

Comprehensive Annual Financial Report

Year Ended June 30, 2005

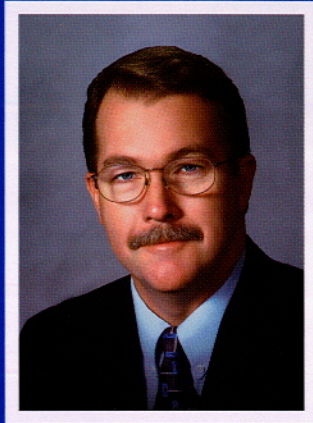
Prepared by

Department of Finance

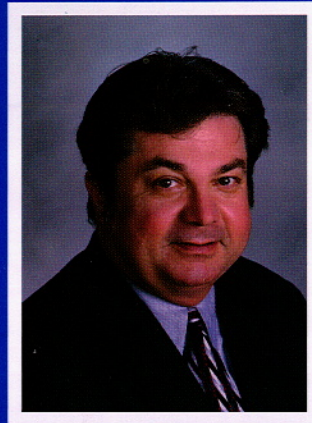
City of Rancho Santa Margarita, California

City of Rancho Santa Margarita

City Council



Jerry Holloway
Mayor



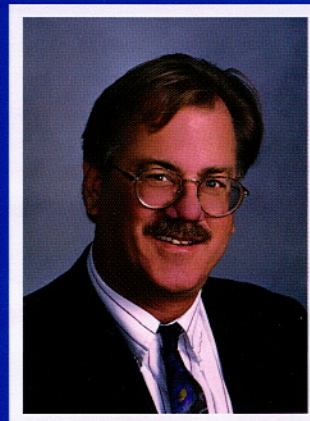
James H. Thor
Mayor Pro Tempore



Anthony Beall
Council Member



Neil C. Blais
Council Member



Gary Thompson
Council Member

CITY OF RANCHO SANTA MARGARITA
Comprehensive Annual Financial Report
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CITY OF RANCHO SANTA MARGARITA

December 8, 2005

Mayor

James M. Thor

Mayor Pro Tempore

L. Anthony Beall

Council Members

Neil C. Blais

Gary Thompson

Jerry Holloway

City Manager

Steven E. Hayman

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 fifth 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 year 2004, 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:

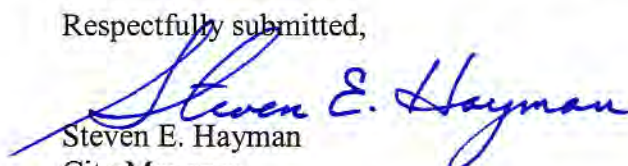
<u>Attachment</u>	<u>Content</u>
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A	Economic Condition and Outlook
B	Major Projects for the Year and for the Future
C	Other Information

The Comprehensive Annual Financial Report of the City of Rancho Santa Margarita for the fiscal year ended June 30, 2005 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-three percent of the City's general revenues.

This is the City's fifth fiscal year, and the third 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 \$1,376,372. Contracted Police Services account for 42% of General Fund expenditures. The City also made its third payment to the County of Orange from sales tax increment of \$334,407, reflecting increased sales tax revenue. Revenues exceeded operating expenditures for the General Fund by \$1,376,372. Furthermore, revenues exceeded budgeted expectations by \$2,513,299, or 19%, primarily as a result of strong sales and property tax performance. Sales tax revenues are the City's largest revenue source at \$5,935,350, 42% of general revenue, and exceeded budgeted amounts by \$835,349 (16%). This variance is mostly due to new businesses in Rancho Santa Margarita, including car dealerships. Motor vehicle in-lieu taxes of \$4,290,512 make up the City's second largest revenue source at 30% of general revenues and exceeded budgeted amounts by \$688,201 (19%).

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

Regional Community Center and City Hall Construction

The City obtained two parcels of land on which to construct a Regional Community Center and a permanent City Hall to be located within the City. These buildings have now been completed, on schedule and under budget. A total of \$16.6 million was expended and included various funding sources, including construction proceeds from a \$12,795,000 Certificate of Participation issued by the City of Rancho Santa Margarita Non-Profit Corporation. In addition, the City contributed \$4.3 million to partially fund this project.

Skate Park and Dog Park

The City also completed construction of a community-desired skate park and dog park during the fiscal year. These parks were also funded by the General Fund over a number of fiscal years, with a contribution of \$846,597 in fiscal year 2005. The total project cost is \$1,350,000.

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 2006. During fiscal year 2005 the Community Services department began transitioning services to the Community Foundation, which will operate the City's youth center and senior services in the 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 is now completing a related comprehensive zoning code, with expenditures totaling \$145,948 through June 30, 2005. This project is expected to be completed in fiscal year 2006.

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, 2005 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 2005 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, 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 Conrad and Associates, L.L.P. 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, 2004. 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, 2004. This is the fourth 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.

Similarly, the California Society of Municipal Finance Officers (CSMFO) presented the City of Rancho Santa Margarita with a Certificate of Award for Outstanding Financial Reporting for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. The Certificate of Award is prestigious state recognition for conformance with certain high standards for preparation of local government financial reports. The CSMFO Certificate of Award is also valid for a period of one year only. This is the fourth year that the City has received this award. We believe that our current report conforms to the Certificate of Award program requirements, and we are submitting it to CSMFO.

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

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.



Nancy L. Zjelke

President

Jeffrey R. Enen

Executive Director

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2003-04

Presented to the

City of Rancho Santa Margarita

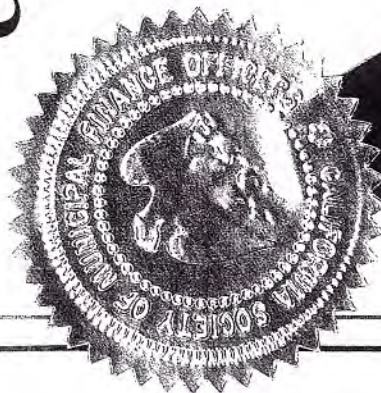
*This certificate is issued in recognition of meeting professional standards and criteria in reporting
which reflect a high level of quality in the annual financial statements
and in the underlying accounting system from which the reports were prepared.*

February 24, 2005

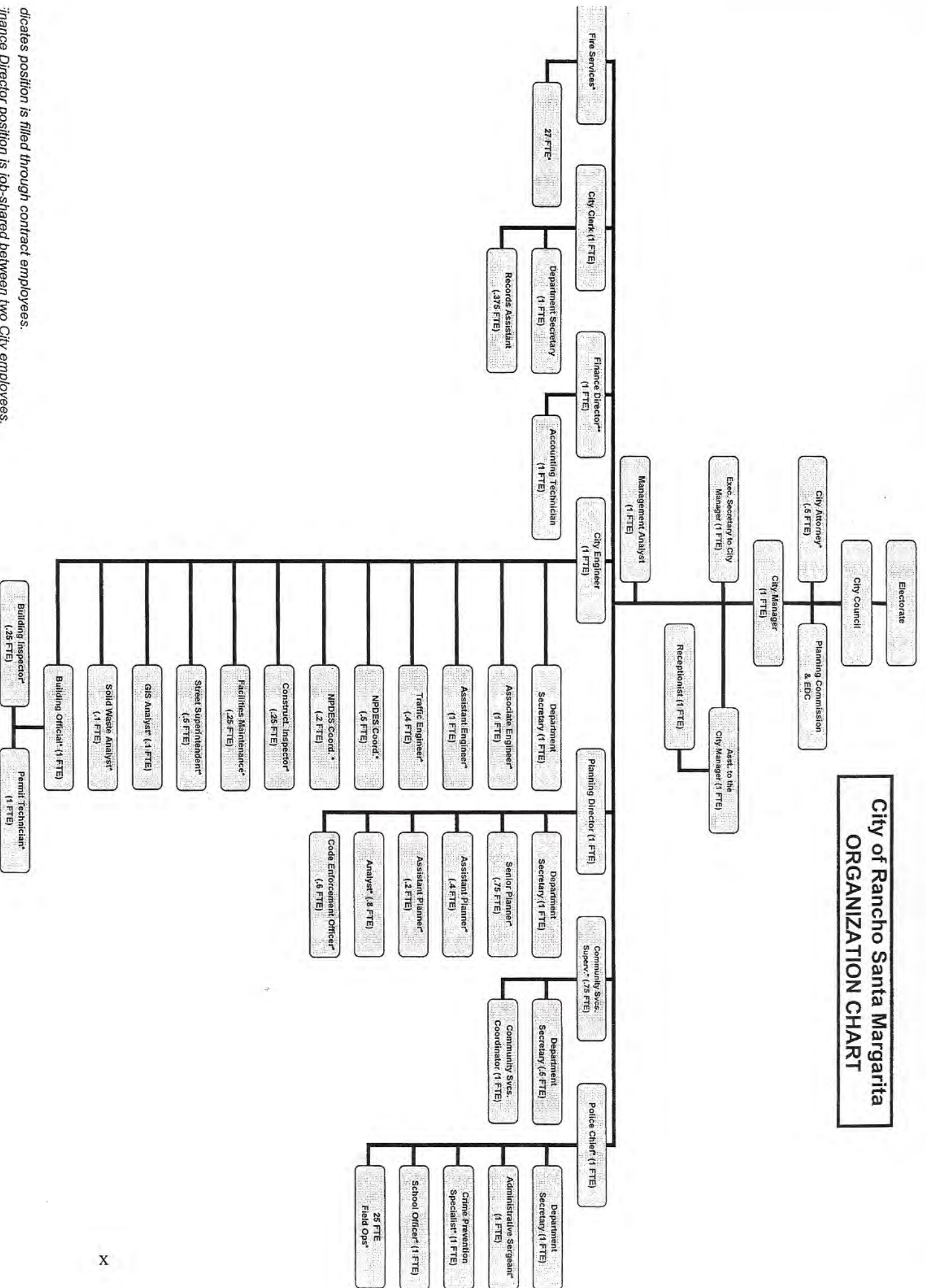
William A. Shanaf

**Bill Thomas, Chair
Professional & Technical Standards Committee**

Dedicated to Excellence in Municipal Financial Management



City of Rancho Santa Margarita ORGANIZATION CHART



indicates position is filled through contract employees.
Finance Director position is job-shared between two City employees.

City of Rancho Santa Margarita

LIST OF PRINCIPAL OFFICIALS

Council – Manager Form of Government

CITY COUNCIL

JERRY HOLLOWAY
Mayor

JAMES M. THOR
Mayor Pro Tem

L. ANTHONY BEALL
Council Member

GARY THOMPSON
Council Member

NEIL C. BLAIS
Council Member

CITY ADMINISTRATION

STEVEN E. HAYMAN
City Manager/City Treasurer

Tom Wheeler, City Engineer
Debbie Wolff, City Clerk
Cindy Long, Finance Director
Kathleen Haton, Planning Director
Wendi Redington, Community Services Supervisor
Lieutenant Ron White, Chief of Police Services
John Cavanaugh, City Attorney

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City Council
City of Rancho Santa Margarita, California

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rancho Santa Margarita, California, as of and for the year ended June 30, 2005, 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, 2005, 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 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.

