

**CITY OF RANCHO SANTA MARGARITA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

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December 15, 2008

To the Honorable Mayor and City Council
City of Rancho Santa Margarita
Rancho Santa Margarita, California

It is with great pleasure that I present to you the City of Rancho Santa Margarita's seventh Comprehensive Annual Financial Report. This report complies with the financial reporting model developed by the Governmental Accounting Standards Board (GASB) Statement 34. This financial reporting model is intended to improve financial reporting by adding significant additional information not previously available in local government financial statements.

In addition to the fund-by-fund financial information previously presented in the City's financial statements, we now include government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net equity of the City including infrastructure and the Statement of Activities that shows the cost of providing government services. These statements have been prepared using the accrual basis of accounting versus the modified accrual method used in the fund financial statements. A reconciliation report is provided as a key to understanding the changes between the two reporting methods. In addition, this reporting model includes an emphasis on the City's major funds as shown in the Governmental Fund Statements. These statements combined with other information are further analyzed in a narrative section called Management's Discussion and Analysis (MDA). The MDA provides "financial highlights" and interprets the financial reports by analyzing trends and by explaining changes, fluctuations and variances in the financial data. In addition, the MDA is intended to disclose any known significant events or decisions that affect the financial condition of the City.

The City of Rancho Santa Margarita took a leadership role in implementing GASB 34. The City's early implementation in 2001, before the 2003 deadline, enabled the City Council and residents of Rancho Santa Margarita to become more aware of the benefits and information contained in this financial reporting model.

The City added infrastructure capitalization in fiscal year 2002. In fiscal year 2003 the City implemented the modified approach for its pavement subsystem, which allows those infrastructure assets to be *non-depreciable*, while establishing a commitment from the City to maintain these infrastructure assets at a minimum acceptable level of condition. In fiscal years 2004, 2007 and 2008, the City performed a condition assessment of the pavement subsystem, which is required every three years, and affirmed that these infrastructure assets are above the condition level established by the government. The City of Rancho Santa Margarita is proud to be on the leading edge of local governmental financial reporting.

The Comprehensive Annual Financial Report includes the financial activity for all funds of the City. The City provides a wide range of services including planning, building, public works, engineering, and general administrative activities. Contracted services include police and fire protection.

Included as a part of this letter are several attachments that provide important information regarding the operations and economic environment of the City. The attachments are summarized as follows:

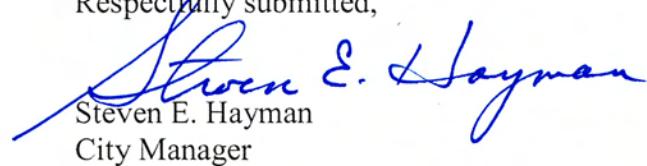
Attachment Content

- A Economic Condition and Outlook
- B Major Projects for the Year and for the Future
- C Other Information

The Comprehensive Annual Financial Report of the City of Rancho Santa Margarita for the fiscal year ended June 30, 2008 is hereby presented. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the City. All disclosures necessary to enable an understanding of the City's financial activities have been included.

The preparation of the Comprehensive Annual Financial Report in accordance with the GASB 34 financial reporting model was made possible by the dedicated work of the Finance Division staff. Each member of the staff has my sincere appreciation for their contributions made in the preparation of this report.

Respectfully submitted,


Steven E. Hayman
City Manager

ATTACHMENT A

ECONOMIC CONDITION AND OUTLOOK

Rancho Santa Margarita is located 58 miles south-east of Los Angeles. The City is distinguished by its high-end residential neighborhoods and small-town charm. Sales, motor vehicle in-lieu, and property taxes make up approximately eighty-two percent of the City's general revenues.

The current fiscal year shows that the City can fund all services, with an excess of revenues over expenditures for the General Fund of approximately \$910,000. This is the City's eighth fiscal year, and the sixth year that the City paid the full cost of all services provided, including contractual Police Services. Contractual Police Services account for 44% of General Fund expenditures. The City also made its sixth revenue neutrality payment to the County of Orange from sales tax increment of \$321,000, which was less than the prior year due to decreased sales tax revenue. The City also made its first debt principal payment of \$265,000, on the Certificates of Participation issued to finance the construction of City Hall and the adjoining Bell Tower Regional Community Center.

While revenues exceeded operating expenditures for the General Fund by \$910,000, budgeted revenues exceeded actual revenues received by about \$1,304,000, a decline of 7%, primarily as a result of a decline in motor vehicle license fees. Sales tax revenues are the City's largest revenue source at \$4,657,000, 28% of general revenue. Motor vehicle in-lieu taxes of \$3,905,800 make up the City's second largest revenue source at 24% of general revenues and exceeded budgeted amounts by \$355,800 (10%).

The City expects sales tax revenue, which fell to a zero growth rate at the end of Fiscal Year 2008, to decline in the next fiscal year, as slowing consumer and business spending for goods and services spreads from specific sectors, such as auto sales, to the general economy. Additionally, the City's outlook for property tax revenue is cautious due to declines in its property tax valuation base. Moreover, a prolonged economic downturn could erode consumer confidence; reduce business pricing power and investment, and worsen regional and state budgets positions; further decreasing future sales tax, motor vehicle in-lieu and property taxes received from the State of California and Orange County.

ATTACHMENT B

MAJOR PROJECTS FOR THE YEAR AND FOR THE FUTURE

Street Maintenance General Plan

The City has elected to use the modified approach in reporting its pavement subsystem. Accordingly, it has adopted a condition rating of 70 as the minimum acceptable Pavement Condition Index (PCI) for the entire street pavement subsystem. The most recent actual assessed condition level is 76.5. To maintain this condition rating the City expended approximately \$2,132,000 in the current fiscal year and appropriated \$1,118,700 for the subsequent fiscal year towards routine street maintenance and rotating programs for slurry seal and overlay of minor arterial and residential streets. In the current year about \$859,700 was spent on residential street improvement. The City is committed to maintaining the adopted PCI as the pavement subsystem ages and plans to appropriate funds as needed from available road-related taxes and grant funding sources.

Community Services Programs

Beginning in fiscal year 2002, the City's newly formed Community Services department has hosted an annual New Year's Eve event, with great success. This event has been held each New Year's Eve since and is planned for fiscal year 2009. In the current year the department held the third annual 5K Fun Run Event on Labor Day. The event continued as a huge success. This fiscal year the city continued to provide concerts in the park during the summer months, with the second annual series being received with great success. City staff believes this will continue to be an added benefit for our residents. Community Service staff continued strengthening relations with the Community Foundation, which collaborates with the City as the City operates the youth and teen center and senior services programs in the City-owned Regional Community Center.

City General Plan and Zoning Code

The City's Planning Department completed development of a general plan for the City in fiscal year 2003. This project spanned two years and came in significantly below budget at a total of approximately \$438,000. In fiscal year 2008 the Planning Department completed a related general plan housing element update and annual monitoring report, with current year expenditures totaling roughly \$16,000. Regional and state oversight agency review of the update is underway and is expected to be completed in the next fiscal year.

ATTACHMENT C

OTHER INFORMATION

Internal Controls

The management of the City is responsible for establishing and maintaining an internal control structure designed to reasonably ensure that the assets of the government are protected from loss, theft or misuse and that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the costs of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Regulatory Compliance

As a recipient of Federal, State and County financial resources, the City also is responsible for reasonably ensuring that its internal control structure is adequate to provide compliance with applicable laws and regulations related to those programs. To test the design and operation, the City's internal control structure is subject to ongoing monitoring and periodic evaluation by the management of the City, and the City's independent auditors.

Independent Audit

That evaluation process occurs when the annual independent audit of the City's financial statements is conducted, as completed recently. The accounting firm of Mayer Hoffman McCann P.C. was appointed by the City Council to perform the annual audit. As part of the City's annual audit, detailed examinations were made of the City's financial records and reports to verify their accuracy; and procedures were performed to determine the adequacy of the internal control structure, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's annual audit for the fiscal year ended June 30, 2008 revealed no instances of material weaknesses or significant deficiencies in the internal control structure, or violations of applicable laws and regulations. The auditors' report on the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The City received what is commonly referred to as an unqualified audit opinion.

OTHER INFORMATION, CONTINUED

Budgetary Controls

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to reasonably ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General, Special Revenue, Debt Service and Capital Projects Funds are included in the annual appropriated budget. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. The adopted budget for Fiscal Year 2008 was prepared in accordance with generally accepted accounting principles. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Cash Management

Cash resources of the individual funds are combined to form a pool of cash and investments. Cash temporarily idle during the year was invested in the Local Agency Investment Fund and South County Bank Interest Bearing Account, consistent with the City's Investment Policy.

The City's investment policy is designed to maximize the productive use of cash and investments entrusted to its care and to invest and manage those funds wisely and prudently. Criteria for selecting investments and the order of priority are: (1) safety, (2) liquidity and (3) yield. The basic premise underlying the City's investment policy is to reasonably ensure that funds are available when needed while considering the highest and best return. Accordingly, deposits are either insured by Federal depository insurance or collateralized.

Risk Management

The City purchases general liability, workers' compensation, and property insurance, as well as fidelity bond coverage, to guard against risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. Insurance payments are made from the City's general fund. All claims are investigated, valued, reserved, defended and/or settled in accordance with generally accepted insurance industry practices. There are no known existing claims that would exceed the City's applicable coverage.

OTHER INFORMATION, CONTINUED

Reserves Policy

A continuing priority of the City Council has been to exercise prudent financial management, provide long term financial planning, and strong internal control of City asset uses, by adopting a policy regarding the City's accumulated net resources, called fund balance. In June 2008, the City Council adopted a Reserves Policy to designate \$16,000,000 to several categories of available fund balance. Designations essentially reflect a government's self-imposed limitations on the use of otherwise available current financial resources. The designation categories are: Emergency, Council Strategic, Technology, Facilities, Vehicles, and Infrastructure.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rancho Santa Margarita for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such Comprehensive Annual Financial Report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is the seventh consecutive year that the City has received this award. We believe our current report conforms to the Certificate of Achievement program requirements, and we are submitting it to GFOA for inclusion in the award program evaluations for this fiscal year, ended June 30, 2008.

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rancho Santa Margarita
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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



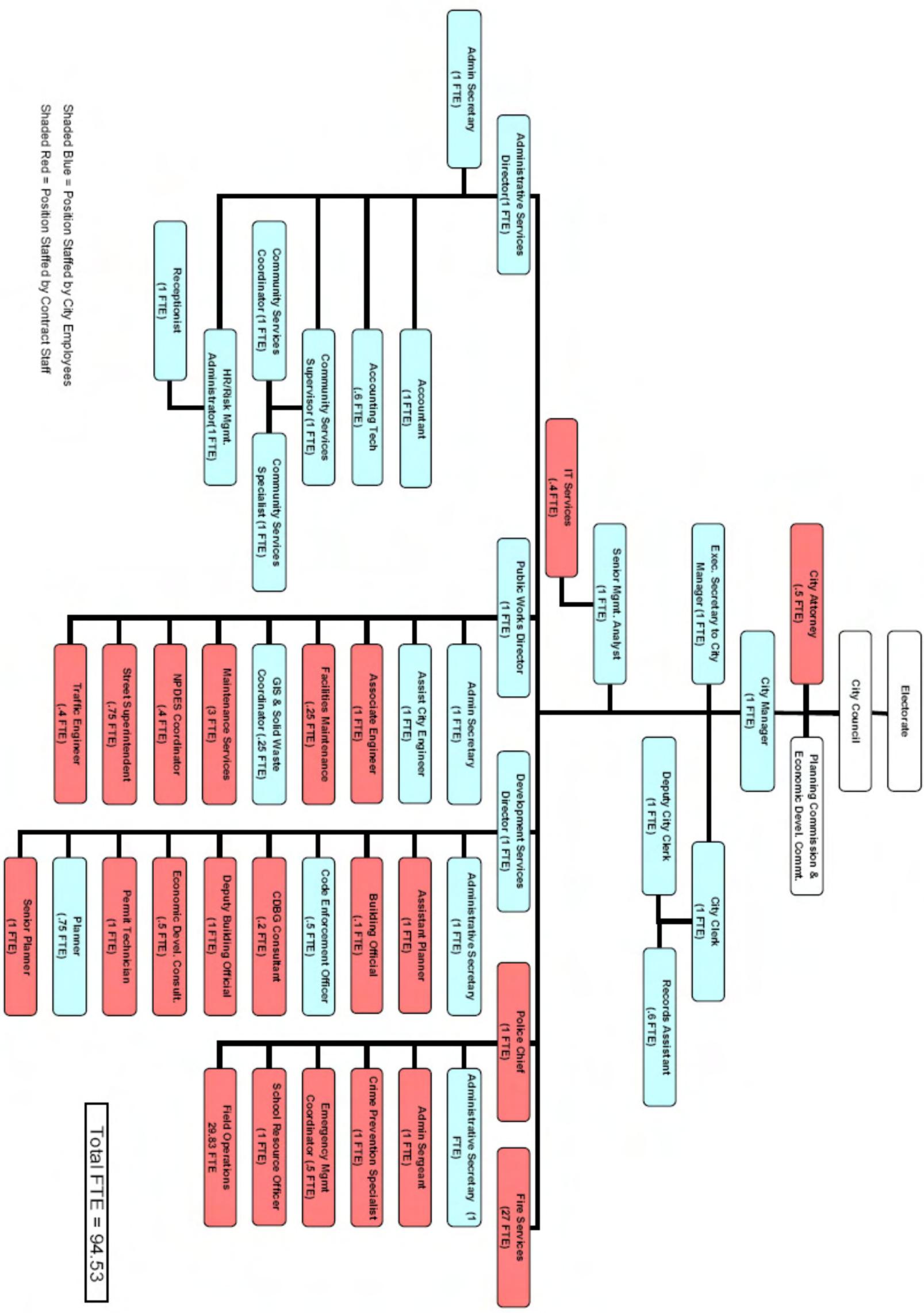
Chase S. Cox

President

Jeffrey R. Eman

Executive Director

City of Rancho Santa Margarita ORGANIZATION CHART



City of Rancho Santa Margarita

LIST OF PRINCIPAL OFFICIALS

Council – Manager Form of Government

CITY COUNCIL

NEIL C. BLAIS
Mayor

GARY THOMPSON
Mayor Pro Tem

L. ANTHONY BEALL
Council Member

JAMES M. THOR
Council Member

JERRY HOLLOWAY
Council Member

CITY ADMINISTRATION

STEVEN E. HAYMAN
City Manager/City Treasurer

Derek Wieske, City Engineer/Public Works Director

Molly McLaughlin, City Clerk

Paul Boyer, Administrative Services Director/Finance Director

Kathleen Haton, Planning/Community Development Director

Wendi Redington, Community Services Supervisor

Lieutenant Chuck Wilmot, Chief of Police Services

Greg Simonian, City Attorney

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The Honorable Mayor and City Council
City of Rancho Santa Margarita
Rancho Santa Margarita, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rancho Santa Margarita, 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 Rancho Santa Margarita. Our responsibility is to express opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rancho Santa Margarita, California, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, of the City of Rancho Santa Margarita, California 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 Rancho Santa Margarita's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules and statistical tables 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 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 statistical tables 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.

The Honorable Mayor and City Council
City of Rancho Santa Margarita
Rancho Santa Margarita, California
Page Two

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
December 15, 2008

CITY OF RANCHO SANTA MARGARITA MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Rancho Santa Margarita, California (City), we offer readers of the City of Rancho Santa Margarita's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report, and with the City's financial statements, which follow this discussion.

