the City this past year. The following graph depicts the major revenue sources of the City. It depicts very clearly the reliance on taxes and special assessments to fund governmental activities.

Revenues by Source – Governmental Activities



Public Safety expenses comprised the largest component of governmental activities in terms of cost 37.1% 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 36% of the total cost of governmental activities. Charges for services and operating grants and contributions helped to offset 39% 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 13% cost of governmental activity.

General government expenses (including City Council, City Manager, City Attorney, City Clerk, City Treasurer and Administrative Services) were 7% of the total cost of governmental activities. Charges for services offset 24% of the cost of providing these services.

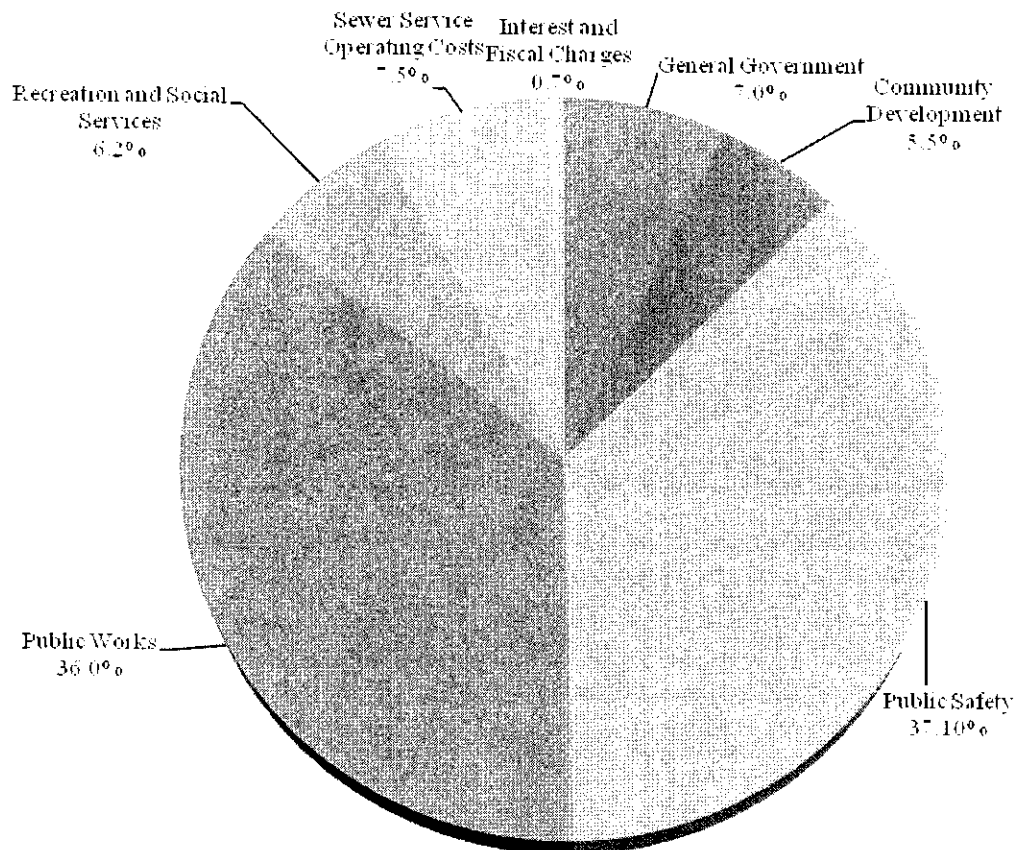
Community development expenditures were 5.5% of the total cost of governmental activities and charges for services offset 77% of the cost of providing these services.

Recreation and social services expenditures were \$3.7 million this past year, representing 6.2% of the total. Charges for services, operating grants and contributions offset 65% of the cost of providing these services.

Sewer service operating costs were \$4.7 million, representing 7.5% 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 \$408 thousand, comprised .7% 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 \$382 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.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S 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.

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, 2008, the governmental funds reported combined ending fund balances of \$46.2 million, an increase of \$10.5 million in comparison with the prior year. Approximately 49% of this total amount (\$22.7 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 (\$21.4 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, 2008, the undesignated fund balance of the General Fund was \$17.5 million, while total fund balance reached \$33.4 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.

The fund balance of the City's General Fund decreased by \$2.5 million during the fiscal year ending June 30, 2008. Reasons for significant changes in the revenues and expenditures of the City's' General Fund from the prior year is as follows:

- Revenues increased \$1.91 million with \$1.89 million resulting from property taxes. The remaining difference was primarily due to an increase in vehicle code fines of \$502 thousand and an increase in other revenues of \$433 thousand.
- Overall expenditures increased \$5.81 million mainly due to an increase in capital projects/expenditures of \$2.9 million over prior year.

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 \$1.9 million. This deficit is primarily caused by pending receivables due from the Federal Emergency Management Agency (FEMA) and the California Office of Emergency Services (OES).

The Sewer Service Fund had a total fund balance of \$1.9 million, of which approximately 100% was reserved and/or designated for projects. The net decrease in the Sewer Service Fund balance during the current year was \$1,688,213. This anticipated decrease for projects including Shaws Cove Reconstruction and Nyes Place Steel Rehabilitation.

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 decrease in fund balance during the current year in the General Obligation Bonds Debt Service Fund of \$42 thousand was primarily due to interest revenue received in excess of debt service expenditures.

The Capital Projects Fund had a total fund balance of \$2.8 million, of which approximately 100% was reserved and/or designated for projects. The net decrease in fund balance of \$1.6 million was primarily due to construction costs related to new and ongoing utility districts undergrounding projects.

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 \$465 thousand. The total increase in net assets for the fund was \$382 thousand. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGET

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

- \$27.2 million increase in the budget for prior year carry over appropriations.
- \$2.5 million increase for the City Community Center to account for contributions from the Laguna Beach Seniors.

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

- Total revenues exceeded budget by \$682 thousand mostly as a result of increases in property taxes, transient lodging taxes, and vehicle codes revenue. There were several revenues that were under budget, such as licenses and permits, planning and building department and intergovernmental revenues (mostly from grant revenue expected in the next fiscal year).
- Total expenditures were under the budgeted amount by \$22.2 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 - Net of Depreciation					
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 79,062,049	79,010,048	196,106	196,106	79,258,155	79,206,154
Buildings and Improvements	15,472,889	5,445,521	1,887,857	2,703	17,360,746	5,448,224
Office Equipment & Machinery	2,113,840	2,525,474	13,160	10,949	2,127,000	2,536,423
Furniture and Fixtures	826,160	737,905	-	65	826,160	737,970
Equipment Machinery & Tools	519,473	487,437	-	-	519,473	487,437
Sewer Plant and Lines	38,339,010	33,029,266	-	-	38,339,010	33,029,266
Automotive Equipment	3,446,414	3,101,141	959,196	1,269,202	4,405,610	4,370,343
Infrastructure	155,034,450	133,994,826	-	-	155,034,450	133,994,826
Construction in Progress	14,999,811	31,606,493	-	1,223,958	14,999,811	32,830,451
Total	\$ 309,814,096	289,938,111	3,056,319	2,702,983	312,870,415	292,641,094

The major change to the capital assets during the year ended June 30, 2008 were the addition of sewer improvements, construction of the corporate yard, the Heisler park project, 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

	Long-Term Liabilities					
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$ 5,840,000	7,150,000	-	-	5,840,000	7,150,000
Installment Agreement	3,686,862	3,467,538	-	-	3,686,862	3,467,538
Capitalized Lease Obligations	290,000	865,000	-	-	290,000	865,000
 Total	 \$ 9,816,862	 11,482,538	 -	 -	 9,816,862	 11,482,538

The City's total debt decreased by \$1.6 million (15%) 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, 2008
(With Comparative Totals for June 30, 2007)

	Governmental Activities	Business-type Activities	Totals	
			2008	2007
<u>Assets</u>				
Cash and investments (note 2)	\$ 45,661,771	322,806	45,984,577	52,276,413
Receivables:				
Taxes	3,879,394	306,043	4,185,437	3,984,991
Accounts	532,556	182,700	715,256	903,198
Intergovernmental	18,341,726	-	18,341,726	14,500,482
Notes (note 22)	1,079,348	-	1,079,348	577,095
Other	9,383	-	9,383	5,605
Prepays	220,395	-	220,395	195,474
Inventory	87,265	-	87,265	23,132
Property held for investment	2,034,253	-	2,034,253	1,632,253
Capital assets, not being depreciated (note 5)	94,061,860	196,106	94,257,966	112,036,605
Capital assets, net of depreciation (note 5)	<u>215,752,236</u>	<u>2,860,213</u>	<u>218,612,449</u>	<u>180,604,499</u>
 Total assets	 <u>381,660,187</u>	 <u>3,867,868</u>	 <u>385,528,055</u>	 <u>366,739,747</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	4,450,235	183,341	4,633,576	2,947,918
Interest payable	182,978	-	182,978	215,791
Retentions payable	208,239	-	208,239	804,164
Unearned revenue	872,862	163,014	1,035,876	92,594
Noncurrent liabilities (note 11):				
Due within one year	5,841,311	-	5,841,311	5,281,168
Due in more than one year	<u>11,735,215</u>	<u>-</u>	<u>11,735,215</u>	<u>13,224,856</u>
 Total liabilities	 <u>23,290,840</u>	 <u>346,355</u>	 <u>23,637,195</u>	 <u>22,566,491</u>
<u>Net assets</u>				
Invested in capital assets, net of related debt	305,837,234	3,056,319	308,893,553	288,308,566
Restricted for:				
Capital projects	10,656,302	-	10,656,302	11,686,490
Other purposes	97,921	-	97,921	79,966
Unrestricted	<u>41,777,890</u>	<u>465,194</u>	<u>42,243,084</u>	<u>44,098,234</u>
 Total net assets	 <u>\$ 358,369,347</u>	 <u>3,521,513</u>	 <u>361,890,860</u>	 <u>344,173,256</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Statement of Activities
Year Ended June 30, 2008
(With Comparative Totals For Year Ended June 30, 2007)

	Expenses	Program Revenues			Total Program Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 4,326,076	1,031,632	-	-	1,031,632
Community development	3,422,556	2,635,214	-	-	2,635,214
Public safety	23,133,907	2,400,367	619,218	-	3,019,585
Public works	22,374,310	5,329,796	3,464,077	7,300,066	16,093,939
Recreation and social services	3,839,208	1,499,601	1,015,000	-	2,514,601
Sewer service operating costs	4,682,498	5,654,840	1,061,093	-	6,715,933
Interest and fiscal charges	408,619	-	-	-	-
Total governmental activities	<u>62,187,174</u>	<u>18,551,450</u>	<u>6,159,388</u>	<u>7,300,066</u>	<u>32,010,904</u>
Business-type activities:					
Municipal transit	<u>2,183,550</u>	<u>348,146</u>	<u>951,510</u>	<u>862,200</u>	<u>2,161,856</u>
Total business-type activities	<u>2,183,550</u>	<u>348,146</u>	<u>951,510</u>	<u>862,200</u>	<u>2,161,856</u>
Total primary government	<u>\$ 64,370,724</u>	<u>18,899,596</u>	<u>7,110,898</u>	<u>8,162,266</u>	<u>34,172,760</u>

General revenues:
Taxes and special assessments
Intergovernmental, unrestricted
Rental income
Investment income
Gain (loss) 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 25)

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	
		2008	2007
(3,294,444)	-	(3,294,444)	(2,946,341)
(787,342)	-	(787,342)	(143,880)
(20,114,322)	-	(20,114,322)	(18,710,222)
(6,280,371)	-	(6,280,371)	12,067,981
(1,324,607)	-	(1,324,607)	(1,689,178)
2,033,435	-	2,033,435	1,216,380
<u>(408,619)</u>	<u>-</u>	<u>(408,619)</u>	<u>(511,304)</u>
<u>(30,176,270)</u>	<u>-</u>	<u>(30,176,270)</u>	<u>(10,716,564)</u>
<u>-</u>	<u>(21,694)</u>	<u>(21,694)</u>	<u>926,855</u>
<u>-</u>	<u>(21,694)</u>	<u>(21,694)</u>	<u>926,855</u>
<u>(30,176,270)</u>	<u>(21,694)</u>	<u>(30,197,964)</u>	<u>(9,789,709)</u>
46,129,130	-	46,129,130	42,969,015
117,757	-	117,757	332,820
354,560	-	354,560	369,318
1,952,936	13,197	1,966,133	1,665,949
302,572	-	302,572	595,802
190,840	4,000	194,840	488,834
<u>(386,000)</u>	<u>386,000</u>	<u>-</u>	<u>-</u>
<u>48,661,795</u>	<u>403,197</u>	<u>49,064,992</u>	<u>46,421,738</u>
18,485,525	381,503	18,867,028	36,632,029
<u>339,883,822</u>	<u>3,140,010</u>	<u>343,023,832</u>	<u>307,541,227</u>
<u>\$ 358,369,347</u>	<u>3,521,513</u>	<u>361,890,860</u>	<u>344,173,256</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, 2008
(With Comparative Totals For June 30, 2007)

<u>Assets</u>	<u>General</u>	<u>Special Revenue</u>	
		<u>Bluebird Landslide</u>	<u>Sewer Service</u>
Cash and investments	\$ 16,598,765	-	1,412,297
Receivables:			
Taxes	993,447	-	83,704
Accounts	255,566	184,972	71,852
Intergovernmental	1,465,438	15,788,329	866,000
Notes	348,000	-	-
Other	9,383	-	-
Due from other funds (note 4)	17,796,270	-	-
Inventory	87,265	-	-
Property held for investment	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 37,554,134</u>	<u>15,973,301</u>	<u>2,433,853</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 3,289,230	56,226	380,468
Retentions payable	24,088	-	138,885
Due to other funds (note 4)	-	17,785,698	-
Deferred revenue	872,862	-	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>4,186,180</u>	<u>17,841,924</u>	<u>519,353</u>
Fund balances (deficit) (note 12):			
Reserved	8,211,027	-	-
Unreserved:			
Designated, reported in:			
General fund	7,692,481	-	-
Special revenue funds	-	-	1,801,934
Capital projects funds	-	-	-
Undesignated, reported in:			
General fund	17,464,446	-	-
Special revenue funds	-	(1,868,623)	112,566
Capital projects funds	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balances (deficit)	<u>33,367,954</u>	<u>(1,868,623)</u>	<u>1,914,500</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 37,554,134</u>	<u>15,973,301</u>	<u>2,433,853</u>

See accompanying notes to basic financial statements.