City Council
City of Rancho Santa Margarita, California
Page Two

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2005 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.

Conrad and Associates, L.L.P.

December 8, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Rancho Santa Margarita's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The City ended its fifth fiscal year with net assets of \$130 million. This is an increase of \$1 million from the prior fiscal year. Total assets decreased \$2 million. This decrease is primarily the result of a decrease in cash and investments and cash and investments with fiscal agent of \$11 million, offset by the addition of \$8 million in net capital assets, including construction of a City Hall and Regional Community Center, as well as a skate park and a dog park within the City. In addition, receivables increased by \$1 million. Total liabilities decreased \$3 million. This decrease is primarily the result of a decrease of accounts payable of \$2 million as the current year did not include large amounts owing for construction costs as in the prior year. In addition, due to other governments decreased by \$2 million as a result of the timing and amount of the City's annual mitigation obligation payment to the County of Orange. These decreases are partially offset by an increase in unearned revenue of \$1 million.
- During the year, the City's taxes and other governmental revenues were more than expenses by \$768,000. In the prior year revenues exceeded expenses by \$776,000. Although there is no net change from year to year, both revenues and expenses did change significantly. General revenues increased \$1.6 million, with sales taxes increasing \$300,000, and motor vehicle in-lieu tax increasing \$800,000. Net governmental activities also increased \$1.6 million, primarily in general government (\$300,000), public safety (\$300,000), and public works (\$1 million). The increase in public works net activity is primarily the result of a decrease in operating contributions and grants (\$900,000).
- The total revenues from all sources equaled \$18 million, an increase of \$1 million, or 6%, from the prior year amount of \$17 million. This increase is largely the result of an increase in sales tax revenue of \$300,000 and an increase in motor vehicle in-lieu tax of \$800,000.
- The total cost of all City programs equaled \$17 million, an increase of 6% from the prior year amount of \$16 million. This increase is primarily the result of increases in expenses for general government (\$300,000), public safety (\$300,000), and public works (\$400,000).
- The General Fund reported excess revenues over expenditures of \$1,376,000, an increase of \$626,000 from the prior year amount of \$750,000. This increase is primarily the result of an increase in sales tax revenue of \$300,000 and motor vehicle in-lieu tax of \$800,000. These increases are partially offset by increases in current expenditures for public safety of \$400,000.

- For the General Fund, actual resources available for appropriation (revenue inflows and fund balance) exceeded final budget by \$2.5 million while actual appropriations (outflows) were \$65,000 less than budget. The favorable variance in resources is largely due to taxes exceeding budgeted amounts by \$1.4 million (21%). Positive variances include sales tax (\$800,000, or 16%), and property tax (\$500,000, or 50%). Also, intergovernmental revenues exceeded budget by \$800,000 (22%), primarily as a result of motor vehicle in lieu of VLF exceeding budgeted amounts by \$700,000 (19%). The favorable appropriations variance begins with \$1,500,000 of unexpended reserve appropriation. This reserve is partially offset by combined budget overages of \$600,000 in general governmental appropriations, resulting in a positive variance of \$900,000 (15%). In addition, public safety had a favorable variance of \$300,000 (5%). These positive variances are mostly offset by a negative variance in transfers to other funds, relating to transfers to the capital projects fund for general fund funded projects, of \$1.2 million (30%).
- In the previous year, the City added the Rancho Santa Margarita Nonprofit Capital Project Fund to account for the design and construction costs for a new City Hall and Regional Community Center that are paid from Certificates of Participation proceeds. Activity for the previous year included \$11 million in proceeds available for construction costs, and \$8 million in such costs. In the current year the project was completed and the balance of the Certificates of Participation proceeds of \$3 million were expended.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

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.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant 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 focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation following the fund financial statements.

THE CITY AS A WHOLE

Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental activities.

Table 1
Net Assets
(in Millions)

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 18.7	\$ 28.8
Capital assets	<u>128.7</u>	<u>120.8</u>
Total assets	147.4	149.6
Total liabilities	17.8	20.8
Net assets:		
Invested in capital assets, net of accum. depreciation	116.8	115.7
Restricted for public safety	.2	.2
Restricted for public works	4.1	7.2
Restricted for debt service	.9	1.4
Unrestricted	<u>7.6</u>	<u>4.3</u>
Total net assets	<u>\$129.6</u>	<u>\$128.8</u>

The City's net assets from governmental activities increased .6% from \$128.8 million to \$129.6 million. This increase of \$.8 million comes from the change in net assets as recorded in the Statement of Activities and flows through the Statement of Net Assets. The following is an explanation of the changes between fiscal years as shown in table 1:

- Current and other assets decreased \$11 million, primarily as the result of a decrease in cash and investments and restricted cash and investments with fiscal agent as funds borrowed and designated for construction of a City Hall and Regional Community Center were expended. Restricted cash and investment with fiscal agent decreased \$7 million as construction funds were expended. Cash and investments decreased \$4 million as funds designated toward construction costs were applied to the City Hall and Regional Community Center project.
- Capital assets increased \$7.9 million, primarily as a result of an increase in capital assets of \$10 million, partially offset by current depreciation expense of \$2.1 million. The increase in capital assets was as follows:

<u>Asset Type</u>	<u>(in Millions)</u>
Land	\$ -
Buildings	16.6
Parks	.9
Machinery & Equipment	-
Infrastructure	<u>1.4</u>
Total additions	18.9
Infrastructure (CIP)	(8.8)
Machinery & Equipment	<u>(.1)</u>
Total deletions	(8.9)
Less depreciation	<u>(2.1)</u>
Capital asset increase	\$ 7.9

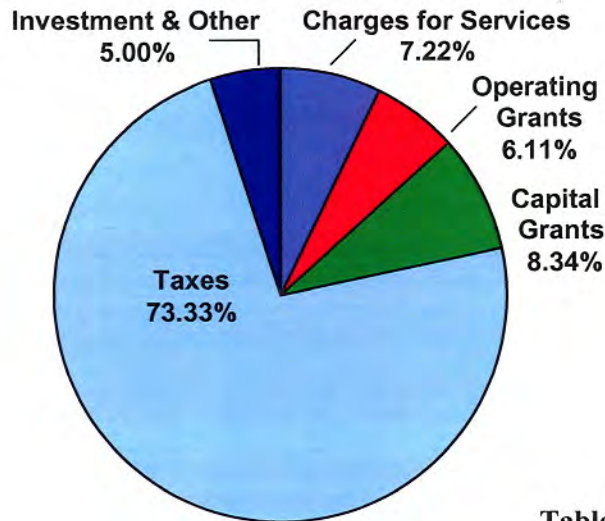
- Liabilities decreased \$3 million. This decrease is primarily the result of a decrease of \$2 million in accounts payable and a decrease of \$2 million in payables to other governments. The prior year accounts payable included \$3.6 million owing for construction costs at year end, which accounts for the decrease in the current year as the project was completed during the year. The prior year payables to other governments included an additional payment to the County of Orange for the mitigation obligation as a result of the timing of the payments. It also included a larger amount for the second mitigation payment. This accounts for the decrease in the current year. These decreases are partially offset by an increase in deferred revenue of \$1 million.
- Invested in capital assets net of accumulated depreciation increased \$1.1 million. This increase is the result of an increase in net capital assets of \$7.8 million offset by a decrease in restricted cash with fiscal agent of \$6.7 million.
- Restricted net assets decreased \$3 million for public works. The decrease is primarily the result of the extinguishment of construction funds in the RSMNP Capital Projects fund during the year as construction of the City Hall and Regional Community Center was completed.
- Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by legal requirements, increased by \$3.3 million as the result

of decreases in accounts payable and due to other governments totally \$4 million, partially offset by an increase in deferred revenue of \$1 million.

Fiscal Year 2005 Government Activities

(see Table 2)

Sources of Revenue



Functional Expenses

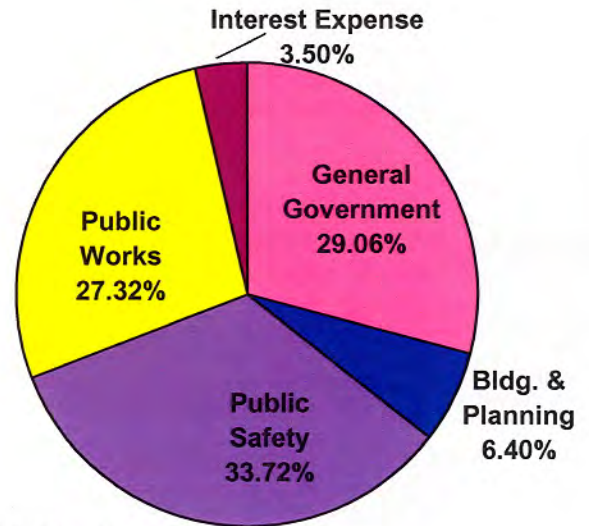


Table 2
Changes in Net Assets (in Millions)

	Governmental Activities	
	2005	2004
Revenues		
Program revenues:		
Charges for service s	\$ 1.3	\$1.1
Operating contributions and grants	1.1	1.9
Capital contributions and grants	1.5	1.4
General revenues:		
Property taxes	1.5	1.6
Sales taxes	5.9	5.6
Real property transfer taxes	0.5	0.5
Motor vehicle in-lieu tax	4.3	3.5
Franchise tax	1.0	1.0
Investment and other income	0.9	0.3
Total revenues	18.0	16.9
Expenses		
General government	5.0	4.7
Building and planning	1.1	1.0
Public safety	5.8	5.4
Public works	4.7	4.3
Interest Expense	0.6	0.7
Total expenses	17.2	6.1
Increase in net assets	<u>\$ 0.8</u>	<u>\$ 0.8</u>

The City's total revenues increased from a year ago by \$1.1 million (7%) and total cost of all programs and services increased by \$1.1 million (7%). The major increases in revenues came from an increase in sales tax of \$300,000 and an increase in motor vehicle in-lieu tax of \$800,000. The increase in programs and services costs is primarily the result of increases in general government of \$300,000 (6%), public safety of \$400,000 (7%), and public works of \$400,000 (9%). The increase in general government is the result of an increase in city manager project activity during the year, plus the retirement of assets not fully depreciated. The increase in public safety is the result of an increase in contract costs with the County of Orange for safety personnel. The increase in public works is the result of an increase in depreciation expense of \$600,000 partially offset by a decrease in operating costs of \$200,000. Sales tax revenues are the City's largest revenue source at 33% of total revenues (\$5.9 million). Motor vehicle in-lieu taxes are the City's second largest revenue source at 24% of total revenues (\$4.3 million). These significant revenues fund a large part of the City's basic services. Management of the City will be watching these two revenue sources very closely, considering the changes made by the State of California in calculation and distribution of these very important funding sources. Fortunately, the strong performance of sales tax revenue in fiscal year 2005 reflects a relatively healthy, growing economy in our City as we begin to see the benefits of our economic development plan.