Financial Highlights

- The assets of the City exceeded its liabilities, at June 30, 2008, by \$132.6 million (*net assets*). Of this amount, \$16.7 million (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors, but is subject to designation for specific City programs.
- The government's total net assets decreased by \$0.5 million during the fiscal year ended June 30, 2008. This decrease in net assets was primarily attributable to a permanent 85% decrease in revenue from motor vehicle license fees. Also, addition of three Police Services Officers, an Emergency Services Coordinator, and related vehicles and equipment increased expenses for services contracted with the Orange County Sheriff's Department.
- As of June 30, 2008, the City's governmental funds reported combined ending fund balances of \$22.7 million, an increase of \$2.3 million in comparison with the prior year. Approximately 74 percent of this total amount, \$16.9 million is available for spending at the government's discretion (*unreserved fund balance*).
- At June 30, 2008, the unreserved fund balance for the general fund of \$16.9 million equaled 108 percent of total general fund expenditures for the fiscal year ended June 30, 2008. This represents an increase of \$0.9 million or 5.4 percent over prior year. However, the City Council has designated \$16.0 million of this unreserved fund balance for specific purposes as identified in Notes to the Basic Financial Statements, Note 12.
- The City's total long-term liabilities decreased by \$189,000 (1.49 percent) during the current fiscal year. This decrease reflects payment made for principal retirement on Certificates of Participation issued for the building of City Hall and the Regional Community Center.
- Required accounting adjustments for elimination of General Fund accrued revenue of \$1.2 million and a net debt principal payment of \$0.25 million approximately account for the decrease from the General Fund excess of \$0.91 million to the \$0.54 million net asset decrease.

See Independent Auditors' Report

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's Basic Financial Statements. The City's Basic Financial Statements consist of three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases in the net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements present information about the functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the City include general government, building and planning, public safety, and public works.

The Government-wide Financial Statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about the individual funds—not the City as a whole. Some funds are required to be established by State law. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City of Rancho Santa Margarita uses only *governmental funds* for accounting and reporting purposes.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City maintains various individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet, and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, for the General Fund and the Capital Projects Fund which are considered to be major funds, and are presented in individual columns in the fund statements. Data from other non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The governmental Fund Financial Statements can be found following the Government-wide Financial Statements.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Basic Financial Statements can be found immediately following the Fund Financial Statements.

Other supplementary information

In addition to the basic financial statements and included within the notes, this report also presents certain *required supplementary information* about the City's General Fund budgetary comparisons. The Notes to the Required Supplementary Information presents infrastructure and budget information. The Required Supplementary Information and Notes to the Required Supplementary Information can be found following the Notes to the Basic Financial Statements.

The combining statements referred to earlier in connection with non-major governmental funds are presented for all non-major Special Revenue Funds, Capital Projects Funds, and the Rancho Santa Margarita Non-Profit Debt Service Fund. The supplementary financial information also includes budgetary comparison schedules for the non-major governmental funds to demonstrate compliance with the annual budget as adopted and amended. These

combining and individual fund statements and schedules can be found immediately following the Notes to the Required Supplementary Information.

The City's *blended component unit*, the Rancho Santa Margarita Non-Profit Corporation, although legally separate, functions at the discretion and direction of the City's management. Its financial position and results of operations, therefore, have been included as an integral part of the primary government, and are presented in the non-major fund financial statements and schedules.

Government-wide Financial Analysis

The government-wide financial statements provide long-term and short-term information about the City's overall financial condition. This analysis addresses the financial statements of the City as a whole.

The largest portion of the City's net assets (84 percent) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, equipment, infrastructure, and construction in progress), less any related debt used to acquire those assets, that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Rancho Santa Margarita

Summary of Net Assets

As of June 30, 2008 and 2007

(in thousands)

	Governmental Activities	
	2008	2007
Assets:		
Current and other assets	\$ 24,327	\$ 25,626
Capital assets	<u>122,683</u>	<u>124,560</u>
Total assets	<u>147,010</u>	<u>150,186</u>
Liabilities:		
Long-term liabilities	12,717	13,050
Other liabilities	<u>1,735</u>	<u>4,039</u>
Total liabilities	<u>14,452</u>	<u>17,089</u>
Net Assets:		
Invested in capital assets, net of related debt	110,153	112,634
Restricted	5,672	4,298
Unrestricted	<u>16,733</u>	<u>16,165</u>
Total net assets	<u>\$ 132,558</u>	<u>\$ 133,097</u>

During the fiscal year ended June 30, 2008, net assets of the City decreased 0.4 percent to \$132.5 million, of which \$110.2 million is invested in capital assets such as equipment, buildings and infrastructure. Of the remaining total, \$5.7 million is restricted to specifically stipulated spending agreements originated by law, contract or other agreements with external parties. The remaining \$16.7 million, an increase of 3.1 percent over the prior year total of \$16.2 million, is subject to designation for specific purposes as approved by the City Council, but may be used to meet the City's ongoing obligations.

See Independent Auditors' Report

City of Rancho Santa Margarita
Summary of Changes in Net Assets
For the Years Ended June 30, 2008 and 2007
(in thousands)

	Governmental Activities	
	2008	2007
Revenues		
Program revenues:		
Charges for service	\$ 1,069	\$ 994
Operating grants and contributions	3,055	3,582
General revenues:		
Sales taxes	6,400	6,325
Property taxes	2,262	2,016
Other taxes	5,733	6,646
Other revenues	271	349
Investment income	905	1,054
Total revenues	<u>19,695</u>	<u>20,966</u>
Expenses		
General government	4,794	4,235
Building and planning	1,148	1,090
Public safety	7,642	6,441
Public works	6,081	7,343
Interest expense	569	707
Total expenses	<u>20,234</u>	<u>19,816</u>
Excess of revenues over expenses	<u>(539)</u>	<u>1,150</u>
Increase (Decrease) in net assets	(539)	1,150
Beginning net assets	<u>133,097</u>	<u>131,947</u>
Ending net assets	<u><u>\$ 132,558</u></u>	<u><u>\$ 133,097</u></u>

See Independent Auditors' Report

Overall, Citywide revenues for the fiscal year ended June 30, 2008 decreased by \$1.3 million a 6 percent decrease over the prior year. The majority of the decrease was attributed to general revenues (other taxes).

- Total program revenues of \$4.1 million were 21 percent of total revenues.
- Total general revenues of \$15.6 million were 79 percent of total revenues.

Total related expenses increased by \$0.4 million, a 2.1 percent increase from the prior year. Public Works expenditures, which account for 30 percent of the total expenditures, were used primarily for Residential Overlay Projects. Public Safety expenditures accounted for 38 percent of total current expenditures. Expenditure increases reflected growth in demand for services and inflation effects.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and 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 may be useful in assessing the City's financing requirements.

As of June 30, 2008, the City's governmental funds reported total combined ending fund balances of \$22.73 million, an increase of \$2.35 million from the prior year. Approximately 74 percent of the City's governmental funds ending fund balances, or \$16.9 million, constitutes *unreserved fund balance*, which is available for spending at the government's direction. The remainder of fund balance, \$5.83 million, is *reserved* to indicate that it is not available for new spending, because it has already been committed to: 1) liquidate contracts and purchase orders of the prior period (\$0.35 million), 2) pay debt service (\$0.87 million), 3) pay for infrastructure improvements, park development projects, and capital improvement projects (\$4.58 million), 4) a reserve for self insurance deductible liability (\$0.03 million).

General Fund Financial Highlights

The general fund is the chief operating fund of the City. At June 30, 2008, unreserved fund balance of the general fund was \$16.9 million, while total fund balance was \$17.1 million. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 108 percent of the total general fund expenditures. As mentioned above, however, the City Council has designated \$16.0 million of this unreserved fund balance for specified purposes.

For the fiscal year ended June 30, 2008, the cash and investments balance in the general fund was \$17.2 million, an increase of \$1.09 million from the prior fiscal year.

City of Rancho Santa Margarita
Summary of Changes in Fund Balances - General Fund

For the Year Ended June 30, 2008 and 2007
 (in thousands)

	<u>2008</u>	<u>2007</u>
Revenues		
Taxes	\$ 8,855	\$ 8,635
Fees and permits	1,835	1,765
Charges for service	327	299
Intergovernmental	4,304	5,154
Investment income	652	710
Other	592	688
Total revenues	<u>16,565</u>	<u>17,251</u>
Expenditures		
General Government	4,741	4,807
Building and planning	1,134	1,089
Public safety	7,483	6,308
Public works	2,244	1,957
Capital outlay	53	43
Total expenditures	<u>15,655</u>	<u>14,204</u>
Excess of revenues over expenditures	910	3,047
Net transfers	62	263
Increase in fund balance	<u>\$ 972</u>	<u>\$ 3,310</u>

Overall, general fund revenues for the fiscal year ended June 30, 2008 decreased by \$0.69 million, or 3.9 percent, under the prior year. Individual components of this change are summarized as follows:

- Property tax revenues of the general fund increased by \$0.25 million, to \$2.3 million, due to increases in assessed valuations.
- Sales tax revenues increased \$0.08 million, to \$6.4 million, due to the effects of increased general consumer spending and auto sales, over the prior year.
- Document transfer tax revenues decreased by \$0.1 million to \$0.19 million, a 34 percent decrease which relates to the decreased real estate sales activity.

See Independent Auditors' Report

- Investment income revenues decreased by \$0.15 million, to \$.9 million, due to the overall changes in the economy and the effects on interest rates in general.

Changes in general fund expenditures, by function, occurred as follows during the year ended June 30, 2008:

- General government expenditures decreased by \$0.07 million, to \$4.74 million. This reflects a decrease in professional services provided by independent contractors.
- Public safety expenditures increased by \$1.17 million to \$7.48 million, due to the addition of three Police officers, and an Emergency Services Coordinator and related regular salary, overtime and benefit costs associated with those police services provided by the Orange County Sheriff's Department.
- Public works expenditures increased by \$0.29 million, to \$2.24 million, reflecting increased costs associated with maintaining quality levels for major arterial infrastructure.
- Building and planning expenditures increased by \$0.05 million, to \$1.13 million, reflecting higher costs associated with development within the city.

General Fund Budgetary Highlights

Differences between the general fund expenditures and the final amended budget were \$2.26 million and can be briefly summarized as follows:

- \$2.44 million in miscellaneous decreases in general government activities.
- \$0.20 million in decreases allocated to public safety activities.
- \$0.24 million in decreases allocated to public works.
- \$0.16 million in decreases for building and planning activities.
- \$0.05 million in increases allocated to capital outlay.

These overall decreases can be attributed to the conservative spending maintained through the fiscal year as well as the conservative budgeting of anticipated revenues for the year. The increase allocated to capital outlay is associated with additions to computer and EOC equipment. There were no differences between the original and amended general fund budgets.

Other Major Funds Budgetary Highlights: Capital Projects Fund

Differences between the capital projects fund expenditures and the final amended budget were \$2.86 million and can be briefly summarized as follows:

- \$1.09 million in decreases allocated to street slurry seal and overlay projects.
- \$0.57 million in decreases allocated to traffic signal enhancements.
- \$0.64 million in decreases allocated to bridge joint replacement and lighting.

These overall decreases can be attributed to the timing of road construction work and the frugal management of project expenses. There were no differences between the original and amended capital projects fund budgets.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental activities as of June 30, 2008, amounts to \$122.7 million, net of accumulated depreciation. This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 0.45 percent.

City of Rancho Santa Margarita Summary of Changes in Capital Assets (in thousands)

	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,084	\$ -	\$ -	\$ 2,084
Land - right of way	43,740	-	-	43,740
Infrastructure - pavement	46,513	-	-	46,513
Total capital assets not being depreciated	<u>92,337</u>	<u>-</u>	<u>-</u>	<u>92,337</u>
Capital assets, being depreciated:				
Buildings	16,619	-	-	16,619
Parks	888	18	-	906
Machinery and equipment	318	53	-	371
Infrastructure	<u>59,177</u>	<u>277</u>	<u>-</u>	<u>59,454</u>
Total capital assets being depreciated	<u>77,002</u>	<u>348</u>	<u>-</u>	<u>77,350</u>
Less accumulated depreciation for:				
Buildings	1,662	554	-	2,216
Parks	71	36	-	107
Machinery and equipment	269	27	-	296
Infrastructure	<u>42,777</u>	<u>1,608</u>	<u>-</u>	<u>44,385</u>
Total accumulated depreciation	<u>44,779</u>	<u>2,225</u>	<u>-</u>	<u>47,004</u>
Total capital assets, being depreciated, net	<u>32,223</u>	<u>(1,877)</u>	<u>-</u>	<u>30,346</u>
Governmental activities capital assets, net	<u>\$ 124,560</u>	<u>\$ (1,877)</u>	<u>\$ -</u>	<u>\$ 122,683</u>

See Independent Auditors' Report

Major capital asset transactions during the current fiscal year included the following:

- Infrastructure additions for the year totaled \$0.28 million related to the major improvement of midblock crosswalks and bus stops throughout the city.
- Machinery and Equipment acquisitions of \$0.05 million included additions to police radio equipment and purchase of a replacement motorcycle unit.
- City park upgrades totaled \$0.02 million which included the addition of lighting to the Skate Park.

Additional information on the City's capital assets can be found entitled Note 4 – Capital Assets in the notes to the basic financial statements section of this report.

The City elected to use the modified approach in reporting their pavement subsystem. Under the modified approach, infrastructure assets that are part of a network or a subsystem of a network are not required to be depreciated as long as two requirements are met. First, the government shall manage the eligible infrastructure assets using an asset management system and secondly, the government shall document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. The condition of the pavement subsystem is measured using the Rancho Santa Margarita Pavement Condition Index. The City Council accepted the findings of the Pavement Condition Assessment Update in Fiscal Year 2008 and adopted a condition rating of 70 as the minimum acceptable Pavement Condition Index (PCI) for the entire street pavement subsystem. The assessed PCI was an average of 76.5, or very good. This average PCI was increased over the last update in 2007. Actual expenses for pavement condition maintenance were less than budgeted amounts due to conservative cost estimates.

Long-term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$12.5 million.

City of Rancho Santa Margarita Summary of Changes in Long-Term Liabilities (in thousands)

	Balance			Balance			Long-Term	Due Within One Year
	June 30, 2007	Increases	Decreases	June 30, 2008	Term			
Certificates of Participation	\$ 12,795	\$ -	\$ 265	\$ 12,530	\$ 12,250	\$ 280		
Compensated Absences	111	92	16	187	102	85		
Long-Term Liabilities								
Total	\$ 12,906	\$ 92	\$ 281	\$ 12,717	\$ 12,352	\$ 365		

See Independent Auditors' Report

Long-term debt-related events during the fiscal year ended June 30, 2008 included:

- Compensated absences liabilities increased by \$0.09 million and payouts to employees amounted to \$0.02 million.
- Interest accrued on the Certificates of Participation for the fiscal year ended June 30, 2008 totaled \$0.14 million.

Additional information on the City's long-term debt can be found entitled Note 1 – Reporting Entity and Summary of Significant Accounting Policies and Note 6 – Long-term Liabilities in the notes to the basic financial statements section of this report.

Economic Factors and Next Year's Budgets and Rates

The City of Rancho Santa Margarita's economy is clearly linked to the national and state economy. However, because the City is still developing, its local economy can experience departures from other local, state or national trends with resultant recurring revenue fluctuations. Additionally, because the City's revenues are obtained from a limited number of sources, further revenue fluctuations may occur from year to year. The City uses the "Orange County Economic Forecast" prepared by Chapman University's Center for Economic Research as an information source for review of economic trends, in developing its budget model. Detailed information about the economic analysis, revenue assumptions, and other budgetary process parameters utilized in annual budget preparation, can be obtained from the City's 2008-2009 citywide budget, available through the City Manager's Office.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Administrative Services, at the City of Rancho Santa Margarita, 22112 El Paseo, Rancho Santa Margarita, California, 92688.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

THE STATEMENT OF NET ASSETS AND THE STATEMENT OF ACTIVITIES

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 this 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 or 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 non-financial 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.

The Statement of Net Assets and the Statement of Activities present information about governmental activities. All of the City's basic services are considered to be governmental activities, including general government, building and planning, public safety, and public works.

