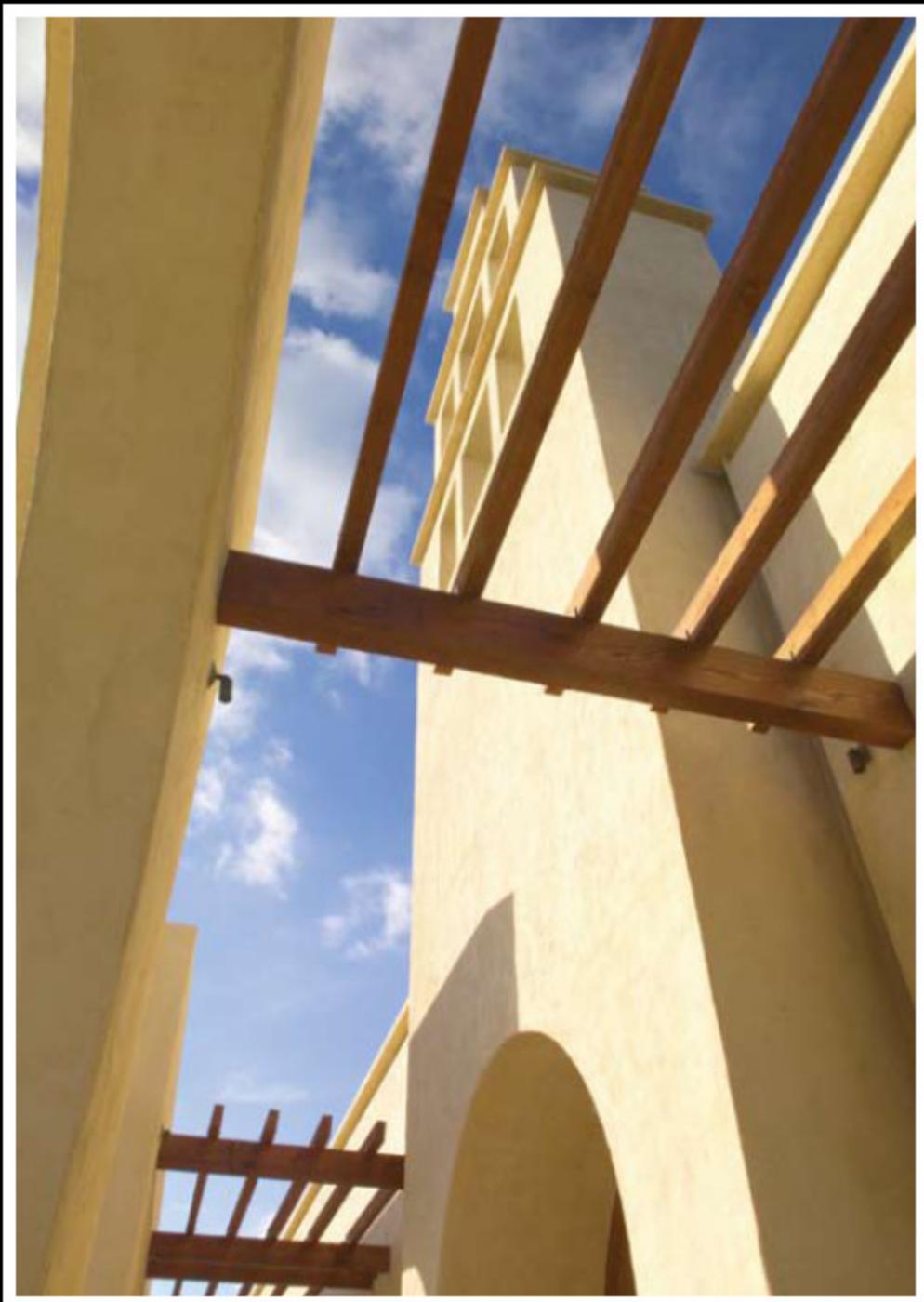


**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

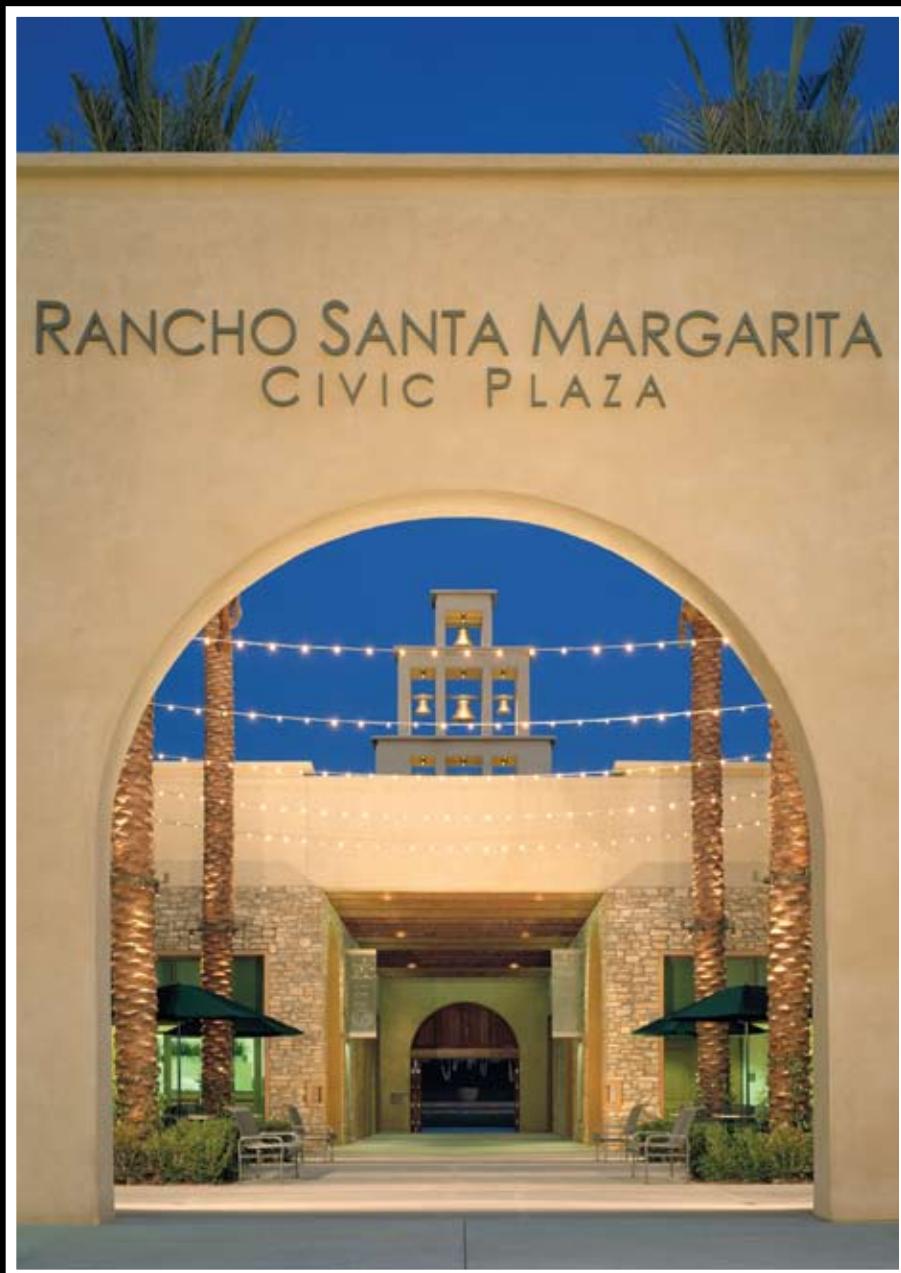


*Year Ended June 30, 2007*

**DEPARTMENT OF FINANCE**

CITY OF RANCHO SANTA MARGARITA, CALIFORNIA

# COMPREHENSIVE ANNUAL FINANCIAL REPORT



CITY OF RANCHO SANTA MARGARITA, CALIFORNIA

# CITY COUNCIL



L. ANTHONY BEALL  
*Mayor*



GARY THOMPSON  
*Mayor Pro Tempore*



NEIL C. BLAIS  
*Council Member*



JERRY HOLLOWAY  
*Council Member*



JAMES M. THOR  
*Council Member*

**CITY OF RANCHO SANTA MARGARITA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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## INTRODUCTORY SECTION



CITY OF RANCHO SANTA MARGARITA, CALIFORNIA



## CITY OF RANCHO SANTA MARGARITA

### *Mayor*

L. Anthony Beall

### *Mayor Pro Tempore*

Gary Thompson

### *Council Members*

Neil C. Blais

Jerry Holloway

James M. Thor

### *City Manager*

Steven E. Hayman

December 10, 2007

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 sixth 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 and 2007, 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:

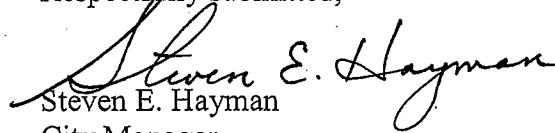
**Attachment    Content**

- 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, 2007 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 Department 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

### CITY OF RANCHO SANTA MARGARITA 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.

This is the City's seventh fiscal year, and the fifth year that the City paid the full cost of all services provided, including contracted Police Services. The current fiscal year shows that the City can fund all services, with an excess of revenues over expenditures for the General Fund of \$3,047,181. Contracted Police Services account for 41% of General Fund expenditures. The City also made its fifth payment to the County of Orange from sales tax increment of \$345,212, reflecting decreased sales tax revenue. Revenues exceeded operating expenditures for the General Fund by \$3,047,181. Furthermore, revenues exceeded budgeted expectations by \$7,476,870, or 32%, primarily as a result of strong property tax performance. Sales tax revenues are the City's largest revenue source at \$4,768,993, 15% of general revenue. Motor vehicle in-lieu taxes of \$3,833,286 make up the City's second largest revenue source at 12% of general revenues and exceeded budgeted amounts by \$1,544,048 (67%).

The City expects sales taxes to increase in the coming fiscal year, as new businesses gain momentum and new and improved retail centers attract more shoppers to the City. It is, however, cautious in that it has a limited product mix for its tax base, and economic downturns could impinge on both sales tax revenues and future motor vehicle in-lieu taxes distributed from the State of California.

## Attachment B

### CITY OF RANCHO SANTA MARGARITA 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 73.9. To maintain this condition rating the City expended \$3,831,728 in the current fiscal year and appropriated \$2,577200 for the subsequent fiscal year towards routine street maintenance and rotating programs for slurry seal and overlay of minor arterial and residential streets. The City completed a multi-year capital project for overlay of two of the City's largest streets. In the current year \$2,551,401 was spent to complete the construction. The City is committed to maintaining the adopted PCI as the pavement subsystem ages and plans to appropriate funds as needed.

#### **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 2008. In the current year the department held the second annual 5K Fun Run Event on Labor Day. The event continued as a huge success. This fiscal year another new event, to provide concerts in the park during the summer months, also was executed and received with great success. City staff believes this will continue to be an added benefit for our residents. Since fiscal year 2005 the Community Services department has been transitioning services to the Community Foundation, which operates the City's youth center and senior services program 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 \$438,060. The Planning Department completed a related comprehensive zoning code, begun in fiscal year 2006, with current year expenditures totaling \$24,338.

## Attachment C

### CITY OF RANCHO SANTA MARGARITA OTHER INFORMATION

#### **Internal Controls**

The management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure 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.

#### **Annual Audit**

As a recipient of State and County financial resources, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. The internal control structure is subject to periodic evaluation by the management of the City.