Debt Service General Obligation Bonds	Capital Projects Capital Projects	Nonmajor Governmental Funds	Totals	
			2008	2007
2,087,912	2,856,444	7,680,738	30,636,156	36,959,848
31,508	-	211,030	1,319,689	1,236,761
-	3,169	-	515,559	881,085
-	-	186,088	18,305,855	14,421,635
-	-	-	348,000	348,000
-	-	-	9,383	5,605
-	-	-	17,796,270	13,597,061
-	-	-	87,265	23,132
-	-	354,444	354,444	354,444
<u>2,119,420</u>	<u>2,859,613</u>	<u>8,432,300</u>	<u>69,372,621</u>	<u>67,827,571</u>
-	31,556	532,044	4,289,524	2,612,858
-	45,266	-	208,239	804,164
-	-	10,572	17,796,270	13,597,061
-	-	23,128	895,990	14,103,956
-	<u>76,822</u>	<u>565,744</u>	<u>23,190,023</u>	<u>31,118,039</u>
2,119,420	-	354,444	10,684,891	19,260,494
-	-	-	7,692,481	8,702,239
-	-	920,800	2,722,734	1,958,751
-	2,378,055	-	2,378,055	-
-	-	-	17,464,446	12,304,216
-	-	6,591,312	4,835,255	(9,943,591)
-	404,736	-	404,736	4,427,423
<u>2,119,420</u>	<u>2,782,791</u>	<u>7,866,556</u>	<u>46,182,598</u>	<u>36,709,532</u>
<u>2,119,420</u>	<u>2,859,613</u>	<u>8,432,300</u>	<u>69,372,621</u>	<u>67,827,571</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, 2008

Fund balances of governmental funds	\$	46,182,598
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		394,223,400
Accumulated depreciation		(87,830,204)
Long term debt from the General Long Term Debt Account Group that have not been included in the governmental fund activity.		
General obligation bonds		(5,840,000)
Capitalized lease obligations		(290,000)
Loan payable		(3,686,862)
Accrued interest payable for the current portion of interest due on debt service has not been reported in the governmental funds.		
		(182,978)
Receivable amounts that were earned in the audit period but not collected within the availability period have not been reported in the governmental funds.		
		2,618,704
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>13,917,003</u>
Net assets of governmental activities	\$	<u>358,369,347</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, 2008
(With Comparative Totals For Year Ended June 30, 2007)

		Special Revenue	
	General	Bluebird Landslide	Sewer Service
Revenues:			
Taxes	\$ 39,165,673	-	-
Licenses and permits	1,024,172	-	-
Fines and penalties	1,936,447	-	-
Investment income	1,743,443	-	1,695
Rental	354,560	-	-
Intergovernmental	2,355,772	20,034,966	866,000
Charges for services	7,019,482	-	5,630,073
Parking meters, lots and permits	3,406,195	-	-
Development tax	152,469	-	-
Other	1,730,839	20,000	201,397
Total revenues	58,889,052	20,054,966	6,699,165
Expenditures:			
Current:			
General government	4,047,877	-	-
Community development	3,399,926	-	-
Public safety	23,059,704	-	-
Public works	10,224,468	-	-
Recreation and social services	3,850,406	-	-
Sewer service operating costs	-	-	3,620,729
Capital expenditures	16,944,897	7,619,674	4,278,547
Debt service:			
Principal	-	-	889,676
Interest and fiscal charges	-	-	132,426
Total expenditures	61,527,278	7,619,674	8,921,378
Excess (deficiency) of revenues over (under) expenditures	(2,638,226)	12,435,292	(2,222,213)
Other financing sources (uses):			
Transfers in (note 13)	1,074,000	-	-
Transfers out (note 13)	(1,263,328)	(100,000)	-
Issuance of bond	-	-	-
Issuance of loan	-	-	534,000
Sale of land and equipment	302,572	-	-
Total other financing sources (uses)	113,244	(100,000)	534,000
Net change in fund balances	(2,524,982)	12,335,292	(1,688,213)
Fund balances (deficit), beginning of year, as restated (note 25)	35,892,936	(14,203,915)	3,602,713
Fund balances (deficit), end of year	\$ 33,367,954	(1,868,623)	1,914,500

See accompanying notes to basic financial statements.

Debt Service General Obligation Bonds	Capital Projects Capital Projects	Nonmajor Governmental Funds	Totals	
			2008	2007
1,592,143	-	4,303,600	45,061,416	41,980,491
-	-	-	1,024,172	1,096,008
-	-	32,430	1,968,877	1,476,739
62,788	158,263	206,657	2,172,846	1,836,734
-	-	-	354,560	369,318
6,319	-	1,596,944	24,860,001	11,713,427
-	-	-	12,649,555	12,316,932
-	-	-	3,406,195	4,334,250
-	-	-	152,469	276,472
-	604,597	6,372	2,563,205	1,938,787
<u>1,661,250</u>	<u>762,860</u>	<u>6,146,003</u>	<u>94,213,296</u>	<u>77,339,158</u>
-	-	-	4,047,877	4,021,299
-	-	-	3,399,926	3,041,255
-	-	18,726	23,078,430	22,092,500
-	-	276,695	10,501,163	9,202,763
-	-	15,000	3,865,406	3,777,225
-	-	-	3,620,729	3,348,521
-	3,020,398	1,458,521	33,322,037	36,404,842
1,310,000	-	-	2,199,676	2,101,314
309,006	-	-	441,432	542,389
<u>1,619,006</u>	<u>3,020,398</u>	<u>1,768,942</u>	<u>84,476,676</u>	<u>84,532,108</u>
<u>42,244</u>	<u>(2,257,538)</u>	<u>4,377,061</u>	<u>9,736,620</u>	<u>(7,192,950)</u>
-	28,367	755,000	1,857,367	3,000,810
-	-	(1,102,367)	(2,465,695)	(3,346,660)
-	584,539	-	584,539	2,269,830
-	-	-	534,000	2,071,567
-	-	-	302,572	4,788,172
-	612,906	(347,367)	812,783	8,783,719
42,244	(1,644,632)	4,029,694	10,549,403	1,590,769
<u>2,077,176</u>	<u>4,427,423</u>	<u>3,836,862</u>	<u>35,633,195</u>	<u>35,118,763</u>
<u>2,119,420</u>	<u>2,782,791</u>	<u>7,866,556</u>	<u>46,182,598</u>	<u>36,709,532</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, 2008

Net change in fund balances - total governmental funds	\$ 10,549,403
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>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.</p>	
Capital outlay	25,371,452
Depreciation expense	(5,831,916)
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.	2,199,676
Proceeds of debt is a revenue in the governmental funds, but an increase in long-term liabilities in the Statement of Net Assets.	(534,000)
Accrued interest for debt service. This is the net change in accrued interest for the current period.	32,813
Receivable amounts that were earned in the audit period but not collected within the availability period have not been reported in the governmental funds.	(14,032,340)
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.	<u>1,472,751</u>
Change in net assets of governmental activities	<u>\$ 18,485,525</u>

See accompanying notes to basic financial statements.

PROPRIETARY FUNDS

MAJOR ENTERPRISE FUNDS

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

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

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

INTERNAL SERVICE FUNDS

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

CITY OF LAGUNA BEACH
Proprietary Funds
Statement of Net Assets
June 30, 2008
(With Comparative Totals For June 30, 2007)

	Business Type	Governmental Activities	Totals	
	Municipal Transit	Internal Service Funds	2008	2007
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 322,806	15,025,615	15,348,421	15,316,565
Receivables:				
Accounts	182,700	16,997	199,697	22,113
Intergovernmental	-	-	-	42,292
Taxes	306,043	-	306,043	158,373
Prepays	-	220,395	220,395	195,473
Total current assets	<u>811,549</u>	<u>15,263,007</u>	<u>16,074,556</u>	<u>15,734,816</u>
Noncurrent assets:				
Notes receivable	-	731,348	731,348	229,095
Property held for investment	-	1,679,809	1,679,809	1,277,810
Capital assets, not being depreciated (note 5)	196,106	-	196,106	1,420,064
Capital assets, net of depreciation (note 5)	<u>2,860,213</u>	<u>3,420,900</u>	<u>6,281,113</u>	<u>4,367,382</u>
Total noncurrent assets	<u>3,056,319</u>	<u>5,832,057</u>	<u>8,888,376</u>	<u>7,294,351</u>
Total assets	<u>3,867,868</u>	<u>21,095,064</u>	<u>24,962,932</u>	<u>23,029,167</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	163,537	160,711	324,248	319,131
Compensated absences due within one year	19,804	2,655,477	2,675,281	2,152,887
Insurance claims payable due within one year	-	1,535,834	1,535,834	1,259,209
Unearned revenue	<u>163,014</u>	<u>-</u>	<u>163,014</u>	<u>13,270</u>
Total current liabilities	<u>346,355</u>	<u>4,352,022</u>	<u>4,698,377</u>	<u>3,744,497</u>
Non-current liabilities:				
Compensated absences	-	663,869	663,869	689,164
Insurance claims payable	<u>-</u>	<u>2,904,484</u>	<u>2,904,484</u>	<u>2,938,154</u>
Total noncurrent liabilities	<u>-</u>	<u>3,568,353</u>	<u>3,568,353</u>	<u>3,627,318</u>
Total liabilities	<u>346,355</u>	<u>7,920,375</u>	<u>8,266,730</u>	<u>7,371,815</u>
<u>Net assets</u>				
Net assets:				
Invested in capital assets	3,056,319	3,420,900	6,477,219	5,787,446
Unrestricted	<u>465,194</u>	<u>9,753,789</u>	<u>10,218,983</u>	<u>9,869,906</u>
Total net assets	<u>\$ 3,521,513</u>	<u>13,174,689</u>	<u>16,696,202</u>	<u>15,657,352</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2008
(With Comparative Totals For Year Ended June 30, 2007)

	Business Type	Governmental Activities	Totals	
	Municipal Transit	Internal Service Funds	2008	2007
Operating revenues:				
Passenger revenues	\$ 348,146	-	348,146	339,842
Vehicle rentals	-	1,006,798	1,006,798	943,300
Employee benefits charges	-	788,197	788,197	626,401
Insurance charges	-	6,060,659	6,060,659	5,520,167
Total operating revenues	<u>348,146</u>	<u>7,855,654</u>	<u>8,203,800</u>	<u>7,429,710</u>
Operating expenses:				
Personnel services	1,133,142	-	1,133,142	956,368
Contractual services	152,382	-	152,382	226,931
Materials and supplies	304,477	-	304,477	246,262
Administration	277,779	-	277,779	186,885
Employee benefits	-	1,023,166	1,023,166	700,079
Insurance claims and premiums	-	5,694,525	5,694,525	3,865,874
Depreciation	315,770	620,486	936,256	667,343
Total operating expenses	<u>2,183,550</u>	<u>7,338,177</u>	<u>9,521,727</u>	<u>6,849,742</u>
Operating income (loss)	<u>(1,835,404)</u>	<u>517,477</u>	<u>(1,317,927)</u>	<u>579,968</u>
Nonoperating revenues (expenses):				
Local Transportation Fund grant	1,643,975	-	1,643,975	1,013,750
Investment income	13,197	11,780	24,977	30,048
Intergovernmental	169,735	-	169,735	207,292
Gain (loss) on disposal of capital assets	-	(21,572)	(21,572)	(189,120)
Other	4,000	421	4,421	4,000
Total nonoperating revenues (expenses)	<u>1,830,907</u>	<u>(9,371)</u>	<u>1,821,536</u>	<u>1,065,970</u>
Income (loss) before capital contributions and transfers	<u>(4,497)</u>	<u>508,106</u>	<u>503,609</u>	<u>1,645,938</u>
Capital contributions and transfers:				
Transfers in (note 13)	386,000	222,328	608,328	356,850
Transfers out (note 13)	-	-	-	(11,000)
Capital grants	-	-	-	1,223,950
Total capital contributions and transfers	<u>386,000</u>	<u>222,328</u>	<u>608,328</u>	<u>1,569,800</u>
Change in net assets	<u>381,503</u>	<u>730,434</u>	<u>1,111,937</u>	<u>3,215,738</u>
Net assets at beginning of year, as restated (note 25)	<u>3,140,010</u>	<u>12,444,255</u>	<u>15,584,265</u>	<u>12,441,614</u>
Net assets at end of year	<u>\$ 3,521,513</u>	<u>13,174,689</u>	<u>16,696,202</u>	<u>15,657,352</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2008
(With Comparative Totals For Year Ended June 30, 2007)