Government Activities

Table 3 presents the cost of each of the City's programs – general government, building and planning, public safety, and public works – as well as each program's *net* cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

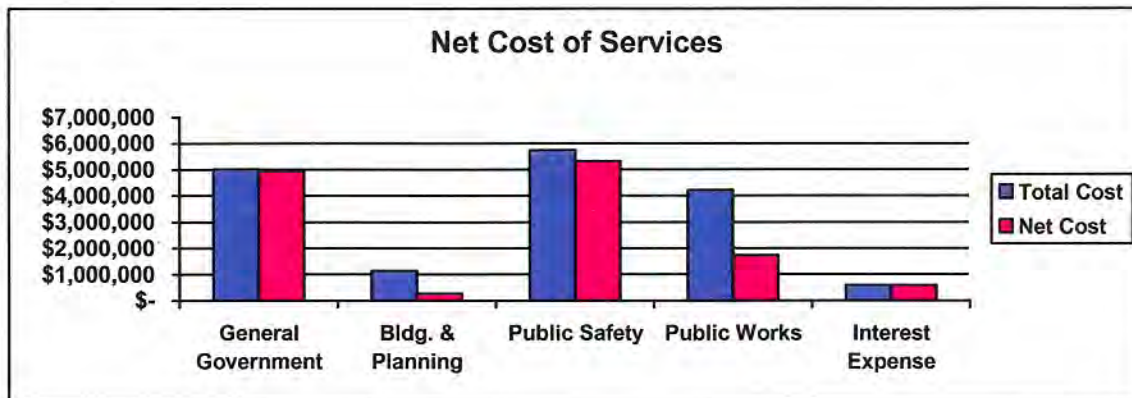
Table 3
Governmental Activities
(in Millions)

	Total Cost Of Services		Net Cost of Services	
	2005	2004	2005	2004
General government	\$ 5.0	\$ 4.7	\$ 4.9	\$4.6
Building and planning	1.1	1.0	0.3	0.3
Public safety	5.8	5.4	5.3	5.0
Public works	4.7	4.3	2.2	1.1
Interest Expense	0.6	0.7	0.6	0.7
Totals	\$17.2	\$16.1	\$13.3	\$11.7

- General government expenditures comprise 29% of the governmental services expenses and include city council, city manager, city attorney, city clerk, non-departmental, finance and community services departments. Community service fee and advertising revenues and sponsorship donations slightly reduce the cost of this program. A beverage recycling grant reduces the costs of running this program in the city manager department. These expenditures increased 6% from the prior year primarily as the result of an increase in programs undertaken by the city manager department and expenses relating to the disposal of assets that were not fully depreciated.
- Building and planning expenditures comprise 6% of the governmental services expenses. Various building and planning fee revenues reduce the cost of this program. These

expenditures increased 10% from the prior year, primarily as the result of increased planning activity.

- Public safety expenditures comprise 34% of the governmental services expenses. Fines, fees, and supplemental operating grants reduce the cost of this program. The increase of \$400,000 (7%) from the prior year reflects increased law enforcement contract costs from the County of Orange.
- Public works expenditures comprise 27% of the governmental services expenses and include capital projects, street maintenance, street lighting, and depreciation of infrastructure assets. Charges for services, grants, gas tax and measure M revenues reduce the cost of this program. The increase of \$400,000 (9%) reflects an increase in depreciation expense of capital assets of \$600,000 offset by a decrease in operating expenses of \$200,000.
- The City's interest expense comprises 3% of the governmental services expenses and decreased in the current fiscal year by \$100,000 in accordance with the related payment schedule.
- The net cost of services indicates that the overall cost of government is more than the revenues generated to support it. The total net cost of services of \$13.3 million is funded through general, non-program-specific revenues. See the Statement of Activities for further detail on program revenues and general revenues.



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At year-end the City's governmental funds reported combined fund balances of \$14.7 million, which is a decrease of \$7.1 million in fiscal year 2005. This decrease in fund balance is largely the result of the spend-down of construction funds from the Certificates of Participation issued in the prior year as the City's City Hall and Regional Community Center was completed during the year. As in prior years, the General Fund showed an excess of revenues over expenditures in the current year as revenues continue to be sufficient to cover the rising costs of providing services to residents of the City. After three years of providing all services to City residents, the City has been able to provide a consistent level of service without requiring a decrease in the General Fund fund balance from operations. However, in the current year the General Fund fund balance did decrease as a result of its contribution to the construction of the City Hall and Regional

Community Center. This was a planned decrease as the City Council had included such contribution in the anticipated funding for this project.

General Fund Budgetary Highlights

The final appropriations for the General Fund at year-end were \$65,000 (0.3%) less than the final budget. Although several departments ended with actual amounts significantly under budgeted amounts, transfers to the capital projects fund to fund the City Hall and Regional Community Center, as well as the skate park and dog park, resulted in a negative variance for transfers of \$1.2 million. This variance is the result of the timing of these projects, which crossed fiscal years. General government shows a positive variance of \$900,000, which is the net effect of the unexpended operating reserve of \$1.5 million and expenses in excess of budget for two departments that undertook additional projects, plus the effect of writing off assets that were not fully depreciated. Public Works and Public Safety both showed positive variances of 5%, at \$100,000 and \$300,000, respectively. Actual revenues were larger than anticipated by \$2.5 million, or 10%. This favorable variance is primarily due to sales taxes exceeding budgeted amounts by \$800,000 (16%) and property tax revenue exceeding expectations by \$500,000 (50%). In addition, motor vehicle in-lieu tax exceeded budgeted amounts by \$700,000 (19%). General fund budget amendments of \$40,050 were made during the year to carryover funds for dual-year projects, including the City's zoning code and municipal codification.

CAPITAL ASSETS

At the end of fiscal year 2005 the City had \$128.7 million invested in a broad range of capital assets, including infrastructure, buildings, parks, police equipment, office equipment, and land. (See Table 4 below). This amount represents a net increase (including additions and deductions) of \$7.9 million over last year.

Table 4
Capital Assets at Year-End
(Net of Depreciation, in Millions)

	<u>Government Activities</u>	
	<u>2005</u>	<u>2004</u>
Land & Rights of Way	\$45.8	\$45.8
Buildings	16.0	-
Parks	0.9	-
Machinery & Equipment		
And Leasehold Improvements	0.1	0.2
Infrastructure	<u>65.9</u>	<u>74.9</u>
Totals	<u>\$128.7</u>	<u>\$120.9</u>

The City of Rancho Santa Margarita elected to use the modified approach in reporting their pavement subsystem. Under the modified approach, infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as certain requirements (which are disclosed in the accompanying *basic financial statements* and *required supplementary information*) are met. The following schedule discloses a comparison between the City's assessed condition level of the pavement subsystem as of June 30, 2004 (the most recent condition assessment performed) and the City's adopted target level of condition:

Assessment performed in fiscal year June 30, 2004:

	<u>Actual Assessed Condition Level</u>	<u>Minimum Condition Level</u>
Street pavement	75.1	70

Under the modified approach, GASB Statement No. 34 requires that condition assessments be performed every three years. Since an assessment was performed in the fiscal year ending June 30, 2004, it is the City's intention to have another complete assessment performed on or before fiscal year ended June 30, 2007. During the year ended June 30, 2005, actual streets and roads maintenance costs were \$919,528, compared to the estimate of \$1,160,000. For a more detailed discussion and analysis of the City's capital asset activity for the fiscal year, refer to the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's primary revenue sources are all easily affected by economic factors. Sales taxes are currently performing above expectations and have been budgeted 15% higher for fiscal year 2006. This budgeted amount is actually 2% below actual revenues for fiscal year 2005, reflecting management's wariness concerning economic factors and their affect on the City's revenues in the coming year. Property taxes have been budgeted in fiscal year 2006 to reflect the second year of the required loan to the State of California. Motor vehicle in-lieu tax distributions were reduced by the State in fiscal year 2004 and will largely be paid through two distributions of property tax in lieu of motor vehicle tax in fiscal year 2006 (as in fiscal year 2005), affecting the cash flow of cities throughout the State. The timing of sales tax revenue receipts has also been affected as a result of the State's financial trials. In these times it is prudent and necessary to manage cash flow carefully, especially during the first half of the fiscal year. Management will be watching both sales taxes and motor vehicle in-lieu tax revenues very closely in the future for any unfavorable trends.

As a result of the above uncertainties, the General Fund budget for appropriations for fiscal year 2006 has been held to a 1% increase over the prior year. In addition, the City has not budgeted any capital projects that would need to be funded with general fund monies. Also note that in fiscal year 2006 the City will make its first interest payment on the outstanding Certificates of Participation issue. Now that the City has reached the milestone of having completed five full fiscal years, estimates for programs are easier to generate. With time and more trend information (plus completion of some of the City's one-time set-up projects) more accurate budget estimates are possible. The City's General Fund is balanced with no significant surplus expected for fiscal year 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Department, at the City of Rancho Santa Margarita, 22112 El Paseo, Rancho Santa Margarita, California, 92688.

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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, 2005

	<u>Governmental Activities</u>
Assets:	
Cash and investments (note 2)	\$ 14,878,933
Cash and investments with fiscal agent (note 2)	870,535
Receivables:	
Due from other governments	2,432,531
Accrued interest	96,495
Accounts, net	372,997
Non-depreciable capital assets (note 4)	92,336,900
Depreciable capital assets (note 4)	76,741,562
Less: accumulated depreciation (note 4)	<u>(40,360,701)</u>
Total assets	<u>147,369,252</u>
Liabilities:	
Accounts payable	2,544,456
Accrued liabilities	3,718
Wages payable	51,386
Unearned revenue	805,748
Retentions payable	154,545
Deposits payable	20,000
Due to other governments	334,407
Interest payable (notes 5 and 6)	22,000
Non-current liabilities (note 6):	
Due within one year	1,026,544
Due in more than one year	<u>12,842,775</u>
Total liabilities	<u>17,805,579</u>
Net assets:	
Invested in capital assets, net of related debt	116,793,296
Restricted for:	
Public safety	198,267
Public works	4,089,607
Debt service	870,578
Unrestricted	<u>7,611,925</u>
Total net assets	<u>\$ 129,563,673</u>

See accompanying notes to financial statements.