As part of the City's annual audit, reviews are made 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, 2007 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

#### **Budgetary Controls**

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General, Special Revenue 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 2007 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.

## Attachment C

### CITY OF RANCHO SANTA MARGARITA OTHER INFORMATION, CONTINUED

#### **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 Money Market Account, consistent with the City's Investment Policy.

The City's investment policy is designed to maximize the productive use of assets 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 ensure that money is always available when needed while at the same time reaping the highest and best return. Accordingly, deposits were 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.

#### **Independent Audit**

An annual independent audit of the City's financial statements was conducted. The accounting firm of Mayer Hoffman McCann P.C.. was appointed by the City Council to perform the annual audit. 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.

## Attachment C

### CITY OF RANCHO SANTA MARGARITA OTHER INFORMATION, CONTINUED

#### **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, 2006. 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. The City of Rancho Santa Margarita has received a Certificate of Achievement for the fiscal year ended June 30, 2006. This is the sixth 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.

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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, 2006

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.



*Clare S. Cox*

President

*Jeffrey R. Emen*

Executive Director



# City of Rancho Santa Margarita

## LIST OF PRINCIPAL OFFICIALS

Council – Manager Form of Government

### CITY COUNCIL

L. ANTHONY BEALL  
Mayor

GARY THOMPSON  
Mayor Pro Tem

NEIL C. BLAIS  
Council Member

JAMES M. THOR  
Council Member

JERRY HOLLOWAY  
Council Member

### CITY ADMINISTRATION

STEVEN E. HAYMAN  
City Manager/City Treasurer

Tom Wheeler, 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

John Cavanaugh, City Attorney

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## FINANCIAL SECTION



FINANCIAL SECTION

CITY OF RANCHO SANTA MARGARITA, CALIFORNIA



**Mayer Hoffman McCann P.C.**  
An Independent CPA Firm  
**Conrad Government Services Division**  
2301 Dupont Drive, Suite 200  
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949-474-2020 ph  
949-263-5520 fx  
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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, 2007, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the City of 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, 2007, 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 10, 2007 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 10, 2007

# MANAGEMENT'S DISCUSSION AND ANALYSIS



# **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, 2007. 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, 2007, by \$133 million (*net assets*). Of this amount, \$16 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 increased by \$1.2 million during the fiscal year ended June 30, 2007. This overall financial position improvement is primarily attributable to the grant contributions related to public works and an overall increase in tax revenue.
- As of June 30, 2007, the City's governmental funds reported combined ending fund balances of \$20.4 million, an increase of \$1.5 million in comparison with the prior year. Approximately 79 percent of this total amount, \$16.1 million is available for spending at the government's discretion (*unreserved fund balance*).
- At June 30, 2007, unreserved fund balance for the general fund was \$16 million or 113 percent of total general fund expenditures for the fiscal year ended June 30, 2007. This represents an increase of \$3.3 million or 20 percent over prior year. However, the City Council has designated \$5.0 million of this unreserved fund balance as a contingency for economic uncertainties, in accordance with City policies and budgetary guidelines.
- The City's total long-term liabilities decreased by \$577,000 (4.28 percent) during the current fiscal year. This decrease reflects payment of the last installment due on a component of the City's tax mitigation obligation to the County of Orange.

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

See Independent Auditors' Report

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.

See Independent Auditors' Report

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 (85 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.

See Independent Auditors' Report

**Summary of Net Assets**  
 As of June 30, 2007 and 2006  
 (in thousands)

	<b>Governmental Activities</b>	
	<u>2007</u>	<u>2006</u>
<b>Assets:</b>		
Current and other assets	\$ 25,626	\$ 22,066
Capital assets	<u>124,560</u>	<u>126,525</u>
Total assets	<u>150,186</u>	<u>148,591</u>
<b>Liabilities:</b>		
Long-term liabilities	12,906	13,483
Other liabilities	<u>4,183</u>	<u>3,161</u>
Total liabilities	<u>17,089</u>	<u>16,644</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	112,634	114,599
Restricted	4,298	6,138
Unrestricted	<u>16,165</u>	<u>11,210</u>
Total net assets	<u><u>\$ 133,097</u></u>	<u><u>\$ 131,947</u></u>

During the fiscal year ended June 30, 2007, net assets of the City increased 0.9% to \$133.1 million, of which \$112.6 million is invested in capital assets such as equipment, buildings and infrastructure. Of the remaining total, \$4.3 million is restricted to specifically stipulated spending agreements originated by law, contract or other agreements with external parties. The remaining \$16.2 million, an increase of 44 percent over the prior year total of \$11.2 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, 2007 and 2006  
(in thousands)

	<b>Governmental Activities</b>	
	<b>2007</b>	<b>2006</b>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 994	\$ 937
Operating grants and contributions	3,582	3,014
Capital grants and contributions	-	-
General revenues:		
Sales taxes	6,325	6,365
Property taxes	2,016	1,450
Other taxes	6,646	6,998
Other revenues	349	479
Investment revenue	<u>1,054</u>	<u>631</u>
Total Revenues	<u>20,966</u>	<u>19,874</u>
<b>Expenses</b>		
General government	4,235	4,505
Public safety	6,441	6,034
Public works	7,343	5,402
Building and planning	1,090	972
Interest on long-term debt	707	578
Unallocated infrastructure depreciation	-	-
Total Expenses	<u>19,816</u>	<u>17,491</u>
Excess of revenues over expenses	<u>1,150</u>	<u>2,383</u>
<b>Increase in net assets</b>	1,150	2,383
Beginning Net Assets	<u>131,947</u>	<u>129,564</u>
Ending Net Assets	<u>\$ 133,097</u>	<u>\$ 131,947</u>

See Independent Auditors' Report

Overall, Citywide revenues for the fiscal year ended June 30, 2007 increased by \$57,000, a 6 percent increase over the prior year. The majority of the increase was attributed to capital grants and contributions program revenues.

- Total program revenues of \$4.6 million were 22 percent of total revenues.
- Total general revenues of \$16.4 million were 78 percent of total revenues.

Total related expenditures increased by \$2.3 million, a 13 percent increase from the prior year. Public Works expenditures, which account for 37 percent of the total expenditures, were used primarily for the Santa Margarita Parkway and Antonio Parkway Overlay Project. Public Safety expenditures accounted for 33 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, 2007, the City's governmental funds reported total combined ending fund balances of \$20.39 million, an increase of \$0.57 million from the prior year. Approximately 78 percent of the City's governmental funds ending fund balances, or \$16.04 million, constitutes *unreserved fund balance*, which is available for spending at the government's direction. The remainder of fund balance, \$4.34 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 (\$0.02 million), 2) pay debt service (\$0.87 million), 3) pay for infrastructure improvements, park development projects, and capital improvement projects (\$3.42 million), 4) 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, 2007, unreserved fund balance of the general fund was \$16.04 million, while total fund balance was \$16.09 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 99 percent of the total general fund expenditures. As mentioned above, however, the City Council has designated all of this unreserved fund balance for specified purposes.

For the fiscal year ended June 30, 2007, the cash and investments balance in the general fund was \$16.06 million, an increase of \$2.25 million from the prior fiscal year.

See Independent Auditors' Report

**City of Rancho Santa Margarita**  
**Summary of Changes in Fund Balances - General Fund**  
For the Year Ended June 30, 2007 and 2006  
(in thousands)

	<u>2007</u>	<u>2006</u>
<b>Revenues</b>		
Taxes	\$ 8,635	\$ 8,291
Fees and permits	1,764	1,546
Charges for Services	299	275
Intergovernmental	7,326	8,289
Investment revenue	1,054	631
Other	688	842
<b>Total Revenues</b>	<u>19,766</u>	<u>19,874</u>
<b>Expenditures</b>		
General Government	4,807	4,903
Public Safety	6,435	6,029
Public Works	5,140	3,204
Community Development	1,088	973
Capital Outlay	250	10
Debt Service: Interest	576	576
<b>Total Expenditures</b>	<u>18,296</u>	<u>15,695</u>
Excess of Revenues over Expenditures	1,470	4,179
Net Transfers	-	-
<b>Increase in Fund Balance</b>	<u><u>\$ 1,470</u></u>	<u><u>\$ 4,179</u></u>

See Independent Auditors' Report

Overall, general fund revenues for the fiscal year ended June 30, 2007 decreased by \$0.11 million, or .5 percent, under the prior year. Individual components of this change are summarized as follows:

- Property tax revenues of the general fund increased by \$0.57 million, to \$2 million, due to increases in assessed valuations.
- Sales tax revenues decreased \$0.15 million, to \$4.80 million, apparently due to the effects of decreased general consumer spending and auto sales, over the prior year. This was offset by an increase in Property Tax in Lieu of Sales Tax which increased \$0.11 million, to \$1.60 million.
- Document transfer tax revenues decreased by \$0.18 million to \$0.29 million, a 38 percent decrease which relates to the decreased real estate sales activity.
- Franchise tax revenues increased by \$0.16 million, to \$1.40 million, due to additional utility usage and billings and the City's proportionate share of those billings.

Changes in general fund expenditures, by function, occurred as follows during the year ended June 30, 2007:

- General government expenditures decreased by \$0.1 million, to \$4.80 million. This reflects a decrease in professional services provided by independent contractors.
- Public safety expenditures increased by \$0.40 million to \$6.40 million, due to increased regular salary, overtime and benefit costs associated with the police service contract with Orange County Sheriff's Department.
- Public works expenditures increased by \$1.90 million, to \$5.14 million, reflecting increased costs associated with maintaining quality levels for major arterial infrastructure.
- Building and planning expenditures increased by \$0.10 million, to \$1.10 million, reflecting higher costs associated with redevelopment within the city.

### **General Fund Budgetary Highlights**

Differences between the general fund original budget expenditures and the final amended budget were \$2.90 million and can be briefly summarized as follows:

- \$2.30 million in miscellaneous decreases in general government activities.
- \$0.20 million in decreases allocated to public safety activities.
- \$0.43 million in decreases allocated to public works.
- \$0.06 million in decreases for building and planning activities.
- \$0.04 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.

See Independent Auditors' Report

## Capital Asset and Debt Administration

### Capital Assets

The City's investment in capital assets for its governmental activities as of June 30, 2007, amounts to \$124.5 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 .33 percent.

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

	Balance		Balance	
	<u>June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2007</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,084	\$ -	\$ -	\$ 2,084
Land - right of way	43,740	-	-	43,740
Infrastructure - pavement	<u>46,513</u>	<u>-</u>	<u>-</u>	<u>46,513</u>
Total capital assets not being depreciated	<u>92,337</u>	<u>-</u>	<u>-</u>	<u>92,337</u>
Capital assets, being depreciated:				
Buildings	16,618	-	-	16,618
Parks	888	-	-	888
Machinery and equipment	275	43	-	318
Infrastructure	<u>58,970</u>	<u>207</u>	<u>-</u>	<u>59,177</u>
Total capital assets being depreciated	<u>76,751</u>	<u>250</u>	<u>-</u>	<u>77,001</u>
Less accumulated depreciation for:				
Buildings	1,108	554	-	1,662
Parks	36	35	-	71
Machinery and equipment	244	24	-	268
Infrastructure	<u>41,175</u>	<u>1,602</u>	<u>-</u>	<u>42,777</u>
Total accumulated depreciation	<u>42,563</u>	<u>2,215</u>	<u>-</u>	<u>44,778</u>
Total capital assets, being depreciated, net	<u>34,188</u>	<u>(1,965)</u>	<u>-</u>	<u>32,223</u>
Governmental activities capital assets, net	<u>\$ 126,525</u>	<u>\$ (1,965)</u>	<u>\$ -</u>	<u>\$ 124,560</u>

See Independent Auditors' Report

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

- Infrastructure additions for the year totaled \$0.21 million related to the major upgrade to the Santa Margarita Bridge lighting system.
- Machinery and Equipment acquisitions of \$0.04 million included additions to computer hardware and EOC equipment.