CITY OF RANCHO SANTA MARGARITA
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
Assets:	
Cash and investments (note 2)	\$ 21,590,949
Cash and investments with fiscal agent (note 2)	868,427
Receivables:	
Due from other governments	1,443,244
Accrued interest	134,492
Accounts, net	289,828
Non-depreciable capital assets (note 4)	92,336,900
Depreciable capital assets (note 4)	77,350,369
Less: accumulated depreciation (note 4)	<u>(47,004,606)</u>
 Total assets	 <u>147,009,603</u>
 Liabilities:	
Accounts payable	566,195
Accrued liabilities	2,555
Unearned revenue	649,493
Deposits payable	54,181
Due to other governments	321,059
Interest payable	141,734
 Non-current liabilities (note 6):	
Due within one year	365,340
Due in more than one year	<u>12,351,179</u>
 Total liabilities	 <u>14,451,736</u>
 Net assets:	
Invested in capital assets, net of related debt	110,152,663
Restricted for:	
Public safety	178,529
Public works	4,625,130
Debt service	868,427
Unrestricted	<u>16,733,118</u>
 Total net assets	 <u>\$ 132,557,867</u>

See Independent Auditors' Report and Notes to the Basic Financial Statements.

CITY OF RANCHO SANTA MARGARITA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Program Revenues				Net Governmental Activities
	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants		
Expenses					
Governmental activities:					
General government	\$ 4,794,245	\$ 31,773	\$ 27,245	\$ -	\$ (4,735,227)
Building and planning	1,148,291	539,869	-	-	(608,422)
Public safety	7,642,333	320,097	100,002	-	(7,222,234)
Public works	6,080,878	177,512	2,928,141	-	(2,975,225)
Interest expense	569,088	-	-	-	(569,088)
Total governmental activities	<u><u>\$ 20,234,835</u></u>	<u><u>\$ 1,069,251</u></u>	<u><u>\$ 3,055,388</u></u>	<u><u>\$ -</u></u>	<u><u>(16,110,196)</u></u>
 General revenues:					
Taxes:					
Property taxes					2,261,933
Sales taxes					6,400,424
Real property transfer taxes					192,964
Motor vehicle in-lieu tax, unrestricted intergovernmental					4,126,226
Franchise tax					1,413,134
Investment income					904,939
Other					<u><u>271,486</u></u>
Total general revenues					<u><u>15,571,106</u></u>
Change in net assets					(539,090)
Net assets at beginning of year					<u><u>133,096,957</u></u>
Net assets at end of year					<u><u>\$ 132,557,867</u></u>

See Independent Auditors' Report and Notes to the Basic Financial Statements.

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GOVERNMENTAL FUNDS

GENERAL FUND

The General Fund has been classified as a major fund and is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

CAPITAL PROJECTS FUND

The Capital Projects fund has been classified as a major fund and is used to account for various street projects and infrastructure improvements as well as major facility construction and improvements.

CITY OF RANCHO SANTA MARGARITA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008

	General	Capital Projects	Non-Major Governmental Funds		Totals
		Capital Projects	Funds		
Assets					
Cash and investments	\$ 17,157,137	\$ 2,129,023	\$ 2,304,789	\$ 21,590,949	
Cash with fiscal agent	-	-	868,427	868,427	
Receivables:					
Due from other governments	947,739	90,964	404,541	1,443,244	
Accrued interest	98,999	12,978	22,515	134,492	
Accounts, net	289,828	-	-	289,828	
Total assets	\$ 18,493,703	\$ 2,232,965	\$ 3,600,272	\$ 24,326,940	
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 405,044	\$ 137,905	\$ 23,246	\$ 566,195	
Accrued liabilities	2,555	-	-	2,555	
Deferred revenue	649,493	-	-	649,493	
Deposits payable	54,181	-	-	54,181	
Due to other governments	321,059	-	-	321,059	
Total liabilities	1,432,332	137,905	23,246	1,593,483	
Fund balance:					
Reserved for debt service	-	-	868,427	868,427	
Reserved for encumbrances	127,204	227,552	-	354,756	
Reserved for self insurance	30,000	-	-	30,000	
Unreserved, designated in:					
General fund	16,000,000	-	-	16,000,000	
Unreserved, undesignated in:					
General fund	904,167	-	-	904,167	
Special revenue funds	-	-	2,708,599	2,708,599	
Capital project funds	-	1,867,508	-	1,867,508	
Total fund balance	17,061,371	2,095,060	3,577,026	22,733,457	
Total liabilities and fund balance	\$ 18,493,703	\$ 2,232,965	\$ 3,600,272	\$ 24,326,940	

See Independent Auditors' Report and Notes to the Basic Financial Statements.

CITY OF RANCHO SANTA MARGARITA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Fund balances of governmental funds	\$ 22,733,457
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.	122,682,663
Long term debt and compensated absences have not been included in the governmental fund activity:	
Certificates of Participation Payable	(12,530,000)
Interest Payable	(141,734)
Compensated Absences Payable	(186,519)
Net assets of governmental activities	<u>\$ 132,557,867</u>

See Independent Auditors' Report and Notes to the Basic Financial Statements.

CITY OF RANCHO SANTA MARGARITA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General	Capital Projects	Other Governmental Funds	Totals
	General	Capital Projects	Other Governmental Funds	Totals
Revenues:				
Taxes	\$ 8,855,321	\$ -	\$ -	\$ 8,855,321
Fees and permits	1,835,160	-	-	1,835,160
Intergovernmental	4,304,322	2,468,329	1,608,963	8,381,614
Charges for service	327,128	-	-	327,128
Investment income	651,986	72,050	180,903	904,939
Fines, forfeits and penalties	320,097	-	-	320,097
Other	271,486	-	-	271,486
Total revenues	16,565,500	2,540,379	1,789,866	20,895,745
Expenditures:				
Current:				
General government	4,740,844	-	-	4,740,844
Building and planning	1,134,310	-	-	1,134,310
Public safety	7,483,440	-	139,979	7,623,419
Public works	2,243,774	1,372,098	249,627	3,865,499
Capital outlay	53,065	295,672	-	348,737
Debt Service:				
Principal Retirement	-	-	265,000	265,000
Interest	-	-	571,241	571,241
Total expenditures	15,655,433	1,667,770	1,225,847	18,549,050
Excess (deficiency) of revenues over expenditures	910,067	872,609	564,019	2,346,695
Other financing sources (uses):				
Transfers in (note 3)	856,199	508,633	906,806	2,271,638
Transfers out (note 3)	(793,776)	(113,030)	(1,364,832)	(2,271,638)
Total financing sources (uses)	62,423	395,603	(458,026)	-
Net change in fund balances	972,490	1,268,212	105,993	2,346,695
Fund balances, beginning of year	16,088,881	826,848	3,471,033	20,386,762
Fund balances, end of year	\$ 17,061,371	\$ 2,095,060	\$ 3,577,026	\$ 22,733,457

See Independent Auditors' Report and Notes to the Basic Financial Statements.

CITY OF RANCHO SANTA MARGARITA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds \$ 2,346,695

Amounts reported for governmental activities in the statement of activities differ from the amounts reported in the statement of activities because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Expenditures	348,737
Depreciation of Capital Assets	(2,225,882)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Capital Improvement Project OCTA AHRP Grant	(1,200,000)
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Compensated absences, the mitigation obligation payable and accrued interest payable expenses reported in the statement of activities require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. The following represent the net change for the current period:

Compensated absences	(75,793)
----------------------	----------

Retired Principal on long term debt (Certificate of Participation)	265,000
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Accrued Interest on long term debt (Certificate of Participation)	-
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Change in net assets of governmental activities	\$ (539,090)
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See Independent Auditors' Report and Notes to the Basic Financial Statements.

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**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

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

The City of Rancho Santa Margarita (the City) was incorporated on January 1, 2000 under the General Laws of the State of California. The City operates under a Council-Manager form of government. The City provides all municipal services, including street maintenance, street sweeping, street lighting, traffic signal maintenance, animal control, engineering, public works, building and planning operations, and law enforcement. The fiscal year ending June 30, 2008 was the sixth year that the City paid the full cost for all these services.

Generally accepted accounting principles require that these financial statements represent the City of Rancho Santa Margarita and its component units, entities for which the City is considered to be financially accountable. These basic financial statements of the City of Rancho Santa Margarita include the financial activities of the City and the City of Rancho Santa Margarita Nonprofit Corporation.

City of Rancho Santa Margarita Nonprofit Corporation (RSMNP) was formed on August 21, 2003 as a non-profit California corporation in order to facilitate the financing of the City Hall and Regional Community Center and future financing and refinancing projects of the City. The RSMNP is a separate legal entity from the City and is governed by a three-member Board of Directors consisting of designated City officers. The City has entered into non-cancelable long-term leases with RSMNP which provide for lease payments in amounts sufficient to meet the annual debt service requirements on the certificates of participation issued by RSMNP to finance the construction projects. The leases are financing arrangements which transfer ownership of the constructed assets to the City at the end of the lease term. The financial data of RSMNP has been blended into various City funds as applicable and the capitalized leases have been eliminated.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Basis of Accounting and Measurement Focus

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

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

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These statements include a separate column for the governmental activities of the primary government. Eliminations are required to be made in The Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). The City required no such eliminations.

In addition, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, (Continued)**

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 funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds.

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 has elected an availability period of 60 days.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, (Continued)**

Sales taxes, property taxes, franchise taxes, gas taxes, motor vehicle in lieu, 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.

Revenue recognition is subject to the *measurable* and *available* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange transactions* are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

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

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

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, (Continued)**

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

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

(b) Major Funds

The major funds are described as follows:

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund

The Capital Projects Fund has been classified as a major fund and is used to account for various street projects and infrastructure improvements as well as major facility construction and improvements.

**(c) Explanation of differences between governmental funds Balance Sheet and the
government-wide Statement of Net Assets**

“Total fund balances” of the City’s governmental funds \$22,733,457 differs from “net assets” of governmental activities \$132,557,867 reported in the statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, (Continued)**

Capital Related Items

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

Cost of capital assets	\$169,687,269
Accumulated depreciation	<u>(47,004,606)</u>
Net capital assets	<u>\$122,682,663</u>

Long-term Liabilities Transactions

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets. Balances at June 30, 2008 were:

Long-term debt	\$12,530,000
Interest payable	141,734
Compensated absences	<u>186,519</u>
Net long-term liabilities	<u>\$12,858,253</u>

Reclassifications and Eliminations

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

CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

(d) Explanation of differences between governmental funds Balance Sheet and the government-wide Statement of Net Assets

Assets	Total Governmental Funds	Capital Related Items	Long-term Debt Transactions	Interest Payable	Compensated Absences	Statement of Net Assets
Cash and investments	\$ 21,590,949	\$ -	\$ -	\$ -	\$ -	\$ 21,590,949
Restricted cash with fiscal agent	868,427	-	-	-	-	868,427
Receivables:						
Due from other governments	1,443,244	-	-	-	-	1,443,244
Accrued interest	134,492	-	-	-	-	134,492
Accounts, net	289,828	-	-	-	-	289,828
Non-depreciable capital assets	-	92,336,900	-	-	-	92,336,900
Depreciable capital assets	-	77,350,369	-	-	-	77,350,369
Less: accumulated depreciation	-	(47,004,606)	-	-	-	(47,004,606)
 Total assets	 \$ 24,326,940	 \$ 122,682,663	 \$ -	 \$ -	 \$ -	 \$ 147,009,603

Liabilities and Fund Balances/Net Assets

Liabilities:						
Accounts payable	\$ 566,195	\$ -	\$ -	\$ -	\$ -	\$ 566,195
Accrued liabilities	2,555	-	-	-	-	2,555
Deferred revenue	649,493	-	-	-	-	649,493
Deposits payable	54,181	-	-	-	-	54,181
Due to other governments	321,059	-	-	-	-	321,059
Long-term debt	-	-	12,530,000	-	186,519	12,716,519
Interest payable	-	-	-	141,734	-	141,734
 Total liabilities	 1,593,483	 -	 12,530,000	 141,734	 186,519	 14,451,736
 Fund balances/net assets	 22,733,457	 122,682,663	 (12,530,000)	 (141,734)	 (186,519)	 132,557,867
 Total liabilities and fund balances / net assets	 \$ 24,326,940	 \$ 122,682,663	 \$ -	 \$ -	 \$ -	 \$ 147,009,603

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, (Continued)**

(e) Explanation of differences between governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities.

The “net change in fund balances” for governmental funds \$2,346,695 differs from the “change in net assets” for governmental activities (\$539,090) reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds.

Capital Related Items

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

Capital outlay	\$ 348,737
Depreciation expense	<u>(2,225,882)</u>
Difference	<u><u>\$ (1,877,145)</u></u>

Deferred Revenue

Per GASB Statement No. 33, revenues that do not provide current financial resources are deferred in the governmental funds.

Capital Improvement Projects	\$ (1,200,000)
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**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Long-term Liabilities Transactions

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets. Balances at June 30, 2008 were:

Retired Principal on long-term debt (COP)	\$ 265,000
Accrued Interest on long-term debt (COP)	<u>2,153</u>
Net Long-term Liabilities	<u><u>\$ 267,153</u></u>

Other Liabilities

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds.

Compensated Absences	\$ (75,793)
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Reclassification and Eliminations

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

CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

(f) Explanation of differences between governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities.

	Total Governmental Funds	Capital Related Items	Long-term Debt Transactions	Accrued Interest	Compensated Absences	Reclassifications and Eliminations	Statement of Activities
Revenues:							
Taxes	\$ 8,855,321	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,855,321
Fees and permits	1,835,160	-	-	-	-	-	1,835,160
Intergovernmental	8,381,614	-	-	-	-	(1,200,000)	7,181,614
Charges for services	327,128	-	-	-	-	-	327,128
Investment income	904,939	-	-	-	-	-	904,939
Fines, forfeits/penalties	320,097	-	-	-	-	-	320,097
Other	271,486	-	-	-	-	-	271,486
Total revenues	20,895,745	-	-	-	-	(1,200,000)	19,695,745
Expenditures:							
Current:							
General government	4,740,844	11,337	-	-	42,064	-	4,794,245
Building and planning	1,134,310	-	-	-	13,981	-	1,148,291
Public safety	7,623,419	15,892	-	-	3,022	-	7,642,333
Public works	3,865,499	2,198,653	-	-	16,726	-	6,080,878
Capital outlay	348,737	(348,737)	-	-	-	-	-
Debt service:							
Principal Retirement	265,000	-	(265,000)	-	-	-	-
Interest	571,241	-	-	(2,153)	-	-	569,088
Total expenses	18,549,050	1,877,145	(265,000)	(2,153)	75,793	-	20,234,835
Other financing sources (uses):							
Transfers in	2,271,638	-	-	-	-	(2,271,638)	-
Transfers out	(2,271,638)	-	-	-	-	2,271,638	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Net change in fund balances/							
net assets	2,346,695	(1,877,145)	265,000	2,153	(75,793)	(1,200,000)	(539,090)
Fund balances / net assets beginning of year	20,386,762	124,559,808	(12,795,000)	(143,887)	(110,726)	1,200,000	133,096,957
Fund balances / net assets, end of year	\$ 22,733,457	\$ 122,682,663	\$ (12,530,000)	\$ (141,734)	\$ (186,519)	\$ -	\$ 132,557,867

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, (Continued)**

(g) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value except for investment agreements, which are recorded at contract value because no secondary market exists for market value. 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 and changes in fair value. The City pools cash and investments of all funds, except investments held by fiscal agent. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*.

Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

(h) Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$3,000 (including infrastructure) are capitalized if they have an expected useful life of three years or more.

Capital assets include public domain (infrastructure) capital assets consisting of certain improvements including roads, streets, curbs, gutters, sidewalks, street lights, signs and signals, medians, and storm drains.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, (Continued)**

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

Equipment	3-10 years
Buildings	30 years
Infrastructure	25-65 years

The City of Rancho Santa Margarita met all the criteria required by GASB Statement No. 34 to report their pavement subsystem using the modified approach, which allows those infrastructure assets to be *non-depreciable*. Hence, all expenditures made for the pavement subsystem (except for additions and improvements) are expensed in the period incurred. Additions or improvements to the pavement subsystem that increase the capacity or efficiency of those assets (rather than preserve the useful life) are capitalized. The City elected to set their minimum acceptable level of condition at 70 for all pavement based on their pavement management system scale of 1 to 100. The City plans to test/assess the condition level at least every three years.