**CITY OF RANCHO SANTA MARGARITA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

		<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	<u>Net Governmental Activities</u>
Governmental activities:					
General government	\$ 5,016,167	\$ 40,136	\$ 39,856	\$ -	\$ (4,936,175)
Building and planning	1,139,485	864,537	-	-	(274,948)
Public safety	5,746,796	278,978	134,604	-	(5,333,214)
Public works	4,694,739	117,702	865,261	1,512,370	(2,199,406)
Interest expense	597,540	-	-	-	(597,540)
Total governmental activities	<u>\$ 17,194,727</u>	<u>\$ 1,301,353</u>	<u>\$ 1,039,721</u>	<u>\$ 1,512,370</u>	<u>(13,341,283)</u>
General revenues:					
Taxes:					
Property taxes					1,528,596
Sales taxes					5,935,350
Real property transfer taxes					476,358
Motor vehicle in-lieu tax, unrestricted intergovernmental					4,290,512
Franchise tax					1,012,122
Investment income					364,559
Other					501,701
Total general revenues					<u>14,109,198</u>
Change in net assets					767,915
Net assets at beginning of year					<u>128,795,758</u>
Net assets at end of year					<u>\$ 129,563,673</u>

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GOVERNMENTAL FUNDS

GENERAL FUND

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

RANCHO SANTA MARGARITA NON-PROFIT CORPORATION CAPITAL PROJECTS FUND

The Rancho Santa Margarita Non-Profit Corporation Capital Projects Fund (RSMNP) has been classified as a major fund and is used to account for expenditures for the construction of a City Hall and Regional Community Center which are financed with Certificates of Participation issued by the RSMNP for this purpose.

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, 2005**

Assets	General	RSMNP Capital Projects Capital Projects	Capital Projects Capital Projects	Other Governmental Funds	Totals
Cash and investments (note 2)	\$ 10,168,865	\$ -	\$ 1,814,928	\$ 2,895,140	\$ 14,878,933
Cash with fiscal agent (note 2)	-	-	-	870,535	870,535
Receivables:					
Due from other governments	1,810,109	-	405,665	216,757	2,432,531
Accrued interest	66,705	-	1,529	28,261	96,495
Accounts, net	208,313	-	164,685	-	372,998
Total assets	<u>\$ 12,253,992</u>	<u>\$ -</u>	<u>\$ 2,386,807</u>	<u>\$ 4,010,693</u>	<u>\$ 18,651,492</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 1,459,953	\$ -	\$ 1,062,610	\$ 21,893	\$ 2,544,456
Accrued liabilities	3,718	-	-	-	3,718
Wages payable	51,386	-	-	-	51,386
Deferred revenue	805,748	-	-	-	805,748
Retentions payable	-	-	154,545	-	154,545
Deposits payable	20,000	-	-	-	20,000
Due to other governments	334,407	-	-	-	334,407
Total liabilities	<u>2,675,212</u>	<u>-</u>	<u>1,217,155</u>	<u>21,893</u>	<u>3,914,260</u>
Fund balance:					
Reserved for encumbrances	-	-	-	-	-
Reserved for debt service	-	-	-	870,578	870,578
Unreserved, reported in:					
General fund	9,578,780	-	-	-	9,578,780
Special revenue funds	-	-	-	3,118,222	3,118,222
Debt service funds	-	-	-	-	-
Capital project funds	-	-	1,169,652	-	1,169,652
Total fund balance	<u>9,578,780</u>	<u>-</u>	<u>1,169,652</u>	<u>3,988,800</u>	<u>14,737,232</u>
Total liabilities and fund balance	<u>\$ 12,253,992</u>	<u>\$ -</u>	<u>\$ 2,386,807</u>	<u>\$ 4,010,693</u>	<u>\$ 18,651,492</u>

**CITY OF RANCHO SANTA MARGARITA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

Fund balances of governmental funds	\$ 14,737,232
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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.	128,717,760
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A liability has been recorded in the statement of net assets for the amount due to the County of Orange based on financial activity through June 30, 2005. This liability is excluded from the governmental funds financial statements which only report matured debt obligations. (See note 5)

Mitigation Obligation Payable	(1,000,000)
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Long term debt and compensated absences have not been included in the governmental fund activity:

Certificates of Participation Payable	(12,795,000)
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Compensated Absences Payable	(74,319)
------------------------------	----------

Accrued interest payable for the Mitigation Obligation Payable has not been reported in the governmental funds.	(22,000)
---	----------

Net assets of governmental activities	\$ 129,563,673
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**CITY OF RANCHO SANTA MARGARITA
GOVERNMENTAL FUND TYPES
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2005**

	General	RSMNP Capital Projects Capital Projects	Capital Projects Capital Projects	Other Governmental Funds	Totals
Revenues:					
Taxes	\$ 7,940,304	\$ -	\$ -	\$ -	\$ 7,940,304
Fees and permits	1,580,822	-	-	-	1,580,822
Intergovernmental	4,424,930	-	545,058	1,872,613	6,842,601
Charges for services	453,674	-	-	-	453,674
Investment income	216,259	29,479	11,801	107,022	364,561
Fines, forfeits and penalties	278,978	-	-	-	278,978
Other	29,422	-	472,279	-	501,701
Total revenues	14,924,389	29,479	1,029,138	1,979,635	17,962,641
Expenditures:					
Current:					
General government	4,876,998	-	-	-	4,876,998
Building and planning	1,141,458	-	-	-	1,141,458
Public safety	5,656,300	-	-	84,029	5,740,329
Public works	1,864,469	-	479,247	216,543	2,560,259
Capital outlay	8,792	2,638,287	7,474,543	-	10,121,622
Debt Service:					
Interest	-	-	-	575,540	575,540
Total expenditures	13,548,017	2,638,287	7,953,790	876,112	25,016,206
Excess of revenues over expenditures	1,376,372	(2,608,808)	(6,924,652)	1,103,523	(7,053,565)
Other financing sources (uses):					
Transfers in (note 3)	708,348	-	6,935,878	-	7,644,226
Transfers out (note 3)	(5,166,251)	-	-	(2,477,975)	(7,644,226)
Total financing sources (uses)	(4,457,903)	-	6,935,878	(2,477,975)	-
Net change in fund balances	(3,081,531)	(2,608,808)	11,226	(1,374,452)	(7,053,565)
Fund balances, beginning of year	12,660,311	2,608,808	1,158,426	5,363,252	21,790,797
Fund balances, end of year	\$ 9,578,780	\$ -	\$ 1,169,652	\$ 3,988,800	\$ 14,737,232

**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
YEAR ENDED JUNE 30, 2005**

ES,

(7,053,565)

Net change in fund balances - total governmental funds

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

7,835,791

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.

Compensated absences, capital leases and claims 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:

(14,311)

Compensated absences

Accrued Interest for Mitigation Obligation. This is the net change in accrued interest for the current period.

-

767,915

Change in net assets of governmental activities

See accompanying notes to financial statements.

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CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

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 transition of services from the County of Orange to the City is now complete. On July 1, 2001, the City became responsible for 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, 2005 was the third 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

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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

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.

(b) Basis of Accounting and Measurement Focus

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

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

Financial reporting is based upon all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB Pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying 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.

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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

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.

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

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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

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 90 days (60 days for property tax).

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

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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

occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

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

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

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*

CITY OF RANCHO SANTA MARGARITA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

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

rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

(c) 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.

Rancho Santa Margarita Nonprofit Corporation Capital Projects Fund

The Rancho Santa Margarita Nonprofit Corporation Capital Projects Fund (RSMNP) has been classified as a major fund and is used to account for expenditures for the construction of a City Hall and Regional Community Center which are financed with Certificates of Participation issued by the RSMNP for this purpose.

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.

(d) Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Assets

“Total fund balances” of the City’s governmental funds \$14,737,232 differs from “net assets” of governmental activities \$129,563,674 reported in the statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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

Capital Related Items

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

Cost of capital assets	\$169,078,462
Accumulated depreciation	<u>(40,360,701)</u>
Net capital assets	<u>\$128,717,761</u>

Long-term Liabilities Transactions

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net assets. Balances at June 30, 2005 were:

Long-term debt	\$12,795,000
Compensated absences	<u>74,319</u>
Net long-term liabilities	<u>\$12,869,319</u>

Mitigation Obligation Commitment

A liability has been recorded in the statement of net assets for the amount due to the County of Orange based on financial activity through June 30, 2005. This liability is excluded from the governmental funds financial statements, which only report matured debt obligations. The balance at June 30, 2005 is:

Mitigation obligation payable	\$1,000,000
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CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

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

(d) Explanation of Differences between Governmental Funds
Balance Sheet and the Statement of Net Assets, (Continued)

Assets	Total Governmental Funds	Capital Related Items	Short-term Debt Transactions	Long-term Debt Transactions	Interest Pavable	Compensated Absences	Statement of Net Assets
Cash and investments	\$ 14,878,933	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,878,933
Restricted cash with fiscal agent	870,535	-	-	-	-	-	870,535
Receivables:							
Due from other governments	2,432,531	-	-	-	-	-	2,432,531
Accrued interest	96,495	-	-	-	-	-	96,495
Accounts, net	372,998	-	-	-	-	-	372,998
Non-depreciable capital assets	-	92,336,900	-	-	-	-	92,336,900
Depreciable capital assets	-	76,741,562	-	-	-	-	76,741,562
Less: accumulated depreciation	-	(40,360,701)	-	-	-	-	(40,360,701)
Total assets	<u>\$ 18,651,492</u>	<u>\$ 128,717,761</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147,369,253</u>
Liabilities and Fund Balances/Net Assets							
Liabilities:							
Accounts payable	\$ 2,544,456	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,544,456
Accrued liabilities	3,718	-	-	-	-	-	3,718
Wages payable	51,386	-	-	-	-	-	51,386
Deferred revenue	805,748	-	-	-	-	-	805,748
Retentions payable	154,545	-	-	-	-	-	154,545
Deposits payable	20,000	-	-	-	-	-	20,000
Due to other governments	334,407	-	-	-	-	-	334,407
Mitigation obligation payable	-	-	1,000,000	-	-	-	1,000,000
Long-term debt	-	-	-	12,795,000	-	74,319	12,869,319
Interest payable	-	-	-	-	22,000	-	22,000
Total liabilities	<u>3,914,260</u>	<u>-</u>	<u>1,000,000</u>	<u>12,795,000</u>	<u>22,000</u>	<u>74,319</u>	<u>17,805,579</u>
Fund balances/net assets	<u>14,737,232</u>	<u>128,717,761</u>	<u>(1,000,000)</u>	<u>(12,795,000)</u>	<u>(22,000)</u>	<u>(74,319)</u>	<u>129,563,673</u>
Total liabilities and fund balances / net assets	<u>\$ 18,651,492</u>	<u>\$ 128,717,761</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147,369,254</u>

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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

Accrued Interest

Interest payable in the statement of net assets differs from the amount reported in governmental funds due to accrued interest, which is only recorded as a fund liability when due. The balance at June 30, 2005 is:

Accrued interest added	\$ 22,000
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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.