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

### **Long-term Debt**

At the end of the current fiscal year, the City had total bonded debt outstanding of \$12.9 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, 2006	Increases	Decreases	June 30, 2007				
<b>Mitigation Obligation</b>	\$ 600	\$ -	\$ 600	\$ -			\$ -	\$ -
<b>Certificates of Participation</b>	12,795	-	-	12,795	12,530	265		
<b>Compensated Absences</b>	88	36	13	111	83	28		
<b>Long-Term Liabilities</b>								
<b>Total</b>	<b>\$ 13,483</b>	<b>\$ 36</b>	<b>\$ 613</b>	<b>\$ 12,906</b>	<b>\$ 12,613</b>	<b>\$ 293</b>		

Long-term debt-related events during the fiscal year ended June 30, 2007 included:

- Compensated absences liabilities increased by \$0.04 million and payouts to employees amounted to \$0.01 million.
- Interest accrued on Certificates of Participation for fiscal year ended June 30, 2007 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 Long-term Liabilities Transactions in the notes to the basic financial statements section of this report.

See Independent Auditors' 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 2007-2008 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.

See Independent Auditors' Report

# GOVERNMENT-WIDE FINANCIAL STATEMENTS



GOVERNMENT-WIDE  
FINANCIAL STATEMENTS

CITY OF RANCHO SANTA MARGARITA, CALIFORNIA

## **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, 2007**

	<b>Governmental Activities</b>
Assets:	
Cash and investments (note 2)	\$ 21,112,242
Cash and investments with fiscal agent (note 2)	868,883
Receivables:	
Due from other governments	2,894,384
Accrued interest	234,255
Accounts, net	516,253
Non-depreciable capital assets (note 4)	92,336,900
Depreciable capital assets (note 4)	77,001,632
Less: accumulated depreciation (note 4)	<u>(44,778,724)</u>
Total assets	<u>150,185,825</u>
Liabilities:	
Accounts payable	2,616,194
Accrued liabilities	2,554
Wages payable	-
Unearned revenue	704,095
Retentions payable	241,775
Deposits payable	129,425
Due to other governments	345,212
Interest payable	143,887
Non-current liabilities (note 6):	
Due within one year	292,681
Due in more than one year	<u>12,613,045</u>
Total liabilities	<u>17,088,868</u>
Net assets:	
Invested in capital assets, net of related debt	112,633,691
Restricted for:	
Public safety	210,445
Public works	3,218,553
Debt service	868,883
Unrestricted	<u>16,165,385</u>
Total net assets	<u>\$ 133,096,957</u>

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

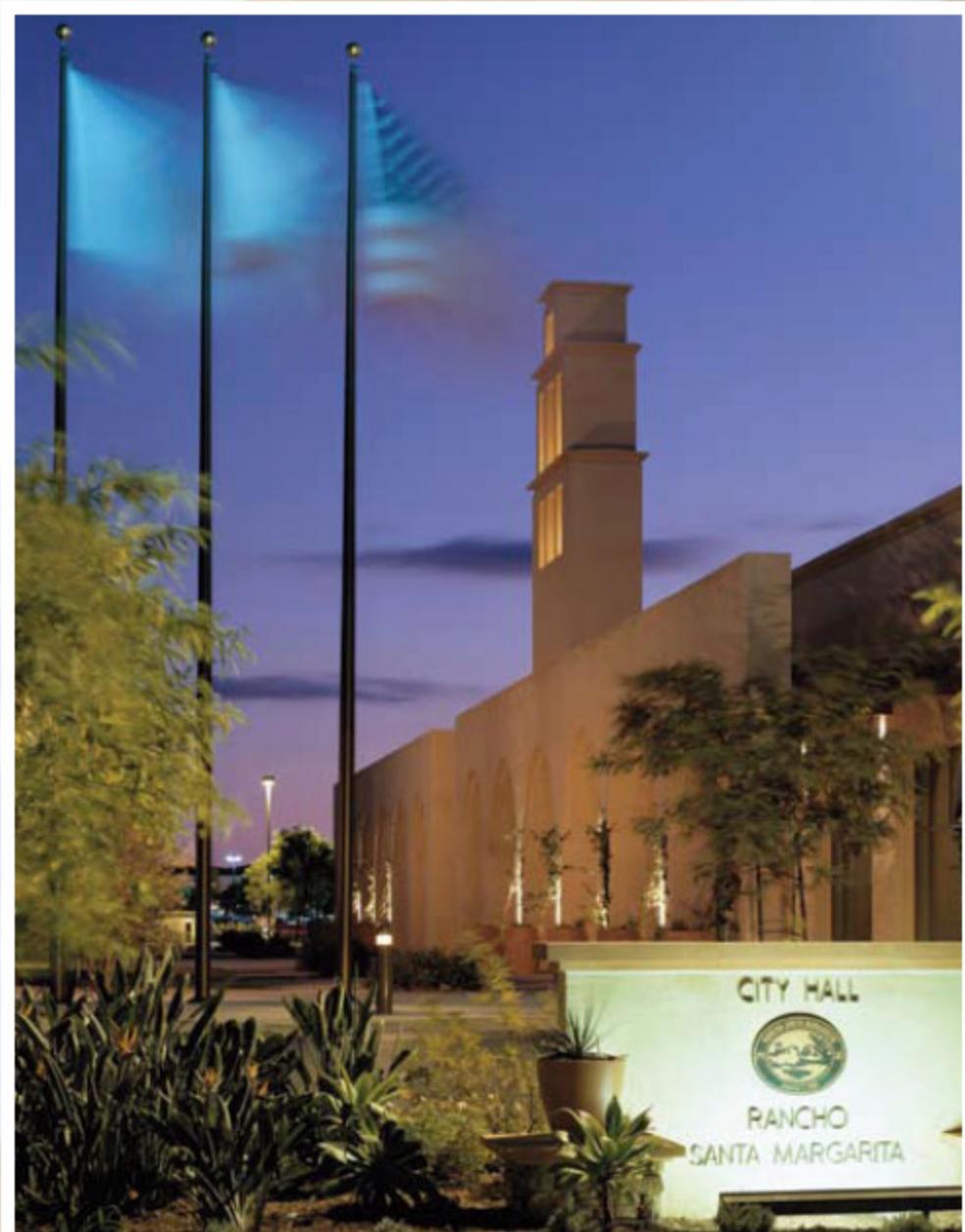
**CITY OF RANCHO SANTA MARGARITA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<b>Program Revenues</b>					
	<b>Charges for Services</b>	<b>Operating Contributions and Grants</b>	<b>Capital Contributions and Grants</b>			<b>Net Governmental Activities</b>
<b>Expenses</b>						
<b>Governmental activities:</b>						
General government	\$ 4,235,381	\$ 19,839	\$ 34,828	\$ -	\$ -	(4,180,714)
Building and planning	1,089,509	540,904	-	-	-	(548,605)
Public safety	6,440,965	338,571	146,421	-	-	(5,955,973)
Public works	7,342,870	94,822	3,400,821	-	-	(3,847,227)
Interest expense	707,434	-	-	-	-	(707,434)
<b>Total governmental activities</b>	<b>\$ 19,816,159</b>	<b>\$ 994,136</b>	<b>\$ 3,582,070</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(15,239,953)</b>
<b>General revenues:</b>						
Taxes:						
Property taxes						2,015,510
Sales taxes						6,325,108
Real property transfer taxes						294,601
Motor vehicle in-lieu tax, unrestricted intergovernmental						4,943,750
Franchise tax						1,407,872
Investment income						1,054,180
Other						349,323
<b>Total general revenues</b>						<b>16,390,344</b>
<b>Change in net assets</b>						<b>1,150,391</b>
<b>Net assets at beginning of year</b>						<b>131,946,566</b>
<b>Net assets at end of year</b>						<b>\$ 133,096,957</b>

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

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# FUND FINANCIAL STATEMENTS



FUND FINANCIAL  
STATEMENTS

**CITY OF RANCHO SANTA MARGARITA, CALIFORNIA**

## **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, 2007**

<b>Assets</b>	<b>Capital Projects</b>		<b>Other Governmental Funds</b>		<b>Totals</b>
	<b>General</b>	<b>Capital Projects</b>	<b>General</b>	<b>Funds</b>	
Cash and investments (note 2)	\$ 16,063,934	\$ 2,678,387	\$ 2,369,921	\$ 21,112,242	
Cash with fiscal agent (note 2)	-	-	868,883	868,883	
Receivables:					
Due from other governments	1,161,521	1,530,780	202,083	2,894,384	
Accrued interest	166,715	11,257	56,283	234,255	
Accounts, net	516,253	-	-	516,253	
Total assets	<u>\$ 17,908,423</u>	<u>\$ 4,220,424</u>	<u>\$ 3,497,170</u>	<u>\$ 25,626,017</u>	
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 638,256	\$ 1,951,801	\$ 26,137	\$ 2,616,194	
Accrued liabilities	2,554	-	-	2,554	
Wages payable	-	-	-	-	
Deferred revenue	704,095	1,200,000	-	1,904,095	
Retentions payable	-	241,775	-	241,775	
Deposits payable	129,425	-	-	129,425	
Due to other governments	345,212	-	-	345,212	
Total liabilities	<u>1,819,542</u>	<u>3,393,576</u>	<u>26,137</u>	<u>5,239,255</u>	
Fund balance:					
Reserved for debt service	-	-	868,883	868,883	
Reserved for encumbrances	16,426	-	-	16,426	
Reserved for self insurance	30,000	-	-	30,000	
Unreserved, reported in:					
General fund	16,042,455	-	-	16,042,455	
Special revenue funds	-	-	2,602,150	2,602,150	
Capital project funds	-	826,848	-	826,848	
Total fund balance	<u>16,088,881</u>	<u>826,848</u>	<u>3,471,033</u>	<u>20,386,762</u>	
Total liabilities and fund balance	<u>\$ 17,908,423</u>	<u>\$ 4,220,424</u>	<u>\$ 3,497,170</u>	<u>\$ 25,626,017</u>	

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, 2007**

Fund balances of governmental funds	\$ 20,386,762
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.	124,559,808
Other long term assets are not available to pay for current period expenditures and are deferred in the governmental funds.	1,200,000
Long term debt principal and interest due, and compensated absences have not been included in the governmental fund activity:	
Certificates of Participation Payable	(12,795,000)
Interest Due on Certificates of Participation	(143,887)
Compensated Absences Payable	(110,726)
Net assets of governmental activities	<u>\$ 133,096,957</u>