	Business Type	Governmental Activities	Totals	
	Municipal Transit	Internal Service Funds	2008	2007
Cash flows from operating activities:				
Cash received from customers	\$ 168,589	-	\$ 168,589	324,251
Cash received from user departments	-	7,166,895	7,166,895	7,089,053
Cash payments to suppliers for goods and services	(841,508)	(4,931,112)	(5,772,620)	(5,021,935)
Cash payments to employees for services	(1,098,279)	(529,942)	(1,628,221)	(1,430,291)
Net cash provided by (used for) operating activities	<u>(1,771,198)</u>	<u>1,705,841</u>	<u>(65,357)</u>	<u>961,078</u>
Cash flows from noncapital financing activities:				
Operating grant proceeds received	1,308,546	-	1,308,546	1,116,282
Cash received from other funds	401,938	222,328	624,266	468,143
Cash paid to other funds	-	-	-	(11,000)
Loan principal received	-	12,747	12,747	-
Net cash provided by (used for) noncapital financing activities	<u>1,710,484</u>	<u>235,075</u>	<u>1,945,559</u>	<u>1,573,425</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(669,096)	(1,602,924)	(2,272,020)	(2,549,479)
Capital grant proceeds received	697,200	-	697,200	1,396,512
Issuance of notes	-	(515,000)	(515,000)	-
Proceeds from sale of capital assets	-	216,497	216,497	326,712
Net cash provided by (used for) capital and related financing activities	<u>28,104</u>	<u>(1,901,427)</u>	<u>(1,873,323)</u>	<u>(826,255)</u>
Cash flows from investing activities:				
Interest received	<u>13,197</u>	<u>11,780</u>	<u>24,977</u>	<u>30,048</u>
Net cash provided by (used for) investing financing activities	<u>13,197</u>	<u>11,780</u>	<u>24,977</u>	<u>30,048</u>
Net increase (decrease) in cash and cash equivalents	(19,413)	51,269	31,856	1,738,296
Cash and cash equivalents at beginning of year	<u>342,219</u>	<u>14,974,346</u>	<u>15,316,565</u>	<u>13,578,269</u>
Cash and cash equivalents at end of year	<u>\$ 322,806</u>	<u>15,025,615</u>	<u>15,348,421</u>	<u>15,316,565</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	2008	2007
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (1,835,404)	496,326	(1,339,078)	579,968
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	315,770	647,980	963,750	667,343
Miscellaneous income	4,000	-	4,000	4,000
Loss on disposal of capital assets	-	-	-	(9,599)
(Increase) decrease in accounts receivable	(179,557)	(13,965)	(193,522)	(16,958)
(Increase) decrease in taxes receivable	(147,670)	-	(147,670)	(158,373)
(Increase) decrease in prepaids	-	(24,922)	(24,922)	(15,905)
Increase (decrease) in accounts payable and accrued liabilities	67,789	(135,757)	(67,968)	268,215
Increase (decrease) in compensated absences payable	3,874	493,224	497,098	226,156
Increase (decrease) in insurance claims payable	-	242,955	242,955	(583,769)
Net cash provided by (used for) operating activities	<u>\$ (1,771,198)</u>	<u>1,705,841</u>	<u>(65,357)</u>	<u>961,078</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH
 Agency Funds
 Statement of Fiduciary Assets and Liabilities
 June 30, 2008
 (With Comparative Totals For June 30, 2007)

	Totals	
	2008	2007
<u>Assets</u>		
Cash and investments (note 2)	\$ 5,625,760	5,410,126
Investments with fiscal agent (note 2)	1,596,859	1,687,131
Receivables:		
Accounts	111,318	-
Intergovernmental	48,720	45,138
Total assets	\$ 7,382,657	7,142,395
<u>Liabilities</u>		
Accounts payable and accrued liabilities	\$ 77,462	52,461
Deposits	2,845,427	2,756,649
Due to bondholders	4,459,768	4,333,285
Total liabilities	\$ 7,382,657	7,142,395

See accompanying notes to basic financial statements.

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

Year Ended June 30, 2008

(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, 2008 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	\$45,984,577
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	5,625,760
Investments with fiscal agent	<u>1,596,859</u>
Total cash and investments	<u>\$53,207,196</u>

Cash and investments as of June 30, 2008 consist of the following:

Cash on hand (petty cash and change funds)	\$ 23,018
Deposits with financial institutions	3,329,505
Investments	<u>49,854,673</u>
Total cash and investments	<u>\$53,207,196</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>25 to 60 Months</u>
Federal agency securities	\$25,069,250	2,000,000	-	23,069,250
Medium term notes	4,978,442	-	-	4,978,442
State investment pool	18,210,112	18,210,112	-	-
Held by bond fiscal agent:				
Money market funds	<u>1,596,869</u>	<u>1,596,869</u>	<u>-</u>	<u>-</u>
Total	<u>\$49,854,673</u>	<u>21,806,981</u>	<u>-</u>	<u>28,047,692</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	\$25,069,250	N/A	25,069,250	-	-
Medium term notes	4,978,442	A	4,978,442	-	-
State investment pool	18,210,112	N/A	-	-	18,210,112
Held by bond fiscal agent:					
Money market funds	<u>1,596,869</u>	A	<u>-</u>	<u>1,596,869</u>	<u>-</u>
Total	<u>\$49,854,673</u>		<u>30,047,692</u>	<u>1,596,869</u>	<u>18,210,112</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	\$12,000,000
Federal Home Loan Bank	Federal agency securities	9,074,750
Federal Home Loan Mortgage Corporation	Federal agency securities	3,000,000

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.

Effect of Financial Market Conditions

A number of financial institutions have reported financial difficulties as an indirect result of delinquencies associated with home mortgages. The full ramifications of this are not determinable at this time and it is not possible to determine with certainty all of the institutions that might be impacted by current market conditions.

(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, 2008 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Bluebird Landslide Fund	\$17,785,698
General Fund	Nonmajor Governmental Funds	<u>10,572</u>
Total		<u>\$17,796,270</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, 2008 was as follows:

	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance at June 30, 2008</u>
Governmental activities:				
Capital assets, not depreciated:				
Land	\$ 79,010,048	52,001	-	79,062,049
Construction in progress	<u>31,606,493</u>	<u>8,205,280</u>	<u>(24,811,962)</u>	<u>14,999,811</u>
Total capital assets, not depreciated	<u>110,616,541</u>	<u>8,257,281</u>	<u>(24,811,962)</u>	<u>94,061,860</u>
Capital assets, being depreciated:				
Buildings and improvements	18,446,905	10,608,917	-	29,055,822
Office equipment & machinery	5,288,901	289,620	(62,052)	5,516,469
Furniture and fixtures	990,095	107,854	-	1,097,949
Equipment, machinery & tools	2,873,855	208,551	-	3,082,406
Sewer plant and lines	59,230,217	6,410,134	-	65,640,351
Automotive equipment	6,638,868	1,024,620	(216,499)	7,446,989
Infrastructure	<u>171,314,126</u>	<u>24,257,592</u>	<u>-</u>	<u>195,571,718</u>
Total capital assets, being depreciated	<u>264,782,967</u>	<u>42,907,288</u>	<u>(278,551)</u>	<u>307,411,704</u>
Less accumulated depreciation for:				
Buildings and improvements	(13,001,384)	(583,225)	1,676	(13,582,933)
Office equipment & machinery	(2,763,427)	(692,125)	52,923	(3,402,629)
Furniture and fixtures	(252,190)	(19,599)	-	(271,789)
Equipment, machinery & tools	(2,386,418)	(203,539)	27,024	(2,562,933)
Sewer plant and lines	(26,200,951)	(1,100,390)	-	(27,301,341)
Automotive equipment	(3,537,727)	(790,495)	327,647	(4,000,575)
Infrastructure	<u>(37,319,300)</u>	<u>(3,217,968)</u>	<u>-</u>	<u>(40,537,268)</u>
Total accumulated depreciation	<u>(85,461,397)</u>	<u>(6,607,341)</u>	<u>409,270</u>	<u>(91,659,468)</u>
Total capital assets being depreciated, net	<u>179,321,570</u>	<u>36,299,947</u>	<u>130,719</u>	<u>215,752,236</u>
Governmental activities capital assets, net	<u>\$289,938,111</u>	<u>44,557,228</u>	<u>(24,681,243)</u>	<u>309,814,096</u>

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(5) Capital Assets, (Continued)

	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance at June 30, 2008</u>
Business-type activities:				
Capital assets, not depreciated:				
Land	\$ 196,106	-	-	196,106
Construction in progress	<u>1,223,958</u>	<u>-</u>	<u>(1,223,958)</u>	<u>-</u>
Total capital assets, not depreciated	<u>1,420,064</u>	<u>-</u>	<u>(1,223,958)</u>	<u>196,106</u>
Capital assets, being depreciated:				
Buildings and improvements	64,672	1,886,000	-	1,950,672
Office equipment and machinery	104,407	7,054	-	111,461
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>2,795,359</u>	<u>1,893,054</u>	<u>-</u>	<u>4,688,413</u>
Less accumulated depreciation for:				
Buildings and improvements	(61,969)	(846)	-	(62,815)
Office equipment and machinery	(93,448)	(4,853)	-	(98,301)
Furniture and fixtures	(1,435)	(65)	-	(1,500)
Equipment, machinery and tools	(29,369)	-	-	(29,369)
Automotive equipment	<u>(1,326,209)</u>	<u>(310,006)</u>	<u>-</u>	<u>(1,636,215)</u>
Total accumulated depreciation	<u>(1,512,430)</u>	<u>(315,770)</u>	<u>-</u>	<u>(1,828,200)</u>
Total capital assets being depreciated, net	<u>1,282,929</u>	<u>1,577,284</u>	<u>-</u>	<u>2,860,213</u>
Business-type capital assets, net	<u>\$ 2,702,993</u>	<u>1,577,284</u>	<u>(1,223,958)</u>	<u>3,056,319</u>

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(5) Capital Assets. (Continued)

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

General government	\$ 321,376
Community development	58,896
Public safety	301,647
Public works	4,809,999
Recreation and social services	15,033
Sewer service operating costs	<u>1,100,390</u>
 Total	 <u>\$6,607,341</u>

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

Municipal Transit	<u>\$315,770</u>
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(6) Construction Commitments

As of June 30, 2008, 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	11,291,437	4,553,573
Lifeguard Headquarters and Restroom	2,529,886	147,625	2,382,261
S. Laguna Sidewalk Construction	1,000,000	-	1,000,000
Canyon Acres Storm Drain	3,283,000	3,234,491	48,509
Upper Park Avenue Storm Drain	400,000	188,749	211,251
Zimmerman Storm Drain	1,459,810	109,578	1,350,232
Heisler Park	5,033,000	3,922,587	1,110,413
Village Entrance Project	536,702	156,050	380,652
Mountain/Nyes Street Rehabilitation	3,677,067	3,476,298	200,769
Oriole/Meadowlark Streets Rehabilitation	989,885	514,415	475,470
Street Rehabilitation Projects Design	500,000	349,639	150,361
Laguna Canyon Frontage Road Rehabilitation	493,043	400,000	93,043
Shaw's Cove Reconstruction	2,026,000	1,660,281	365,719
Emergency Power – NYCS/Victoria	670,999	653,151	17,848
Nyes PI Steel Pipe Rehabilitation	1,796,996	1,646,358	150,638

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(6) Construction Commitments, (Continued)

	<u>Project Budget</u>	<u>Expenditures To Date</u>	<u>Unexpended Balance</u>
Odor Control Improvements	\$ 441,222	68,900	372,322
Popular/Lookout Undergrounding	1,267,363	490,233	777,130
Cerritos Duming Undergrounding	2,959,054	1,956,211	1,002,843
High Drive/Virginia Way/Ocean Vista Drive Utility Undergrounding	1,145,788	1,145,788	-
Terry/Alexander/Rounseval/Ashton/Hinkle/ Mystic Hill Utility Undergrounding	3,186,798	3,032,831	153,967
Dyer Place/Wykoff Way 95-3	430,102	288,530	141,572
Loma Terrace/Bent St. Undergrounding	<u>696,184</u>	<u>468,230</u>	<u>227,954</u>
Total	<u>\$50,367,909</u>	<u>35,201,382</u>	<u>15,166,527</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 12 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 \$3,698,005 reported in the Insurance and Employee Benefits Internal Service Fund, at June 30, 2008, 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 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Beginning of year liability	\$ 4,197,363	4,781,132
Current year claims and changes in estimates	1,469,960	732,138
Claims payments	<u>(1,227,005)</u>	<u>(1,315,907)</u>
 Insurance claims payable	 <u>\$ 4,440,318</u>	 <u>4,197,363</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, 2008, contributions from property owners were \$2,372,939. At June 30, 2008, the unpaid principal assessments in the 1915 Bond Improvement Districts were \$13,991,290.

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, 2008, 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 \$31,344 for the year ended June 30, 2008. The minimum future rental payments under this lease are as follows:

Year ending June 30:

2009	\$25,509
2010	<u>25,509</u>
	<u>\$51,018</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, 2008:

	<u>Balance at</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2008</u>	<u>Due within</u> <u>one year</u>	<u>Due beyond</u> <u>one year</u>
Governmental activities:						
General obligation bonds	\$ 7,150,000	-	(1,310,000)	5,840,000	1,360,000	4,480,000
I-Bank installment sale agreement	3,467,538	534,000	(314,676)	3,686,862	-	3,686,862
Capitalized lease obligations	865,000	-	(575,000)	290,000	290,000	-
Compensated absences	2,826,121	986,450	(493,225)	3,319,346	2,655,477	663,869
Insurance claims payable	<u>4,197,363</u>	<u>1,469,960</u>	<u>(1,227,005)</u>	<u>4,440,318</u>	<u>1,535,834</u>	<u>2,904,484</u>
 Total long-term liabilities	 <u>\$18,506,022</u>	 <u>2,990,410</u>	 <u>(3,919,906)</u>	 <u>17,576,526</u>	 <u>5,841,311</u>	 <u>11,735,215</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, 2008, the outstanding balance is \$5,840,000.