(e) Explanation of Differences between Governmental Fund Operating
Statements and the Statement of Activities

The “net change in fund balances” for governmental funds (\$7,053,566) differs from the “change in net assets” for governmental activities \$767,916 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,

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

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

(e) Explanation of Differences between Governmental Fund
Operating Statements and the Statement of Activities, (Continued)

	Total Governmental Funds	Capital Related Items	Short-term Debt Transactions	Long-term Debt Transactions	Accrued Interest	Compensated Absences	Reclassifications and Eliminations	Statement of Activities
Revenues:								
Taxes	\$ 7,940,304	-	-	-	-	-	-	7,940,304
Fees and permits	1,580,822	-	-	-	-	-	-	1,580,822
Intergovernmental	6,842,601	-	-	-	-	-	-	6,842,601
Charges for services	453,674	-	-	-	-	-	-	453,674
Investment income	364,561	-	-	-	-	-	-	364,561
Fines, forfeits and penalties	278,978	-	-	-	-	-	-	278,978
Other	501,701	-	-	-	-	-	-	501,701
Total revenues	<u>\$ 17,962,641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,962,642</u>
Expenditures:								
Current:								
General government	\$ 4,876,998	151,644	-	-	-	9,526	(22,000)	5,016,167
Building and planning	1,141,458	-	-	-	-	(1,972)	-	1,139,485
Public safety	5,740,329	7,041	-	-	-	(574)	-	5,746,795
Public works	2,560,259	2,127,147	-	-	-	7,332	-	4,694,738
Capital outlay	10,121,622	(10,121,622)	-	-	-	-	-	-
Debt service:								
Interest	575,540	-	-	-	-	-	22,000	597,540
Total expenses	<u>25,016,206</u>	<u>(7,835,791)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,311</u>	<u>-</u>	<u>17,194,726</u>
Other financing sources (uses):								
Operating transfers in	7,644,226	-	-	-	-	-	(7,644,226)	-
Operating transfers out	(7,644,226)	-	-	-	-	-	7,644,226	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances/ net assets	(7,053,565)	7,835,791	-	-	-	(14,311)	-	767,916
Fund balances / net assets beginning of year	<u>21,790,797</u>	<u>120,881,969</u>	<u>(1,000,000)</u>	<u>(12,795,000)</u>	<u>(22,000)</u>	<u>(60,008)</u>	<u>-</u>	<u>128,795,758</u>
Fund balances / net assets, end of year	<u>\$ 14,737,232</u>	<u>128,717,760</u>	<u>(1,000,000)</u>	<u>(12,795,000)</u>	<u>(22,000)</u>	<u>(74,319)</u>	<u>-</u>	<u>129,563,674</u>

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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

whereas net assets decrease by the amount of depreciation expense charged for the year and loss on disposal of assets.

Capital outlay	\$10,121,622
Depreciation expense	(2,180,549)
Loss on disposal of assets	<u>(105,282)</u>
Difference	<u>\$7,835,791</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 \$0

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.

(f) 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*.

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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

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

(g) 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. Infrastructure assets in their entirety (e.g., prior to 1980) were added to the City's net assets in the fiscal year ending June 30, 2002 in compliance with the requirements of GASB Statement Number 34.

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 Number 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

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

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

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.

(h)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.

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	\$14,878,933
Cash with fiscal agent	<u>870,535</u>
Total Cash and Investments	<u>\$15,749,468</u>

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Cash and investments at June 30, 2005 consisted of the following:

Cash and Investments held by City:	
Deposits in banks	\$ 519,223
Local Agency Investment Fund (LAIF)	<u>14,359,710</u>
Total Cash and Investments held by City	<u>\$ 14,878,933</u>
Cash and Investments held by Fiscal Agent:	
Money market	\$ 2,259
Investment agreement	<u>868,276</u>
Total Cash and Investments held by Fiscal Agent	<u>\$ 870,535</u>
Total Cash and Investments	<u>\$15,749,468</u>

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

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

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 2 – CASH AND INVESTMENTS, (Continued)

<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 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

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City currently manages its exposure to interest rate risk by investing only in the Local Agency Investment Fund (LAIF), which invests in a combination of shorter term and longer term investments and offers same day liquidity.

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

<u>Investment Type</u>	<u>Total Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<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)	\$ 14,359,710	\$ 14,359,710	-	-	-
Held by bond fiscal agent:					
Money market mutual funds	2,264	2,264	-	-	-
Investment contract	<u>868,271</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 868,271</u>
Total	<u>\$ 15,230,245</u>	<u>\$ 14,361,974</u>	<u>-</u>	<u>-</u>	<u>\$ 868,271</u>

Disclosures Relating to Credit Risk

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

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 2 – CASH AND INVESTMENTS, (Continued)

<u>Investment Type</u>	Minimum	Exempt	Rating as of Year End		
	Legal <u>Rating</u>	From <u>Disclosure</u>	<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
Local Agency Investment Fund (LAIF)	N/A	-	-	-	14,359,710
Held by bond fiscal agent:	N/A	-			
Money market mutual funds	A	-	2,264	-	-
Investment contract	Aa	-	868,271	-	-
Total		\$ -	870,535	-	14,359,710

Custodial Credit Risk

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

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 3 – TRANSFERS IN AND OUT

Transfers in and out for the year ended June 30, 2005 are as follows:

		Transfer From		
		<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Total</u>
Transfer To	General Fund	-	\$708,348	\$ 708,348
	Non-major Funds	<u>\$5,166,251</u>	<u>1,769,627</u>	<u>6,935,878</u>
	Total	<u>\$5,166,251</u>	<u>\$2,477,975</u>	<u>\$7,644,226</u>

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

- The transfer of \$5,166,251 from the General Fund to the Non-Major Funds was to fund capital projects not eligible for other funding sources. These capital projects consisted primarily of \$4,319,654 towards construction of a City Hall and Regional Community Center. In addition \$846,597 was transferred to fund a skate park and a dog park. These projects were all completed in fiscal year 2005.
- The transfer of \$708,348 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 \$1,769,626 from the Non-Major Funds to the Non-Major Funds was primarily to fund the slurry seal program (\$376,191), median improvements (\$664,691) and various traffic signal projects.

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,083,500	\$ -	\$ -	\$ 2,083,500
Land – rights of way	43,740,119	-	-	43,740,119
Infrastructure – pavement	46,513,281	-	-	46,513,281
Construction in Progress	<u>8,809,207</u>		<u>8,809,207</u>	<u>-</u>
Total capital assets not being depreciated	<u>101,146,107</u>	<u>-</u>	<u>8,809,207</u>	<u>92,336,900</u>
Capital assets being depreciated:				
Machinery & Equipment	438,404	8,792	182,199	264,997
Leasehold Improvements	89,032	-	89,032	-
Buildings	-	16,618,510	-	16,618,510
Parks	-	888,290	-	888,290
Infrastructure—all others	<u>57,554,526</u>	<u>1,415,238</u>	<u>-</u>	<u>58,969,764</u>
Total capital assets being depreciated	<u>58,081,962</u>	<u>18,930,830</u>	<u>271,231</u>	<u>76,741,561</u>
Less accumulated depreciation:				
Machinery & equipment	328,030	53,167	151,683	229,514
Leasehold Improvements	11,298	2,968	14,266	-
Buildings	-	553,950	-	553,950
Infrastructure	<u>38,006,772</u>	<u>1,570,464</u>	<u>-</u>	<u>39,577,236</u>
Total accum. depreciation	<u>38,346,100</u>	<u>2,180,549</u>	<u>165,949</u>	<u>40,360,700</u>
Total capital assets being depreciated, net	<u>19,735,862</u>	<u>16,750,281</u>	<u>105,282</u>	<u>36,380,861</u>
Total capital assets, net	<u>\$120,881,969</u>	<u>16,750,281</u>	<u>\$8,914,489</u>	<u>\$128,717,761</u>
Depreciation expense was charged in the following functions in the Statement of Activities:				
	General government	\$ 46,361		
	Public safety	7,041		
	Public works	<u>2,127,147</u>		
	Total	<u>\$2,180,549</u>		

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 4 – CAPITAL ASSETS, (Continued)

As of June 30, 2005 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 equal \$1,000,000 per year through 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 2005, this interest is \$22,000, payable on June 30, 2006. The 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, 2005 was as follows:

	<u>Balance at June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2005</u>	<u>Due Within One Year</u>
Mitigation Obligation	\$1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Certificates of Participation-					
City Hall & Regional					
Community Center	12,795,000	-	-	12,795,000	-
Compensated absences	<u>60,008</u>	<u>16,857</u>	<u>2,546</u>	<u>74,319</u>	<u>26,544</u>
Total Governmental					
Long-Term Liabilities	<u>\$13,855,008</u>	<u>\$1,016,857</u>	<u>1,002,546</u>	<u>13,869,319</u>	<u>1,026,544</u>

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(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 are capitalized through April 1, 2005. The amount outstanding as of June 30, 2005 was \$12,795,000.

The annual requirements to amortize the outstanding Certificates of Participation as of June 30, 2005, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ -	\$ 575,548
2007	-	575,548
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>\$ 10,837,510</u>

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 7 – 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.

All full time employees are 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 8.57% to 13.31% (employee contribution). The City is required to make contributions to OCERS in amounts that are estimated to remain a constant percentage of covered employees' compensation such that, when combined with covered employees' contributions, will fully provide for all covered employees' benefits by the time they retire (employer contribution). The City provides 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 (fiscal years ended June 30, 2005, 2004, and 2003), the required contribution equaled the contribution actually made.

The following table provides salary and contributions requirements for the current and two prior fiscal years, representing all years in the plan. Fiscal year 2003 amounts represent six months only, beginning with plan entry effective January 1, 2003.

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 7 – PENSION PLAN, (Continued)

	<u>For the Fiscal Year Ending</u>		
	<u>6/30/2003</u>	<u>6/30/2004</u>	<u>6/30/2005</u>
Total Payroll Costs	\$418,153	\$939,360	\$979,639
Payroll Costs of Employees Covered by OCERS	399,337	898,425	934,980
Contributions:			
Employee Contribution	45,443	103,490	99,304
Employer Contribution	19,767	45,730	48,619
Total Contribution	65,210	149,220	147,923
Employee Required Contribution as a Percent of Covered Payroll	11.38%	11.52%	10.62%
Employer Required Contribution as a Percent of Covered Payroll	4.95%	5.09%	5.20%
Total Contribution as a Percent of all Participating Contributions	16.33%	16.61%	15.82%

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 \$25,000 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 \$15 million. The total premium for this coverage was \$43,000 for the fiscal year ending June 30, 2005.