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

**CITY OF RANCHO SANTA MARGARITA**  
**GOVERNMENTAL FUND TYPES**  
**STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<b>General</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Totals</b>
		<b>Capital Projects</b>		
<b>Revenues:</b>				
Taxes	\$ 8,635,219	\$ -	\$ -	\$ 8,635,219
Fees and permits	1,764,706	-	-	1,764,706
Intergovernmental	5,154,487	550,780	1,620,553	7,325,820
Charges for services	298,731	-	-	298,731
Investment income	710,287	59,078	284,815	1,054,180
Fines, forfeits and penalties	338,571	-	-	338,571
Other	349,323	-	-	349,323
<b>Total revenues</b>	<b>17,251,324</b>	<b>609,858</b>	<b>1,905,368</b>	<b>19,766,550</b>
<b>Expenditures:</b>				
Current:				
General government	4,807,153	-	-	4,807,153
Building and planning	1,088,534	-	-	1,088,534
Public safety	6,307,860	-	126,762	6,434,622
Public works	1,957,394	2,946,895	235,849	5,140,138
Capital outlay	43,202	206,936	-	250,138
Debt Service:				
Interest	-	-	575,547	575,547
<b>Total expenditures</b>	<b>14,204,143</b>	<b>3,153,831</b>	<b>938,158</b>	<b>18,296,132</b>
Excess (deficiency) of revenues over expenditures	3,047,181	(2,543,973)	967,210	1,470,418
<b>Other financing sources (uses):</b>				
Transfers in (note 3)	797,055	1,979,167	533,801	3,310,023
Transfers out (note 3)	(533,801)	-	(2,776,222)	(3,310,023)
<b>Total financing sources (uses)</b>	<b>263,254</b>	<b>1,979,167</b>	<b>(2,242,421)</b>	<b>-</b>
Net change in fund balances	3,310,435	(564,806)	(1,275,211)	1,470,418
Fund balances, beginning of year	12,778,446	1,391,654	4,746,244	18,916,344
<b>Fund balances, end of year</b>	<b>\$ 16,088,881</b>	<b>\$ 826,848</b>	<b>\$ 3,471,033</b>	<b>\$ 20,386,762</b>

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, 2007**

Net change in fund balances - total governmental funds \$ 1,470,418

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. This is the amount by which depreciation exceeded capital outlay in the current period. (1,965,483)

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

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 (22,657)

Mitigation Obligation Payable 600,000

Accrued Interest for Mitigation Obligation. 12,000

Accrued Interest on long term debt (Certificate of Participation) (143,887)

Change in net assets of governmental activities \$ 1,150,391

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

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# NOTES TO THE FINANCIAL STATEMENTS



**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**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, 2007 was the fifth year that the City paid the full cost for all these services.

Generally accepted accounting principles require that these financial statements present 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, 2007 (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, 2007 (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, 2007 (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.

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (CONTINUED)**

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

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.

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.

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (CONTINUED)**

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

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 \$20,386,762 differs from “net assets” of governmental activities \$133,096,957 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.

**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	\$169,338,532
Accumulated depreciation	<u>(44,778,724)</u>
Net capital assets	<u>\$124,559,808</u>

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (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, 2007 were:

Long-term debt	\$12,938,887
Compensated absences	<u>110,726</u>
Net long-term liabilities	<u>\$13,049,613</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, 2007 (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, (Continued)**

Assets	Total Governmental Funds	Capital Related Items	Short-term Debt Transactions	Long-term Debt Transactions	Compensated Absences	Reclassifications	Statement of Net Assets
Cash and investments	\$ 21,112,242	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,112,242
Restricted cash with fiscal agent	868,883	-	-	-	-	-	868,883
Receivables:							
Due from other governments	2,894,384	-	-	-	-	-	2,894,384
Accrued interest	234,255	-	-	-	-	-	234,255
Accounts, net	516,253	-	-	-	-	-	516,253
Non-depreciable capital assets	-	92,336,900	-	-	-	-	92,336,900
Depreciable capital assets	-	77,001,632	-	-	-	-	77,001,632
Less: accumulated depreciation	-	(44,778,724)	-	-	-	-	(44,778,724)
 Total assets	 <u>\$ 25,626,017</u>	 <u>\$ 124,559,808</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 150,185,825</u>

**Liabilities and Fund Balances/Net Assets**

Liabilities:

Accounts payable	\$ 2,616,194	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,616,194
Accrued liabilities	2,554	-	-	-	-	-	2,554
Wages payable	-	-	-	-	-	-	-
Deferred revenue	1,904,095	-	-	-	-	(1,200,000)	704,095
Retentions payable	241,775	-	-	-	-	-	241,775
Deposits payable	129,425	-	-	-	-	-	129,425
Due to other governments	345,212	-	-	-	-	-	345,212
Mitigation obligation payable	-	-	-	-	-	-	-
Long-term debt	-	-	-	12,795,000	110,726	-	12,905,726
Interest payable	-	-	-	143,887	-	-	143,887
 Total liabilities	 <u>5,239,255</u>	 <u>-</u>	 <u>-</u>	 <u>12,938,887</u>	 <u>110,726</u>	 <u>(1,200,000)</u>	 <u>17,088,868</u>
 Fund balances/net assets	 <u>20,386,762</u>	 <u>124,559,808</u>	 <u>-</u>	 <u>(12,938,887)</u>	 <u>(110,726)</u>	 <u>1,200,000</u>	 <u>133,096,957</u>
 Total liabilities and fund balances / net assets	 <u>\$ 25,626,017</u>	 <u>\$ 124,559,808</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 150,185,825</u>

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (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 \$1,470,418 differs from the “change in net assets” for governmental activities \$1,150,391 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	\$ 250,138
Depreciation expense	<u>(2,215,621)</u>
Difference	<u>\$ (1,965,483)</u>

Accrued Interest

Accrued interest payable is not recorded as an expenditure in the governmental funds. Net assets are reduced by this expense.

Net change in accrued interest (\$12,000)

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

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (CONTINUED)**

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

**Other Liabilities**

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

Compensated Absences	\$ 22,657
Mitigation Obligation	\$ (600,000)

**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, 2007 (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.

	<u>Total Governmental Funds</u>	<u>Capital Related Items</u>	<u>Short-term Debt Transactions</u>	<u>Long-term Debt Transactions</u>	<u>Accrued Interest</u>	<u>Compensated Absences</u>	<u>Reclassifications and Eliminations</u>	<u>Statement of Activities</u>
<b>Revenues:</b>								
Taxes	\$ 8,635,219	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,635,219
Fees and permits	1,764,706	-	-	-	-	-	-	1,764,706
Intergovernmental	7,325,820	-	-	-	-	-	1,200,000	8,525,820
Charges for services	298,731	-	-	-	-	-	-	298,731
Investment income	1,054,180	-	-	-	-	-	-	1,054,180
Fines, forfeits and penalty	338,571	-	-	-	-	-	-	338,571
Other	349,323	-	-	-	-	-	-	349,323
<b>Total revenues</b>	<b>19,766,550</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,200,000</b>	<b>20,966,550</b>
<b>Expenditures:</b>								
Current:								
General government	4,807,153	13,499	(600,000)	-	-	14,729	-	4,235,381
Building and planning	1,088,534	-	-	-	-	975	-	1,089,509
Public safety	6,434,622	10,674	-	-	-	(4,331)	-	6,440,965
Public works	5,140,138	2,191,448	-	-	-	11,284	-	7,342,870
Capital outlay	250,138	(250,138)	-	-	-	-	-	-
Debt service:								
Interest	575,547	-	-	143,887	(12,000)	-	-	707,434
<b>Total expenses</b>	<b>18,296,132</b>	<b>1,965,483</b>	<b>(600,000)</b>	<b>143,887</b>	<b>(12,000)</b>	<b>22,657</b>	<b>-</b>	<b>19,816,159</b>
Other financing sources (uses):								
Transfers in	3,310,023	-	-	-	-	-	(3,310,023)	-
Transfers out	(3,310,023)	-	-	-	-	-	3,310,023	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net change in fund balances/								
net assets	1,470,418	(1,965,483)	600,000	(143,887)	12,000	(22,657)	1,200,000	1,150,391
Fund balances / net assets								
beginning of year	18,916,344	126,525,291	(600,000)	(12,795,000)	(12,000)	(88,069)	-	131,946,566
Fund balances / net assets, end of year	<b>\$ 20,386,762</b>	<b>\$ 124,559,808</b>	<b>\$ -</b>	<b>\$ (12,938,887)</b>	<b>\$ -</b>	<b>\$ (110,726)</b>	<b>\$ 1,200,000</b>	<b>\$ 133,096,957</b>

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (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, 2007 (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, 2007 (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	\$21,112,242
Cash and investments with fiscal agent	<u>868,883</u>
Total Cash and Investments	<u><u>\$21,981,125</u></u>

Cash and investments at June 30, 2007 consisted of the following:

Cash and Investments held by City:

Deposits in banks	\$ 5,284,587
Local Agency Investment Fund (LAIF)	<u>15,827,655</u>
Total Cash and Investments held by City	<u><u>\$21,112,242</u></u>

Cash and Investments held by Fiscal Agent:

Money market	\$ 444
Investment agreement	<u>868,439</u>
Total Cash and Investments held by Fiscal Agent	<u><u>\$ 868,883</u></u>
Total Cash and Investments	<u><u>\$21,981,125</u></u>

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (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, 2007 (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>	Remaining Maturity (in Months)			
		<u>0-12 Months</u>	<u>12-23 Months</u>	<u>24-35 Months</u>	<u>Greater than 36 Months</u>
Local Agency Investment Fund (LAIF)	\$ 15,827,655	\$ 15,827,655	-	-	-
Held by bond fiscal agent:					
Money market mutual funds	444	444	-	-	-
Investment contract	<u>868,439</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 868,439</u>
Total	<u>\$ 16,696,538</u>	<u>\$ 15,828,094</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 868,439</u>

**CITY OF RANCHO SANTA MARGARITA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (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)	\$ 15,827,655	N/A	\$ -	\$ -	\$ -	\$ 15,827,655
Held by bond fiscal agent:						
Money market mutual funds	444	A	-	444	-	-
Investment contract	868,439	Aa	-	868,439	-	-
<b>Total</b>	<b>\$ 16,696,538</b>		<b>\$ -</b>	<b>\$ 868,883</b>	<b>\$ -</b>	<b>\$ 15,827,655</b>

**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, 2007 (CONTINUED)**

**NOTE 2 – CASH AND INVESTMENTS, (Continued)**

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.

**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, 2007 are as follows:

	<b>Transfer From</b>		
	<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Total</u>
Transfer To			
General Fund	\$ -	\$ 797,055	\$ 797,055
Capital Projects	- -	1,979,167	1,979,167
Non-major Funds	<u>533,801</u>	<u>-</u>	<u>533,801</u>
Total	<u>\$ 533,801</u>	<u>\$2,776,222</u>	<u>\$3,310,023</u>

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

- The transfer of \$797,055 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 \$1,979,167 from the Non-Major Funds to the Capital Project Fund was primarily to fund the slurry seal program (\$372,266), Santa Margarita Pky. Bridge lighting system (\$206,935), and residential and arterial overlays (\$1,363,077).
- The transfer of \$533,801 from the General Fund to the Non-Major Funds was transferred to the RSM Non-Profit Debt Service Fund to pay interest on the Certificates of Participation.