(i) Property Taxes

Property taxes attach as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are payable in two equal installments due November 1 and February 1, respectively, and are delinquent if not paid by December 10 and April 10, respectively. The County of Orange bills and collects the property taxes and remits them to the City in installments during the year. All material amounts associated with the reporting period are collected soon enough to be considered to be “available” to finance the expenditures of the reporting period.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, (Continued)**

The County of Orange is permitted by State Law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the assessed values no more than 2% each year. The City receives a share of this basic levy proportionate to what was received in the 1976 to 1978 period.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments are reported as follows in the accompanying financial statements:

Statement of Net Assets:

Cash and investments	\$21,590,949
Cash and investments with fiscal agent	<u>868,427</u>
 Total Cash and Investments	 <u>\$22,459,376</u>

Cash and investments at June 30, 2008 consisted of the following:

Cash and Investments held by City:

Deposits in banks	\$ 5,547,426
Local Agency Investment Fund (LAIF)	<u>16,043,523</u>
 Total Cash and Investments held by City	 <u>\$21,590,949</u>

Cash and Investments held by Fiscal Agent:

Money market	\$ 162
Investment agreement	<u>868,265</u>
Total Cash and Investments held by Fiscal Agent	<u>\$ 868,427</u>
 Total Cash and Investments	 <u>\$22,459,376</u>

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

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

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by 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>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Bills	5 years	60%	None
U.S. Agency Notes	5 years	40%	None
Banker's Acceptances	180 days	10%	30%
Commercial Paper	180 days	10%	10%
Certificates of Deposit	5 years	10%	None
Federal Agency Securities	5 years	20%	20%
Passbook Savings Demand Accounts	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

* Excluding amounts held by bond trustee that are not subject to California Government Code Restrictions or the City's investment policy.

Investments Authorized by Debt Agreements

Investment 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 table below identifies the investment types that are authorized for investments held by bond trustee, subject to certain additional restrictions

CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)

NOTE 2 – CASH AND INVESTMENTS, (Continued)

in the debt agreements. The tables also identify certain provisions of these debt agreements that address maximum maturity, interest rate risk, credit risk, and disclosures relating to maximum maturity.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Municipal Obligations	None
Commercial Paper	270 days
Certificates of Deposit	360 days
Money Market Mutual Funds	N/A
Investment Contracts	Life of bonds

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. The City currently manages its exposure to interest rate risk by investing only in the Local Agency Investment Fund (LAIF), which invests in a combination of shorter term and longer term investments and offers same day liquidity.

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 Amount</u>	<u>Remaining Maturity (in Months)</u>				
		0-12 Months	12-23 Months	24-35 Months	Greater than 36 Months	
Local Agency Investment Fund (LAIF)	\$ 16,043,523	\$ 16,043,523	\$ -	\$ -	\$ -	-
Held by bond fiscal agent:						
Money market mutual fund	162	162	-	-	-	-
Investment contract	868,265	-	-	-	-	868,265
Total	\$ 16,911,950	\$ 16,043,685	\$ -	\$ -	\$ -	\$ 868,265

CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)

NOTE 2 – CASH AND INVESTMENTS, (Continued)

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.

Investment Type	Total Amount	Minimum	Exempt	Rating as of Fiscal Year End		
		Legal Rating	From Disclosure	AAA	Aa	Not Rated
Local Agency Investment Fund (LAIF)	\$ 16,043,523	N/A	\$ -	\$ -	\$ -	\$ 16,043,523
Held by bond fiscal agent:						
Money market mutual funds	162	A	-	162	-	-
Investment contract	<u>868,265</u>	Aa	<u>-</u>	<u>868,265</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 16,911,950</u>		<u>\$ -</u>	<u>\$ 868,427</u>	<u>\$ -</u>	<u>\$ 16,043,523</u>

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

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

that 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 market value of at least 150% of the secured public deposits, and letters of credit drawn on the Federal Home Loan Bank may have a minimum market value of 105%, for deposits in excess of the \$100,000 FDIC limit.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency 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. LAIF is not rated.

NOTE 3 – TRANSFERS IN AND OUT

Transfers in and out for the year ended June 30, 2008 are as follows:

	Transfers From:			
	General Fund	Capital Projects Fund	Non-major Funds	Total
Transfers To:				
General Fund	\$ -	\$ -	\$ 856,199	\$ 856,199
Capital Projects	-	-	508,633	508,633
Non-major Funds	<u>793,776</u>	<u>113,030</u>	<u>-</u>	<u>906,806</u>
Total Transfers	<u><u>\$ 793,776</u></u>	<u><u>\$ 113,030</u></u>	<u><u>\$ 1,364,832</u></u>	<u><u>\$ 2,271,638</u></u>

The reasons for the significant transfers between funds are as follows:

- The transfer of \$856,199 from the Non-Major Funds to the General Fund was to fund street maintenance costs and traffic engineering services—both recorded in the General Fund.
- The transfer of \$621,663 from the Non-Major Funds to the Capital Project Fund was primarily to fund the slurry seal program (\$248,414), Santa Margarita Pky. Bridge repair (\$31,715), El Corazon sidewalk repair (\$64,436), traffic enhancements (\$50,269), and residential and arterial overlays (\$61,434).
- The transfer of \$793,776 from the General Fund to the Non-Major Funds was transferred to the RSM Non-Profit Debt Service Fund to pay principal and interest on the Certificates of Participation.

CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 2,083,500	\$ -	\$ -	\$ 2,083,500
Land - right of way	43,740,119	-	-	43,740,119
Infrastructure - pavement	<u>46,513,281</u>	-	-	<u>46,513,281</u>
Total capital assets not being depreciated	<u>92,336,900</u>	-	-	<u>92,336,900</u>
Capital assets being depreciated:				
Machinery & Equipment	318,132	53,065	-	371,197
Buildings	16,618,510	-	-	16,618,510
Parks	888,290	18,188	-	906,478
Infrastructure - all others	<u>59,176,700</u>	<u>277,484</u>	-	<u>59,454,184</u>
Total capital assets being depreciated	<u>77,001,632</u>	<u>348,737</u>	-	<u>77,350,369</u>
Less accumulated depreciation:				
Machinery & Equipment	268,420	27,229	-	295,649
Buildings	1,661,850	553,951	-	2,215,801
Parks	71,064	36,259	-	107,323
Infrastructure	<u>42,777,390</u>	<u>1,608,443</u>	-	<u>44,385,833</u>
Total accum. Depreciation:	<u>44,778,724</u>	<u>2,225,882</u>	-	<u>47,004,606</u>
Total capital assets being depreciated, net	<u>32,222,908</u>	<u>(1,877,145)</u>	-	<u>30,345,763</u>
Total capital assets, net	<u>\$ 124,559,808</u>	<u>\$ (1,877,145)</u>	<u>\$ -</u>	<u>\$ 122,682,663</u>
Depreciation expense was charged in the following functions in the Statement of Activities:				
	General government	\$ 11,337		
	Public safety	15,892		
	Public works	2,198,653		
	Total	<u>\$ 2,225,882</u>		

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

NOTE 4 – CAPITAL ASSETS, (Continued)

Construction commitments

The City has active construction projects as of June 30, 2008. The projects include residential overlay, critical intersection analysis, bus stop improvements, bridge joint replacement, Go-Local project, traffic signal, and park lighting. At year-end the City's encumbrances with contractors were as follows:

	Spent-to-date	Remaining Commitment
Residential Overlay	\$ 859,694	\$ 11,483
Critical Intersection Analysis	23,796	2,360
Bus Stop Improvements	104,197	57,078
SMP Bridge Joint Replacement	21,525	4,950
Go Local	59,518	10,482
Camino Altozano Traffic Signal	6,895	131,204
Skate Park Lighting	18,188	9,995
Total	<u>\$ 1,093,813</u>	<u>\$ 227,552</u>

NOTE 5 – MITIGATION OBLIGATION PAYABLE

The City has a mitigation commitment with the County of Orange to make minimum payments each year, plus interest, to mitigate the effect of the reduction of excess revenues over expenditures for future fiscal years as a result of the incorporation of the City of Rancho Santa Margarita. These payments equaled \$1,000,000 per year through 2006, with \$600,000 for the final payment in 2007, plus interest at the County's earnings rate on the difference between the minimum payment and the re-negotiated amount of \$2,400,000. The remaining annual payments associated with this commitment are contingent upon future receipt of revenues by the City during that respective fiscal year.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

NOTE 6 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the fiscal year ended June 30, 2008 was as follows:

	<u>Balance at June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2008</u>	<u>Due Within One Year</u>
Certificates of Participation:					
City Hall & Regional Community Center	\$ 12,795,000	\$ -	\$ 265,000	\$ 12,530,000	\$ 280,000
Compensated absences	<u>110,726</u>	<u>91,691</u>	<u>15,898</u>	<u>186,519</u>	<u>85,340</u>
Total Governmental Long-Term Liabilities	<u>\$ 12,905,726</u>	<u>\$ 91,691</u>	<u>\$ 280,898</u>	<u>\$ 12,716,519</u>	<u>\$ 365,340</u>

In prior years, compensated absences liabilities were liquidated in the City's General Fund. Compensated absences additions and reductions were estimated based on current accumulation and usage. Amounts due within one year approximate current net charges.

**City of Rancho Santa Margarita Nonprofit Corporation Certificates of Participation
Payable**

On November 1, 2003, the City of Rancho Santa Margarita Nonprofit Corporation issued \$12,795,000 of Certificates of Participation. These Certificates of Participation were issued to finance a portion of the costs of the acquisition, construction and installation of a City Hall and a Regional Community Center, which will be leased to the City. Term certificates are due as follows: \$1,730,000 on October 1, 2027, with an interest rate of 4.75%; \$1,995,000 on October 1, 2030, with an interest rate of 4.75%; and \$2,300,000 on October 1, 2033, with an interest rate of 5.00%. Serial certificates are due in annual installments ranging from \$265,000 to \$805,000 commencing on October 1, 2007. The serial certificates bear interest ranging from 3.25% to 4.75%, payable semi-annually on April 1 and October 1 of each year. Interest component payments were capitalized through April 1, 2005. The amount outstanding as of June 30, 2008 was \$12,530,000.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

NOTE 6 – LONG-TERM LIABILITIES, (Continued)

The annual requirements to amortize the outstanding Certificates of Participation as of June 30, 2008, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 280,000	\$ 562,385
2010	290,000	552,760
2011	295,000	542,522
2012	305,000	531,260
2013	315,000	518,860
2014-2018	1,790,000	2,389,048
2019-2023	2,205,000	1,963,775
2024-2028	2,755,000	1,388,319
2029-2033	3,490,000	646,119
2034	<u>805,000</u>	<u>20,125</u>
 Totals	 <u>\$ 12,530,000</u>	 <u>\$ 9,115,173</u>

NOTE 7 – PENSION PLAN

Orange County Employees Retirement System Defined Benefit Pension Plan

Plan Description In September 2002, the City Council approved the City's participation in the Orange County Employees Retirement System (OCERS), effective January 1, 2003. The Orange County Employees Retirement System (OCERS), is a cost-sharing multiple-employer, defined benefit pension plan which is governed and administered by a nine member Board of Retirement. OCERS was established in 1945 under the provisions of the County Employees Retirement Law of 1937 and provides members with retirement benefits. Benefit provisions and all other requirements are established by State statute and City ordinance. OCERS issues a stand-alone comprehensive annual financial report which can be obtained from OCERS at 2223 Wellington Avenue, Santa Ana, California 92701.

On August 16, 2006, eligible employees conducted an election at which they voted to withdraw from OCERS and participate in the CalPERS Defined Benefit Pension Plan for Miscellaneous Employees. Information on that plan is included below.

CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)

NOTE 7 – PENSION PLAN, (Continued)

Prior to withdrawal and termination of participation in the plan by the City, all full time employees were eligible to participate in OCERS with benefits vesting after 10 years of service. The amount of the retirement allowance is based upon the member's age at retirement, the member's "final compensation" as defined in Section 31462 of the Retirement Law of 1937, and the total years of service under OCERS.

Funding Policy Members were required to contribute a percentage of their annual compensation to OCERS ranging from 7.90% to 13.31 percent (employee contribution). The City made the contributions required of City employees on their behalf and for their account. The City was also required to contribute additional amounts at an actuarially determined rate, that rate was 12.83 percent for the final year of participation. The contribution requirements of plan members and the City were established and amended by OCERS. The actuarial methods and assumptions used were those adopted by the OCERS Board of Administration.

Contributions For each of the fiscal years shown below, the City has contributed at the actuarially determined rate provided by OCERS' actuaries. Under GASB 27, as amended by GASB 50, 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 OCERS for the year ended June 30, 2008 was \$0, due to the fact the City's participation in the plan had been terminated, while the City's total payroll for all employees was \$1,832,655 during the same period. For all years of participation in this plan the actual contribution made equaled the required contribution.

Three Year Trend Information The following table provides the employer contribution rate, the required contribution amount, and the actual percentage contributed for fiscal year ended June 30, 2008 and the prior two years.

Fiscal Year	Employer Contribution Rate	Required Employer Contribution	Actual Percentage Contributed	Net Pension Obligation
6/30/2006	4.80%	\$ 54,612	100%	-
6/30/2007	12.83%	\$ 61,830	100%	-
6/30/2008	-	-	-	-

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

NOTE 7 – PENSION PLAN, (Continued)

CalPERS Defined Benefit Pension Plan for Miscellaneous Employees

Plan Description The City's employees are eligible to participate in the California Public Employees Retirement System (PERS), a cost sharing multiple-employer defined benefit pension plan. Initial participation was determined August 2006, at which time eligible employees conducted an election voting to withdraw from the Orange County Employees Retirement System (OCERS) and participate in the CalPERS Defined Benefit Pension Plan for Miscellaneous Employees. Information on the OCERS plan is included above. New employees are required to join CalPERS.

PERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of PERS' annual financial report may be obtained from its executive office: 400 "P" Street, Sacramento, California 95814.

Funding Policy Participants are required to contribute 8% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is also required to contribute additional amounts at an actuarially determined rate. The contribution requirements of plan members and the City are established and may be amended by CalPERS. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration.

Contributions For each of the fiscal years shown below, the City has contributed at the actuarially determined rate provided by PERS' actuaries. Under GASB 27, as amended by GASB 50, 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 \$1,628,008 for the year ended June 30, 2008, while the City's total payroll for all employees was \$1,832,655 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 who were actually paid during the period from July 1, 2007 to June 30, 2008. For all years of participation in this plan the actual contribution made equaled the required contribution.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

NOTE 7 – PENSION PLAN, (Continued)

Three Year Trend Information The following table provides the employer contribution rate, the required contribution amount, and the actual percentage contributed for fiscal year ended June 30, 2008 and the prior two years.

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Required Employer Contribution</u>	<u>Actual Percentage Contributed</u>	<u>Net Pension Obligation</u>
6/30/2006	-	-	-	-
6/30/2007	12.26%	\$ 106,807	100%	-
6/30/2008	12.26%	\$ 199,594	100%	-

NOTE 8 – 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.

General Liability

The City purchases general liability insurance from Public Agency Risk Sharing Authority of California (PARSAC). There is a self-insured retention of \$10,000 per claim. PARSAC provides limits to \$1,000,000. Excess coverage is provided through a combination of pooling and reinsurance for total coverage limits of \$25 million. The total premium for this coverage was \$70,493 for the fiscal year ending June 30, 2008.

Workers' Compensation

Effective March 1, 2004, the City purchases Workers' Compensation insurance from PARSAC. There is no deductible and the policy provides statutory limits. The premium for this coverage was \$81,598 for the fiscal year ending June 30, 2008.

Property Insurance

The City purchases commercial property insurance from PARSAC with program limits of \$350 million for personal property with \$5,000 deductible per occurrence.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

NOTE 8 – RISK MANAGEMENT, (Continued)

Fidelity Bonds

The City purchases bond coverage through PARSAC in the amount of \$1,000,000 with a \$2,500 deductible.

Insurance payments to PARSAC are made from the City's general fund. There were no significant claims or claims payments during the fiscal year, and there were no significant outstanding claims at June 30, 2008. Furthermore, there have been no settlements that have exceeded insurance coverage since the City's inception on January 1, 2000.