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 \$75,000 for the fiscal year ending June 30, 2005.

CITY OF RANCHO SANTA MARGARITA
NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 8 – RISK MANAGEMENT, (Continued)

Property Insurance

The City purchases commercial property insurance from PARSAC with limits of \$750 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, 2005. Furthermore, there have been no settlements that have exceeded insurance coverage since the City's inception on January 1, 2000.

NOTE 9 – CONTINGENCIES

Various claims and suits have been filed against the City in the normal course of business. Although the outcome of these matters is not presently determinable in the opinion of legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

NOTE 10 - RESTATED FUND BALANCE

The Supplemental Law Enforcement Services fund has restated the beginning fund balance in this non-major governmental fund. The change, totaling \$3,532, represents an accrual that was excluded in the prior year. The effect of the recording of the accrual as an expenditure on beginning fund balance is as follows:

Balance as previously reported – July 1, 2004	\$181,440
Change	<u>(3,532)</u>
Balance as restated – July 1, 2004	<u>\$177,908</u>

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

(Continued)

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

Assessment performed in fiscal year June 30, 2004:

	<u>Actual Assessed Condition Level</u>	<u>Minimum Condition Level</u>
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 condition assessment as of June 30, 2004, the street had an average deficiency rating of 75.1 or Very Good.

CITY OF RANCHO SANTA MARGARITA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

(Continued)

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

During the fiscal year ending June 30, 2005, street maintenance costs were \$919,528, compared to the budgeted estimate of \$1,160,000. Street maintenance costs for the fiscal years ending June 30, 2004 and June 30, 2003 (the first year of implementation of the modified approach for street pavement) were \$783,609 and \$908,403, respectively. Appropriations totaling \$1,497,000 have been budgeted for the fiscal year ending June 30, 2006 for maintenance/rehabilitation to achieve the minimum PCI standard. These appropriations include \$560,000 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

(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.

**CITY OF RANCHO SANTA MARGARITA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	AMOUNTS	FINAL BUDGET
				POSITIVE
				(NEGATIVE)
Budgetary fund balances, July 1	\$ 12,660,311	\$ 12,660,311	\$ 12,660,311	\$ -
Resources (inflows):				
Taxes	6,565,367	6,565,367	7,940,304	1,374,937
Fees and permits	1,367,844	1,367,844	1,580,822	212,978
Intergovernmental	3,623,227	3,623,227	4,424,930	801,703
Charges for service	305,000	305,000	453,674	148,674
Investment income	200,000	200,000	216,259	16,259
Fines, forfeits and penalties	260,000	260,000	278,978	18,978
Other	55,000	55,000	29,422	(25,578)
Transfers from other funds	743,000	743,000	708,348	(34,652)
Amounts available for appropriation	<u>25,779,749</u>	<u>25,779,749</u>	<u>28,293,048</u>	<u>2,513,299</u>
Charges to appropriations (outflows):				
General Government	5,749,614	5,770,614	4,876,998	893,616
Building and Planning	1,088,950	1,108,000	1,141,458	(33,458)
Public Safety	5,966,574	5,966,574	5,656,300	310,274
Public Works	1,965,652	1,965,652	1,864,469	101,183
Capital Outlay	-	-	8,792	(8,792)
Transfers to other funds	3,968,326	3,968,326	5,166,251	(1,197,925)
Total charges to appropriations	<u>18,739,116</u>	<u>18,779,166</u>	<u>18,714,268</u>	<u>64,898</u>
Budgetary fund balances, June 30	<u>\$ 7,040,633</u>	<u>\$ 7,000,583</u>	<u>\$ 9,578,780</u>	<u>\$ 2,578,197</u>

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.

Local Park – This fund accounts for funds collected for park improvements in conjunction with city-approved park implementation programs.

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, 2005**

Assets	Special Revenue Funds			
	<u>Gas Tax</u>	<u>Measure M</u>	<u>Air Quality Management District</u>	<u>California Law Enforcement Eqpt. Program</u>
Cash and investments	\$ 1,677,684	\$ 924,919	\$ 92,260	\$ 197
Cash with fiscal agent	-	-	-	-
Due from other governments	109,885	90,596	16,276	-
Interest receivable	13,394	11,797	1,045	-
Total assets	<u>\$ 1,800,963</u>	<u>\$ 1,027,312</u>	<u>\$ 109,581</u>	<u>\$ 197</u>
 Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 18,451	\$ -	\$ -	\$ -
Total liabilities	<u>18,451</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Reserved for encumbrances	-	-	-	-
Reserved for debt service	-	-	-	-
Unreserved	<u>1,782,512</u>	<u>1,027,312</u>	<u>109,581</u>	<u>197</u>
Total fund balances	<u>1,782,512</u>	<u>1,027,312</u>	<u>109,581</u>	<u>197</u>
Total liabilities and fund balances	<u>\$ 1,800,963</u>	<u>\$ 1,027,312</u>	<u>\$ 109,581</u>	<u>\$ 197</u>

<u>Special Revenue Funds</u>			<u>Debt Service Fund</u>	
<u>Traffic Congestion</u>	<u>Local Park</u>	<u>Supplemental Law Enforcement Services</u>	<u>Rancho Santa Margarita Non-Profit</u>	<u>Totals</u>
\$ -	\$ -	\$ 200,080	\$ -	\$ 2,895,140
-	-	-	870,535	870,535
-	-	-	-	216,757
550	-	1,432	43	28,261
<u>\$ 550</u>	<u>\$ -</u>	<u>\$ 201,512</u>	<u>\$ 870,578</u>	<u>\$ 4,010,693</u>

<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,442</u>	<u>\$ -</u>	<u>\$ 21,893</u>
<u>-</u>	<u>-</u>	<u>3,442</u>	<u>-</u>	<u>21,893</u>
-	-	-	-	-
-	-	-	870,578	870,578
550	-	198,070	-	3,118,222
<u>550</u>	<u>-</u>	<u>198,070</u>	<u>870,578</u>	<u>3,988,800</u>
<u>\$ 550</u>	<u>\$ -</u>	<u>\$ 201,512</u>	<u>\$ 870,578</u>	<u>\$ 4,010,693</u>

**CITY OF RANCHO SANTA MARGARITA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2005**

	<u>Special Revenue Funds</u>			
	<u>Gas Tax</u>	<u>Measure M</u>	<u>Air Quality Management District</u>	<u>California Law Enforcement Eqpt. Program</u>
Revenues:				
Intergovernmental	\$ 1,201,775	\$ 511,300	\$ 59,497	\$ -
Investment income	40,000	32,710	2,597	-
Total revenues	<u>1,241,775</u>	<u>544,010</u>	<u>62,094</u>	<u>-</u>
Expenditures:				
Current:				
Public safety	-	-	-	-
Public works	216,543	-	-	-
Debt Service:				
Interest	-	-	-	-
Total expenditures	<u>216,543</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>1,025,232</u>	<u>544,010</u>	<u>62,094</u>	<u>-</u>
Other financing sources (uses):				
Transfers out	(930,335)	(996,000)	(66,503)	-
Total financing sources (uses)	<u>(930,335)</u>	<u>(996,000)</u>	<u>(66,503)</u>	<u>-</u>
Net change in fund balances	94,897	(451,990)	(4,409)	-
Fund balances, beginning of year	<u>1,687,615</u>	<u>1,479,302</u>	<u>113,990</u>	<u>197</u>
Fund balances, end of year	<u>\$ 1,782,512</u>	<u>\$ 1,027,312</u>	<u>\$ 109,581</u>	<u>\$ 197</u>

<u>Special Revenue Funds</u>			<u>Debt Service</u>	
<u>Traffic</u>	<u>Local</u>	<u>Supplemental</u>	<u>Rancho Santa</u>	
<u>Congestion</u>	<u>Park</u>	<u>Law Enforce-</u>	<u>Margarita</u>	<u>Totals</u>
		<u>ment Services</u>	<u>Non-Profit</u>	
\$ -	\$ -	\$ 100,041	\$ -	\$ 1,872,613
2,901	1,961	4,150	22,703	107,022
<u>2,901</u>	<u>1,961</u>	<u>104,191</u>	<u>22,703</u>	<u>1,979,635</u>
-	-	84,029	-	84,029
-	-	-	-	216,543
-	-	-	575,540	575,540
<u>-</u>	<u>-</u>	<u>84,029</u>	<u>575,540</u>	<u>876,112</u>
2,901	1,961	20,162	(552,837)	1,103,523
(127,000)	(358,137)	-	-	(2,477,975)
<u>(127,000)</u>	<u>(358,137)</u>	<u>-</u>	<u>-</u>	<u>(2,477,975)</u>
(124,099)	(356,176)	20,162	(552,837)	(1,374,452)
124,649	356,176	177,908	1,423,415	5,363,252
<u>\$ 550</u>	<u>\$ -</u>	<u>\$ 198,070</u>	<u>\$ 870,578</u>	<u>\$ 3,988,800</u>

**CITY OF RANCHO SANTA MARGARITA
GAS TAX
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	AMOUNTS	FINAL BUDGET
				POSITIVE
				(NEGATIVE)
Budgetary fund balances, July 1	\$ 1,687,615	\$ 1,687,615	\$ 1,687,615	\$ -
Resources (inflows):				
Intergovernmental	1,214,500	1,214,500	1,201,775	(12,725)
Investment income	35,000	35,000	40,000	5,000
Amounts available for appropriation	<u>2,937,115</u>	<u>2,937,115</u>	<u>2,929,390</u>	<u>(7,725)</u>
Charges to appropriations (outflows):				
Public works	275,000	275,000	216,543	58,457
Transfers to other funds	<u>1,530,300</u>	<u>1,530,300</u>	<u>930,335</u>	<u>599,965</u>
Total charges to appropriations	<u>1,805,300</u>	<u>1,805,300</u>	<u>1,146,878</u>	<u>658,422</u>
Budgetary fund balances, June 30	<u>\$ 1,131,815</u>	<u>\$ 1,131,815</u>	<u>\$ 1,782,512</u>	<u>\$ 650,697</u>