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>
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>\$5,840,000</u>	<u>590,434</u>	<u>6,430,434</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, 2008, \$4,307,852 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, 2008, the outstanding principal amount was \$3,686,862.

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, 2008, the outstanding balance is \$290,000.

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>
2009	<u>\$290,000</u>	<u>23,100</u>	<u>313,100</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, 2008 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	\$ 87,265	-	-	-	-	-	87,265
Notes receivable	348,000	-	-	-	-	-	348,000
Encumbrances	7,661,821	-	-	-	-	-	7,661,821
Solid waste	113,941	-	-	-	-	-	113,941
Property held for investment	-	-	-	-	-	354,444	354,444
Debt service	-	-	-	2,119,420	-	-	2,119,420
Subtotal	<u>8,211,027</u>	<u>-</u>	<u>-</u>	<u>2,119,420</u>	<u>-</u>	<u>354,444</u>	<u>10,684,891</u>
Unreserved:							
Designated:							
Reappropriations for continuing projects	7,692,481	-	1,801,934	-	2,378,055	920,800	12,793,270
Undesignated	<u>17,464,446</u>	<u>(1,868,623)</u>	<u>112,566</u>	<u>-</u>	<u>404,736</u>	<u>6,591,312</u>	<u>22,704,437</u>
Total	<u>\$33,367,954</u>	<u>(1,868,623)</u>	<u>1,914,500</u>	<u>2,119,420</u>	<u>2,782,791</u>	<u>7,866,556</u>	<u>46,182,598</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, 2008 consisted of the following:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Municipal Transit Enterprise Fund	General Fund	\$ 386,000
Internal Service Funds	General Fund	222,328
Nonmajor Governmental Funds	General Fund	<u>655,000</u>
	Sub-total	<u>1,263,328</u>
General Fund	Nonmajor Governmental Funds	1,074,000
Capital Projects Fund	Nonmajor Governmental Funds	28,367
Special Revenue Fund		
Nonmajor Governmental Funds	Bluebird Landslide	<u>100,000</u>
	Total	<u>\$2,465,695</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 (the most recent information available), 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. 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 2008 was \$1,932,460. A separate financial report may be obtained from the South Orange County Wastewater Authority office.

(15) Pension Plan (Defined Benefit)

Plan Description

The City of Laguna Beach contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. Copies of PERS' annual financial report may be obtained by writing to 400 "P" Street, Sacramento, California 95814.

Funding Policy

Miscellaneous and safety participants are required to contribute 7% and 9%, respectively, of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and city contract with employee bargaining groups.

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

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

Annual Pension Cost

For each of the fiscal years shown below, the City has contributed at the actuarially determined rate provided by PERS' actuaries. Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2007 to June 30, 2008 has been determined by an actuarial valuation of the plan as of June 30, 2005. The City's covered payroll for PERS was \$19,551,621 for the year ended June 30, 2008, while the City's total payroll for all employees was \$24,701,255 during the same period. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2008, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2007 to June 30, 2008.

Three-Year Trend Information

Annual Pension cost (Safety)

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
6/30/06	15.612%	\$2,021,163	100%	-
6/30/07	16.151%	1,668,833	100%	-
6/30/08	16.806%	1,924,661	100%	-

Annual Pension cost (Miscellaneous)

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
6/30/06	10.705%	\$ 863,603	100%	-
6/30/07	9.135%	886,762	100%	-
6/30/08	9,343%	1,014,350	100%	-

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 2008 was \$24,701,255 and covered payroll was \$1,305,800. Both the City and covered employees made the required 3.75% contributions amounting to \$48,968 from each source, or \$97,936 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, 2008:

	<u>Deficit Balance</u>
Special Revenue Funds:	
Bluebird Landslide	(\$1,868,623)
Miscellaneous Grants	(14,395)

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, 2008 exceeded appropriations in the following funds:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess over Appropriations</u>
Bluebird Landslide Special Revenue Fund	57,684	7,619,674	(7,561,990)
Street Lighting District Fund	250,500	276,695	(26,195)

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:

Total Operating Costs	\$2,183,550
50% Limitation (Line 1x50%)	1,091,775

TDA Financial Need Limitation:

Total Operating Costs		2,183,550
Depreciation Current	(315,770)	
OCTA Operating Assistance	(165,000)	
Passenger Revenues	(196,865)	
Taxi Voucher Program	(6,459)	
Park and Ride	(144,822)	<u>(828,916)</u>
Financial Need		<u>\$1,354,634</u>
Lesser of "Financial Need" or "50% Limitation"		<u>\$1,091,775</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 \$217,793.

(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 five such properties in the amount of \$1,679,809 and two loans to these respective employees. As of June 30, 2008, the outstanding balance of the loans was \$731,348.

(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.

(24) Subsequent Event

As of June 30, 2008 the City had an outstanding receivable due from the Federal Emergency Management Agency in the amount of \$15,788,329. The City received a reimbursement of \$14,929,596 in November 2008 with the remaining balance expected to be received in 2009.

CITY OF LAGUNA BEACH

Notes to Basic Financial Statements

(Continued)

(25) Prior Period Adjustment

During the fiscal year ended June 30, 2008, fund balance/net assets was restated to accrue payroll for the final pay period in fiscal year ended June 30, 2007.

Governmental Funds

	<u>General Fund</u>	<u>Sewer Fund</u>	Nonmajor Governmental <u>Funds</u>
Fund balance at beginning of year, as previously restated	\$36,927,087	3,643,944	3,837,817
Adjustment to accrue payroll for final pay period in fiscal year ended June 30, 2007	<u>(1,034,151)</u>	<u>(41,231)</u>	<u>(955)</u>
Fund balance at beginning of year, as restated	<u>\$35,892,936</u>	<u>3,602,713</u>	<u>3,836,862</u>

Proprietary Funds

	<u>Transit</u>	Insurance & Employee <u>Benefits</u>
Net assets at beginning of year, as previously restated	\$3,208,968	6,543,960
Adjustment to accrue payroll for final pay period in fiscal year ended June 30, 2007	<u>(68,958)</u>	<u>(4,129)</u>
Net assets at beginning of year, as restated	<u>\$3,140,010</u>	<u>6,539,831</u>

Government Wide Statements

	<u>Governmental Activities</u>	Business type <u>Activities</u>
Net assets at beginning of year, as previously reported	\$340,964,288	3,208,968
Adjustment to accrue payroll for final pay period in fiscal year ended June 30, 2007	<u>(1,080,466)</u>	<u>(68,958)</u>
Net assets at beginning of year, as restated	<u>\$339,883,822</u>	<u>3,140,010</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, 2008

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

	Budgeted Amounts		Actual	Variance with	2007
	Original	Final		Final Budget	
				Positive/ (Negative)	Actual
Revenues:					
Taxes:					
Property taxes	\$ 22,135,000	22,456,000	23,140,071	684,071	21,243,729
Sales and use taxes	4,820,000	4,820,000	4,883,080	63,080	4,694,534
Transient lodging taxes	8,500,000	8,500,000	8,741,412	241,412	8,661,017
Franchise taxes	1,000,000	1,000,000	1,164,427	164,427	1,152,272
Business license taxes	760,000	760,000	823,203	63,203	850,073
Real property transfer taxes	450,000	450,000	413,480	(36,520)	539,991
Total taxes	37,665,000	37,986,000	39,165,673	1,179,673	37,141,616
Licenses and permits:					
Construction permits	1,173,000	1,173,000	1,004,792	(168,208)	1,070,558
Other	21,000	21,000	19,380	(1,620)	25,450
Total licenses and permits	1,194,000	1,194,000	1,024,172	(169,828)	1,096,008
Fines and penalties					
Vehicle codes	1,305,000	1,305,000	1,893,607	588,607	1,391,374
Other	93,000	93,000	42,840	(50,160)	65,306
Total fines and penalties	1,398,000	1,398,000	1,936,447	538,447	1,456,680
Investment income	1,100,000	1,100,000	1,743,443	643,443	1,611,864
Rental income	339,800	339,800	354,560	14,760	369,318
Intergovernmental	5,396,000	4,209,883	2,355,772	(1,854,111)	2,555,937
Charges for services:					
Planning fees	1,367,000	1,617,000	1,412,292	(204,708)	1,394,077
Building department fees	278,000	278,000	249,397	(28,603)	356,058
Refuse service charges	1,751,500	1,751,500	1,759,656	8,156	1,615,211
Medical fees	60,000	60,000	89,025	29,025	37,340
Parks and recreation fees	1,118,200	1,128,700	1,320,445	191,745	1,194,724
Parking fees	175,000	175,000	176,831	1,831	164,778
Other	1,967,000	2,067,000	2,011,836	(55,164)	2,073,376
Total charges for services	6,716,700	7,077,200	7,019,482	(57,718)	6,835,564
Parking meters, lots and permits	3,450,000	3,450,000	3,406,195	(43,805)	4,334,250
Development tax:					
Building construction tax	-	-	148,416	148,416	214,370
Other	-	-	4,053	4,053	62,102
Total development tax	-	-	152,469	152,469	276,472

CITY OF LAGUNA BEACH

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances -

Budget and Actual

(Continued)

	Budgeted Amounts		Actual	Variance with	2007
	Original	Final		Final Budget	
				Positive/ (Negative)	
Other:					
Reimbursed expenditures	217,000	219,000	349,008	130,008	554,827
Other	20,000	2,598,000	1,381,831	(1,216,169)	743,176
Total other	<u>237,000</u>	<u>2,817,000</u>	<u>1,730,839</u>	<u>(1,086,161)</u>	<u>1,298,003</u>
Total revenues	<u>57,496,500</u>	<u>59,571,883</u>	<u>58,889,052</u>	<u>(682,831)</u>	<u>56,975,712</u>
Expenditures:					
General government:					
City Council	71,000	70,000	63,042	6,958	51,971
City Manager	703,150	789,150	733,998	55,152	656,518
City Clerk	299,250	299,250	268,904	30,346	270,210
City Treasurer	122,150	122,400	120,250	2,150	111,645
City Attorney	530,000	570,000	542,610	27,390	527,000
Administrative services	<u>2,022,100</u>	<u>2,095,600</u>	<u>2,319,073</u>	<u>(223,473)</u>	<u>2,403,955</u>
Total general government	<u>3,747,650</u>	<u>3,946,400</u>	<u>4,047,877</u>	<u>(101,477)</u>	<u>4,021,299</u>
Community development	<u>3,499,600</u>	<u>3,896,148</u>	<u>3,399,926</u>	<u>496,222</u>	<u>3,041,255</u>
Public safety:					
Police protection	11,597,600	12,229,164	11,473,248	755,916	10,900,339
Fire protection	8,817,600	9,013,492	8,642,584	370,908	8,280,440
Marine safety	2,062,900	2,207,450	2,120,848	86,602	2,033,700
Parking enforcement	<u>789,200</u>	<u>821,799</u>	<u>823,024</u>	<u>(1,225)</u>	<u>670,820</u>
Total public safety	<u>23,267,300</u>	<u>24,271,905</u>	<u>23,059,704</u>	<u>1,212,201</u>	<u>21,885,299</u>
Public works	<u>10,065,700</u>	<u>10,494,418</u>	<u>10,224,468</u>	<u>269,950</u>	<u>8,939,442</u>
Recreation and social services	<u>4,055,100</u>	<u>4,495,856</u>	<u>3,850,406</u>	<u>645,450</u>	<u>3,762,243</u>
Capital expenditures	<u>10,973,700</u>	<u>36,616,125</u>	<u>16,944,897</u>	<u>19,671,228</u>	<u>14,067,572</u>
Total expenditures	<u>55,609,050</u>	<u>83,720,852</u>	<u>61,527,278</u>	<u>22,193,574</u>	<u>55,717,110</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,887,450</u>	<u>(24,148,969)</u>	<u>(2,638,226)</u>	<u>21,510,743</u>	<u>1,258,602</u>
Other financing sources (uses):					
Transfers in	-	-	4,037,080	4,037,080	1,895,810
Transfers out	-	-	(4,226,408)	(4,226,408)	(1,311,850)
Sale of land and equipment	<u>3,000</u>	<u>2,264,828</u>	<u>302,572</u>	<u>(1,962,256)</u>	<u>4,788,172</u>
Total other financing sources (uses)	<u>3,000</u>	<u>2,264,828</u>	<u>113,244</u>	<u>(2,151,584)</u>	<u>5,372,132</u>
Net change in fund balances	1,890,450	(21,884,141)	(2,524,982)	19,359,159	6,630,734
Fund balances, beginning of year, as restated	<u>35,892,936</u>	<u>35,892,936</u>	<u>35,892,936</u>	-	<u>30,296,413</u>
Fund balances, end of year	<u>\$ 37,783,386</u>	<u>14,008,795</u>	<u>33,367,954</u>	<u>19,359,159</u>	<u>36,927,147</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, 2008
 (With Comparative Totals for Year Ended June 30, 2007)

	Budgeted Amounts		Actual	Variance with Final Budget Positive/ (Negative)	2007 Actual
	Original	Final			
Revenues:					
Intergovernmental	\$ -	-	20,034,966	20,034,966	7,363,450
Other	-	-	20,000	20,000	-
Total revenues	-	-	20,054,966	20,054,966	7,363,450
Expenditures:					
Capital expenditures	-	57,684	7,619,674	(7,561,990)	14,568,186
Total expenditures	-	57,684	7,619,674	(7,561,990)	14,568,186
Excess (deficiency) of revenues over (under) expenditures	-	(57,684)	12,435,292	12,492,976	(7,204,736)
Other financing sources (uses):					
Transfers in	-	-	-	-	150,000
Transfers out	-	-	(100,000)	(100,000)	-
Total other financing sources (uses)	-	-	(100,000)	(100,000)	150,000
Net change in fund balances	-	(57,684)	12,335,292	12,392,976	(7,054,736)
Fund balances, beginning of year	(14,203,915)	(14,203,915)	(14,203,915)	-	(7,149,179)
Fund balances (deficit), end of year	\$ (14,203,915)	(14,261,599)	(1,868,623)	12,392,976	(14,203,915)