NOTE 9 – CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

The City of Rancho Santa Margarita is defendant and plaintiff in several pending lawsuits arising out of matters incidental to the operation of the City. Although the outcome of these lawsuits cannot be determined at present, management estimates that any potential claims against the City not covered by insurance resulting from such litigation will not materially affect the City's financial condition.

NOTE 10 – DEFERRED REVENUE

For the governmental funds, revenues are recognized when the related expenditures are incurred. Such revenues typically include grants or entitlements. Revenues earned, but not yet received, may not be available in a timely manner to pay current expenditures or obligations. Such receivables, not meeting the availability criteria necessary for accrual under modified accrual basis accounting principles, are reclassified as deferred revenues for that period in the fund financial statements. In the government-wide financial statements, however, availability criteria are not considered. Instead, revenues become, and remain receivable from the point in time when revenue is earned through performance or similar recognition standards, until received. For the Fiscal Year ended June 30, 2008, In the General Fund, \$5,429 was deferred, consisting of \$5,429 in miscellaneous revenue received in advance of planned Community Services events; and \$644,064 related to the renewal of the City's cable TV franchise agreement. In the fifteen year agreement, signed in 2005, the cable service provider paid the City a lump sum

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

NOTE 10 – DEFERRED REVENUE, (Continued)

amount of \$805,080 to fund possible educational and governmental cable-based programming. The total amount was deferred upon receipt of the lump sum payment in 2005, and is being amortized into earned revenue at the rate of \$53,672 per year. The total amount amortized, at June 30, 2008 was \$161,016.

NOTE 11 – RELATED PARTY TRANSACTION

The Bell Tower Foundation ("TBTF") is a private, non-profit, charitable organization that is not governed by the city. TBTF was incorporated in 2001 at the request of the City Council to procure private and corporate donations to help fund construction of a community center, located next to City Hall, at the Civic Center. Additionally, TBTF and the City entered into a long-term lease agreement for TBTF to occupy the community center building and provide community program and facility rental operations at the center. The lease is a thirty year operating lease expiring in October 2033 with an annual rent in the amount of one dollar. The overall operating budget for the Community Center for Fiscal Year 2007-08 was \$1.34 million, and included a budgeted City subsidy of \$763,000. However, TBTF is responsible unto itself to raise and provide other funds through various methods such as program fees and fundraising events to cover expenses. The actual City subsidy approved for the Fiscal Year ended June 30, 2008 was \$763,000.

NOTE 12 – FUND BALANCE DESIGNATIONS

A continuing priority of the City Council is to exercise prudent financial management, provide long term financial planning, and strong internal control of City asset uses. To this end the Reserve Policy was adopted on June 25, 2008 regarding the City's accumulated net resources, called fund balance. The Reserve Policy establishes a framework for the funding, use, and maintenance of available fund balance levels for various objectives: To protect the City's ability to provide services to community residents during emergencies or economic downturns; provide funding for unanticipated or "one-time" expenditures, plan for the repair/replacement of City facilities, infrastructure or technology; and provide an amount for use in times of catastrophic emergencies or natural disasters.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

NOTE 12 – FUND BALANCE DESIGNATIONS, (Continued)

The City's fund balance designations at June 30, 2008, are presented below and followed by explanations as to the nature and purpose of each designation.

General Fund:	Emergency	\$7,000,000
	Council Strategic	2,979,673
	Technology	1,281,939
	Facilities	3,417,149
	Vehicles	283,915
	Infrastructure	<u>1,037,324</u>
	Total Designated	<u>\$16,000,000</u>

Designated for Emergency – To be used for resumption of City services, during a natural or man made disaster, which shall require a super majority vote (4/5) of the City Council to access these funds during non-emergencies, and majority vote (3/5) of the City Council to access these funds during emergencies.

Designated for Council Strategic – An amount established for special projects and services to be used at the City Council's discretion. The Council may authorize expenditure at any time during the fiscal year, up to 75% of the funding target; however, it shall require a majority vote (3/5) of City Council to access these funds.

Designated for Technology – To be used for replacement and enhancement of technology, and shall require a majority vote (3/5) of the City Council to access these funds. Technology is defined as computers (CPUs, servers, etc.), software, Council Chambers media, etc.

Designated for Facilities – To be used for repair, replacement, or improvement of City facilities such as the City's Civic Center, and other acquired facilities and mechanical systems, and shall require a majority vote (3/5) of City Council to access these funds.

Designated for Vehicles – To be used for replacement of City vehicles and other equipment defined as rolling stock, and shall require a majority vote (3/5) of the City Council to access these funds.

Designated for Infrastructure – To be used for repair, replacement or improvement of City property, including roads, bridges, sidewalk, and medians and shall require a majority vote (3/5) of the City Council to access these funds. The reserve amount is linked to the current City 7 year CIP plan.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (CONTINUED)**

NOTE 13 – OPERATING LEASE

The City entered into a non-cancelable operating lease agreement with Wells Fargo Financial Leasing, Inc. in January 2008 for copy equipment at City Hall at a cost of \$139,920. The monthly cost of the 5 year lease agreement is \$2,332 and is funded by the General Fund. Future minimum payments relating to the lease are as follows:

<u>Year Ending June 30,</u>	<u>Annual Rent</u>
2009	\$ 27,984
2010	27,984
2011	27,984
2012	27,984
2013	13,992
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NOTE 14 – SUBSEQUENT EVENTS

The City entered into another non-cancelable operating lease agreement with Wells Fargo Financial Leasing, Inc. in October 2008 for BTRCC copy equipment at a cost of \$14,204. The monthly cost of \$268 is for a 53 month term and is funded by the General Fund. Future minimum payments relating to the lease are as follow:

<u>Year Ending June 30,</u>	<u>Annual Rent</u>
2009	\$ 2,412
2010	3,216
2011	3,216
2012	3,216
2013	2,144
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The City's Certificates of Participation, issued November 1, 2003 are subject to federal arbitrage regulations. In October 2008 an interim arbitrage rebate analysis was performed to determine whether the City was required to remit an arbitrage rebate payment to the United States Department of the Treasury for excess arbitrage liabilities for the previous five year period. The computational analysis showed no payment was due or required by the City, nor was the City required to file form 8038-T with the Internal Revenue Service. The next rebate installment payment computational analysis will be due not later than November 30, 2013.

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

General Fund – This fund has been classified as a major fund and 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.

CITY OF RANCHO SANTA MARGARITA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS		ACTUAL AMOUNTS		VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	AMOUNTS	POSITIVE (NEGATIVE)	
Budgetary fund balances, July 1	\$ 16,272,362	\$ 16,272,362	\$ 16,088,881	\$ (183,481)	
Resources (inflows):					
Taxes	9,428,187	9,428,187	8,855,321	(572,866)	
Fees and permits	1,795,250	1,795,250	1,835,160	39,910	
Intergovernmental	5,241,114	5,241,114	4,304,322	(936,792)	
Charges for service	296,000	296,000	327,128	31,128	
Investment income	550,000	550,000	651,986	101,986	
Fines, forfeits and penalties	338,000	338,000	320,097	(17,903)	
Other	54,000	54,000	271,486	217,486	
Transfers from other funds	1,023,457	1,023,457	856,199	(167,258)	
Amounts available for appropriation	<u>34,998,370</u>	<u>34,998,370</u>	<u>33,510,580</u>	<u>(1,487,791)</u>	
Charges to appropriations (outflows):					
General government	6,245,176	6,245,176	4,740,844	1,504,332	
Building and planning	1,299,185	1,299,185	1,134,310	164,875	
Public safety	7,681,924	7,681,924	7,483,440	198,484	
Public works	2,485,802	2,485,802	2,243,774	242,028	
Capital outlay	94,500	94,500	53,065	41,435	
Transfers to other funds	900,000	900,000	793,776	106,224	
Total charges to appropriations	<u>18,706,587</u>	<u>18,706,587</u>	<u>16,449,209</u>	<u>2,257,379</u>	
Budgetary fund balances, June 30	<u>\$ 16,291,783</u>	<u>\$ 16,291,783</u>	<u>\$ 17,061,371</u>	<u>\$ 769,588</u>	

CITY OF RANCHO SANTA MARGARITA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 – CAPITAL ASSETS – MODIFIED APPROACH FOR INFRASTRUCTURE

The City has elected to use the *modified approach* for the accounting and financial reporting of infrastructure assets contained in the Streets and Roads network Street Pavement subsystem.

Under the modified approach, infrastructure assets that are part of a network or a subsystem of a network are not required to be depreciated as long as two requirements are met. The first requirement is to manage the eligible infrastructure assets using an asset management system that has the following characteristics:

- An up-to-date inventory of eligible infrastructure assets
- Condition assessments of the eligible infrastructure assets performed at least every three years, with summarized results using a measurement scale
- Annual estimates of the amount necessary to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

The second requirement is to document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. A condition assessment must be performed every three years. If eligible infrastructure assets meet all requirements and are not depreciated, all expenditures made for those assets (except for additions and improvements) are expensed in the period incurred. Additions and improvements to eligible infrastructure assets are capitalized. Additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

The condition of the pavement subsystem is measured using the Rancho Santa Margarita Pavement Condition Index. The City Council accepted the findings of the Pavement Management System performed in fiscal year 2008 and adopted a condition rating of 70 as the minimum acceptable Pavement Condition Index (PCI) for the entire street pavement subsystem. In accordance with the requirements for using the modified approach for this subsystem, these findings will be used until the next condition assessment is performed within three years of this assessment. The results of the actual condition assessments were as follows:

**CITY OF RANCHO SANTA MARGARITA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (continued)**

**NOTE 1 – CAPITAL ASSETS – MODIFIED APPROACH FOR
INFRASTRUCTURE, (Continued)**

Assessments performed in the fiscal years ended June 30:

	<u>Actual Assessed Condition Level</u>	<u>Minimum Condition Level</u>
2008: Pavement subsystem	76.5	70
2007: Pavement subsystem	73.9	70
2004: Pavement subsystem	75.1	70

The pavement subsystem was assigned a numerical value based upon the scales as identified below. Each street segment has a total possible point value of 100. Once each segment had a total score, the City determined the condition of the street by segment, subdivision and as a whole based upon the street deficiency scale identified below.

- Excellent (85-100) – Minor to low distress, no significant distress.
- Very Good (70-84) – Little distress, with the exception of utility patches in good condition, or slight hairline cracks; may be slightly weathered.
- Good (55-69) – Slight to moderately weathered, slight distress, possible patching.
- Fair (40-54) – Severely weathered or slight to moderate levels of distress, generally limited to patches and non-load related cracking.
- Poor (25-39) – Moderate to severe distresses, including load-related types, such as alligator cracking.
- Very Poor (10-24) – Severely distressed, large quantities of distortion or alligator cracking.
- Failed (0-9) – Failure of the pavement, distress has surpassed tolerable rehabilitation limits.

Based on the pavement condition assessment update performed in FY 2008, as of June 30, 2008, the streets had an average deficiency rating or Pavement Condition Index (PCI) of 76.5, or Very Good.

CITY OF RANCHO SANTA MARGARITA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (continued)

**NOTE 1 – CAPITAL ASSETS – MODIFIED APPROACH FOR
INFRASTRUCTURE, (Continued)**

During the fiscal year ending June 30, 2008, street maintenance costs were \$2,132,675 compared to the budgeted estimate of \$3,277,392. Street maintenance costs for the fiscal years ending June 30, 2007, June 30, 2006, June 30, 2005, June 30, 2004 and June 30, 2003 (the first year of implementation of the modified approach for street pavement) were \$3,812,219, \$1,818,402, \$919,528, \$783,609 and \$908,403, respectively. Budgeted street maintenance costs for the years ended June 30, 2007, June 30, 2006, June 30, 2005, June 30 2004 and June 30, 2003 were \$5,091,446, \$2,246,154, \$1,160,000, \$943,000 and \$1,200,000. Appropriations totaling \$1,808,700 have been budgeted for the fiscal year ending June 30, 2009 for maintenance/rehabilitation to achieve the minimum PCI standard. The pavement condition will be reassessed at minimum every three years.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In June, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Budget development discussions are conducted at public workshops, and City Council study sessions and regular meetings, to obtain resident and business comments.
3. Prior to July 1, the budget is adopted by Council action at a public hearing.

Formal budgetary integration is employed as a management control device during the year. After adoption, the City Manager is authorized to transfer appropriated funds between major expenditure categories within departments and between departments. However, any revisions that alter the total appropriations of any fund must be approved by the City Council. Expenditures may not legally exceed appropriations at the fund level. All appropriations lapse at the end of the fiscal year, except for capital projects. For any project which is under construction at year-end, the appropriations are allowed to carry forward with the amount being adopted for the current year budget.

**CITY OF RANCHO SANTA MARGARITA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2008 (continued)**

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING, (Continued)

Budgets are prepared in accordance with generally accepted accounting principles using the modified-accrual basis of accounting. Accordingly, actual revenue and expenditure amounts can be compared with related budget amounts without any significant reconciling items.

Certain City financial statements and schedules present comparisons of budgeted amounts to actual results for all governmental funds with annual budgets. Budgeted revenue amounts represent the original budget modified by Council-authorized adjustments during the year, contingent upon new or additional revenue sources. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Budgetary comparisons in the financial statements and schedules are based on the final adjusted amounts.

For financial reporting purposes, City Council, City Manager, and Administrative Services departments are combined as General Government, but operate separately for budgetary control purposes in the General Fund. All other budgeted funds are considered single operating units for budgetary control and financial reporting purposes.

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are used to account for activities funded by dedicated or specific program revenues. The following Special Revenue Funds have been classified as non-major funds in the accompanying financial statements:

Gas Tax – This fund is used to account for the City's share of the motor vehicle gas tax imposed under the provisions of the Street and Highway Code of the State of California under Sections 2105, 2106, 2107 and 2107.5 which are legally restricted for the acquisition, construction, improvement and maintenance of public streets.

Measure M – This fund is used to account for the City's share of the sales tax increase authorized by Orange County's Measure "M". The monies are legally restricted for the acquisition, construction and improvement of public streets.

Air Quality Management District – This fund is used to account for the City's share of vehicle registration fees that the State of California has allocated to address air quality concerns in Southern California. These monies are to be used in air quality maintenance programs locally and/or regionally.

California Law Enforcement Equipment Program – This fund is used to account for monies received through the CLEEP grant. These monies are used by police services for the purchase of high-technology police equipment.

Traffic Congestion – This fund is used to account for revenue from Assembly Bill 2928 and the corresponding expenditures for street infrastructure.

Supplemental Law Enforcement Services – This fund is used to account for monies received through the SLESF grant. These monies are used by police services to support front line law enforcement.

Debt Service Fund

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

City of Rancho Santa Margarita Non-Profit Debt Service – This fund is used to account for the payment of interest and principal of the City of Rancho Santa Margarita Non-Profit Corporation project financing activities for construction of the City's civic center facilities.