**CITY OF RANCHO SANTA MARGARITA
MEASURE M
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE</u>
				<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 1,479,302	\$ 1,479,302	\$ 1,479,302	\$ -
Resources (inflows):				
Intergovernmental	461,358	461,358	511,300	49,942
Investment income	5,000	5,000	32,710	27,710
Amounts available for appropriation	<u>1,945,660</u>	<u>1,945,660</u>	<u>2,023,312</u>	<u>77,652</u>
Charges to appropriations (outflows):				
Transfers to other funds	<u>1,140,000</u>	<u>1,140,000</u>	<u>996,000</u>	<u>144,000</u>
Total charges to appropriations	<u>1,140,000</u>	<u>1,140,000</u>	<u>996,000</u>	<u>144,000</u>
Budgetary fund balances, June 30	<u>\$ 805,660</u>	<u>\$ 805,660</u>	<u>\$ 1,027,312</u>	<u>\$ 221,652</u>

**CITY OF RANCHO SANTA MARGARITA
AIR QUALITY MANAGEMENT DISTRICT
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE</u>
				<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 113,990	\$ 113,990	\$ 113,990	\$ -
Resources (inflows):				
Intergovernmental	52,000	52,000	59,497	7,497
Investment income	1,000	1,000	2,597	1,597
Amounts available for appropriation	<u>166,990</u>	<u>166,990</u>	<u>176,084</u>	<u>9,094</u>
Charges to appropriations (outflows):				
Transfers to other funds	-	-	66,503	(66,503)
Total charges to appropriations	<u>-</u>	<u>-</u>	<u>66,503</u>	<u>(66,503)</u>
Budgetary fund balances, June 30	<u>\$ 166,990</u>	<u>\$ 166,990</u>	<u>\$ 109,581</u>	<u>\$ (57,409)</u>

**CITY OF RANCHO SANTA MARGARITA
CALIFORNIA LAW ENFORCEMENT EQUIPMENT PROGRAM
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005**

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

**CITY OF RANCHO SANTA MARGARITA
TRAFFIC CONGESTION
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Budgetary fund balances, July 1	\$ 124,649	\$ 124,649	\$ 124,649	\$ -
Resources (inflows):				
Intergovernmental	-	-	-	-
Investment income	5,000	5,000	2,901	(2,099)
Amounts available for appropriation	<u>129,649</u>	<u>129,649</u>	<u>127,550</u>	<u>(2,099)</u>
Charges to appropriations (outflows):				
Transfers to other funds	70,000	70,000	127,000	(57,000)
Total charges to appropriations	<u>70,000</u>	<u>70,000</u>	<u>127,000</u>	<u>(57,000)</u>
Budgetary fund balances, June 30	<u>\$ 59,649</u>	<u>\$ 59,649</u>	<u>\$ 550</u>	<u>\$ (59,099)</u>

**CITY OF RANCHO SANTA MARGARITA
LOCAL PARK
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE</u>
				<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 356,176	\$ 356,176	\$ 356,176	\$ -
Resources (inflows):				
Intergovernmental	-	-	-	-
Investment income	2,500	2,500	1,961	(539)
Amounts available				
for appropriation	358,676	358,676	358,137	(539)
Charges to appropriations (outflows):				
Transfers to other funds	-	-	358,137	(358,137)
Total charges to appropriations	-	-	358,137	(358,137)
Budgetary fund balances, June 30	<u>\$ 358,676</u>	<u>\$ 358,676</u>	<u>\$ -</u>	<u>\$ (358,676)</u>

**CITY OF RANCHO SANTA MARGARITA
SUPPLEMENTAL LAW ENFORCEMENT SERVICES
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Budgetary fund balances, July 1	\$ 177,908	\$ 177,908	\$ 177,908	\$ -
Resources (inflows):				
Intergovernmental	100,000	100,000	100,041	41
Investment income	2,500	2,500	4,150	1,650
Amounts available for appropriation	<u>280,408</u>	<u>280,408</u>	<u>282,099</u>	<u>1,691</u>
Charges to appropriations (outflows):				
Public safety - current	140,108	140,108	84,029	56,079
Public safety - capital outlay	4,000	4,000	-	4,000
Total charges to appropriations	<u>144,108</u>	<u>144,108</u>	<u>84,029</u>	<u>60,079</u>
Budgetary fund balances, June 30	<u>\$ 136,300</u>	<u>\$ 136,300</u>	<u>\$ 198,070</u>	<u>\$ 61,770</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
YEAR ENDED JUNE 30, 2005**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE</u>
				<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 1,423,415	\$ 1,423,415	\$ 1,423,415	\$ -
Resources (inflows):				
Investment income	-	-	22,703	22,703
Amounts available for appropriation	1,423,415	1,423,415	1,446,118	22,703
Charges to appropriations (outflows):				
Interest	580,000	580,000	575,540	4,460
Total charges to appropriations	580,000	580,000	575,540	4,460
Budgetary fund balances, June 30	<u>\$ 843,415</u>	<u>\$ 843,415</u>	<u>\$ 870,578</u>	<u>\$ 27,163</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.

Rancho Santa Margarita Non-Profit Corporation Capital Projects Fund (RSMNP) – This fund has been classified as a major fund and is used to account for expenditures for the construction of a City Hall and Regional Community Center which are financed with Certificates of Participation issued by the RSMNP for this purpose.

**CITY OF RANCHO SANTA MARGARITA
CAPITAL PROJECTS
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL AMOUNTS</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
Budgetary fund balances, July 1	\$ 1,158,426	\$ 1,158,426	\$ 1,158,426	\$ -
Resources (inflows):				
Intergovernmental	1,213,205	1,213,205	545,058	(668,147)
Investment income	-	-	11,801	11,801
Other	465,700	465,700	472,279	6,579
Transfers from other funds	5,965,626	5,965,626	6,935,878	970,252
Amounts available for appropriation	<u>8,802,957</u>	<u>8,802,957</u>	<u>9,123,442</u>	<u>320,485</u>
Charges to appropriations (outflows):				
Public works	1,100,000	1,155,351	479,247	676,104
Capital outlay	7,505,034	7,819,836	7,474,543	345,293
Total charges to appropriations	<u>8,605,034</u>	<u>8,975,187</u>	<u>7,953,790</u>	<u>1,021,397</u>
Budgetary fund balances, June 30	<u>\$ 197,923</u>	<u>\$ (172,230)</u>	<u>\$ 1,169,652</u>	<u>\$ 1,341,882</u>

**CITY OF RANCHO SANTA MARGARITA
NON-PROFIT CAPITAL PROJECTS
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE</u>
				<u>(NEGATIVE)</u>
Budgetary fund balances, July 1	\$ 2,608,808	\$ 2,608,808	\$ 2,608,808	\$ -
Resources (inflows):				
Investment income	-	-	29,479	29,479
Amounts available for appropriation	2,608,808	2,608,808	2,638,287	29,479
Charges to appropriations (outflows):				
Capital outlay	2,640,000	2,640,000	2,638,287	1,713
Total charges to appropriations	2,640,000	2,640,000	2,638,287	1,713
Budgetary fund balances, June 30	<u>\$ (31,192)</u>	<u>\$ (31,192)</u>	<u>\$ -</u>	<u>\$ 31,192</u>

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**CITY OF RANCHO SANTA MARGARITA
GOVERNMENT-WIDE
EXPENSES BY FUNCTION
FIVE FISCAL YEARS FOLLOWING INCORPORATION**

<u>Fiscal Year End</u>	<u>General Government</u>	<u>Building and Planning</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Mitigation Obligation and Interest</u>	<u>Total</u>
2001	\$ 1,869,958	\$ 1,273,368	\$ 1,271,524	\$ 1,086,544	\$ 1,084,000	\$ 6,585,394
2002	\$ 2,913,397	\$ 1,379,831	\$ 1,359,116	\$ 6,972,602	\$ 1,130,000	\$ 13,754,946
2003	\$ 4,962,868	\$ 970,918	\$ 4,822,527	\$ 6,365,863	\$ 107,250	\$ 17,229,426
2004	\$ 4,674,016	\$ 1,005,053	\$ 5,437,001	\$ 4,332,835	\$ 688,289	\$ 16,137,194
2005	\$ 5,016,167	\$ 1,139,485	\$ 5,746,796	\$ 4,215,492	\$ 597,540	\$ 16,715,480

Source: City of Rancho Santa Margarita Finance Department

Note: City was incorporated January 1, 2000

**CITY OF RANCHO SANTA MARGARITA
GOVERNMENT-WIDE REVENUES
FIVE FISCAL YEARS FOLLOWING INCORPORATION**

Fiscal Year End	PROGRAM REVENUES			GENERAL REVENUES				Total
	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Taxes	Fines and Fees	Investment Income	Miscellaneous	
2001	\$1,528,374	\$2,542,162	\$ 100,000	\$5,606,349	\$4,158,087	\$289,510	\$ 26,425	\$14,250,907
2002	\$3,054,060	\$4,313,634	\$ 44,901	\$6,144,365	\$4,454,459	\$443,217	\$ 9,338	\$18,463,974
2003	\$1,017,961	\$2,299,941	\$ 23,034	\$6,756,856	\$4,608,086	\$341,895	\$ 17,363	\$15,065,136
2004	\$1,127,251	\$1,888,519	\$1,374,956	\$7,678,109	\$4,525,275	\$214,800	\$104,656	\$16,913,566
2005	\$1,301,353	\$1,039,721	\$1,512,370	\$7,940,304	\$5,302,634	\$352,760	\$ 29,422	\$17,478,564

Source: City of Rancho Santa Margarita Finance Department

Note: City was incorporated January 1, 2000

**CITY OF RANCHO SANTA MARGARITA
GENERAL GOVERNMENT
EXPENDITURES BY FUNCTION
FIVE FISCAL YEARS FOLLOWING INCORPORATION**

<u>Fiscal Year End</u>	<u>General Government</u>	<u>Building and Planning</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Capital Outlay</u>	<u>Total</u>
2001	\$2,826,933	\$1,273,368	\$1,271,524	\$ 991,333	\$1,382,249	\$ 7,745,407
2002	\$3,939,096	\$1,379,831	\$1,317,882	\$2,081,311	\$ 125,244	\$ 8,843,364
2003	\$5,032,730	\$ 970,918	\$4,778,075	\$2,110,655	\$ 222,239	\$13,114,617
2004	\$4,733,646	\$1,003,705	\$5,408,210	\$2,008,875	\$ 13,455	\$13,167,891
2005	\$4,876,998	\$1,141,458	\$5,656,300	\$1,864,470	\$ 8,792	\$13,548,018