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, 2008

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

	<u>Budgeted Amounts</u>			Variance with Final Budget	2007
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Positive/ (Negative)</u>	<u>Actual</u>
Revenues:					
Investment income	\$ -	-	1,695	1,695	-
Intergovernmental	-	864,655	866,000	1,345	325,546
Charges for services	5,565,000	5,565,000	5,630,073	65,073	5,481,368
Other	263,600	263,600	201,397	(62,203)	19,359
Total revenues	<u>5,828,600</u>	<u>6,693,255</u>	<u>6,699,165</u>	<u>5,910</u>	<u>5,826,273</u>
Expenditures:					
Current:					
Sewer service operating costs	3,689,200	3,677,200	3,620,729	56,471	3,348,521
Capital expenditures	1,518,900	8,378,684	4,278,547	4,100,137	2,820,488
Debt service:					
Principal	600,000	600,000	889,676	(289,676)	846,314
Interest and fiscal charges	480,000	480,000	132,426	347,574	181,083
Total expenditures	<u>6,288,100</u>	<u>13,135,884</u>	<u>8,921,378</u>	<u>4,214,506</u>	<u>7,196,406</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(459,500)</u>	<u>(6,442,629)</u>	<u>(2,222,213)</u>	<u>4,220,416</u>	<u>(1,370,133)</u>
Other financing sources (uses):					
Proceeds of loan	-	3,226,148	534,000	(2,692,148)	2,071,567
Total other financing sources (uses)	<u>-</u>	<u>3,226,148</u>	<u>534,000</u>	<u>(2,692,148)</u>	<u>2,071,567</u>
Net change in fund balances	(459,500)	(3,216,481)	(1,688,213)	1,528,268	701,434
Fund balances, beginning of year, as restated	<u>3,602,713</u>	<u>3,602,713</u>	<u>3,602,713</u>	<u>-</u>	<u>2,942,510</u>
Fund balances, end of year	<u>\$ 3,143,213</u>	<u>386,232</u>	<u>1,914,500</u>	<u>1,528,268</u>	<u>3,643,944</u>

CITY OF LAGUNA BEACH

Note to Required Supplementary Information

Year Ended June 30, 2008

(1) Budgetary Policy and Control

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

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

Budget information is presented for the general and certain special revenue fund types. Budgeted revenue amounts represent the original budget modified by Council-authorized adjustments during the year which were contingent upon new or additional revenue sources. Budgeted expenditures amount represent original appropriations adjusted for supplemental appropriations during the year. Supplemental appropriations include carryover appropriations from the prior year. Supplemental budgetary appropriations of \$28,735,802 were made in the General Fund and \$6,905,468 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, 2008
 (With Comparative Totals for June 30, 2007)

<u>Assets</u>	General	Open Space	Capital Improvement	Parking Authority
Cash and investments	\$ 12,003,386	359,594	362,500	3,352,022
Receivables:				
Taxes	964,100	-	29,347	-
Accounts	171,313	-	37,347	46,906
Intergovernmental	2,454	-	1,462,984	-
Notes	-	-	-	-
Other	9,383	-	-	-
Due from other funds	1,538,371	-	16,257,899	-
Inventory	87,265	-	-	-
Total assets	\$ 14,776,272	359,594	18,150,077	3,398,928
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,867,639	-	1,374,618	46,973
Retentions payable	-	-	24,088	-
Deferred revenue	66,737	-	634,765	171,360
Total liabilities	1,934,376	-	2,033,471	218,333
Fund balances:				
Reserved for:				
Inventory	87,265	-	-	-
Notes receivable	-	-	-	-
Encumbrances	193,719	-	7,413,312	-
Solid waste	113,941	-	-	-
Unreserved:				
Designated for:				
Reappropriations for continuing projects	2,688,342	-	4,901,929	90,000
Undesignated	9,758,629	359,594	3,801,365	3,090,595
Total fund balances	12,841,896	359,594	16,116,606	3,180,595
Total liabilities and fund balances	\$ 14,776,272	359,594	18,150,077	3,398,928

Parking In-Lieu	Park In-Lieu	Art In-Lieu	Drainage	Housing In-Lieu	Totals	
					2008	2007
43,504	67,984	146,680	122,500	140,595	16,598,765	23,620,385
-	-	-	-	-	993,447	998,608
-	-	-	-	-	255,566	746,040
-	-	-	-	-	1,465,438	592,919
-	-	-	-	348,000	348,000	348,000
-	-	-	-	-	9,383	5,605
-	-	-	-	-	17,796,270	13,597,061
-	-	-	-	-	87,265	23,132
<u>43,504</u>	<u>67,984</u>	<u>146,680</u>	<u>122,500</u>	<u>488,595</u>	<u>37,554,134</u>	<u>39,931,750</u>
-	-	-	-	-	3,289,230	1,600,836
-	-	-	-	-	24,088	769,062
-	-	-	-	-	872,862	634,765
-	-	-	-	-	4,186,180	3,004,663
-	-	-	-	-	87,265	20,012
-	-	-	-	348,000	348,000	348,000
-	54,790	-	-	-	7,661,821	15,478,937
-	-	-	-	-	113,941	73,683
-	12,210	-	-	-	7,692,481	8,702,239
<u>43,504</u>	<u>984</u>	<u>146,680</u>	<u>122,500</u>	<u>140,595</u>	<u>17,464,446</u>	<u>12,304,216</u>
<u>43,504</u>	<u>67,984</u>	<u>146,680</u>	<u>122,500</u>	<u>488,595</u>	<u>33,367,954</u>	<u>36,927,087</u>
<u>43,504</u>	<u>67,984</u>	<u>146,680</u>	<u>122,500</u>	<u>488,595</u>	<u>37,554,134</u>	<u>39,931,750</u>

CITY OF LAGUNA BEACH

General Fund

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

Year Ended June 30, 2008

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

	<u>General</u>	<u>Open Space</u>	<u>Capital Improvement</u>	<u>Parking Authority</u>
Revenues:				
Taxes	\$ 34,901,467	-	4,264,206	-
Licenses and permits	1,024,172	-	-	-
Fines and penalties	8,100	-	1,928,347	-
Investment income	1,718,146	-	-	-
Rental	354,560	-	-	-
Intergovernmental	529,139	-	1,826,633	-
Charges for services	7,016,957	-	2,525	-
Parking meters, lots and permits	-	-	-	3,406,195
Development tax	-	-	-	-
Other	651,828	-	1,050,035	28,976
	<u>46,204,369</u>	<u>-</u>	<u>9,071,746</u>	<u>3,435,171</u>
Total revenues				
Expenditures:				
Current:				
General government	4,047,877	-	-	-
Community development	3,399,926	-	-	-
Public safety	22,268,323	-	-	791,381
Public works	9,196,563	-	-	1,027,905
Recreation and social services	3,845,266	-	-	-
Capital expenditures	642,816	53,800	16,216,637	31,644
	<u>43,400,771</u>	<u>53,800</u>	<u>16,216,637</u>	<u>1,850,930</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>2,803,598</u>	<u>(53,800)</u>	<u>(7,144,891)</u>	<u>1,584,241</u>
Other financing sources (uses):				
Transfers in	1,475,580	236,000	2,325,500	-
Transfers out	(1,960,828)	-	(656,580)	(1,386,000)
Sale of land and equipment	2,572	-	300,000	-
	<u>(482,676)</u>	<u>236,000</u>	<u>1,968,920</u>	<u>(1,386,000)</u>
Total other financing sources (uses)				
Net change in fund balances	2,320,922	182,200	(5,175,971)	198,241
Fund balances, beginning of year, as restated	<u>10,520,974</u>	<u>177,394</u>	<u>21,292,577</u>	<u>2,982,354</u>
Fund balances, end of year	<u>\$ 12,841,896</u>	<u>359,594</u>	<u>16,116,606</u>	<u>3,180,595</u>

Parking In-Lieu	Park In-Lieu	Art In-Lieu	Drainage	Housing In-Lieu	Eliminations (1)	Totals	
						2008	2007
-	-	-	-	-	-	39,165,673	37,141,616
-	-	-	-	-	-	1,024,172	1,096,008
-	-	-	-	-	-	1,936,447	1,456,680
1,211	7,698	6,597	6,395	3,396	-	1,743,443	1,611,864
-	-	-	-	-	-	354,560	369,318
-	-	-	-	-	-	2,355,772	2,555,937
-	-	-	-	-	-	7,019,482	6,835,564
-	-	-	-	-	-	3,406,195	4,334,250
19,000	4,053	-	29,491	99,925	-	152,469	276,472
-	-	-	-	-	-	1,730,839	1,298,003
<u>20,211</u>	<u>11,751</u>	<u>6,597</u>	<u>35,886</u>	<u>103,321</u>	<u>-</u>	<u>58,889,052</u>	<u>56,975,712</u>
-	-	-	-	-	-	4,047,877	4,021,299
-	-	-	-	-	-	3,399,926	3,041,255
-	-	-	-	-	-	23,059,704	21,885,359
-	-	-	-	-	-	10,224,468	8,939,442
-	-	2,500	-	2,640	-	3,850,406	3,762,243
-	-	-	-	-	-	16,944,897	14,067,572
<u>-</u>	<u>-</u>	<u>2,500</u>	<u>-</u>	<u>2,640</u>	<u>-</u>	<u>61,527,278</u>	<u>55,717,170</u>
<u>20,211</u>	<u>11,751</u>	<u>4,097</u>	<u>35,886</u>	<u>100,681</u>	<u>-</u>	<u>(2,638,226)</u>	<u>1,258,542</u>
-	-	-	-	-	(2,963,080)	1,074,000	1,895,810
-	(141,000)	-	(82,000)	-	2,963,080	(1,263,328)	(1,311,850)
-	-	-	-	-	-	302,572	4,788,172
<u>-</u>	<u>(141,000)</u>	<u>-</u>	<u>(82,000)</u>	<u>-</u>	<u>-</u>	<u>113,244</u>	<u>5,372,132</u>
20,211	(129,249)	4,097	(46,114)	100,681	-	(2,524,982)	6,630,674
<u>23,293</u>	<u>197,233</u>	<u>142,583</u>	<u>168,614</u>	<u>387,914</u>	<u>-</u>	<u>35,892,936</u>	<u>30,296,413</u>
<u>43,504</u>	<u>67,984</u>	<u>146,680</u>	<u>122,500</u>	<u>488,595</u>	<u>-</u>	<u>33,367,954</u>	<u>36,927,087</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, 2008
(With Comparative Totals for June 30, 2007)

	Measure A	Gas Tax	Street Lighting District
<u>Assets</u>			
Cash and investments	\$ 4,921,205	1,245,715	1,401,502
Receivables:			
Taxes	190,500	-	20,530
Accounts	-	-	-
Intergovernmental	-	166,783	-
Property held for investment	-	-	354,444
Total assets	\$ 5,111,705	1,412,498	1,776,476
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	514,424	17,620
Due to other funds	-	-	-
Deferred revenue	-	-	-
Total liabilities	-	514,424	17,620
Fund balances:			
Reserved:			
Encumbrances	-	-	-
Property held for investment	-	-	354,444
Unreserved:			
Designated for reappropriations for continuing projects	-	895,800	25,000
Undesignated	5,111,705	2,274	1,379,412
Total fund balances	5,111,705	898,074	1,758,856
Total liabilities and fund balances	\$ 5,111,705	1,412,498	1,776,476

Miscellaneous Grants	Asset Forfeiture	Totals	
		2008	2007
-	112,316	7,680,738	3,202,456
-	-	211,030	153,300
-	-	-	133,483
19,305	-	186,088	57,509
<u>-</u>	<u>-</u>	<u>354,444</u>	<u>354,444</u>
<u>19,305</u>	<u>112,316</u>	<u>8,432,300</u>	<u>3,901,192</u>
-	-	532,044	22,320
10,572	-	10,572	17,927
<u>23,128</u>	<u>-</u>	<u>23,128</u>	<u>23,128</u>
<u>33,700</u>	<u>-</u>	<u>565,744</u>	<u>63,375</u>
-	-	-	375,195
-	-	354,444	354,444
-	-	920,800	156,817
<u>(14,395)</u>	<u>112,316</u>	<u>6,591,312</u>	<u>2,951,361</u>
<u>(14,395)</u>	<u>112,316</u>	<u>7,866,556</u>	<u>3,837,817</u>
<u>19,305</u>	<u>112,316</u>	<u>8,432,300</u>	<u>3,901,192</u>

CITY OF LAGUNA BEACH
 Nonmajor Special Revenue Funds
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Year Ended June 30, 2008
 (With Comparative Totals For Year Ended June 30, 2007)

	Measure A	Gas Tax	Street Lighting District
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Taxes	\$ 2,947,477	340,433	1,015,690
Fines and penalties	-	-	-
Investment income	160,221	42,247	-
Intergovernmental	-	1,480,927	-
Other	-	-	6,372
	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>3,107,698</u>	<u>1,863,607</u>	<u>1,022,062</u>
Expenditures:			
Current:			
Public safety	-	-	-
Public works	-	-	276,695
Recreation and social services	-	-	-
Capital expenditures	-	1,315,626	142,895
	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>-</u>	<u>1,315,626</u>	<u>419,590</u>
Excess of revenues over (under) expenditures	<u>3,107,698</u>	<u>547,981</u>	<u>602,472</u>
Other financing sources (uses):			
Transfers in	100,000	655,000	-
Transfers out	-	(624,000)	(378,367)
	<u> </u>	<u> </u>	<u> </u>
Total other financing sources (uses)	<u>100,000</u>	<u>31,000</u>	<u>(378,367)</u>
Net change in fund balances	3,207,698	578,981	224,105
Fund balances, beginning of year	<u>1,904,007</u>	<u>319,093</u>	<u>1,534,751</u>
Fund balances, end of year	<u>\$ 5,111,705</u>	<u>898,074</u>	<u>1,758,856</u>