**CITY OF RANCHO SANTA MARGARITA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (CONTINUED)**

**NOTE 4 – CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Capital assets not being depreciated:</b>				
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>- -</u>	<u>- -</u>	<u>46,513,281</u>
Total capital assets not being depreciated	<u>92,336,900</u>	<u>- -</u>	<u>- -</u>	<u>92,336,900</u>
<b>Capital assets being depreciated:</b>				
Machinery & Equipment	274,930	43,203	- -	318,133
Buildings	16,618,510	- -	- -	16,618,510
Parks	888,290	- -	- -	888,290
Infrastructure - all others	<u>58,969,764</u>	<u>206,936</u>	<u>- -</u>	<u>59,176,700</u>
Total capital assets being depreciated	<u>76,751,494</u>	<u>250,138</u>	<u>- -</u>	<u>77,001,632</u>
<b>Less accumulated depreciation:</b>				
Machinery & Equipment	244,247	24,173	- -	268,420
Buildings	1,107,900	553,950	- -	1,661,850
Parks	35,532	35,532	- -	71,064
Infrastructure	<u>41,175,424</u>	<u>1,601,966</u>	<u>- -</u>	<u>42,777,390</u>
Total accum. Depreciation:	<u>42,563,103</u>	<u>2,215,621</u>	<u>- -</u>	<u>44,778,724</u>
Total capital assets being depreciated, net	<u>34,188,391</u>	<u>(1,965,483)</u>	<u>- -</u>	<u>32,222,908</u>
Total capital assets, net	<u><u>\$ 126,525,291</u></u>	<u><u>\$(1,965,483)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 124,559,808</u></u>

Depreciation expense was charged in the following functions in the Statement of

Activities:	General government	\$ 13,499
	Public safety	10,674
	Public works	2,191,448
	<u>Total</u>	<u><u>\$ 2,215,621</u></u>

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (CONTINUED)**

**NOTE 4 – CAPITAL ASSETS, (Continued)**

As of June 30, 2007 the City had no material commitments with respect to unfinished capital projects

**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. For fiscal year 2006, this interest was \$31,500 which was paid on June 28, 2007 along with the \$600,000 final payment. Remaining annual payments associated with this commitment are contingent upon future receipt of revenues by the City during that respective fiscal year.

**NOTE 6 – LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities for the fiscal year ended June 30, 2007 was as follows:

	<u>Balance at June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2007</u>	<u>Due Within One Year</u>
Mitigation Obligation	\$ 600,000	\$ -	\$ 600,000	\$ -	\$ -
Certificates of Participation- City Hall & Regional Community Center	12,795,000	-	-	12,795,000	265,000
Compensated absences	<u>88,069</u>	<u>36,412</u>	<u>13.75</u>	<u>110,726</u>	<u>27,681</u>
Total Governmental Long-Term Liabilities	<u>\$13,483,069</u>	<u>\$ 36,412</u>	<u>\$ 613,755</u>	<u>\$12,905,726</u>	<u>\$ 292,681</u>

In prior years, compensated absences liabilities were liquidated in the City's General Fund.

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (CONTINUED)**

NOTE 6 – LONG-TERM LIABILITIES, (Continued)

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, 2007 was \$12,795,000.

The annual requirements to amortize the outstanding Certificates of Participation as of June 30, 2007, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 265,000	\$ 571,241
2009	280,000	562,385
2010	290,000	552,760
2011-2015	1,585,000	2,591,163
2016-2020	1,945,000	2,234,988
2021-2025	2,405,000	1,752,471
2026-2030	3,030,000	1,187,656
2031-2034	<u>2,995,000</u>	<u>233,750</u>
 Totals	 <u>\$ 12,795,000</u>	 <u>\$ 9,686,414</u>

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (CONTINUED)**

**NOTE 7 – PENSION PLAN**

**Orange County Employees Retirement System Defined Benefit Pension Plan**

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. 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 (Non-Sworn) Employees. Information on that plan is included below.

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.

As a condition of participation under the provisions of the County Employees Retirement Law of 1937, members are required to contribute a percentage of their annual compensation to OCERS ranging from 7.90% to 13.31% (employee contribution). The City was required to make contributions to OCERS in amounts that were estimated to remain a constant percentage of covered employees' compensation such that, when combined with covered employees' contributions, would have fully provide for all covered employees' benefits by the time they retired (employer contribution). The City provided the employer and employee contributions for all full-time employees at the 2.5% at age 55-contribution level. For all years of participation in this plan (Partial-fiscal year ended June 30, 2007 and fiscal years ended June 30, 2006, 2005, 2004, and 2003), the required contribution equaled the contribution actually made.

The following table provides salary and contributions requirements for the current and three prior fiscal years.

**CITY OF RANCHO SANTA MARGARITA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (CONTINUED)**

NOTE 7 – PENSION PLAN, (Continued)

	<u>For the Fiscal Period Ending</u>			
	<u>6/30/2004</u>	<u>6/30/2005</u>	<u>6/30/2006</u>	<u>6/30/2007</u>
Total Payroll Costs	\$939,360	\$979,639	\$1,225,182	\$1,502,342
Payroll Costs of Employees	898,425	934,980	1,134,887	1,437,589
Covered by Pension Plan				
Contributions:				
Employee Contribution	103,490	99,304	117,662	127,976
Employer Contribution	45,730	48,619	54,612	168,637
Total Contribution	149,220	147,923	172,274	296,613
Employee Required Contribution as a Percent of Covered Payroll	11.52%	10.62%	10.37%	8.90%
Employer Required Contribution as a Percent of Covered Payroll	5.09%	5.20%	4.8%	11.7%
Total Contribution as a Percent of all Participating Contributions	16.61%	15.82%	15.17%	20.6%

**CalPERS Defined Benefit Pension Plan for Miscellaneous (Non-Sworn) Employees**

**Plan Description** The City's non-sworn employees are eligible to participate in the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. Initial participation was determined during the employees' ratification vote during August 2006. New full-time employees are required to join CalPERS. CalPERS 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 CalPERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

**Funding Policy** Participants are required to contribute 8% of their annual covered salary. The City contributes all of the contribution required of miscellaneous employees on their behalf and for their accounts. The City is also required to contribute additional amounts at an actuarially determined rate. The City-employer current rate is 14.252%. 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.

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (CONTINUED)**

**NOTE 7 – PENSION PLAN, (Continued)**

**Annual Pension Cost** For the fiscal year ended June 30, 2007, the City's annual pension cost of \$175,8627 for PERS was equal to the City's required and actual contributed pension costs. The required contribution was determined by a new agency actuarial valuation, as of May 31, 2006. That agreement did not require a transfer of assets from the Orange County Employees Retirement System. The actuarial assumptions included (a) an 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by age, length of service and type of employment from 3.25% to 13.15% (c) a 3.0% inflation rate, (d) and a 3.25% payroll growth rate. The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three-year period. Initial unfunded liabilities are amortized over a closed period that depends on the Plan's date of entry into CalPERS. All changes in liability due to Plan amendments, changes in actuarial assumptions, or methodology will be amortized over a 20-year period. Gains and losses that occur in the operation of the Plan are also tracked and 10% of the net unamortized gain or loss will be amortized each year. If the Plan's accrued liability exceeds the actuarial value of Plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year period.

**Trend Information and Schedule of Funding Progress** Because participation began in July 2003, there is insufficient historical data for tabulating trend information or funding progress. Consequently, three-year trend information and the Three-Year Schedule of Funding Progress are not provided.

**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 \$53,662 for the fiscal year ending June 30, 2007.

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (CONTINUED)**

**NOTE 8 – RISK MANAGEMENT, (Continued)**

*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 \$71,748 for the fiscal year ending June 30, 2007.

*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.

*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, 2007. Furthermore, there have been no settlements that have exceeded insurance coverage since the City's inception on January 1, 2000.

**NOTE 9 – CONTINGENCIES**

To the City's knowledge, no claims or suits have been filed against the City in the normal course of business, that are more likely than not to produce a liability or obligation by the City to incur or pay material losses or damages.

**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

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (CONTINUED)**

**NOTE 10 – DEFERRED REVENUE, (Continued)**

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, 2007, Capital projects grant reimbursement revenues receivable for capital projects expenditures of \$1,200,000 were deferred in the Capital Projects Fund. In the General Fund, \$704,095 was deferred, consisting of \$6,359 in miscellaneous revenue received in advance of planned Community Services events; and \$697,736 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 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, 2007 was \$107,344.

**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 2006-07 was \$1.0 million, and included a budgeted City subsidy of \$ 550,030. 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, 2007 was \$700,029.

# REQUIRED SUPPLEMENTARY INFORMATION



REQUIRED SUPPLEMENTARY  
INFORMATION

CITY OF RANCHO SANTA MARGARITA, CALIFORNIA

## **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, 2007**

	<b>BUDGETED AMOUNTS</b>				<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>ACTUAL AMOUNTS</b>		<b>POSITIVE (NEGATIVE)</b>
Budgetary fund balances, July 1	\$ 7,568,899	\$ 7,469,282	\$ 12,778,446	\$ 5,309,164	
<b>Resources (inflows):</b>					
Taxes	8,279,962	8,279,962	8,635,219		355,257
Fees and permits	1,796,583	1,796,583	1,764,706		(31,877)
Intergovernmental	3,986,158	3,986,158	5,154,487		1,168,329
Charges for service	324,500	324,500	298,731		(25,769)
Investment income	235,000	235,000	710,287		475,287
Fines, forfeits and penalties	300,000	300,000	338,571		38,571
Other	25,469	25,469	349,323		323,854
Transfers from other funds	933,000	933,000	797,055		(135,945)
Amounts available for appropriation	<u>23,449,571</u>	<u>23,349,954</u>	<u>30,826,825</u>		<u>7,476,870</u>
<b>Charges to appropriations (outflows):</b>					
General Government	7,108,526	7,108,526	4,807,153		2,301,373
Building and Planning	1,151,335	1,151,335	1,088,534		62,801
Public Safety	6,510,717	6,510,717	6,307,860		202,857
Public Works	2,384,438	2,384,438	1,957,394		427,044
Capital Outlay	-	-	43,202		(43,202)
Transfers to other funds	535,000	545,000	533,801		11,199
Total charges to appropriations	<u>17,690,016</u>	<u>17,700,016</u>	<u>14,737,944</u>		<u>2,962,073</u>
Budgetary fund balances, June 30	\$ 5,759,555	\$ 5,649,938	\$ 16,088,881	\$ 10,438,943	

**CITY OF RANCHO SANTA MARGARITA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**NOTE 1 – CAPITAL ASSETS – MODIFIED APPROACH FOR INFRASTRUCTURE**

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 manages the eligible infrastructure assets using an asset management system that has the following characteristics:

- Have an up-to-date inventory of eligible infrastructure assets
- Perform condition assessments of the eligible infrastructure assets every three years and summarize the results using a measurement scale
- Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government

Second, the government documents 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 networks and subsystems are identified below:

**Street and Roads Network:**  
**Street pavement**

The City Council accepted the findings of the Pavement Management System performed in fiscal year 2004 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, 2007 (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>
<b>2007:</b> Pavement subsystem	73.9	70
<b>2004:</b> 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 2007 as of June 30, 2007, the street had an average deficiency rating or Pavement Condition Index (PCI) of 73.9 or Very Good.

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (continued)**

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

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

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING**

The City follows these procedures in establishing the budgetary data reflected in the basic 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. Public hearings are conducted at public workshops and City Council meetings to obtain taxpayer comments.
3. Prior to July 1, the budget is adopted by Council action.

Formal budgetary integration is employed as a management control device during the year. The City presents a comparison of annual budgets to actual results for all governmental funds. Budgeted revenue amounts represent the original budget modified by Council-authorized adjustments during the year which were contingent upon new or additional revenue sources. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Budget figures in the basic financial statements represent the final adjusted amounts. Budgets are prepared in accordance with generally accepted accounting principles using the modified-accrual basis of accounting.

**CITY OF RANCHO SANTA MARGARITA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (continued)**

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING, (Continued)**

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. For budgeting purposes, the General Fund is composed of several departments while all other budgeted funds are considered a single department. 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.

# **SUPPLEMENTARY SCHEDULES**



**SUPPLEMENTARY SCHEDULES**

**CITY OF RANCHO SANTA MARGARITA, CALIFORNIA**

## **NON-MAJOR SPECIAL REVENUE FUNDS**

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.