CITY OF RANCHO SANTA MARGARITA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2008

Assets	Special Revenue Funds		
	Air Quality Management District		
	Gas Tax	Measure M	
Cash and investments	\$ 626,220	\$ 1,222,339	\$ 277,955
Cash with fiscal agent	-	-	-
Due from other governments	291,758	97,266	15,517
Interest receivable	10,168	9,320	1,722
Total assets	\$ 928,146	\$ 1,328,925	\$ 295,194

Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 23,246	\$ -	\$ -
Total liabilities	\$ 23,246	\$ -	\$ -
Fund balances:			
Reserved for debt service	-	-	-
Unreserved	904,900	1,328,925	295,194
Total fund balances	904,900	1,328,925	295,194
Total liabilities and fund balances	\$ 928,146	\$ 1,328,925	\$ 295,194

<u>California Law Enforcement Eqpt. Program</u>	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>		<u>Totals</u>
	<u>Traffic Congestion</u>	<u>Supplemental Law Enforcement Services</u>	<u>Rancho Santa Margarita Non-Profit</u>		
\$ 197	\$ 1,051	\$ 177,027	\$ -	\$ 2,126,711	
-	-	-	868,427	868,427	
-	-	-	-	404,541	
-	-	1,305	-	21,210	
<u>\$ 197</u>	<u>\$ 1,051</u>	<u>\$ 178,332</u>	<u>\$ 868,427</u>	<u>\$ 3,420,889</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,246</u>	
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,246</u>	
<u>-</u>	<u>-</u>	<u>-</u>	868,427	868,427	
<u>197</u>	<u>1,051</u>	<u>178,332</u>	<u>-</u>	<u>2,708,599</u>	
<u>197</u>	<u>1,051</u>	<u>178,332</u>	<u>868,427</u>	<u>3,577,026</u>	
<u>\$ 197</u>	<u>\$ 1,051</u>	<u>\$ 178,332</u>	<u>\$ 868,427</u>	<u>\$ 3,600,272</u>	

CITY OF RANCHO SANTA MARGARITA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2008

	Special Revenue Funds		
	Gas Tax	Measure M	Air Quality Management District
Revenues:			
Intergovernmental	\$ 877,770	\$ 571,810	\$ 59,381
Investment income	67,074	52,389	10,319
Total revenues	<u>944,844</u>	<u>624,199</u>	<u>69,700</u>
Expenditures:			
Current:			
Public safety	-	-	-
Public works	249,627	-	-
Debt service:			
Principal retirement	-	-	-
Interest	-	-	-
Total expenditures	<u>249,627</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>695,217</u>	<u>624,199</u>	<u>69,700</u>
Other financing sources (uses):			
Transfers in	74,908	-	38,122
Transfers out	(1,046,467)	(280,243)	(38,122)
Total financing sources (uses)	<u>(971,559)</u>	<u>(280,243)</u>	<u>-</u>
Net change in fund balances	(276,342)	343,956	69,700
Fund balances, beginning of year	<u>1,181,242</u>	<u>984,969</u>	<u>225,494</u>
Fund balances, end of year	<u>\$ 904,900</u>	<u>\$ 1,328,925</u>	<u>\$ 295,194</u>

Special Revenue Funds			Debt Service	
California Law Enforcement Eqpt. Program	Traffic Congestion	Supplemental Law Enforcement Services	Rancho Santa Margarita Non-Profit	Totals
\$ -	\$ -	\$ 100,002	\$ -	\$ 1,608,963
-	1,051	8,061	42,009	180,903
<u>-</u>	<u>1,051</u>	<u>108,063</u>	<u>42,009</u>	<u>1,789,866</u>
-	-	139,979	-	139,979
-	-	-	-	249,627
<u>-</u>	<u>-</u>	<u>139,979</u>	<u>265,000</u>	<u>265,000</u>
-	-	-	571,241	571,241
<u>-</u>	<u>-</u>	<u>139,979</u>	<u>836,241</u>	<u>1,225,847</u>
<u>-</u>	<u>1,051</u>	<u>(31,916)</u>	<u>(794,232)</u>	<u>564,019</u>
-	-	-	793,776	906,806
-	-	-	-	(1,364,832)
<u>-</u>	<u>-</u>	<u>-</u>	<u>793,776</u>	<u>(458,026)</u>
-	1,051	(31,916)	(456)	105,993
<u>197</u>	<u>-</u>	<u>210,248</u>	<u>868,883</u>	<u>3,471,033</u>
<u>\$ 197</u>	<u>\$ 1,051</u>	<u>\$ 178,332</u>	<u>\$ 868,427</u>	<u>\$ 3,577,026</u>

BUDGETARY COMPARISON SCHEDULES

The following Budgetary Comparison Schedules are presented:

Special Revenue Funds

Gas Tax
Measure M
Air Quality Management District
California Law Enforcement Equipment Program
Traffic congestion
Supplemental Law Enforcement Services

Debt Service Fund

Non-Profit Debt Service

Capital Projects Fund

Capital Projects

CITY OR RANCHO SANTA MARGARITA
GAS TAX
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
Budgetary fund balances, July 1	\$ 1,893,431	\$ 1,893,431	\$ 1,181,242	\$ (712,189)
Resources (inflows):				
Intergovernmental	1,020,000	1,020,000	877,770	(142,230)
Investment income	30,000	30,000	67,074	37,074
Transfers from other funds	-	-	74,908	74,908
Amounts available for appropriation	<u>2,943,431</u>	<u>2,943,431</u>	<u>2,200,994</u>	<u>(742,437)</u>
Charges to appropriations (outflows):				
Public works	250,000	250,000	249,627	373
Transfers to other funds	2,660,920	2,660,920	1,046,467	1,614,453
Total charges to appropriations	<u>2,910,920</u>	<u>2,910,920</u>	<u>1,296,094</u>	<u>1,614,826</u>
Budgetary fund balances, June 3	<u>\$ 32,511</u>	<u>\$ 32,511</u>	<u>\$ 904,900</u>	<u>\$ 872,389</u>

CITY OF RANCHO SANTA MARGARITA
MEASURE M
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET	
	ORIGINAL	FINAL		POSITIVE (NEGATIVE)	(NEGATIVE)
Budgetary fund balances, July 1	\$ 1,062,216	\$ 1,062,216	\$ 984,969	\$	(77,247)
Resources (inflows):					
Intergovernmental	602,407	602,407	571,810		(30,597)
Investment income	10,000	10,000	52,389		42,389
Amounts available for appropriation	<u>1,674,623</u>	<u>1,674,623</u>	<u>1,609,168</u>		<u>(65,455)</u>
Charges to appropriations (outflows):					
Transfers to other funds	1,472,200	1,472,200	280,243		1,191,957
Total charges to appropriations	<u>1,472,200</u>	<u>1,472,200</u>	<u>280,243</u>		<u>1,191,957</u>
Budgetary fund balances, June 30	<u>\$ 202,423</u>	<u>\$ 202,423</u>	<u>\$ 1,328,925</u>	<u>\$</u>	<u>1,126,502</u>

**CITY OF RANCHO SANTA MARGARITA
AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	BUDGETED AMOUNTS				VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL AMOUNTS		POSITIVE (NEGATIVE)
Budgetary fund balances, July 1	\$ 219,005	\$ 219,005	\$ 225,494	\$	6,489
Resources (inflows):					
Intergovernmental	60,000	60,000	59,381		(619)
Investment income	2,000	2,000	10,319		8,319
Transfers from other funds	-	-	38,122		38,122
Amounts available for appropriation	<u>281,005</u>	<u>281,005</u>	<u>333,316</u>		<u>52,310</u>
Charges to appropriations (outflows):					
Transfers to other funds	252,406	252,406	38,122		214,284
Total charges to appropriations	<u>252,406</u>	<u>252,406</u>	<u>38,122</u>		<u>214,284</u>
Budgetary fund balances, June 30	<u>\$ 28,599</u>	<u>\$ 28,599</u>	<u>\$ 295,194</u>	<u>\$</u>	<u>266,594</u>

CITY OF RANCHO SANTA MARGARITA
CALIFORNIA LAW ENFORCEMENT EQUIPMENT PROGRAM
BUDGETRARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS		ACTUAL AMOUNTS		VARIANCE WITH FINAL BUDGET	
	ORIGINAL	FINAL	ACTUAL AMOUNTS	POSITIVE (NEGATIVE)	ORIGINAL	FINAL
Budgetary fund balances, July 1	\$ 197	\$ 197	\$ 197	\$ 197	\$ -	\$ -
Resources (inflows):						
Intergovernmental	-	-	-	-	-	-
Investment income	-	-	-	-	-	-
Amounts available for appropriation	197	197	197	197	-	-
Charges to appropriations (outflows):						
Public safety - capital outlay	-	-	-	-	-	-
Total charges to appropriation	-	-	-	-	-	-
Budgetary fund balances, June 30	\$ 197	\$ 197	\$ 197	\$ 197	\$ -	\$ -

CITY OF RANCHO SANTA MARGARITA
TRAFFIC CONGESTION
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET	
	ORIGINAL	FINAL		POSITIVE (NEGATIVE)	
Budgetary fund balances, July 1	\$ 146,196	\$ 146,196	\$ -	\$ -	(146,196)
Resources (inflows):					
Intergovernmental	-	-	-	-	-
Investment income	-	-	1,051	1,051	
Amounts available for appropriation	<u>146,196</u>	<u>146,196</u>	<u>1,051</u>	<u>1,051</u>	<u>(145,145)</u>
Charges to appropriations (outflows):					
Transfers to other funds	<u>146,196</u>	<u>146,196</u>	<u>-</u>	<u>-</u>	<u>146,196</u>
Total charges to appropriations	<u>146,196</u>	<u>146,196</u>	<u>-</u>	<u>-</u>	<u>146,196</u>
Budgetary fund balances, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,051</u>	<u>\$ 1,051</u>	<u>\$ 1,052</u>

CITY OF RANCHO SANTA MARGARITA
SUPPLEMENTARY LAW ENFORCEMENT SERVICES
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		
Budgetary fund balances, July 1	\$ 205,939	\$ 205,939	\$ 210,248	\$ 4,309
Resources (inflows):				
Intergovernmental	107,500	107,500	100,002	(7,498)
Investment income	9,000	9,000	8,061	(939)
Amounts available for appropriation	<u>322,439</u>	<u>322,439</u>	<u>318,311</u>	<u>(4,129)</u>
Charges to appropriations (outflows):				
Public safety - current	153,702	153,702	139,979	13,723
Public safety - capital outlay	-	-	-	0
Total charges to appropriation	<u>153,702</u>	<u>153,702</u>	<u>139,979</u>	<u>13,723</u>
Budgetary fund balances, June 30	<u>\$ 168,737</u>	<u>\$ 168,737</u>	<u>\$ 178,332</u>	<u>\$ 9,594</u>

CITY OF RANCHO SANTA MARGARITA
NON-PROFIT DEBT SERVICE
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET	
	ORIGINAL	FINAL		POSITIVE (NEGATIVE)	
Budgetary fund balances, July 1	\$ 868,498	\$ 868,498	\$ 868,883	\$	385
Resources (inflows):					
Investment income	-	-	42,009		42,009
Transfers from other funds	840,000	840,000	793,776		(46,224)
Amounts available for appropriation	<u>1,708,498</u>	<u>1,708,498</u>	<u>1,704,668</u>		<u>(3,830)</u>
Charges to appropriations (outflows):					
Principal retirement	265,000	265,000	265,000		-
Interest	575,000	575,000	571,241		3,759
Total charges to appropriations	<u>840,000</u>	<u>840,000</u>	<u>836,241</u>		<u>3,759</u>
Budgetary fund balances, June 30	<u>\$ 868,498</u>	<u>\$ 868,498</u>	<u>\$ 868,427</u>	<u>\$</u>	<u>(71)</u>

CITY OF RANCHO SANTA MARGARITA
CAPITAL PROJECTS
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS		ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Budgetary fund balances, July 1	\$ 1,391,653	\$ 1,391,653	\$ 826,848	\$ (564,805)
Resources (inflows):				
Intergovernmental	1,056,370	1,056,370	2,468,329	1,411,959
Investment income	-	-	72,050	72,050
Transfers from other funds	3,583,822	3,583,822	508,633	(3,075,189)
Amounts available for appropriation	<u>6,031,845</u>	<u>6,031,845</u>	<u>3,875,860</u>	<u>(2,155,985)</u>
Charges to appropriations (outflows):				
Public works	4,640,192	4,640,192	1,372,098	3,268,093
Capital outlay	-	-	295,672	(295,672)
Transfers to other funds	-	-	113,030	(113,030)
Total charges to appropriations	<u>4,640,192</u>	<u>4,640,192</u>	<u>1,780,800</u>	<u>2,859,391</u>
Budgetary fund balances, June 30	<u>\$ 1,391,653</u>	<u>\$ 1,391,653</u>	<u>\$ 2,095,060</u>	<u>\$ 703,406</u>

STATISTICAL SECTION

This section of the City of Rancho Santa Margarita's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

Financial Trends Schedules – These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time.

- Net Assets by Component
- Changes in Net Assets
- Fund Balances of Governmental Funds
- Changes in Fund Balances of Governmental Funds
- Taxable Sales by Category
- Tax Revenues by Source – Governmental Funds

Revenue Capacity Schedules – These schedules contain information to help the reader assess the factors affecting the city's ability to generate its property and sales taxes.

- Assessed Value and Estimated Actual Value of Taxable Property
- Direct and Overlapping Property Tax Rates
- Principal Property Tax Payers
- Property Tax Levies and Collections

Debt Capacity Schedules – These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.

- Ratio of Outstanding Debt by Type
- Ratio of General Bonded Debt Outstanding
- Direct and Overlapping Bonded Debt
- Legal Debt Margin

Demographic and Economic Information – These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place and to help make comparisons over time and with other governments.

- Demographic and Economic Statistics
- Principal Employers
- Full-time and Part-time City Employees by Function

Operating Information – These schedules contain information about the city's operations and resources to help the reader understand how the city's financial information related to the services the city provides and the activities it performs.

- Capital Asset Statistics
- Operating Indicators by Function
- Miscellaneous Statistics

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report for the relevant year. The city implemented Government Accounting Standard Board Statement No. 34 in 2001; schedules presenting government-wide information include information beginning in that year.

City of Rancho Santa Margarita
Net Assets by Component
Last Eight Fiscal Years

	2008	2007	2006	2005
GOVERNMENTAL ACTIVITIES				
Invested in Capital Assets,				
Net of Related Debt	\$ 110,152,663	\$ 112,633,691	\$ 114,598,789	\$ 116,793,296
Restricted for:				
Public Safety	178,529	210,445	224,639	198,267
Public Works	4,625,130	3,218,553	5,044,761	4,089,607
Debt Service	868,427	868,883	868,498	870,578
Unrestricted	<u>16,733,118</u>	<u>16,165,385</u>	<u>11,209,879</u>	<u>7,611,925</u>
Total Governmental Activities				
Net Assets	<u><u>\$ 132,557,867</u></u>	<u><u>\$ 133,096,957</u></u>	<u><u>\$ 131,946,566</u></u>	<u><u>\$ 129,563,673</u></u>

PRIMARY GOVERNMENT

Invested in Capital Assets,				
Net of Related Debt	\$ 110,152,663	\$ 112,633,691	\$ 114,598,789	\$ 116,793,296
Restricted				
Public Safety	178,529	210,445	224,639	198,267
Public Works	4,625,130	3,218,553	5,044,761	4,089,607
Debt Service	868,427	868,883	868,498	870,578
Unrestricted	<u>16,733,118</u>	<u>16,165,385</u>	<u>11,209,879</u>	<u>7,611,925</u>
Total Primary Government				
Net Assets	<u><u>\$ 132,557,867</u></u>	<u><u>\$ 133,096,957</u></u>	<u><u>\$ 131,946,566</u></u>	<u><u>\$ 129,563,673</u></u>

Note: The City implemented Governmental Accounting Standards Board Statement No. 34 (GASB 34) for the fiscal year ended June 30, 2001. Information prior to the implementation of GASB 34 is unavailable.