Miscellaneous Grants	Asset Forfeiture	Totals	
		2008	2007
-	-	4,303,600	3,262,917
-	32,430	32,430	20,059
-	4,189	206,657	63,070
116,017	-	1,596,944	1,461,457
-	-	6,372	6,328
<u>116,017</u>	<u>36,619</u>	<u>6,146,003</u>	<u>4,813,831</u>
18,726	-	18,726	207,141
-	-	276,695	263,321
15,000	-	15,000	14,982
-	-	1,458,521	3,684,178
<u>33,726</u>	<u>-</u>	<u>1,768,942</u>	<u>4,169,622</u>
<u>82,291</u>	<u>36,619</u>	<u>4,377,061</u>	<u>644,209</u>
-	-	755,000	955,000
<u>(100,000)</u>	<u>-</u>	<u>(1,102,367)</u>	<u>(2,034,810)</u>
<u>(100,000)</u>	<u>-</u>	<u>(347,367)</u>	<u>(1,079,810)</u>
(17,709)	36,619	4,029,694	(435,601)
<u>3,314</u>	<u>75,697</u>	<u>3,836,862</u>	<u>4,273,418</u>
<u>(14,395)</u>	<u>112,316</u>	<u>7,866,556</u>	<u>3,837,817</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, 2008

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

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive/ (Negative)</u>	<u>2007 Actual</u>
Revenues:				
Taxes	\$ 2,100,000	2,947,477	847,477	2,000,512
Investment income	<u>-</u>	<u>160,221</u>	<u>160,221</u>	<u>3,495</u>
Total revenues	<u>2,100,000</u>	<u>3,107,698</u>	<u>1,007,698</u>	<u>2,004,007</u>
Expenditures:				
Capital expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>2,100,000</u>	<u>3,107,698</u>	<u>1,007,698</u>	<u>2,004,007</u>
Other financing sources (uses):				
Transfers in	-	100,000	100,000	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>
Total other financing sources (uses)	<u>-</u>	<u>100,000</u>	<u>100,000</u>	<u>(100,000)</u>
Net change in fund balances	2,100,000	3,207,698	1,107,698	1,904,007
Fund balances, beginning of year	<u>1,904,007</u>	<u>1,904,007</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ 4,004,007</u>	<u>5,111,705</u>	<u>1,107,698</u>	<u>1,904,007</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, 2008

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

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive/ (Negative)	<u>2007 Actual</u>
Revenues:				
Taxes	\$ 380,000	340,433	(39,567)	342,939
Investment income	35,000	42,247	7,247	58,132
Intergovernmental	<u>690,000</u>	<u>1,480,927</u>	<u>790,927</u>	<u>1,117,138</u>
Total revenues	<u>1,105,000</u>	<u>1,863,607</u>	<u>758,607</u>	<u>1,518,209</u>
Expenditures:				
Capital expenditures	<u>2,212,775</u>	<u>1,315,626</u>	<u>897,149</u>	<u>3,657,463</u>
Total expenditures	<u>2,212,775</u>	<u>1,315,626</u>	<u>897,149</u>	<u>3,657,463</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,107,775)</u>	<u>547,981</u>	<u>1,655,756</u>	<u>(2,139,254)</u>
Other financing sources (uses):				
Transfers in	-	655,000	655,000	955,000
Transfers out	<u>-</u>	<u>(624,000)</u>	<u>(624,000)</u>	<u>(660,000)</u>
Total other financing sources (uses)	<u>-</u>	<u>31,000</u>	<u>31,000</u>	<u>295,000</u>
Net change in fund balances	(1,107,775)	578,981	1,686,756	(1,844,254)
Fund balances, beginning of year	<u>319,093</u>	<u>319,093</u>	<u>-</u>	<u>2,163,347</u>
Fund balances (deficit), end of year	<u>\$ (788,682)</u>	<u>898,074</u>	<u>1,686,756</u>	<u>319,093</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, 2008

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

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget <u>Positive/ (Negative)</u>	<u>2007 Actual</u>
Revenues:				
Taxes	\$ 958,000	1,015,690	57,690	919,466
Other	<u>6,000</u>	<u>6,372</u>	<u>372</u>	<u>6,328</u>
Total revenues	<u>964,000</u>	<u>1,022,062</u>	<u>58,062</u>	<u>925,794</u>
Expenditures:				
Current:				
Public works	250,500	276,695	(26,195)	263,321
Capital expenditures	<u>158,887</u>	<u>142,895</u>	<u>15,992</u>	<u>26,715</u>
Total expenditures	<u>409,387</u>	<u>419,590</u>	<u>(10,203)</u>	<u>290,036</u>
Excess of revenues over (under) expenditures	<u>554,613</u>	<u>602,472</u>	<u>47,859</u>	<u>635,758</u>
Other financing sources (uses):				
Transfers out	<u>-</u>	<u>(378,367)</u>	<u>(378,367)</u>	<u>(685,680)</u>
Total other financing sources (uses)	<u>-</u>	<u>(378,367)</u>	<u>(378,367)</u>	<u>(685,680)</u>
Net change in fund balances	554,613	224,105	(330,508)	(49,922)
Fund balances, beginning of year	<u>1,534,751</u>	<u>1,534,751</u>	<u>-</u>	<u>1,584,673</u>
Fund balances, end of year	<u>\$ 2,089,364</u>	<u>1,758,856</u>	<u>(330,508)</u>	<u>1,534,751</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, 2008

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

	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget <u>Positive/ (Negative)</u>	<u>2007 Actual</u>
Revenues:				
Intergovernmental	\$ 126,700	116,017	(10,683)	344,319
Total revenues	<u>126,700</u>	<u>116,017</u>	<u>(10,683)</u>	<u>344,319</u>
Expenditures:				
Current:				
Public safety	84,180	18,726	65,454	207,141
Recreation and social services	<u>15,000</u>	<u>15,000</u>	<u>-</u>	<u>14,982</u>
Total expenditures	<u>99,180</u>	<u>33,726</u>	<u>65,454</u>	<u>222,123</u>
Excess of revenues over (under) expenditures	<u>27,520</u>	<u>82,291</u>	<u>54,771</u>	<u>122,196</u>
Other financing sources (uses):				
Transfers out	<u>-</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>
Total other financing sources (uses)	<u>-</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>
Net change in fund balances	27,520	(17,709)	(45,229)	22,196
Fund balances (deficit), beginning of year, as restated	<u>3,314</u>	<u>3,314</u>	<u>-</u>	<u>(17,927)</u>
Fund balances (deficit), end of year	<u>\$ 30,834</u>	<u>(14,395)</u>	<u>(45,229)</u>	<u>4,269</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, 2008

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

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2007 Actual
Revenues:				
Fines and penalties	\$ -	32,430	32,430	20,059
Investment income	-	4,189	4,189	1,443
Total revenues	<u>-</u>	<u>36,619</u>	<u>36,619</u>	<u>21,502</u>
Expenditures:				
Capital expenditures	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	-	36,619	36,619	21,502
Net change in fund balances	-	36,619	36,619	21,502
Fund balances, beginning of year	<u>75,697</u>	<u>75,697</u>	<u>-</u>	<u>54,195</u>
Fund balances, end of year	<u>\$ 75,697</u>	<u>112,316</u>	<u>36,619</u>	<u>75,697</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, 2008

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

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2007 Actual
Revenues:				
Taxes	\$ 1,692,000	1,592,143	(99,857)	1,575,958
Investment income	50,000	62,788	12,788	36,340
Intergovernmental	8,000	6,319	(1,681)	7,037
Total revenues	<u>1,750,000</u>	<u>1,661,250</u>	<u>(88,750)</u>	<u>1,619,335</u>
Expenditures:				
Debt service:				
Principal	1,310,000	1,310,000	-	1,255,000
Interest and fiscal charges	312,800	309,006	3,794	361,306
Total expenditures	<u>1,622,800</u>	<u>1,619,006</u>	<u>3,794</u>	<u>1,616,306</u>
Excess of revenues over (under) expenditures	127,200	42,244	(84,956)	3,029
Fund balances, beginning of year	<u>2,077,176</u>	<u>2,077,176</u>	-	<u>2,074,147</u>
Fund balances, end of year	<u>\$ 2,204,376</u>	<u>2,119,420</u>	<u>(84,956)</u>	<u>2,077,176</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, 2008

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

	Final Budget	Actual	Variance with Final Budget Positive/ (Negative)	2007 Actual
Revenues:				
Investment income	\$ 226,477	158,263	(68,214)	125,460
Other	-	604,597	604,597	615,097
Total revenues	<u>226,477</u>	<u>762,860</u>	<u>536,383</u>	<u>740,557</u>
Expenditures:				
Capital expenditures	<u>4,867,567</u>	<u>3,020,398</u>	<u>1,847,169</u>	<u>1,264,418</u>
Total expenditures	<u>4,867,567</u>	<u>3,020,398</u>	<u>1,847,169</u>	<u>1,264,418</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,641,090)</u>	<u>(2,257,538)</u>	<u>2,383,552</u>	<u>(523,861)</u>
Other financing sources:				
Transfers in	-	28,367	28,367	-
Proceeds of bond	-	584,539	584,539	2,269,830
Total other financing sources	<u>-</u>	<u>612,906</u>	<u>612,906</u>	<u>2,269,830</u>
Net change in fund balances	(4,641,090)	(1,644,632)	2,996,458	1,745,969
Fund balances, beginning of year	<u>4,427,423</u>	<u>4,427,423</u>	<u>-</u>	<u>2,681,454</u>
Fund balances (deficit), end of year	<u>\$ (213,667)</u>	<u>2,782,791</u>	<u>2,996,458</u>	<u>4,427,423</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, 2008
(With Comparative Totals For June 30, 2007)

	<u>Insurance and Employee Benefits</u>	<u>Vehicle Replacement</u>	<u>Totals</u>	
			<u>2008</u>	<u>2007</u>
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 12,676,465	2,349,150	15,025,615	14,974,346
Receivables:				
Accounts	1,285	15,712	16,997	3,032
Prepays	220,395	-	220,395	195,473
Total current assets	<u>12,898,145</u>	<u>2,364,862</u>	<u>15,263,007</u>	<u>15,172,851</u>
Noncurrent assets:				
Notes receivable	515,000	216,348	731,348	229,095
Property held for investment	1,358,153	321,656	1,679,809	1,277,810
Capital assets, net of depreciation	-	3,420,900	3,420,900	3,084,453
Total noncurrent assets	<u>1,873,153</u>	<u>3,958,904</u>	<u>5,832,057</u>	<u>4,591,358</u>
Total assets	<u>14,771,298</u>	<u>6,323,766</u>	<u>21,095,064</u>	<u>19,764,209</u>
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	118,310	42,401	160,711	292,340
Compensated absences due within one year	2,655,477	-	2,655,477	2,136,958
Insurance claims payable due within one year	1,535,834	-	1,535,834	1,259,209
Total current liabilities	<u>4,309,621</u>	<u>42,401</u>	<u>4,352,022</u>	<u>3,688,507</u>
Non-current liabilities:				
Compensated absences	663,869	-	663,869	689,164
Insurance claims payable	2,904,484	-	2,904,484	2,938,154
Total non-current liabilities	<u>3,568,353</u>	<u>-</u>	<u>3,568,353</u>	<u>3,627,318</u>
Total liabilities	<u>7,877,974</u>	<u>42,401</u>	<u>7,920,375</u>	<u>7,315,825</u>
<u>Net Assets</u>				
Net assets:				
Invested in capital assets	-	3,420,900	3,420,900	3,084,453
Unrestricted	6,893,324	2,860,465	9,753,789	9,363,931
Total net assets	<u>\$ 6,893,324</u>	<u>6,281,365</u>	<u>13,174,689</u>	<u>12,448,384</u>

CITY OF LAGUNA BEACH
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2008
(With Comparative Totals For Year Ended June 30, 2007)

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2008	2007
Operating revenues:				
Vehicle rentals	\$ -	1,006,798	1,006,798	943,300
Employee benefits charges	788,197	-	788,197	626,401
Insurance charges	6,060,659	-	6,060,659	5,520,167
Total operating revenues	6,848,856	1,006,798	7,855,654	7,089,868
Operating expenses:				
Employee benefits	1,023,166	-	1,023,166	700,079
Insurance claims and premiums	5,694,525	-	5,694,525	3,865,874
Depreciation	-	620,486	620,486	425,810
Total operating expenses	6,717,691	620,486	7,338,177	4,991,763
Operating income	131,165	386,312	517,477	2,098,105
Nonoperating revenues (expenses):				
Investment income	-	11,780	11,780	10,516
Gain (loss) on disposal of capital assets	-	(21,572)	(21,572)	(189,120)
Other	-	421	421	-
Total nonoperating revenues (expenses)	-	(9,371)	(9,371)	(178,604)
Income before transfers	131,165	376,941	508,106	1,919,501
Transfers:				
Transfers in	222,328	-	222,328	73,676
Total transfers	222,328	-	222,328	73,676
Change in net assets	353,493	376,941	730,434	1,993,177
Net assets at beginning of year, as restated	6,539,831	5,904,424	12,444,255	10,455,207
Net assets at end of year	\$ 6,893,324	6,281,365	13,174,689	12,448,384