**CITY OF RANCHO SANTA MARGARITA**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2007**

Assets	Special Revenue Funds		
	Air Quality Management		
	<u>Gas Tax</u>	<u>Measure M</u>	<u>District</u>
Cash and investments	\$ 1,090,494	\$ 863,563	\$ 207,858
Cash with fiscal agent	-	-	-
Due from other governments	84,827	101,918	15,338
Interest receivable	25,937	19,488	2,298
Total assets	<u>\$ 1,201,258</u>	<u>\$ 984,969</u>	<u>\$ 225,494</u>

**Liabilities and Fund Balances**

Liabilities:

Accounts payable	\$ 20,016	\$ -	\$ -
Total liabilities	<u>20,016</u>	<u>-</u>	<u>-</u>

Fund balances:

Reserved for debt service	-	-	-
Unreserved	<u>1,181,242</u>	<u>984,969</u>	<u>225,494</u>
Total fund balances	<u>1,181,242</u>	<u>984,969</u>	<u>225,494</u>
Total liabilities and fund balances	<u>\$ 1,201,258</u>	<u>\$ 984,969</u>	<u>\$ 225,494</u>

Special Revenue Funds			Debt Service Fund		
California Law Enforcement Eqpt. Program	Traffic Congestion	Supplemental Law Enforce- ment Services	Rancho Santa Margarita Non-Profit	Totals	
\$ 197	\$ -	\$ 207,809	\$ -	\$ 2,369,921	
-	-	-	868,883	868,883	
-	-	-	-	202,083	
-	6,121	2,439	-	56,283	
<b>\$ 197</b>	<b>\$ 6,121</b>	<b>\$ 210,248</b>	<b>\$ 868,883</b>	<b>\$ 3,497,170</b>	
\$ -	\$ 6,121	\$ -	\$ -	\$ 26,137	
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	
-	-	-	868,883	868,883	
197	-	210,248	-	2,602,150	
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	
197	-	210,248	868,883	3,471,033	
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	
<b>\$ 197</b>	<b>\$ 6,121</b>	<b>\$ 210,248</b>	<b>\$ 868,883</b>	<b>\$ 3,497,170</b>	

**CITY OF RANCHO SANTA MARGARITA**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2007**

	<b>Special Revenue Funds</b>		
	<b>Gas Tax</b>	<b>Measure M</b>	<b>Air Quality Management District</b>
Revenues:			
Intergovernmental	\$ 891,772	\$ 569,450	\$ 59,122
Investment income	113,624	80,712	9,418
Total revenues	<u>1,005,396</u>	<u>650,162</u>	<u>68,540</u>
Expenditures:			
Current:			
Public safety	-	-	-
Public works	235,849	-	-
Debt Service:			
Interest	-	-	-
Total expenditures	<u>235,849</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>769,547</u>	<u>650,162</u>	<u>68,540</u>
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	(1,294,477)	(906,927)	(2,051)
Total financing sources (uses)	<u>(1,294,477)</u>	<u>(906,927)</u>	<u>(2,051)</u>
Net change in fund balances	(524,930)	(256,765)	66,489
Fund balances, beginning of year	<u>1,706,172</u>	<u>1,241,734</u>	<u>159,005</u>
Fund balances, end of year	<u>\$ 1,181,242</u>	<u>\$ 984,969</u>	<u>\$ 225,494</u>

<b>Special Revenue Funds</b>			<b>Debt Service</b>	
<b>California Law Enforcement Eqpt. Program</b>	<b>Traffic Congestion</b>	<b>Supplemental Law Enforce- ment Services</b>	<b>Rancho Santa Margarita Non-Profit</b>	<b>Totals</b>
\$ -	\$ -	\$ 100,209	\$ -	\$ 1,620,553
-	26,571	12,359	42,131	284,815
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
-	26,571	112,568	42,131	1,905,368
-	-	126,762	-	126,762
-	-	-	-	235,849
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
-	-	-	575,547	575,547
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
-	-	126,762	575,547	938,158
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
-	26,571	(14,194)	(533,416)	967,210
-	-	-	533,801	533,801
-	(572,767)	-	-	(2,776,222)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
-	(572,767)	-	533,801	(2,242,421)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
-	(546,196)	(14,194)	385	(1,275,211)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
197	546,196	224,442	868,498	4,746,244
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$ 197	\$ -	\$ 210,248	\$ 868,883	\$ 3,471,033
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

**CITY OF RANCHO SANTA MARGARITA  
GAS TAX  
BUDGETARY COMPARISON SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS</b>	<b>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		
Budgetary fund balances, July 1	\$ 2,047,012	\$ 2,047,012	\$ 1,706,172	\$ (340,840)
<b>Resources (inflows):</b>				
Intergovernmental	1,203,342	1,203,342	891,772	(311,570)
Investment income	35,000	35,000	113,624	78,624
Amounts available for appropriation	<u>3,285,354</u>	<u>3,285,354</u>	<u>2,711,568</u>	<u>(573,786)</u>
<b>Charges to appropriations (outflows):</b>				
Public works	275,000	275,000	235,849	39,151
Transfers to other funds	1,881,446	2,282,446	1,294,477	987,969
Total charges to appropriations	<u>2,156,446</u>	<u>2,557,446</u>	<u>1,530,326</u>	<u>1,027,120</u>
Budgetary fund balances, June 30	<u><u>\$ 1,128,908</u></u>	<u><u>\$ 727,908</u></u>	<u><u>\$ 1,181,242</u></u>	<u><u>\$ 453,334</u></u>

**CITY OF RANCHO SANTA MARGARITA**  
**MEASURE M**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		
Budgetary fund balances, July 1	\$ 403,793	\$ 403,793	\$ 1,241,734	\$ 837,941
Resources (inflows):				
Intergovernmental	528,480	528,480	569,450	40,970
Investment income	25,000	25,000	80,712	55,712
Amounts available for appropriation	<u>957,273</u>	<u>957,273</u>	<u>1,891,896</u>	<u>934,623</u>
Charges to appropriations (outflows):				
Transfers to other funds	-	1,012,000	906,927	105,073
Total charges to appropriations	<u>-</u>	<u>1,012,000</u>	<u>906,927</u>	<u>105,073</u>
Budgetary fund balances, June 30	<u>\$ 957,273</u>	<u>\$ (54,727)</u>	<u>\$ 984,969</u>	<u>\$ 1,039,696</u>

**CITY OF RANCHO SANTA MARGARITA  
AIR QUALITY MANAGEMENT DISTRICT  
BUDGETARY COMPARISON SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS</b>		<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS</b>		<b>POSITIVE (NEGATIVE)</b>
Budgetary fund balances, July 1	\$ 162,581	\$ 162,581	\$ 159,005	\$	(3,576)
<b>Resources (inflows):</b>					
Intergovernmental	56,142	56,142	59,122		2,980
Investment income	3,000	3,000	9,418		6,418
Amounts available for appropriation	<u>221,723</u>	<u>221,723</u>	<u>227,545</u>		<u>5,821</u>
<b>Charges to appropriations (outflows):</b>					
Transfers to other funds	-	262,000	2,051		259,949
Total charges to appropriations	<u>-</u>	<u>262,000</u>	<u>2,051</u>		<u>259,949</u>
Budgetary fund balances, June 30	<u>\$ 221,723</u>	<u>\$ (40,277)</u>	<u>\$ 225,494</u>	<u>\$</u>	<u>265,770</u>

**CITY OF RANCHO SANTA MARGARITA**  
**CALIFORNIA LAW ENFORCEMENT EQUIPMENT PROGRAM**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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

**CITY OF RANCHO SANTA MARGARITA**  
**TRAFFIC CONGESTION**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS</b>	<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		<b>POSITIVE (NEGATIVE)</b>
Budgetary fund balances, July 1	\$ 5,550	\$ 5,550	\$ 546,196	\$ 540,646
<b>Resources (inflows):</b>				
Intergovernmental	172,000	172,000	-	(172,000)
Investment income	8,000	8,000	26,571	18,571
Amounts available for appropriation	<u>185,550</u>	<u>185,550</u>	<u>572,767</u>	<u>387,217</u>
<b>Charges to appropriations (outflows):</b>				
Transfers to other funds	-	175,000	572,767	(397,767)
Total charges to appropriations	<u>-</u>	<u>175,000</u>	<u>572,767</u>	<u>(397,767)</u>
Budgetary fund balances, June 30	<u>\$ 185,550</u>	<u>\$ 10,550</u>	<u>\$ -</u>	<u>\$ (10,549)</u>

**CITY OF RANCHO SANTA MARGARITA**  
**SUPPLEMENTAL LAW ENFORCEMENT SERVICES**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS</b>		<b>VARIANCE WITH FINAL BUDGET</b>
	<b>ORIGINAL</b>	<b>FINAL</b>	<b>AMOUNTS</b>		<b>POSITIVE (NEGATIVE)</b>
Budgetary fund balances, July 1	\$ 187,648	\$ 187,648	\$ 224,442	\$ 36,794	
<b>Resources (inflows):</b>					
Intergovernmental	100,000	100,000	100,209		209
Investment income	2,500	2,500	12,359		9,859
Amounts available for appropriation	<u>290,148</u>	<u>290,148</u>	<u>337,010</u>		<u>46,861</u>
<b>Charges to appropriations (outflows):</b>					
Public safety - current	96,910	96,910	126,762		(29,852)
Public safety - capital outlay	-	-	-		0
Total charges to appropriations	<u>96,910</u>	<u>96,910</u>	<u>126,762</u>		<u>(29,852)</u>
Budgetary fund balances, June 30	<u>\$ 193,238</u>	<u>\$ 193,238</u>	<u>\$ 210,248</u>		<u>\$ 17,009</u>

## **DEBT SERVICE FUND**

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, the City of Rancho Santa Margarita Non-Profit Corporation's general 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 on debt of the City of Rancho Santa Margarita Non-Profit Corporation.

**CITY OF RANCHO SANTA MARGARITA  
NON-PROFIT DEBT SERVICE  
BUDGETARY COMPARISON SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS</b>	<b>VARIANCE WITH FINAL BUDGET</b>	
	<b>ORIGINAL</b>	<b>FINAL</b>		<b>POSITIVE (NEGATIVE)</b>	
Budgetary fund balances, July 1	\$ 825,578	\$ 825,578	\$ 868,498	\$ 42,920	
<b>Resources (inflows):</b>					
Investment income	-	-	42,131	42,131	
Transfers from other funds	535,000	535,000	533,801	(1,199)	
Amounts available for appropriation	<u>1,360,578</u>	<u>1,360,578</u>	<u>1,444,430</u>	<u>83,852</u>	
<b>Charges to appropriations (outflows):</b>					
Interest	<u>580,000</u>	<u>580,000</u>	<u>575,547</u>	<u>4,452</u>	
Total charges to appropriations	<u>580,000</u>	<u>580,000</u>	<u>575,547</u>	<u>4,452</u>	
Budgetary fund balances, June 30	<u>\$ 780,578</u>	<u>\$ 780,578</u>	<u>\$ 868,883</u>	<u>\$ 88,304</u>	

## **CAPITAL PROJECTS FUNDS**

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Capital Projects – This 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  
CAPITAL PROJECTS  
BUDGETARY COMPARISON SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<b>BUDGETED AMOUNTS</b>		<b>ACTUAL AMOUNTS</b>	<b>VARIANCE WITH FINAL BUDGET</b>	
	<b>ORIGINAL</b>	<b>FINAL</b>		<b>POSITIVE (NEGATIVE)</b>	<b>(NEGATIVE)</b>
Budgetary fund balances, July 1	\$ 1,169,652	\$ 803,560	\$ 1,391,654	\$ 588,094	
<b>Resources (inflows):</b>					
Intergovernmental	2,506,000	2,506,000	550,780	(1,955,220)	
Investment income	-	-	59,078	59,078	
Transfers from other funds	2,808,446	2,808,446	1,979,167	(829,279)	
Amounts available for appropriation	<u>6,484,098</u>	<u>6,118,006</u>	<u>3,980,679</u>	<u>(2,137,327)</u>	
<b>Charges to appropriations (outflows):</b>					
Public works	5,314,446	5,314,446	2,946,895	2,367,550	
Capital Outlay	-	-	206,936	(206,937)	
Total charges to appropriations	<u>5,314,446</u>	<u>5,314,446</u>	<u>3,153,831</u>	<u>2,160,613</u>	
Budgetary fund balances, June 30	<u>\$ 1,169,652</u>	<u>\$ 803,560</u>	<u>\$ 826,848</u>	<u>\$ 23,286</u>	

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## STATISTICAL SECTION



# STATISTICAL SECTION

This section of the City of Santa Rancho 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 relates 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 Reports for the relevant year. The city implemented Governmental Accounting Standards Board Statement No. 34 in 2001; schedules presenting government-wide information include information beginning in that year.