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: City Finance Division

2004	2003	2002	2001
\$115,726,409	\$ 113,405,225	\$ 114,834,758	\$ 2,401,463
181,637	208,194	279,371	196,613
7,172,790	3,462,045	4,049,739	2,761,511
1,423,415	*	*	*
4,295,039	10,968,241	11,044,127	5,123,112
<u>\$128,799,290</u>	<u>\$ 128,043,705</u>	<u>\$ 130,207,995</u>	<u>\$ 10,482,699</u>

\$115,726,409	\$ 113,405,225	\$ 114,834,758	\$ 2,401,463
181,637	208,194	279,371	196,613
7,172,790	3,462,045	4,049,739	2,761,511
1,423,415	*	*	*
4,295,039	10,968,241	11,044,127	5,123,112
<u>\$128,799,290</u>	<u>\$ 128,043,705</u>	<u>\$ 130,207,995</u>	<u>\$ 10,482,699</u>

City of Rancho Santa Margarita
Changes in Net Assets
Last Eight Fiscal Years

	2008	2007	2006
EXPENSES			
Governmental Activities:			
General Government	\$ 4,794,245	\$ 4,235,381	\$ 4,505,272
Building & Planning	1,148,291	1,089,509	972,352
Public Safety	7,642,333	6,440,965	6,033,988
Public Works	6,080,878	7,342,870	5,401,937
Mitigation Obligation	-	-	-
Interest Expense	569,088	707,434	577,548
Total Governmental Activities Expenses	20,234,835	19,816,159	17,491,097
PROGRAM REVENUES			
Governmental Activities:			
Charges for Services	1,069,251	994,136	936,735
Operating Contributions and Grants	3,055,388	3,582,070	3,014,400
Capital Contributions and Grants	-	-	-
Total Governmental Activities Program Revenue	4,124,639	4,576,206	3,951,135
Total Net Revenues (Expenses)	\$ (16,110,196)	\$ (15,239,953)	\$ (13,539,962)
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS			
Governmental Activities:			
Taxes:			
Property Taxes	\$ 2,261,933	\$ 2,015,510	\$ 1,449,752
Sales Taxes	6,400,424	6,325,108	6,365,432
Real Property Transfer Taxes	192,964	294,601	476,045
Motor Vehicle License Fees	-	-	-
Motor Vehicle in-lieu tax, unrestricted			
intergovernmental	4,126,226	4,943,750	5,275,527
Franchise tax	1,413,134	1,407,872	1,245,702
Investment Income	904,939	1,054,180	631,305
Other	271,486	349,323	479,089
Total Governmental Activities	15,571,106	16,390,344	15,922,852
Changes in Net Assets	\$ (539,090)	\$ 1,150,391	\$ 2,382,890

Note: The City implemented Governmental Accounting Standards Board Statement No. 34 (GASB 34) for the fiscal year ended June 30, 2001.

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: City Finance Division, Comprehensive Annual Financial Report (2001-2007)

	2005		2004		2003		2002		2001
\$	5,016,167	\$	4,674,016	\$	4,962,868	\$	2,913,397	\$	2,953,958
	1,139,485		1,005,053		970,918		1,379,831		1,273,368
	5,746,796		5,437,001		4,822,527		1,359,116		1,271,524
	4,694,739		4,332,835		6,365,863		6,972,602		1,086,544
	-		-		-		1,000,000		-
	597,540		688,289		107,250		130,000		-
	17,194,727		16,137,194		17,229,426		13,754,946		6,585,394
	1,301,353		1,127,251		1,017,961		3,054,060		1,528,374
	1,039,721		1,888,519		2,299,941		4,313,634		2,542,162
	1,512,370		1,374,956		23,034		44,901		100,000
	3,853,444		4,390,726		3,340,936		7,412,595		4,170,536
\$	(13,341,283)	\$	(11,746,468)	\$	(13,888,490)	\$	(6,342,351)	\$	(2,414,858)
\$	1,528,596	\$	1,563,215	\$	1,459,741	\$	1,454,780	\$	1,262,640
	5,935,350		5,621,674		4,886,699		4,347,798		4,048,066
	476,358		493,220		410,416		341,787		295,643
	-		-		3,696,539		3,546,891		3,392,542
	4,290,512		3,498,199		-		-		-
	1,012,122		1,027,076		911,547		907,568		765,545
	364,559		214,800		341,895		443,217		289,510
	501,701		104,656		17,363		9,338		26,425
	14,109,198		12,522,840		11,724,200		11,051,379		10,080,371
\$	767,915	\$	776,372	\$	(2,164,290)	\$	4,709,028	\$	7,665,513

City of Rancho Santa Margarita
Fund Balances of Governmental Funds
Last Eight Fiscal Years

	2008	2007	2006	2005
GENERAL FUND				
Reserved	\$ 157,204	\$ 46,426	\$ -	\$ -
Unreserved	16,904,167	16,042,455	12,778,446	9,578,780
Total General Fund	<u><u>\$ 17,061,371</u></u>	<u><u>\$ 16,088,881</u></u>	<u><u>\$ 12,778,446</u></u>	<u><u>\$ 9,578,780</u></u>
ALL OTHER GOVERNMENTAL FUNDS				
Reserved for encumbrances	\$ 227,552	\$ -	\$ -	\$ -
Reserved for debt service	868,427	868,883	868,498	870,578
Reserved for self insurance	-	-	-	-
Unreserved, Reported in:	-	-	-	-
Special Revenue Funds	2,708,598	2,602,150	3,877,746	3,118,222
Capital Project Funds	1,867,508	826,848	1,391,654	1,169,652
Other	-	-	-	-
Total All Other Governmental Funds	<u><u>\$ 5,672,085</u></u>	<u><u>\$ 4,297,881</u></u>	<u><u>\$ 6,137,898</u></u>	<u><u>\$ 5,158,452</u></u>

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: City Finance Division, HdL, Coren & Cone, CAFR (2001-2007)

2004	2003	2002	2001
\$ -	\$ 10,231	\$ -	\$ -
12,660,311	11,712,397	11,828,733	5,918,592
\$ 12,660,311	\$ 11,722,628	\$ 11,828,733	\$ 5,918,592
 	 	 	
\$ 86,405	\$ 115,383	\$ -	\$ -
1,423,415	-	-	-
-	-	-	-
-	-	-	-
3,943,369	3,498,174	2,556,810	1,742,184
2,608,808	409,545	442,875	6,349
1,072,021	-	1,674,819	1,498,111
\$ 9,134,018	\$ 4,023,102	\$ 4,674,504	\$ 3,246,644

City of Rancho Santa Margarita
Changes in Fund Balances of Governmental Funds
Last Eight Fiscal Years

	2008	2007	2006	2005
REVENUES				
Taxes	\$ 8,855,321	\$ 8,635,219	\$ 8,291,229	\$ 7,940,304
Fees & Permits	1,835,160	1,764,706	1,546,410	1,580,822
Intergovernmental	8,381,614	7,325,820	8,288,428	6,842,601
Charges for Services	327,128	298,731	274,483	453,674
Investment Income	904,939	1,054,180	631,304	364,561
Fines, forfeits and penalties	320,097	338,571	363,044	278,978
Other	271,486	349,323	479,089	501,701
Total Revenues	<u>20,895,745</u>	<u>19,766,550</u>	<u>19,873,987</u>	<u>17,962,641</u>
EXPENDITURES				
Current:				
General Government	4,740,844	4,807,153	4,902,918	4,876,998
Building and Planning	1,134,310	1,088,534	973,131	1,141,458
Public Safety	7,623,419	6,434,622	6,028,949	5,740,329
Public Works	3,865,499	5,140,138	3,204,397	2,560,259
Capital Outlay	348,737	250,138	9,932	10,121,622
Debt Service:				
Principal	265,000	-	-	-
Interest	571,241	575,547	575,548	575,540
Service fees & other charges	-	-	-	-
Total Expenditures	<u>18,549,050</u>	<u>18,296,132</u>	<u>15,694,875</u>	<u>25,016,206</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,346,695</u>	<u>1,470,418</u>	<u>4,179,112</u>	<u>(7,053,565)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	2,271,638	3,310,023	2,244,604	7,644,226
Transfers Outs	(2,271,638)	(3,310,023)	(2,244,604)	(7,644,226)
Issuance of Debt	-	-	-	-
Total Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>2,346,695</u>	<u>1,470,418</u>	<u>4,179,112</u>	<u>(7,053,565)</u>
Fund Balances, beginning of year	20,386,762	18,916,344	14,737,232	21,790,797
Fund Balances, end of year	<u>\$ 22,733,457</u>	<u>\$ 20,386,762</u>	<u>\$ 18,916,344</u>	<u>\$ 14,737,232</u>

DEBT SERVICE AS A PERCENTAGE OF NON CAPITAL EXPENDITURES	3.14%	3.19%	3.67%	3.86%
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Note: Excludes infrastructure per Governmental Accounting Standards Board Statement No. 34

City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: City Finance Division, CAFR (2001-2007)

2004	2003	2002	2001
\$ 7,678,109	\$ 6,756,856	\$ 6,144,365	\$ 5,606,349
1,507,143	1,473,745	2,067,205	1,671,983
6,161,674	6,022,030	7,822,904	6,053,694
350,211	191,651	269,881	358,849
214,800	341,895	443,217	289,510
296,973	260,896	270,471	263,087
704,656	18,063	1,445,931	7,435
16,913,566	15,065,136	18,463,974	14,250,907
4,733,646	5,032,730	3,939,096	2,826,933
1,003,705	970,918	1,379,831	1,273,368
5,411,742	4,778,075	1,317,882	1,271,524
2,774,830	4,642,292	4,116,256	1,067,953
9,073,287	398,628	372,908	1,382,249
-	-	-	-
239,811	-	-	-
426,478	-	-	-
23,663,499	15,822,643	11,125,973	7,822,027
(6,749,933)	(757,507)	7,338,001	6,428,880
1,534,764	2,956,907	963,647	-
(1,534,764)	(2,956,907)	(963,647)	-
12,795,000	-	-	-
12,795,000	-	-	-
6,045,067	(757,507)	7,338,001	6,428,880
15,745,730	16,503,237	9,165,236	2,736,356
\$ 21,790,797	\$ 15,745,730	\$ 16,503,237	\$ 9,165,236
4.57%	0.00%	0.00%	0.00%

City of Rancho Santa Margarita
Taxable Sales by Category
Last Eight Fiscal Years

	2008	2007	2006	2005
Apparel Stores	*	\$ 25,598	\$ 26,187	\$ 25,771
General Merchandise	*	49,112	46,742	41,646
Food Stores	*	26,690	28,263	26,401
Eating & Drinking Places:	*	62,987	61,370	58,383
Building Materials	*	47,840	48,250	48,991
Auto Dealers & Supplies	*	175,190	191,599	179,842
Service Stations	*	46,218	45,192	41,343
Other Retail Stores	*	82,118	91,925	89,721
All Other Outlets	*	126,729	128,530	118,932
 Total	 *	 \$ 642,482	 \$ 668,058	 \$ 631,030
 City Direct Sales Tax Rate	 0.75%	 0.75%	 0.75%	 0.75%

*Data for fiscal year 2007-2008 not available at this time.

Note: Data for fiscal years were estimated by dividing the respective calendar year by two and adding half of each year together.

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: California State Board of Equalization, HdL Companies

2004	2003	2002	2001
\$ 26,657	\$ 27,891	\$ 15,496	\$ 15,047
40,417	37,008	34,663	32,554
24,770	25,487	26,552	27,092
54,049	49,784	42,724	35,391
50,085	43,583	40,878	40,070
166,482	135,324	108,533	92,661
36,443	30,668	25,172	21,802
77,323	70,612	56,731	50,768
<u>125,280</u>	<u>115,896</u>	<u>110,200</u>	<u>113,158</u>
<u>\$ 601,506</u>	<u>\$ 536,253</u>	<u>\$ 460,949</u>	<u>\$ 428,543</u>
1.00%	1.00%	1.00%	1.00%

City of Rancho Santa Margarita
Tax Revenues by Source - Governmental Funds
Last Eight Fiscal Years

Fiscal Year	Sales and Use Tax	Property Tax	Real Property Transfer	Total
2008	\$ 6,400,424	\$ 2,261,933	\$ 192,964	\$ 8,855,321
2007	6,325,108	2,015,510	294,601	8,635,219
2006	6,365,432	1,449,752	476,045	8,291,229
2005	5,935,350	1,528,596	476,358	7,940,304
2004	5,621,674	1,563,215	493,220	7,678,109
2003	4,886,699	1,459,741	410,416	6,756,856
2002	4,347,798	1,454,780	341,787	6,144,365
2001	4,048,066	1,262,640	295,643	5,606,349

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: City Finance Division, CAFR (2001-2007)

City of Rancho Santa Margarita
Assessed Value and Estimated Actual Value of Taxable Property
Last Eight Fiscal Years

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Miscellaneous Property	Less: Tax-Exempt Property	Total Taxable Assessed Value (1)	Total Direct Rate
2008	\$ 5,819,200,351	\$ 373,671,244	\$ 286,424,261	\$ 497,659,141	\$ -	\$ 6,976,954,997	0.06%
2007	5,477,649,646	370,791,656	269,361,787	453,170,650	-	6,570,973,739	0.06%
2006	4,990,738,000	353,751,230	261,808,655	383,406,176	-	5,989,704,061	0.06%
2005	4,555,259,930	342,546,269	238,993,681	365,193,604	-	5,501,993,484	0.06%
2004	4,193,972,829	308,585,993	221,362,605	324,985,962	-	5,048,907,389	0.06%
2003	3,910,985,949	259,633,179	205,372,612	321,428,759	-	4,697,420,499	0.06%
2002	3,654,160,918	226,755,441	176,426,471	326,437,933	-	4,383,780,763	0.06%
2001	3,391,054,494	172,229,482	151,891,625	163,618,902	-	3,878,794,503	0.06%

(1) Note: Estimated value of taxable property not readily available in the State of California

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: HdL Companies

City of Rancho Santa Margarita
Direct and Overlapping Property Tax Rates
Last Eight Fiscal Years

Agency	2007/08	2006/07	2005/06	2004/05	2003/04	2002/03	2001/02	2000/01
Basic Levy*	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Capistrano U Sfid#1 1999 Bond#2000A	0.00293	0.00273	0.00312	0.00340	0.00392	0.00217	0.00307	0.00860
Capistrano U Sfid#1 1999 Bond#2001B	0.00468	0.00430	0.00494	0.00544	0.00597	0.00505	0.00527	0.00000
Capistrano U Sfid#1 1999 Bond#2002C	0.00258	0.00244	0.00272	0.00307	0.00303	0.00332	0.00000	0.00000
Metro Water Dist-Mun Wtr Oc Anx #15 1205016	0.00000	0.00000	0.00000	0.00000	0.00000	0.01020	0.00000	0.01280
Metro Water Dist-Mun Wtr Oc Anx #15	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.01140	0.00000
Metro Water Dist-Mwdoc - 1205999	0.00450	0.00470	0.00520	0.00580	0.00610	0.00670	0.00000	0.00880
Metro Water Dist-Mwdoc-Anx #8D 1205010	0.19200	0.19220	0.19270	0.19330	0.19360	0.19420	0.19520	0.19630
Metro Water Dist-Mwdoc-Orig Area	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00770	0.00000
Saddleback Valley USD 2004 Bond#2004A	0.01683	0.01280	0.03079	0.03626	0.00000	0.00000	0.00000	0.00000
Saddleback Valley USD 2004 Series B	0.00985	0.02414	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Santa Margarita Water Id#3 1978 Bond	0.13320	0.13900	0.17660	0.18900	0.22600	0.25200	0.27400	0.31100
Santa Margarita Water Id#3A-1984 Bond	0.15040	0.15670	0.19840	0.20500	0.24600	0.27300	0.29700	0.33800
Santa Margarita Water Id# 1978 Bond	0.05730	0.07180	0.06630	0.07000	0.11500	0.23500	0.30000	0.39000
Santa Margarita Water Id#4A 1984 Bond	0.21120	0.22420	0.30720	0.32100	0.36800	0.33000	0.32700	0.29400
Santa Margarita Water Id#4B 1984 Bond	0.31850	0.36470	0.44160	0.44000	0.46500	0.34500	0.35200	0.28700
Santa Margarita Water ID#4C 1984 Bond	1.91340	1.90300	1.83660	5.33100	1.23500	1.11500	1.05000	0.96000
Trabuco Canyon Water Dist Bonds	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00055	0.00056
Total Direct & Overlapping Tax Rates	4.01737	4.10271	4.26617	7.78227	3.86762	3.77164	3.82319	3.80706
City's Share of 1% Levy Per Prop 13	0.05777	0.05777	0.05777	0.05777	0.05777	0.05777	0.05777	0.05777
Total Direct Rate (1)	0.02978	0.02978	0.02978	0.02978	0.02978	0.02985	0.03206	0.03207

This schedule shows information for all city tax rate area.

Note: In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. This 1.00 % is shared by all taxing agencies in which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter approved bonds.

City's Share of 1% Levy is based on the City's share of the general fund tax rate area within the largest net taxable value within the city.

RDA rate is based on the largest RDA tax rate area (TRA) and includes only rate(s) from indebtedness adopted prior to 1989 per California State statute. RDA direct and overlapping rates are applied only to the incremental property values.

Total Direct Rate is the weighted average of all individual direct rates applied by the government preparing the statistical section information.