Includes General and Special Revenue Funds

Source: City of Rancho Santa Margarita Finance Department

Note: City was incorporated January 1, 2000

**CITY OF RANCHO SANTA MARGARITA
GENERAL GOVERNMENT
REVENUE BY SOURCE
LAST FIVE FISCAL YEARS**

<u>Fiscal Year End</u>	<u>Taxes</u>	<u>Fees and Permits</u>	<u>Intergovernmental</u>	<u>Charges for Services</u>	<u>Investment Income</u>	<u>Fines, Forfeits, Penalties, and Other</u>	<u>Total</u>
2001	\$5,606,349	\$1,671,983	\$ 5,971,205	\$358,849	\$ 289,030	\$ 270,522	\$14,167,938
2002	\$6,144,365	\$2,067,205	\$ 5,717,342	\$269,881	\$ 425,834	\$1,640,864	\$16,265,491
2003	\$6,756,856	\$1,473,745	\$ 5,715,935	\$191,651	\$ 338,074	\$ 278,259	\$14,754,520
2004	\$7,678,109	\$1,507,143	\$ 5,345,100	\$350,211	\$ 144,855	\$ 401,629	\$15,427,047
2005	\$7,940,304	\$1,580,822	\$ 4,424,930	\$453,674	\$ 216,259	\$ 308,400	\$14,924,389

Includes General and Special Revenue Funds

Source: City of Rancho Santa Margarita Finance Department

Note: City was incorporated January 1, 2000

**CITY OF RANCHO SANTA MARGARITA
GENERAL GOVERNMENT
TAX REVENUES BY SOURCE
FIVE FISCAL YEARS FOLLOWING INCORPORATION**

<u>Fiscal Year End</u>	<u>Sales and Use</u>	<u>Property</u>	<u>Real Property Transfer</u>	<u>Total</u>
2001	\$4,048,066	\$ 1,262,640	\$ 295,643	\$ 5,606,349
2002	\$4,347,798	\$ 1,454,780	\$ 341,787	\$ 6,144,365
2003	\$4,886,699	\$ 1,459,741	\$ 410,416	\$ 6,756,856
2004	\$5,621,674	\$ 1,563,215	\$ 493,220	\$ 7,678,109
2005	\$5,935,350	\$ 1,528,596	\$ 476,358	\$ 7,940,304

Includes General and Special Revenue Funds

Sales and Use Tax Revenue includes Property Tax In-Lieu of Sales Tax Revenue

Source: City of Rancho Santa Margarita Finance Department

Note: City was incorporated January 1, 2000

**CITY OF RANCHO SANTA MARGARITA
PROPERTY TAX LEVIES AND COLLECTIONS
(GENERAL FUND ONLY)
FIVE FISCAL YEARS FOLLOWING INCORPORATION**

<u>Fiscal Year End</u>	<u>Gross Tax Levy</u>	<u>Current Tax Collections</u>	<u>% of Current Levy Collected</u>	<u>Total Tax Collections (Including Delinquencies)</u>
2001	\$ 1,298,604	\$ 1,262,640	97.2%	\$ 1,262,640
2002	\$ 1,467,648	\$ 1,430,843	97.5%	\$ 1,454,780
2003	\$ 1,459,678	\$ 1,426,632	97.7%	\$ 1,459,741
2004	\$ 1,575,818	\$ 1,549,698	98.3%	\$ 1,537,095
2005	\$ 1,534,511	\$ 1,506,541	98.2%	\$ 1,528,596

Source: Orange County Auditor-Controller Office

Note: City was incorporated January 1, 2000

**CITY OF RANCHO SANTA MARGARITA
ASSESSED VALUE OF TAXABLE PROPERTY
FIVE FISCAL YEARS FOLLOWING INCORPORATION**

<u>Fiscal Year End</u>	<u>Gross Assessed Value</u>	<u>Exemptions</u>	<u>Net Taxable Value</u>	<u>% of Assessed Value Growth</u>
2001	\$ 4,432,439,865	\$ 121,692,194	\$ 4,310,747,671	N/A
2002	\$ 4,523,764,125	\$ 139,983,362	\$ 4,383,780,763	2.06%
2003	\$ 4,865,811,379	\$ 147,723,525	\$ 4,718,087,854	7.56%
2004	\$ 5,210,178,108	\$ 158,674,519	\$ 5,051,503,589	7.08%
2005	\$ 5,675,408,848	\$ 173,415,364	\$ 5,501,993,484	8.93%

Source: Orange County Auditor-Controller Office
HdL Coren & Cone

Note: City was incorporated January 1, 2000

**CITY OF RANCHO SANTA MARGARITA
SCHEDULE OF OVERLAPPING DEBT
JUNE 30, 2005**

2004-05 Assessed Valuation: \$ 5,502,550,169

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/30/05</u>
Orange County Teeter Plan Obligations	1.961	\$ 2,426,247
Metropolitan Water District	0.415	1,740,469
Capistrano Unified School District School Facilities Improvement District No. 1	1.684	1,042,226
Saddleback Valley Unified School District	15.317	15,317,000
Santa Margarita Water District Improvement Districts	1.484-99.975	99,580,031
Capistrano Unified School District Community Facilities District No. 88-1	100.000	9,410,000
Saddleback Valley Unified School District Community Facilities Districts	100.000	49,925,320
Trabuco Canyon Water District Community Facilities Districts	100.000	31,405,000
Orange County Community Facilities Districts	100.000	103,477,122
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$ 314,323,415

OVERLAPPING GENERAL FUND OBLIGATION DEBT:

Orange County General Fund Obligations	1.961	\$ 17,188,145
Orange County Pension Obligations	1.961	2,191,859
Orange County Board of Education Certificates of Participation	1.961	390,239
Orange County Transit District Authority	1.961	72,655
Municipal Water District of Orange County Water Facilities Corporation	2.343	823,916
South Orange County Community College District Certificates of Participation	4.707	1,908,689
Capistrano Unified School District Certificates of Participation	3.952	1,564,202
City of RSM Nonprofit Corporation Certificates of Participation	100.000	12,795,000
Orange County Fire Authority	4.864	956,506
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$ 37,891,211
Less: Orange County Transit District Authority (80% self-supporting)		58,124
MWDOC Water Facilities Corporation (100% self-supporting)		823,916
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$ 37,009,171

GROSS COMBINED TOTAL DEBT	\$ 352,214,626	(1)
NET COMBINED TOTAL DEBT	351,332,586	

(1) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and nonbonded capital lease obligations.

Ratios to 2004-05 Assessed Valuation:

Combined Direct Debt (\$12,795,000).....	0.23%
Total Direct and Overlapping Tax and Assessment Debt.....	5.71%
Gross Combined Total Debt.....	6.40%
Net Combined Total Debt.....	6.38%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/05: \$ -

Source: California Municipal Statistics, Inc.

Note: City was incorporated January 1, 2000

**CITY OF RANCHO SANTA MARGARITA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2005**

Assessed valuation:

Total assessed valuation	\$ 5,675,408,848	
Bonded debt limit (15% of assessed value) (1)		\$ 851,311,327
Amount of debt subject to limit		<u>-</u>
Legal debt margin		<u>\$ 851,311,327</u>

Source: Orange County Auditor-Controller Office

Note: (1) Section 43605 of the California Government Code

Note: City was incorporated January 1, 2000

**CITY OF RANCHO SANTA MARGARITA
RATIO OF NET GENERAL OBLIGATION DEBT TO ASSESSED VALUE
AND NET GENERAL OBLIGATION DEBT PER CAPITA
FIVE FISCAL YEARS FOLLOWING INCORPORATION**

<u>Fiscal Year End</u>	<u>Net General Obligation Debt</u>	<u>Assessed Value</u>	<u>Percent of General Obligation Debt to Assessed Value</u>	<u>Population</u>	<u>Net General Obligation Debt Per Capita</u>
2001	\$ -	\$ 4,432,439,865	0%	47,214	0
2002	\$ -	\$ 4,523,764,125	0%	48,478	0
2003	\$ -	\$ 4,865,811,379	0%	48,810	0
2004	\$ -	\$ 5,210,178,108	0%	49,023	0
2005	\$ -	\$ 5,675,408,848	0%	49,249	0

Sources: Orange County Auditor-Controller Office
California Department of Finance, Demographic Research Unit 1/1/04
Rancho Santa Margarita Finance Department

Note: City was incorporated January 1, 2000

**CITY OF RANCHO SANTA MARGARITA
DEMOGRAPHIC STATISTICS
FIVE FISCAL YEARS FOLLOWING INCORPORATION**

<u>Fiscal Year</u>	<u>City of Rancho Santa Margarita Population</u>	<u>Percentage Increase</u>	<u>Orange County Population</u>	<u>Percentage Increase</u>
2001	47,214	N/A	2,880,200	N/A
2002	48,478	2.68%	2,939,500	2.06%
2003	48,810	0.68%	2,978,816	1.34%
2004	49,023	0.44%	3,017,300	1.29%
2005	49,249	0.46%	3,055,493	1.27%

Source: California Department of Finance

Note: City was incorporated January 1, 2000

**CITY OF RANCHO SANTA MARGARITA
BUILDING PERMITS
FIVE FISCAL YEARS FOLLOWING INCORPORATION**

Calendar Year	Building Permit Valuation	Building Permits
2001	\$ 63,127,100	985
2002	\$ 23,787,000	881
2003	\$ 19,767,000	766
2004	\$ 31,819,867	722
2005	\$ 31,624,297	903

Source: Rancho Santa Margarita Building Department

Note: City was incorporated January 1, 2000

**CITY OF RANCHO SANTA MARGARITA
PRINCIPAL PROPERTY TAXPAYERS**

Company or Individual	Type of Business	Valuation of Total Assessed 2004-05	Percent of Sample Total	Percent of City's Valuation
Cox Communications Inc.	Industrial	\$ 64,239,163	16.8%	1.1%
Villa La Paz Partners Limited Partnership	Residential	49,519,454	13.0%	0.9%
Northwestern Mutual Life Insurance Company	Residential	43,388,749	11.4%	0.8%
BRE Properties Inc.	Residential	41,664,919	10.9%	0.7%
Ralphs Grocery Company	Commercial	33,878,741	8.9%	0.6%
Sanyo Foods Corporation of America	Commercial	32,141,714	8.4%	0.6%
Saddleback Valley School District	Miscellaneous	30,890,358	8.1%	0.5%
Roman Catholic Bishop of Orange	Miscellaneous	30,609,706	8.0%	0.5%
ERP Operating Limited Partnership	Residential	29,505,374	7.7%	0.5%
County of Orange	Miscellaneous	25,572,584	6.7%	0.5%
TOTAL		<u>\$ 381,410,762</u>	<u>100.0%</u>	<u>6.7%</u>

Source: HdL Coren & Cone

Note: City was incorporated January 1, 2000

**CITY OF RANCHO SANTA MARGARITA
MISCELLANEOUS STATISTICS
JUNE 30, 2005**

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:	49,249
Area in square miles:	13
Form of Government:	Council-Manager
Date of Incorporation:	January 1, 2000
Number of Full Time Employees:	14
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	176
Source:	City Finance Department