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## City of Rancho Santa Margarita

### Net Assets by Component

#### Last Seven Fiscal Years

	2007	2006	2005	2004	2003	2002	2001
<b>GOVERNMENTAL ACTIVITIES</b>							
Invested in Capital Assets,							
Net of Related Debt	\$ 112,633,691	\$ 114,598,789	\$ 116,793,296	\$ 115,726,409	\$ 113,405,225	\$ 114,834,758	\$ 2,401,463
Restricted for:							
Public Safety	210,445	224,639	198,267	181,637	208,194	279,371	196,613
Public Works	3,218,553	5,044,761	4,089,607	7,172,790	3,462,045	4,049,739	2,761,511
Debt Service	868,883	868,498	870,578	1,423,415	*	*	*
Unrestricted	<u>16,165,385</u>	<u>11,209,879</u>	<u>7,611,925</u>	<u>4,295,039</u>	<u>10,968,241</u>	<u>11,044,127</u>	<u>5,123,112</u>
Total Governmental Activities							
Net Assets	<u><u>\$ 133,096,957</u></u>	<u><u>\$ 131,946,566</u></u>	<u><u>\$ 129,563,673</u></u>	<u><u>\$ 128,799,290</u></u>	<u><u>\$ 128,043,705</u></u>	<u><u>\$ 130,207,995</u></u>	<u><u>\$ 10,482,699</u></u>
<b>PRIMARY GOVERNMENT</b>							
Invested in Capital Assets,							
Net of Related Debt	\$ 112,633,691	\$ 114,598,789	\$ 116,793,296	\$ 115,726,409	\$ 113,405,225	\$ 114,834,758	\$ 2,401,463
Restricted							
Public Safety	210,445	224,639	198,267	181,637	208,194	279,371	196,613
Public Works	3,218,553	5,044,761	4,089,607	7,172,790	3,462,045	4,049,739	2,761,511
Debt Service	868,883	868,498	870,578	1,423,415	*	*	*
Unrestricted	<u>16,165,385</u>	<u>11,209,879</u>	<u>7,611,925</u>	<u>4,295,039</u>	<u>10,968,241</u>	<u>11,044,127</u>	<u>5,123,112</u>
Total Primary Government							
Net Assets	<u><u>\$ 133,096,957</u></u>	<u><u>\$ 131,946,566</u></u>	<u><u>\$ 129,563,673</u></u>	<u><u>\$ 128,799,290</u></u>	<u><u>\$ 128,043,705</u></u>	<u><u>\$ 130,207,995</u></u>	<u><u>\$ 10,482,699</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

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

	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>EXPENSES</b>			
<b>Governmental Activities:</b>			
General Government	\$ 4,235,381	\$ 4,505,272	\$ 5,016,167
Building & Planning	1,089,509	972,352	1,139,485
Public Safety	6,440,965	6,033,988	5,746,796
Public Works	7,342,870	5,401,937	4,694,739
Mitigation Obligation	-	-	-
Interest Expense	707,434	577,548	597,540
Total Governmental Activities Expenses	<u>19,816,159</u>	<u>17,491,097</u>	<u>17,194,727</u>
<b>PROGRAM REVENUES</b>			
<b>Governmental Activities:</b>			
Charges for Services	994,136	936,735	1,301,353
Operating Contributions and Grants	3,582,070	3,014,400	1,039,721
Capital Contributions and Grants	-	-	1,512,370
Total Governmental Activities Program Revenues	<u>4,576,206</u>	<u>3,951,135</u>	<u>3,853,444</u>
<b>Total Net Revenues (Expenses)</b>	<b><u>\$ (15,239,953)</u></b>	<b><u>\$ (13,539,962)</u></b>	<b><u>\$ (13,341,283)</u></b>
<b>GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS</b>			
<b>Governmental Activities:</b>			
Taxes:			
Property Taxes	\$ 2,015,510	\$ 1,449,752	\$ 1,528,596
Sales Taxes	6,325,108	6,365,432	5,935,350
Real Property Transfer Taxes	294,601	476,045	476,358
Motor Vehicle License Fees	-	-	-
Motor Vehicle in-lieu tax, unrestricted intergovernmental	4,943,750	5,275,527	4,290,512
Franchise tax	1,407,872	1,245,702	1,012,122
Investment Income	1,054,180	631,305	364,559
Other	349,323	479,089	501,701
Total Governmental Activities	<u>16,390,344</u>	<u>15,922,852</u>	<u>14,109,198</u>
<b>Changes in Net Assets</b>	<b><u>\$ 1,150,391</u></b>	<b><u>\$ 2,382,890</u></b>	<b><u>\$ 767,915</u></b>

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 (2001-2006)

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

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

	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>GENERAL FUND</b>				
Reserved	\$ 46,426	\$ -	\$ -	\$ -
Unreserved	16,042,455	12,778,446	9,578,780	12,660,311
Total General Fund	<u>\$ 16,088,881</u>	<u>\$ 12,778,446</u>	<u>\$ 9,578,780</u>	<u>\$ 12,660,311</u>
<b>ALL OTHER GOVERNMENTAL FUNDS</b>				
Reserved for encumbrances	\$ -	\$ -	\$ -	\$ 86,405
Reserved for debt service	868,883	868,498	870,578	1,423,415
Reserved for self insurance	-	-	-	-
Unreserved, Reported in:	-	-	-	-
Special Revenue Funds	2,602,150	3,877,746	3,118,222	3,943,369
Capital Project Funds	826,848	1,391,654	1,169,652	2,608,808
Other	-	-	-	1,072,021
Total All Other Governmental Funds	<u>\$ 4,297,881</u>	<u>\$ 6,137,898</u>	<u>\$ 5,158,452</u>	<u>\$ 9,134,018</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 (2001-2006)

<b>2003</b>	<b>2002</b>	<b>2001</b>
\$ 10,231	\$ -	\$ -
<u>11,712,397</u>	<u>11,828,733</u>	<u>5,918,592</u>
<b><u>\$ 11,722,628</u></b>	<b><u>\$ 11,828,733</u></b>	<b><u>\$ 5,918,592</u></b>
\$ 115,383	\$ -	\$ -
-	-	-
-	-	-
-	-	-
3,498,174	2,556,810	1,742,184
409,545	442,875	6,349
-	1,674,819	1,498,111
<b><u>\$ 4,023,102</u></b>	<b><u>\$ 4,674,504</u></b>	<b><u>\$ 3,246,644</u></b>

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

	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>REVENUES</b>				
Taxes	\$ 8,635,219	\$ 8,291,229	\$ 7,940,304	\$ 7,678,109
Fees & Permits	1,764,706	1,546,410	1,580,822	1,507,143
Intergovernmental	7,325,820	8,288,428	6,842,601	6,161,674
Charges for Services	298,731	274,483	453,674	350,211
Investment Income	1,054,180	631,304	364,561	214,800
Fines, forfeits and penalties	338,571	363,044	278,978	296,973
Other	349,323	479,089	501,701	704,656
Total Revenues	<u>19,766,550</u>	<u>19,873,987</u>	<u>17,962,641</u>	<u>16,913,566</u>
<b>EXPENDITURES</b>				
Current:				
General Government	4,807,153	4,902,918	4,876,998	4,733,646
Building and Planning	1,088,534	973,131	1,141,458	1,003,705
Public Safety	6,434,622	6,028,949	5,740,329	5,411,742
Public Works	5,140,138	3,204,397	2,560,259	2,774,830
Capital Outlay	250,138	9,932	10,121,622	9,073,287
Debt Service:				
Interest	575,547	575,548	575,540	239,811
Service fees & other charges	-	-	-	426,478
Total Expenditures	<u>18,296,132</u>	<u>15,694,875</u>	<u>25,016,206</u>	<u>23,663,499</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	1,470,418	4,179,112	(7,053,565)	(6,749,933)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In	3,310,023	2,244,604	7,644,226	1,534,764
Operating Transfers Outs	(3,310,023)	(2,244,604)	(7,644,226)	(1,534,764)
Issuance of Debt	-	-	-	12,795,000
Total Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,795,000</u>
Net Change in Fund Balances	<u>\$ 1,470,418</u>	<u>\$ 4,179,112</u>	<u>\$ (7,053,565)</u>	<u>\$ 6,045,067</u>
Fund Balances, beginning of year	18,916,344	14,737,232	21,790,797	15,745,730
Fund Balances, end of year	<u>\$ 20,386,762</u>	<u>\$ 18,916,344</u>	<u>\$ 14,737,232</u>	<u>\$ 21,790,797</u>

<b>DEBT SERVICE AS A PERCENTAGE OF NON CAPITAL EXPENDITURES</b>	3.19%	3.67%	3.86%	4.57%
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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 (2001-2006)

<b>2003</b>	<b>2002</b>	<b>2001</b>
\$ 6,756,856	\$ 6,144,365	\$ 5,606,349
1,473,745	2,067,205	1,671,983
6,022,030	7,822,904	6,053,694
191,651	269,881	358,849
341,895	443,217	289,510
260,896	270,471	263,087
18,063	1,445,931	7,435
<b><u>15,065,136</u></b>	<b><u>18,463,974</u></b>	<b><u>14,250,907</u></b>
5,032,730	3,939,096	2,826,933
970,918	1,379,831	1,273,368
4,778,075	1,317,882	1,271,524
4,642,292	4,116,256	1,067,953
398,628	372,908	1,382,249
-	-	-
<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b><u>15,822,643</u></b>	<b><u>11,125,973</u></b>	<b><u>7,822,027</u></b>
<b><u>(757,507)</u></b>	<b><u>7,338,001</u></b>	<b><u>6,428,880</u></b>
2,956,907	963,647	-
(2,956,907)	(963,647)	-
<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b><u>\$ (757,507)</u></b>	<b><u>\$ 7,338,001</u></b>	<b><u>\$ 6,428,880</u></b>
<b><u>16,503,237</u></b>	<b><u>9,165,236</u></b>	<b><u>2,736,356</u></b>
<b><u>\$ 15,745,730</u></b>	<b><u>\$ 16,503,237</u></b>	<b><u>\$ 9,165,236</u></b>

0.00%

0.00%

0.00%

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

	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Apparel Stores	*	\$ 26,187	\$ 25,771	\$ 26,657
General Merchandise	*	46,742	41,646	40,417
Food Stores	*	28,263	26,401	24,770
Eating & Drinking Places:	*	61,370	58,383	54,049
Building Materials	*	48,250	48,991	50,085
Auto Dealers & Supplies	*	191,599	179,842	166,482
Service Stations	*	45,192	41,343	36,443
Other Retail Stores	*	91,925	89,721	77,323
All Other Outlets	*	128,530	118,932	125,280
 Total	 *	 \$ 668,057	 \$ 631,030	 \$ 601,506
 <b>City Direct Sales Tax Rate</b>	 0.75%	 0.75%	 0.75%	 1.00%

\*Data for fiscal year 2006-2007 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

<b>2003</b>	<b>2002</b>	<b>2001</b>
\$ 27,891	\$ 15,496	\$ 15,047
37,008	34,663	32,554
25,487	26,552	27,092
49,784	42,724	35,391
43,583	40,878	40,070
135,324	108,533	92,661
30,668	25,172	21,802
70,612	56,731	50,768
<u>115,896</u>	<u>110,200</u>	<u>113,158</u>
<b><u>\$ 536,253</u></b>	<b><u>\$ 460,949</u></b>	<b><u>\$ 428,544</u></b>

1.00%

1.00%

1.00%

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

<b>Fiscal Year</b>	<b>Sales and Use Tax</b>	<b>Property Tax</b>	<b>Real Property Transfer</b>	<b>Total</b>
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 (2001-2006)

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

<b>Fiscal Year</b>	<b>Residential Property</b>	<b>Commercial Property</b>	<b>Industrial Property</b>	<b>Miscellaneous Property</b>	<b>Less: Tax-Exempt Property</b>	<b>Total Taxable Assessed Value (1)</b>	<b>Total Direct Rate</b>
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	-	5,989,704,151	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%

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.