*Under Article IXXXA of the California Constitution, local agencies within the State of California can only levy a tax rate for general obligation bonds. In addition, Article XIII A of the California Constitution specifies that the counties within the State of California may levy a basic tax rate, distributing the proceeds to the proper agencies.

⁽¹⁾ This tax rate does not include any Mello-Roos tax or special assessments.

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: Orange County Assessor 2000/01 - 2007/08 Tax Rate Table

City of Rancho Santa Margarita
Principal Property Tax Payers
Current Year and Seven Years Ago

Taxpayer	2008			2001			
	Total Assessed Value	Percentage of Total City Taxable Assessed Value		Rank	Total Assessed Value	Percentage of Total City Taxable Assessed Value	
		Rank	Value			Rank	Value
Cox Communications, Inc.							
Orange	\$106,504,696	1.53%	1				
Applied Medical Resources Corp.	57,405,520	0.82%	2				
Northwestern Mutual Life Insurance Co.	46,044,486	0.66%	4		\$ 40,136,834	1.03%	2
BRE Properties, Inc.	43,400,198	0.62%	5				
Villa La Paz Partners Ltd. Partnership	52,550,435	0.75%	3		44,698,195	1.15%	1
Sanyo Foods Corp. of America					25,993,738	0.67%	6
Antonio Acquisition Company LLC	33,001,702	0.47%	6				
TIS Equities IX LLC	25,493,425	0.37%	7				
KRC Santa Margarita	23,678,530	0.34%	9				
Crescent Limited Partnership	23,293,986	0.33%	10		20,305,312	0.52%	9
Koll Santa Margarita Retail Venture					31,404,754	0.81%	3
ERP Operating Limited Partnership					29,821,734	0.77%	4
Barbara L. Clement					26,617,016	0.69%	5
Pacific Mutual Life Insurance Company					22,758,422	0.59%	7
AM Rancho Santa Margarita	25,256,537	0.36%	8		21,543,902	0.56%	8
LP Homes 1 LLC					18,962,291	0.49%	10
Totals	\$436,629,515	6.25%			\$ 282,242,198	7.28%	

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: County Tax Assessor's Office and County Tax Roll, The HdL Companies

City of Rancho Santa Margarita
Property Tax Levies and Collections
Last Eight Fiscal Years

Fiscal Year	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Total Tax Collections
		Amount	Percentage of Levy	
2008	\$ 1,986,995	\$ 1,910,346	96.14%	\$ 1,913,808
2007	1,862,630	1,801,581	96.72%	1,813,177
2006	1,445,537	1,419,756	98.20%	1,499,752
2005	1,534,511	1,506,541	98.20%	1,528,596
2004	1,575,818	1,549,698	98.30%	1,537,095
2003	1,459,678	1,426,632	97.70%	1,459,741
2002	1,467,648	1,430,843	97.50%	1,454,780
2001	1,298,604	1,262,640	97.20%	1,262,640

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: O.C. Auditor-controller, City Finance Division, CAFR (2001-08)

City of Rancho Santa Margarita
Ratio of Outstanding Debt by Type
Last Eight Fiscal Years

Fiscal Year	General Obligation Bonds	Lease Revenue Bonds	Certificates of Participation	Mitigation Obligation ⁽³⁾	Total Governmental Activities	% of Actual Assessed Value of Property ⁽¹⁾	Per Capita ⁽²⁾
2008	\$ -	\$ -	\$ 12,530,000	\$ -	\$ 12,530,000	0.18%	\$ 252
2007	-	-	12,795,000	\$ 600,000	\$ 13,395,000	0.20%	269
2006	-	-	12,795,000	1,000,000	13,795,000	0.23%	280
2005	-	-	12,795,000	1,000,000	13,795,000	0.25%	281
2004	-	-	12,795,000	1,000,000	13,795,000	0.27%	281
2003	-	-	12,795,000	1,000,000	13,795,000	0.29%	283
2002	-	-	-	1,000,000	1,000,000	0.02%	21
2001	-	-	-	1,000,000	1,000,000	0.03%	21

⁽¹⁾ Assessed value used because actual value of taxable property not readily available in the State of California.

⁽²⁾ See the Schedule of Demographic and Economic Statistics for personal income and population data.

⁽³⁾ Pursuant to LAFCO agreements, upon incorporation in 2000, the City became obligated to make payments to Orange County to mitigate loss of County property and sales tax.

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: City Finance Division, Employment Development Department, State Department of Finance, U.S. Bureau of Census, and HdL Companies

City of Rancho Santa Margarita
Ratio of General Bonded Debt Outstanding
Last Eight Fiscal Years

Fiscal Year	Population	Total General Obligation Bonds	Less Debt Service Fund ⁽¹⁾	Net Bonded Debt	Percent of Debt to Assessed Value⁽²⁾	Debt per Capita
2008	49,764	\$ -	\$ -	\$ -	0.00%	\$ -
2007	49,718	-	-	-	0.00%	-
2006	49,217	-	-	-	0.00%	-
2005	49,071	-	-	-	0.00%	-
2004	49,023	-	-	-	0.00%	-
2003	48,810	-	-	-	0.00%	-
2002	48,478	-	-	-	0.00%	-
2001	47,214	-	-	-	0.00%	-

⁽¹⁾ Amounts available for repayment of general obligation bonds.

⁽²⁾ Assessed value used because estimated value of taxable property not readily available in State of California.

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: City Finance Division, Department of Finance, Bureau of Economic Analysis

**City of Rancho Santa Margarita
Direct & Overlapping Bonded Debt
June 30, 2008**

	Rate Applies to	Gross Bonded Debt Balance	Percent Applicable to City	Net Bonded Debt
Direct Debt				
A65.01 City of RSM Nonprofit Corp. COP		\$ 12,530,000	100%	<u>\$ 12,530,000</u>
Total Direct Debt				
				<u>12,530,000</u>
Overlapping Debt				
628.01 Capistrano Unified SFID#1 1999 Bond#2002C		16,580,000	1.62%	268,770
629.01 Capistrano Unified SFID#1 1999 Bond#2001B		23,504,930	1.62%	381,027
640.02 Capistrano Unified SFID#1 1999 Bond#2000A		15,920,000	1.62%	258,071
6AB.01 Saddleback Valley USD 2004 Bond#2004A		89,070,000	14.83%	13,206,495
6AW.01 Saddleback Valley USD 2004 Series B		53,410,000	14.83%	7,919,152
*C55.14 Metro Water Dist-MWDOC-1205999		66,198,355	1.89%	1,251,585
C76.56 Santa Margarita Water ID#4-Bond	Land	138,220,000	38.60%	53,347,037
C76.58 Santa Margarita Water ID#3-Bond	Land	7,636,157	99.95%	7,632,678
C76.60 Santa Margarita Water ID#3A-Bond	Land	13,033,843	99.95%	<u>13,027,905</u>
Total Overlapping Debt				
				<u>97,292,719</u>
Total Direct and Overlapping Debt				
				<u>\$ 109,822,719</u>

2006/07 Assessed Valuation: \$6,976,954,997 After Deducting \$0 Redevelopment Increment.

Debt To assessed Valuation Ratios:	Direct Debt	0.18%
	Overlapping Debt	1.39%
	Total Debt	1.57%

*This fund is a portion of a larger agency and is responsible for debt in areas outside the city.

**This report reflects debt which is being repaid through voter-approved property tax indebtedness. It excludes mortgage revenue, tax allocation bonds, interim financing obligations, non-bonded capital lease obligations, and certificates of participation, unless provided by the city.

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: HdL Companies

City of Rancho Santa Margarita
Legal Debt Margin
Last Eight Fiscal Years

	2008	2007	2006	2005
Assessed Valuation	\$ 6,979,954,997	\$ 6,570,973,739	\$ 5,989,704,151	\$ 5,501,993,484
Conversion Percentage	25%	25%	25%	25%
Adjusted Assessed Valuation	\$ 1,744,988,749	\$ 1,642,743,435	\$ 1,497,426,038	\$ 1,375,498,371
Debit Limit Percentage	15%	15%	15%	15%
Debt Limit	\$ 261,748,312	\$ 246,411,515	\$ 224,613,906	\$ 206,324,756
Total Net Debt Applicable to Limit:				
General Obligation Bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Legal Debt Margin	<u>\$ 261,748,312</u>	<u>\$ 246,411,515</u>	<u>\$ 224,613,906</u>	<u>\$ 206,324,756</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	0.00%	0.00%	0.00%	0.00%

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.

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: City Finance Division, HdL Companies; Orange County Auditor-Controller

2004	2003	2002	2001
\$ 5,048,907,389	\$ 4,697,420,499	\$ 4,383,780,763	\$ 3,878,794,503
25%	25%	25%	25%
\$ 1,262,226,847	\$ 1,174,355,125	\$ 1,095,945,191	\$ 969,698,626
15%	15%	15%	15%
\$ 189,334,027	\$ 176,153,269	\$ 164,391,779	\$ 145,454,794
—	—	—	—
\$ 189,334,027	\$ 176,153,269	\$ 164,391,779	\$ 145,454,794
0.00%	0.00%	0.00%	0.00%

City of Rancho Santa Margarita
Demographic and Economic Statistics
Last Eight Fiscal Years

Fiscal Year	Population	Personal Income (1) (in thousands)	Per Capita Personal Income	Income per Median Household	Median Age	School Enrollment	Unemployment Rate
2008	49,764	\$ 1,566,261	\$ 31,474	\$ 106,222	31.9	5488	3.80%
2007	49,718	1,535,550	30,885	103,028	31.9	5454	2.60%
2006	49,130	1,505,441	30,642	99,967	31.9	5420	1.80%
2005	49,249	*	*	*	*	*	*
2004	49,023	*	*	*	*	*	*
2003	48,810	*	*	*	*	*	*
2002	48,478	*	*	*	*	*	*
2001	47,214	*	*	*	*	*	*

*Data prior to fiscal year 2005-06 is not available.

(1) Estimated for 2008

Source: U.S. Bureau of Census, Employment Development Department, California Department of Finance, California State University, Fullerton, and Saddleback Valley and Capistrano Unified School District

City of Rancho Santa Margarita
Principal Employers
Last Three Fiscal Years

Employer	2008		2007		2006	
	Number of Employees	Percentage of Employment	Number of Employees	Percentage of Employment	Number of Employees	Percentage of Employment
Applied Medical	1,200	4.11%	1,100	3.77%	1,100	3.77%
O'Connell Landscape Maintenance	1,100	3.77%	1,000	3.42%	450	1.54%
Cox Communications	985	3.37%	940	3.22%	750	2.57%
Saddleback Valley School District	572	1.96%	572	1.96%	572	1.96%
Lucas & Mercier Construction	567	1.94%	567	1.94%	567	1.94%
Control Components Inc. (CCI)	370	1.27%	400	1.37%	400	1.37%
Target Corporation	230	0.79%	300	1.03%	300	1.03%
Car Sound Exhaust System, Inc.	210	0.72%	210	0.72%	N/A	N/A
Capistrano Unified School District	200	0.68%	200	0.68%	200	0.68%
PADI	200	0.68%	200	0.68%	200	0.68%
Santa Margarita Catholic H.S.	200	0.68%	200	0.68%	200	0.68%

Note: Data prior to Fiscal Year 2005-2006 is not available.

Note: Percentages based on 29,200 available jobs FY 2005-2006 and 2006-2007.

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: City Finance Division, Development Services

City of Rancho Santa Margarita
Full-Time and Part-Time City Employees by Function
Last Eight Fiscal Years

FUNCTION	Full-Time and Part-Time Employees as of June 30							
	2008	2007	2006	2005	2004	2003	2002	2001
City Manager Full-Time	3.00	5.00	8.50	8.75	8.25	7.25	6.25	7.50
City Clerk Full-Time	2.60	2.38	2.38	2.50	2.40	2.00	2.00	1.50
Finance Full-Time	-	2.35	2.00	2.00	2.20	3.20	3.00	2.00
Police Services Full-Time	1.00	1.00	1.00	1.00	1.00	1.00	0.50	-
Bldg./Planning Full-time	3.25	7.00	4.75	4.75	3.75	3.75	3.25	4.25
Engr./Pub. Works Full-Time	3.25	4.55	4.55	4.50	4.50	4.50	3.50	1.50
Comm. Services Full-Time	-	2.25	2.25	2.50	2.00	2.50	0.50	-
Admin. Services Full-Time	<u>8.35</u>	-	-	-	-	-	-	-
Total	<u>21.45</u>	<u>24.53</u>	<u>25.43</u>	<u>26.00</u>	<u>24.10</u>	<u>24.20</u>	<u>19.00</u>	<u>16.75</u>

Note: Part-Time Employees are expressed as Full-Time equivalents.

Finance and Community Services department and Human Resources Division of the City Manager department were reorganized into Divisions of the Administrative Services Department.

The City incorporated January 1, 2000. The City's first full fiscal year financial statements were for the period ended June 30, 2001.

Source: City Finance Division, City Human Resources, Budget 2001-2007;
 Adopted Operating Budget and Capital Improvement Plan FY 2008-2009

City of Rancho Santa Margarita
Capital Asset Statistics
Last Eight Fiscal Years

FUNCTION	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
General Government								
Civic Center/City Hall Building	1	1	1	1	-	-	-	-
Police Services								
Support Vehicles	1	1	1	1	1	1	1	-
Motorcycles	3	3	3	3	3	3	3	-
Public Works								
Streets (Miles)	99	99	99	99	*	*	*	*
Traffic Signals	159	158	156	156	*	*	*	*
Community Services								
Dog Parks	1	1	1	1	-	-	-	-
Skate Parks	1	1	1	1	-	-	-	-

*Data is not available.

Source: City Public Works Department, Police Services, Community Services

City of Rancho Santa Margarita
Operating Indicators by Function
Last Eight Fiscal Years

FUNCTION	2008	2007	2006	2005
General Government				
Financial Reports & Audits Completed	12	7	6	7
Checks/Wire Transfers	2,355	2,152	2,389	2,401
Police Services				
Physical Arrests	*	770	737	643
Parking Citations	*	3,544	3,467	2,142
Traffic Citations	*	3,384	3,886	5,163
Public Works				
Street paving (miles)	25	15	51	15
Sidewalks replaced (sq. ft.)	2,975	1,443	3,118	2,300
Curb refurbished (linear feet)	19,769	12,726	14,526	11,200
Traffic signs replaced/installed	559	432	304	438
Pavement Condition Index (70 = min. acceptable)	76	73	70	78
Building and Planning				
Building Permits Issued	786	751	742	903
Building Inspections Completed	3,460	3,613	4,042	3,271
Plan Checks Performed	355	327	355	618
Community Services				
Recreational & Instructional Classes Offered	102	121	106	122
Senior Mobility Ride Vouchers	440	145	688	585
Community Events Attendance	30,000	19,300	17,900	2,500
Community Magazine Publications	3	3	3	3

* Data not readily available.

Source: City Finance Division, and City Public Safety Department

2004 2003 2002 2001

6	5	4	3
*	*	*	*
493	376	531	*
2,570	2,284	2,248	*
4,571	4,491	4,895	*
25	46	15	*
*	*	*	*
*	*	*	*
*	*	*	*
75	78	73	70
722	*	*	*
2,074	*	*	*
461	*	*	*
757	563	47	
516	*	*	*
8,000	12,000	10,000	5,000
3	3	3	3

City of Rancho Santa Margarita
Miscellaneous Statistics
June 30, 2008

Geographic Location:	The City of Rancho Santa Margarita is located 58 miles south east of Los Angeles and 450 miles south of San Francisco.
Population:	49,764
Area in square miles:	13
Form of Government:	Council-Manager
Date of Incorporation:	January 1, 2000
Number of Full Time Employees:	19
Public Safety:	
Police Department	Under contract with the Orange County Sheriff's Department
Fire Department	Under contract with the Orange County Fire Authority
Library	One branch, Orange County Public Library System
Recreation:	17 Privately owned and operated parks 1 County owned and operated park 2 Privately owned golf courses
Schools:	
Elementary Schools	11
Middle Schools	2
High Schools	1
Master Home Owners' Associations	7
Miles of Streets	99.5 miles
Number of Streetlights	159

Source: City Finance Division