CITY OF LAGUNA BEACH
Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2008
(With Comparative Totals For Year Ended June 30, 2007)

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2008	2007
Cash flows from operating activities:				
Cash received from user departments	\$ 6,145,283	1,021,612	7,166,895	7,089,053
Cash payments to suppliers for goods and services	(4,951,811)	20,699	(4,931,112)	(4,207,943)
Cash payments to employees for services	(529,942)	-	(529,942)	(473,923)
Net cash provided by (used for) operating activities	<u>663,530</u>	<u>1,042,311</u>	<u>1,705,841</u>	<u>2,407,187</u>
Cash flows from noncapital financing activities:				
Cash received from other funds	222,328	-	222,328	184,969
Loan principal received	-	12,747	12,747	-
Net cash provided by (used for) noncapital financing activities	<u>222,328</u>	<u>12,747</u>	<u>235,075</u>	<u>184,969</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(402,000)	(1,200,924)	(1,602,924)	(1,335,120)
Issuance of notes	(515,000)	-	(515,000)	-
Proceeds from sale of capital assets	-	216,497	216,497	326,712
Net cash provided by (used for) capital and related financing activities	<u>(917,000)</u>	<u>(984,427)</u>	<u>(1,901,427)</u>	<u>(1,008,408)</u>
Cash flows from investing activities:				
Interest received	-	11,780	11,780	10,516
Net cash provided by (used for) investing activities	<u>-</u>	<u>11,780</u>	<u>11,780</u>	<u>10,516</u>
Net increase (decrease) in cash and cash equivalents	(31,142)	82,411	51,269	1,594,264
Cash and cash equivalents at beginning of year	<u>12,707,607</u>	<u>2,266,739</u>	<u>14,974,346</u>	<u>13,380,082</u>
Cash and cash equivalents at end of year	<u>\$ 12,676,465</u>	<u>2,349,150</u>	<u>15,025,615</u>	<u>14,974,346</u>

(Continued)

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

	Insurance and Employee Benefits	Vehicle Replacement	Totals	
			2008	2007
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 131,165	365,161	496,326	2,098,105
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	-	647,980	647,980	425,810
(Increase) decrease in accounts receivable	(1,285)	(12,680)	(13,965)	(1,367)
(Increase) decrease in prepaids	(24,922)	-	(24,922)	(15,905)
Increase (decrease) in accounts payable and accrued liabilities	(177,607)	41,850	(135,757)	258,157
Increase (decrease) in compensated absences payable	493,224	-	493,224	226,156
Increase (decrease) in insurance claims payable	242,955	-	242,955	(583,769)
Net cash provided by (used for) operating activities	<u>\$ 663,530</u>	<u>1,042,311</u>	<u>1,705,841</u>	<u>2,407,187</u>
Supplemental schedule of noncash capital, financing, and investing activities:				
Forgiven loan made to General Fund	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

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AGENCY FUNDS

1911 Act Bonds Fund

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

1915 Act Bonds Fund

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

Deposits Fund

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

CITY OF LAGUNA BEACH
 Agency Funds
 Combining Statement of Fiduciary Assets and Liabilities
 June 30, 2008
 (With Comparative Totals For June 30, 2007)

	1911 Act Bonds	1915 Act Bonds	Deposits	<u>Totals</u>	
				2008	2007
<u>Assets</u>					
Cash and investments	\$ 14,325	2,808,384	2,803,051	5,625,760	5,410,126
Investments with fiscal agent	-	1,596,859	-	1,596,859	1,687,131
Receivables:					
Accounts	-	-	111,318	111,318	-
Intergovernmental	-	40,877	7,843	48,720	45,138
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 14,325</u>	<u>4,446,120</u>	<u>2,922,212</u>	<u>7,382,657</u>	<u>7,142,395</u>
 <u>Liabilities</u>					
Accounts payable and accrued liabilities	\$ -	677	76,785	77,462	52,461
Deposits	-	-	2,845,427	2,845,427	2,756,649
Due to bondholders	<u>14,325</u>	<u>4,445,443</u>	<u>-</u>	<u>4,459,768</u>	<u>4,333,285</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$ 14,325</u>	<u>4,446,120</u>	<u>2,922,212</u>	<u>7,382,657</u>	<u>7,142,395</u>

CITY OF LAGUNA BEACH
 Agency Funds
 Combining Statement of Changes in Fiduciary Assets and Liabilities
 June 30, 2008

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
<u>1911 Act Bonds</u>				
<u>Assets</u>				
Cash and Investments	\$ 13,995	14,325	13,995	14,325
<u>Liabilities</u>				
Due to bondholders	\$ 13,995	14,325	13,995	14,325
<u>1915 Act Bonds</u>				
<u>Assets</u>				
Cash and investments	\$ 2,594,814	2,808,384	2,594,814	2,808,384
Investments with fiscal agent	1,687,131	1,596,859	1,687,131	1,596,859
Receivables:				
Intergovernmental	37,345	40,877	37,345	40,877
Total assets	\$ 4,319,290	4,446,120	4,319,290	4,446,120
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ -	677	-	677
Due to bondholders	4,319,290	4,445,443	4,319,290	4,445,443
Total liabilities	\$ 4,319,290	4,446,120	4,319,290	4,446,120
<u>Deposits</u>				
<u>Assets</u>				
Cash and investments	\$ 2,801,317	2,803,051	2,801,317	2,803,051
Receivables:				
Accounts	-	111,318	-	111,318
Intergovernmental	7,793	7,843	7,793	7,843
Total assets	\$ 2,809,110	2,922,212	2,809,110	2,922,212
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 52,461	76,785	52,461	76,785
Deposits	2,756,649	2,845,427	2,756,649	2,845,427
Total liabilities	\$ 2,809,110	2,922,212	2,809,110	2,922,212
TOTALS				
<u>Assets</u>				
Cash and investments	\$ 5,410,126	5,625,760	5,410,126	5,625,760
Investments with fiscal agent	1,687,131	1,596,859	1,687,131	1,596,859
Receivables:				
Accounts	-	111,318	-	111,318
Intergovernmental	45,138	48,720	45,138	48,720
Total assets	\$ 7,142,395	7,382,657	7,142,395	7,382,657
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 52,461	77,462	52,461	77,462
Deposits	2,756,649	2,845,427	2,756,649	2,845,427
Due to bondholders	4,333,285	4,459,768	4,333,285	4,459,768
Total liabilities	\$ 7,142,395	7,382,657	7,142,395	7,382,657

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OTHER INFORMATION

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City of Laguna Beach
Net Assets by Component
Last Six Fiscal Years
(accrual basis of accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
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	\$ 305,837,234
Restricted	10,032,695	8,324,762	9,726,623	10,449,060	11,766,456	10,754,223
Unrestricted	23,241,494	23,439,204	31,968,151	34,239,450	43,592,259	41,777,890
Total governmental activities	\$ 121,299,731	\$ 132,394,755	\$ 147,103,110	\$ 168,800,450	\$ 340,964,288	\$ 358,369,347
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	\$ 3,056,319
Restricted	-	-	-	-	-	-
Unrestricted	23,050	23,051	714,920	265,839	505,975	465,194
Total business type activities	\$ 1,452,636	\$ 1,796,111	\$ 2,213,858	\$ 1,986,407	\$ 3,208,968	\$ 3,521,513
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	\$ 308,893,553
Restricted	10,032,695	8,324,762	9,726,623	10,449,060	11,766,456	10,754,223
Unrestricted	23,264,544	23,462,255	32,683,071	34,505,289	44,098,234	42,243,084
Total business type activities	\$ 122,752,367	\$ 134,190,866	\$ 149,316,968	\$ 170,786,857	\$ 344,173,256	\$ 361,890,860

*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 Six Fiscal Years
(accrual basis of accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Expenses:						
Governmental activities:						
General government	\$ 3,124,084	\$ 2,904,607	\$ 4,294,820	\$ 3,921,931	\$ 4,043,977	\$ 4,326,076
Community development	2,337,716	2,355,274	2,382,329	2,668,812	2,955,670	3,422,556
Public Safety	16,112,020	16,049,217	18,193,401	18,864,927	21,480,996	23,133,907
Public Works	16,998,409	13,172,223	11,063,217	21,427,184	13,372,777	22,374,310
Recreation and social services	2,895,627	2,851,119	3,164,928	3,415,130	3,609,896	3,839,208
Sewer service operating costs	3,551,289	3,147,888	3,924,249	3,484,183	4,561,407	4,682,498
Interest on long-term debt	1,344,024	968,961	518,189	521,755	511,304	408,619
Total governmental activities expenses	46,363,169	41,449,289	43,541,133	54,303,922	50,536,027	62,187,174
Business-type activities:						
Municipal transit	\$ 1,289,289	\$ 1,453,091	\$ 1,677,468	\$ 1,664,811	\$ 1,857,979	\$ 2,183,550
Total business-type activities expenses	\$ 1,289,289	\$ 1,453,091	\$ 1,677,468	\$ 1,664,811	\$ 1,857,979	\$ 2,183,550
Total primary government expenses	\$ 47,652,458	\$ 42,902,380	\$ 45,218,601	\$ 55,968,733	\$ 52,394,006	\$ 64,370,724
Program revenues:						
Governmental activities:						
Charges for Services:						
General Government	\$ 763,533	\$ 895,538	\$ 954,161	\$ 985,885	\$ 1,097,636	\$ 1,031,632
Community development	1,728,284	2,317,751	2,680,048	2,775,360	2,811,790	2,635,214
Public safety	1,575,897	1,685,647	1,877,297	2,050,919	2,010,319	2,400,367
Public works	5,176,964	4,410,512	5,523,490	4,893,227	6,113,731	5,329,796
Recreation and social services	1,154,832	1,204,292	1,145,857	1,217,894	1,405,718	1,499,601
Sewer service operating costs	4,542,347	4,997,882	5,091,637	5,328,527	5,497,631	5,654,840
Operating Grants and Contributions:	2,491,136	2,445,247	2,804,549	3,716,412	5,017,124	6,159,388
Capital Grants and Contributions:	5,147,937	909,854	2,453,596	14,298,137	15,865,514	7,300,066
Total governmental activities program revenues	\$ 22,580,930	\$ 18,866,723	\$ 22,530,635	\$ 35,266,361	\$ 39,819,463	\$ 32,010,904
Business-type activities						
Charges for Services:						
Municipal Transit	\$ 160,217	\$ 184,466	\$ 223,662	\$ 325,015	\$ 339,842	\$ 348,146
Operating Grants and Contributions:	973,931	1,085,797	1,201,453	881,047	1,221,042	951,510
Capital Grants and Contributions:	668,724	526,303	450,000	57,912	1,223,950	862,200
Total business-type activities program revenues	\$ 1,802,872	\$ 1,796,566	\$ 1,875,115	\$ 1,263,974	\$ 2,784,834	\$ 2,161,856
Total primary government program revenues	\$ 24,383,802	\$ 20,663,289	\$ 24,405,750	\$ 36,530,335	\$ 42,604,297	\$ 34,172,760
Net revenues (expenses):						
Governmental activities	\$ (23,782,239)	\$ (22,582,566)	\$ (21,010,498)	\$ (19,037,561)	\$ (10,716,564)	\$ (30,176,270)
Business-type activities	513,583	343,475	197,647	(400,837)	926,855	(21,694)
Total net revenues (expenses)	\$ (23,268,656)	\$ (22,239,091)	\$ (20,812,851)	\$ (19,438,398)	\$ (9,789,709)	\$ (30,197,964)