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

	<b>2007</b>	<b>2006</b>
<b>City Direct Rates</b>		
City Basic Rate <sup>(1)</sup>	0.02978%	0.02978%
Santa Margarita Water Dist.	0.02799%	0.02799%
Total City Direct Rate	0.05777%	0.05777%
<b>Overlapping Rates</b>		
ERAF	0.13876%	0.13876%
County of Orange	0.24000%	0.24000%
Saddleback Unified General Fund	0.47908%	0.47908%
South Orange County Comm. College Dist.	0.09356%	0.09356%
Miscellaneous Districts	<u>0.32000%</u>	<u>0.42000%</u>
Total Direct Rate	<u><u>1.27140%</u></u>	<u><u>1.37140%</u></u>

This schedule shows information for tax rate area 33-049, the largest general fund tax rate area by assessed value.

Two years' information currently available. Future years' data will be added prospectively.

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

\*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.

<sup>(1)</sup> 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 Auditor-Controller Tax Rate Area 33-049

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

Taxpayer	2007			2001		
	Total Assessed Value	Percentage of Total City Taxable Assessed Value		Rank	Percentage of Total City Taxable Assessed Value	
		Rank	Total Assessed Value		Total Assessed Value	Rank
Cox Communications, Inc.						
Orange	\$ 78,476,323	1.19%	1			
Applied Medical Resources Corp.	49,154,836	0.75%	2			
Northwestern Mutual Life Insurance Co.	45,141,653	0.69%	3	\$ 40,136,834	1.03%	2
BRE Properties, Inc.	42,579,760	0.65%	4			
Villa La Paz Partners Ltd. Partnership	34,641,849	0.53%	5	44,698,195	1.15%	1
Sanyo Foods Corp. of America	33,149,411	0.50%	6	25,993,738	0.67%	6
Antonio Acquisition Company LLC	32,354,615	0.49%	7			
TIS Equities IX LLC	24,437,000	0.37%	8			
KRC Santa Margarita	23,130,755	0.35%	9			
Crescent Limited Partnership	22,837,244	0.35%	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				21,543,902	0.56%	8
LP Homes 1 LLC				18,962,291	0.49%	10
<b>Totals</b>	<b>\$ 385,903,446</b>	<b>5.87%</b>		<b>\$ 282,242,198</b>	<b>7.28%</b>	

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 Seven Fiscal Years**

<b>Fiscal Year</b>	<b>Total Tax Levy for Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Total Tax Collections</b>
		<b>Amount</b>	<b>Percentage of Levy</b>	
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 (2001-06)

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

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Lease Revenue Bonds</b>	<b>Certificates of Participation</b>	<b>Mitigation Obligation <sup>(3)</sup></b>	<b>Total Governmental Activities</b>	<b>% of Actual Assessed Value of Property <sup>(1)</sup></b>	<b>Per Capita <sup>(2)</sup></b>
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

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

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

<sup>(3)</sup> 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 Seven Fiscal Years**

<b>Fiscal Year</b>	<b>Population</b>	<b>Total General Obligation Bonds</b>	<b>Less Debt Service Fund <sup>(1)</sup></b>	<b>Net Bonded Debt</b>	<b>Percent of Debt to Assessed Value<sup>(2)</sup></b>	<b>Debt per Capita</b>
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%	-

<sup>(1)</sup> Amounts available for repayment of general obligation bonds.

<sup>(2)</sup> 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, 2007**

	<b>Rate Applies to</b>	<b>Gross Bonded Debt Balance</b>	<b>Percent Applicable to City</b>	<b>Net Bonded Debt</b>
<b>Direct Debt</b>				
A65.02 City of RSM Nonprofit Corp. COP		\$ 12,795,000	100%	<u>\$ 12,795,000</u>
<b>Total Direct Debt</b>				
				<u>12,795,000</u>
<b>Overlapping Debt</b>				
628.01 Capistrano Unified SFID#1 1999 Bond#2002C		16,880,000	1.68%	284,315
629.01 Capistrano Unified SFID#1 1999 Bond#2001B		24,994,930	1.68%	420,997
640.02 Capistrano Unified SFID#1 1999 Bond#2000A		16,260,000	1.68%	273,872
6AB.01 Saddleback Valley USD 2004 Bond#2004A		89,760,000	15.03%	13,489,864
6AW.01 Saddleback Valley USD 2004 Series B		60,000,000	15.03%	9,017,289
*C55.14 Metro Water Dist-MWDOC-1205999		73,488,978	1.92%	1,411,896
C76.56 Santa Margarita Water ID#4-Bond	Land	143,645,000	39.36%	56,539,767
C76.58 Santa Margarita Water ID#3-Bond	Land	7,986,577	99.95%	7,982,748
C76.60 Santa Margarita Water ID#3A-Bond	Land	13,498,123	99.95%	<u>13,491,652</u>
<b>Total Overlapping Debt</b>				
				<u>102,912,398</u>
<b>Total Direct and Overlapping Debt</b>				
				<b>\$ 115,707,398</b>

2006/07 Assessed Valuation: \$6,570,973,739 After Deducting \$0 Redevelopment Increment.

Debt To assessed Valuation Ratios:	Direct Debt	0.19%
	Overlapping Debt	1.57%
	Total Debt	1.76%

\*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 Seven Fiscal Years**

	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Assessed Valuation	\$ 6,570,973,739	\$ 5,989,704,151	\$ 5,501,993,484	\$ 5,048,907,389
Conversion Percentage	25%	25%	25%	25%
Adjusted Assessed Valuation	\$ 1,642,743,435	\$ 1,497,426,038	\$ 1,375,498,371	\$ 1,262,226,847
Debit Limit Percentage	15%	15%	15%	15%
Debt Limit	\$ 246,411,515	\$ 224,613,906	\$ 206,324,756	\$ 189,334,027
Total Net Debt Applicable to Limit:				
General Obligation Bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Legal Debt Margin	<u>\$ 246,411,515</u>	<u>\$ 224,613,906</u>	<u>\$ 206,324,756</u>	<u>\$ 189,334,027</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

<b>2003</b>	<b>2002</b>	<b>2001</b>
\$ 4,697,420,499	\$ 4,383,780,763	\$ 3,878,794,503
25%	25%	25%
\$ 1,174,355,125	\$ 1,095,945,191	\$ 969,698,626
15%	15%	15%
\$ 176,153,269	\$ 164,391,779	\$ 145,454,794
<hr/>	<hr/>	<hr/>
<b><u>\$ 176,153,269</u></b>	<b><u>\$ 164,391,779</u></b>	<b><u>\$ 145,454,794</u></b>
0.00%	0.00%	0.00%

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

<b>Fiscal Year</b>	<b>Population</b>	<b>Personal Income (1) (in thousands)</b>	<b>Per Capita Personal Income</b>	<b>Income per Median Household</b>	<b>Median Age</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
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 2007

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**  
**Current Year and One Year Ago**

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

<b>FUNCTION</b>	<b>Full-Time and Part-Time Employees as of June 30</b>						
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
City Manager							
Full-Time	5.00	8.50	8.75	8.25	7.25	6.25	7.50
City Clerk							
Full-Time	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	0.50	-
Plng./Comm. Dev.							
Full-time	7.00	4.75	4.75	3.75	3.75	3.25	4.25
Engr./Pub. Works							
Full-Time	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	-	-	-	-	-	-	-
<b>Total</b>	<b><u>24.53</u></b>	<b><u>25.43</u></b>	<b><u>26.00</u></b>	<b><u>24.10</u></b>	<b><u>24.20</u></b>	<b><u>19.00</u></b>	<b><u>16.75</u></b>

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

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 2001-2006;  
 Adopted Operating Budget and Capital Improvement Plan FY 2005-2006, 2007-2008

**City of Rancho Santa Margarita**  
**Capital Asset Statistics**  
**Last Seven Fiscal Years**

FUNCTION	<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	-	-	-	-
Police Services							
Support Vehicles	1	1	1	1	1	1	-
Motorcycles	3	3	3	3	3	3	-
Public Works							
Streets (Miles)	99	99	99	*	*	*	*
Traffic Signals	158	156	156	*	*	*	*
Community Services							
Dog Parks	1	1	1	-	-	-	-
Skate Parks	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 Seven Fiscal Years**

FUNCTION	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General Government				
Financial Reports & Audits Completed	7	6	7	6
Checks/Wire Transfers	2,152	2,389	2,401	*
Police Services				
Physical Arrests	*	737	643	493
Parking Citations	*	3,467	2,142	2,570
Traffic Citations	*	3,886	5,163	4,571
Highways and Streets				
Street paving (miles)	15	51	15	25
Sidewalks replaced (sq. ft.)	1,443	3,118	2,300	*
Curb refurbished (linear feet)	12,726	14,526	11,200	*
Traffic signs replaced/installed	432	304	438	*
Pavement Condition Index (70 = min. acceptable)	73	70	78	75
Community Development				
Building Permits Issued	751	742	903	722
Building Inspections Completed	3,613	4,042	3,271	2,074
Plan Checks Performed	327	355	618	461
Community Services				
Recreational & Instructional Classes Offered	121	106	122	757
Senior Mobility Ride Vouchers	145	688	585	516
Community Events Attendance	19,300	17,900	2,500	8,000
Community Magazine Publications	3	3	3	3

\* Data not readily available.

Source: City Finance Division, and City Public Safety Department

**2003**      **2002**      **2001**

5	4	3
*	*	*
376	531	*
2,284	2,248	*
4,491	4,895	*
46	15	*
*	*	*
*	*	*
*	*	*
78	73	70
*	*	*
*	*	*
*	*	*
563	47	
*	*	*
12,000	10,000	5,000
3	3	3

**CITY OF RANCHO SANTA MARGARITA  
MISCELLANEOUS STATISTICS  
JUNE 30, 2007**

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:	49,718
Area in square miles:	13
Form of Government:	Council-Manager
Date of Incorporation:	January 1, 2000
Number of Full Time Employees:	17
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	158

Source: City Finance Department