City of Laguna Beach
Changes in Net Assets
Last Six Fiscal Years
(accrual basis of accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
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	\$ 25,525,587
Sales Tax	3,714,249	3,757,472	3,153,636	3,623,610	3,924,620	4,074,094
Sales tax in-lieu	-	-	910,621	918,602	1,112,853	1,149,419
Transient occupancy taxes	3,694,378	6,770,614	7,251,883	7,900,582	8,661,017	8,741,413
Other taxes	3,093,474	3,425,828	3,197,487	5,144,450	5,823,284	6,638,617
Motor vehicle license fees, unrestricted	1,416,513	1,073,809	266,988	171,850	144,395	111,385
Investment Income	1,035,339	866,479	790,686	952,890	1,646,417	1,952,936
Other general revenue	1,113,806	1,450,806	987,200	912,165	1,042,577	551,766
Gain on sale of assets	-	37,459	25,041	-	595,802	302,575
Transfers	(27,738)	-	(220,100)	(173,386)	(272,174)	(386,000)
Total governmental activities	<u>\$ 29,027,286</u>	<u>\$ 33,677,590</u>	<u>\$ 35,718,853</u>	<u>\$ 40,734,901</u>	<u>\$ 46,126,032</u>	<u>\$ 48,661,792</u>
Business-type activities						
Investment Income	\$ -	\$ -	\$ -	\$ -	\$ 19,532	\$ 386,000
Other general revenue	-	-	-	-	4,000	4,000
Gain or loss on sale of assets	(9,403)	-	-	-	-	-
Transfers	27,738	-	220,100	173,386	272,174	386,000
Total Business-type activities	<u>\$ 18,335</u>	<u>\$ -</u>	<u>\$ 220,100</u>	<u>\$ 173,386</u>	<u>\$ 295,706</u>	<u>\$ 776,000</u>
Total Primary government	<u>\$ 29,045,621</u>	<u>\$ -</u>	<u>\$ 35,938,953</u>	<u>\$ 40,908,287</u>	<u>\$ 46,421,738</u>	<u>\$ 49,437,792</u>
Changes in net assets						
Governmental activities	\$ 5,245,047	\$ 11,095,024	\$ 14,708,355	\$ 21,697,340	\$ 35,409,468	\$ 18,485,522
Business-type activities	531,918	343,475	417,747	(227,451)	1,222,561	754,306
Total primary government	<u>\$ 5,776,965</u>	<u>\$ 11,438,499</u>	<u>\$ 15,126,102</u>	<u>\$ 21,469,889</u>	<u>\$ 36,632,029</u>	<u>\$ 19,239,828</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
Fund Balances of Governmental Funds
Last Five Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
General fund:						
Reserved	\$ 2,631,536	\$ 1,762,179	\$ 1,965,077	\$ 10,917,199	\$ 15,920,632	\$ 8,211,027
Unreserved	17,023,558	13,094,341	19,314,709	19,379,214	21,006,455	25,156,927
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>	<u>\$ 33,367,954</u>
Gas Tax Fund						
Reserved	\$ 236,402	\$ 232,777	\$ 250,484	\$ -	\$ -	\$ -
Unreserved	563,013	805,742	1,380,145	-	-	898,074
Total gas tax fund	<u>\$ 799,415</u>	<u>\$ 1,038,519</u>	<u>\$ 1,630,629</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 898,074</u>
Bluebird Landslide						
Reserved	\$ -	\$ -	\$ -	\$ 1,245,174	\$ -	\$ -
Unreserved	-	-	-	(8,394,353)	(14,203,915)	(1,868,623)
Total bluebird fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,149,179)</u>	<u>\$ (14,203,915)</u>	<u>\$ (1,868,623)</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	1,914,500
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>	<u>\$ 1,914,500</u>
General obligation bonds fund						
Reserved	\$ 1,761,187	\$ 1,866,023	\$ 2,014,063	\$ 2,174,147	\$ 2,077,176	\$ 2,119,420
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>	<u>\$ 2,119,420</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	2,782,791
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>	<u>\$ 2,782,791</u>
All other governmental funds						
Reserved	\$ 1,553,324	\$ 1,324,428	\$ 1,104,444	\$ 410,780	\$ 729,639	\$ 354,444
Unreserved, reported in:						
Special revenue funds	1,644,335	1,007,450	1,002,079	3,862,638	3,108,178	3,649,247
Capital project funds	-	-	-	-	-	2,782,791
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>	<u>\$ 6,786,482</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	2008
Revenues:						
Taxes and Special Assessments	\$ 24,645,650	\$ 27,674,519	\$ 33,632,030	\$ 37,249,362	\$ 41,980,491	\$ 45,061,416
License and permits	882,545	998,849	1,189,531	1,264,362	1,096,008	1,024,172
Fines and penalties	1,171,368	1,284,874	1,529,719	1,598,359	1,476,739	1,968,877
Investment income	1,120,290	960,226	932,572	1,277,408	1,836,734	2,172,846
Rental income	400,928	403,376	450,735	448,309	369,318	354,560
Intergovernmental	4,227,651	3,577,569	2,924,122	9,989,976	11,713,427	24,866,373
Charges for services	9,383,066	10,871,092	11,282,059	11,566,496	12,316,932	12,649,555
Parking meters, lots and permits	3,449,024	2,805,707	3,862,436	3,225,562	4,334,250	3,406,195
Development tax	627,812	372,123	356,855	386,146	276,472	152,469
Contributions from property owners	4,012,814	358,686	578,739	-	-	-
Other	572,059	677,375	547,486	806,114	1,938,787	2,556,833
Total Revenue	\$ 50,493,207	\$ 49,984,396	\$ 57,286,284	\$ 67,812,094	\$ 77,339,158	\$ 94,213,296
Expenditures						
Current:						
General government	\$ 2,881,158	\$ 2,930,520	\$ 4,181,073	\$ 3,758,978	\$ 3,361,299	\$ 4,047,877
Community development	2,283,465	2,490,925	2,416,040	2,703,135	3,041,255	3,399,926
Public Safety	15,646,840	16,758,061	18,641,992	19,267,767	22,092,500	23,078,430
Public works	8,468,281	8,426,182	8,584,263	9,089,003	9,202,763	10,501,163
Recreation and social services	2,847,479	3,039,009	3,230,652	3,486,067	4,437,225	3,865,406
Sewer service operating costs	2,785,101	2,848,097	3,389,582	2,928,237	3,348,521	3,620,729
Capital expenditures	22,180,636	10,216,779	6,865,535	23,870,902	36,404,842	33,322,037
Debt service:						
Principle	1,425,000	9,286,834	1,660,000	1,730,000	2,101,314	2,199,676
Interest and fiscal charges	613,869	992,687	543,296	468,513	542,389	441,432
Total Expenditures	\$ 59,131,829	\$ 56,989,094	\$ 49,512,433	\$ 67,302,602	\$ 84,532,108	\$ 84,476,676
Excess (deficiency) of revenues over (under) expenditures	\$ (8,638,622)	\$ (7,004,698)	\$ 7,773,851	\$ 509,492	\$ (7,192,950)	\$ 9,736,620
Other financing sources (uses):						
Transfer In	\$ 1,013,001	\$ 2,397,537	\$ 1,557,042	\$ 2,905,040	\$ 3,000,810	\$ 1,857,367
Transfer Out	(1,214,051)	(1,809,812)	(3,581,690)	(2,651,632)	(3,346,660)	(2,465,695)
Issuance of Bond	-	-	1,627,140	524,543	2,269,830	584,539
Issuance of Loan	-	-	69,357	1,632,928	2,071,567	534,000
Developer loan	8,707,000	-	-	-	-	-
Sales of land and equipment	5,198	3,991	6,923	4,344	4,788,172	302,572
Total other financing sources (uses)	8,511,148	591,716	(321,228)	2,415,223	8,783,719	812,783
Net change in fund balances	\$ (127,474)	\$ (6,412,982)	\$ 7,452,623	\$ 2,924,715	\$ 1,590,769	\$ 10,549,403
Debt service as a percentage of noncapital expenditures	5.8%	28.2%	5.4%	5.3%	5.8%	5.4%

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
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	8,209,054,191	92,955,130	8,302,009,321	0.146%
2008	9,035,861,459	87,362,786	9,123,224,245	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>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
City Direct Rates:					
City basic rate	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Total City Direct Rate	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
Overlapping Rates:					
City of Laguna Beach Bonds	0.0458	0.0418	0.0372	0.0320	0.0291
Unified School District Bonds	-	-	-	0.0376	0.0290
South Coast Water District	0.0451	0.0407	0.0216	0.0193	0.0166
Metro Water District	0.0089	0.0089	0.0088	0.0070	0.0067
Orange County	0.0014	0.0007	-	-	-
Total Direct Rate	<u>\$ 1.10121</u>	<u>\$ 1.09207</u>	<u>\$ 1.06760</u>	<u>\$ 1.09598</u>	<u>\$ 1.08129</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 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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>
\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000	\$ 1.0000
0.0223	0.0197	0.0179	0.0179	0.0162
0.0202	0.0190	0.0172	0.0172	0.0172
0.0108	0.0098	0.0090	0.0090	0.0096
0.0058	0.0052	0.0047	0.0047	0.0045
-	-	-	-	-
<u><u>\$ 1.05909</u></u>	<u><u>\$ 1.05370</u></u>	<u><u>\$ 1.04883</u></u>	<u><u>\$ 1.04883</u></u>	<u><u>\$ 1.04756</u></u>

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

Taxpayer	2008			1999		
	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	167,831,515	1	1.84%			
Club Laguna Partnership	43,187,737	2	0.47%	36,236,976	2	0.40%
Nevills Neil D Trust	30,171,600	3	0.33%			
Donna Yi Family Trust	23,460,000	4	0.26%			
Sleepy Hollow Lane LLC	22,236,000	5	0.24%			
Gary J. Daichendt Trust	19,776,316	6	0.22%			
Regency Associates Limited	19,265,815	7	0.21%	11,300,515	6	0.12%
Emerald Financial LLC	19,141,320	8	0.21%			
Inn at Laguna Beach LLC	19,035,444	9	0.21%			
Vacation Bay Hotel Properties	18,613,770	10	0.20%			
South Coast Medical Center				42,175,336	1	0.46%
Treasure Island Associates				34,675,479	3	0.38%
O Hill Properties				15,280,709	4	0.17%
Cox Communications				14,358,900	5	0.16%
Ocean Point Limited				11,016,000	7	0.12%
Olympus/Huron CA Partnership				10,673,292	8	0.12%
Matthew Alcone Trust				9,533,948	9	0.10%
Duane R. Roberts Trust				8,972,000	10	0.10%
	<u>382,719,517</u>		<u>4.20%</u>	<u>194,223,155</u>		<u>1.81%</u>

Source: HdL Coren & Cone

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
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	19,684,235	100%
2008	21,536,874	20,677,967	96.01%	858,906	21,536,873	100%

Source: Orange County Auditor Controller's Office

CITY OF LAGUNA BEACH
 Legal Debt Margin
 Last Ten Fiscal Years

	Fiscal Year				
	1999	2000	2001	2002	2003
Assessed valuation	3,753,299,119	4,155,880,781	4,548,144,492	5,048,814,964	5,486,384,044
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	938,324,780	1,038,970,195	1,137,036,123	1,262,203,741	1,371,596,011
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	140,748,717	155,845,529	170,555,418	189,330,561	205,739,402
Total net debt applicable to limit: General obligation bonds	<u>14,314,783</u>	<u>13,362,089</u>	<u>12,692,076</u>	<u>11,346,297</u>	<u>10,138,813</u>
Legal debt margin	<u>\$ 126,433,934</u>	<u>\$ 142,483,440</u>	<u>\$ 157,863,342</u>	<u>\$ 177,984,264</u>	<u>\$ 195,600,589</u>
Total debt applicable to the limit as a percentage of debt limit	10.2%	8.6%	7.4%	6.0%	4.9%

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				
2004	2005	2006	2007	2008
6,037,824,655	6,827,633,275	7,551,931,188	8,302,009,321	9,123,224,245
25%	25%	25%	25%	25%
1,509,456,164	1,706,908,319	1,887,982,797	2,075,502,330	2,280,806,061
15%	15%	15%	15%	15%
226,418,425	256,036,248	283,197,420	311,325,350	342,120,909
8,913,977	7,600,937	6,330,853	7,150,000	5,840,000
<u>\$ 217,504,448</u>	<u>\$ 248,435,311</u>	<u>\$ 276,866,567</u>	<u>\$ 304,175,350</u>	<u>\$ 336,280,909</u>
3.9%	3.0%	2.2%	2.3%	1.7%

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)
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
2007	25,131	143,949	48,209	6.1

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)

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

Function	Fiscal Year				
	1999	2000	2001	2002	2003
General Government	14.00	14.00	15.00	15.00	17.10
Public Safety	128.00	128.00	132.00	133.00	134.00
Public Works	50.00	50.00	55.00	66.00	69.00
Community Development	20.20	21.40	21.40	22.60	23.60
Recreational and Cultural	5.75	6.75	6.75	6.75	6.75
Water Quality	-	-	-	-	-
Total	<u>217.95</u>	<u>220.15</u>	<u>230.15</u>	<u>243.35</u>	<u>250.45</u>

Source: City Administrative Services Department

Fiscal Year				
2004	2005	2006	2007	2008
17.63	17.63	18.03	18.03	18.03
131.00	131.75	132.00	133.00	135.00
54.00	56.00	56.00	56.00	56.00
23.60	24.00	24.00	26.00	26.00
7.50	7.50	7.50	7.50	7.50
15.00	15.00	15.00	15.00	15.00
<u>248.73</u>	<u>251.88</u>	<u>252.53</u>	<u>255.53</u>	<u>257.53</u>

CITY OF LAGUNA BEACH
 Operating Indicators
 Last Ten Fiscal Years

	Fiscal Year				
	1999	2000	2001	2002	2003
Police					
Custodial Arrests	1,223	1,350	1,441	2,467	2,936
Traffic Violations	12,388	11,213	11,020	8,519	6,945
Parking Violations	52,045	45,997	48,697	42,496	43,786
Fire Protection:					
Number of Calls Answered	3,696	2,033	2,090	2,309	2,432
Number of Inspections	1,507	294	299	500	709
Water Quality:					
Number of Service Connections	7,699	7,699	7,838	7,838	8,504
Daily Average Treatment in gallons	2	2	2	2	2
Maximum daily capacity of treatment plant in gallons	4	4	4	4	4

Source: City Administrative Services Department

N/A - Not currently available.

Fiscal Year				
2004	2005	2006	2007	2008
3,358	1,997	1,823	N/A	N/A
579	9,934	7,089	N/A	N/A
38,335	38,335	38,335	N/A	N/A
2,432	2,454	2,446	N/A	N/A
709	709	714	N/A	N/A
8,504	8,504	8,504	8,504	8,504
2	2	2	2	2
4	4	4	4	4

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

	Fiscal Year				
	1999	2000	2001	2002	2003
Police					
Stations	1	1	1	1	1
Fire:					
Fire Stations	4	4	4	4	4
Public Works					
Streets (miles)	93	93	93	93	93
Streetlights	1,241	1,241	1,241	1,241	1,241
Culture and Recreation					
Community Centers	3	3	3	3	3
Parks	16	16	16	16	17
Park Acreage	57	57	57	60	47
Tennis Courts	12	12	12	12	12
Water Quality					
Miles of sanitary sewers	90.00		95.00	95.00	95.00
Miles of storm drains	78.00	78.00	78.00	78.00	78.00

Source: City Administrative Services Department

Fiscal Year				
2004	2005	2006	2007	2008
1	1	1	1	1
4	4	4	4	4
93	93	93	93	93
1,241	1,241	1,241	1,241	1,241
3	3	3	3	3
17	17	17	17	17
47	47	47	47	47
12	12	12	12	12
95.00	95.00	95.00	95.00	95.00
78.00	78.00	78.00	78.00	78.00

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