



City of
Rancho Santa Margarita
California

Comprehensive Annual
Financial Report

For the Year Ended June 30, 2012



Comprehensive Annual Financial Report

For the Year Ended June 30, 2012

Finance Division

City of Rancho Santa Margarita, California



City Council



L. ANTHONY BEALL
Mayor



STEVEN BARIC
Mayor Pro Tempore



CAROL A. GAMBLE
Council Member



JERRY HOLLOWAY
Council Member



JESSE PETRILLA
Council Member

City of Rancho Santa Margarita, California

**CITY OF RANCHO SANTA MARGARITA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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Introductory Section

City of Rancho Santa Margarita, California



CITY OF RANCHO SANTA MARGARITA

Mayor

L. Anthony Beall

Mayor Pro Tem

Steven Baric

Council Members

Carol A. Gamble

Jerry Holloway

Jesse Petrilla

City Manager

Jennifer M. Cervantez

November 28, 2012

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 twelfth 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 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. Furthermore, the MDA is intended to disclose any known significant events or decisions that affect the financial condition of the City.

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

The City added infrastructure capitalization in fiscal year 2002. In fiscal year 2003, the City implemented the modified approach for its pavement subsystem, which allows those infrastructure assets to be *non-depreciable*, while establishing a commitment from the City to maintain these infrastructure assets at a minimum acceptable level of condition.

In fiscal years 2004, 2007, 2008, 2010 and 2012, the City performed a condition assessment of the pavement subsystem, which is required every two years for Measure M transportation funding eligibility and every three years for financial reporting purposes, and affirmed that these infrastructure assets are above the condition level established by the government. On June 22, 2010, the City Council amended Resolution 09-11-08-02 for the purpose of implementing requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. The Comprehensive Annual Financial Report for fiscal year ended June 30, 2012, reflects the implementation of GASB No. 54. 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, police and fire protection, recreation and general administrative activities. These services are delivered through a combination of City staff and contractual agreements.

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

Attachment Content

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

The Comprehensive Annual Financial Report of the City of Rancho Santa Margarita for the fiscal year ended June 30, 2012 is hereby presented. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the City. All disclosures necessary to enable an understanding of the City's financial activities have been included.

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

Respectfully submitted,



Jennifer M. Cervantez
City Manager

ATTACHMENT A

ECONOMIC CONDITION AND OUTLOOK

Rancho Santa Margarita is located 58 miles south-east of Los Angeles. The City is distinguished by its high-end residential neighborhoods and small-town charm. In Fiscal Year 2012, sales, motor vehicle in-lieu, and property taxes make up approximately 74% of the City's general revenues.

This is the City's twelfth fiscal year since incorporation, and the tenth consecutive year that the City provided and paid the full cost of all services transitioned from the County of Orange, including contractual Police Services, which account for 50% of General Fund expenditures.

For the fiscal year ended June 30, 2012, the City continued to fight the headwind of a significant economic downturn. The City Council's adopted budget funded all services by utilizing operating revenues. At year end, actual General Fund revenues exceeded expenditures by \$1,104,989. That surplus for the City's General Fund was \$946,162, or 595%, greater than the original budgeted surplus estimate of \$158,827. General Fund operating expenditures were reduced approximately \$429,218 from budgeted amounts through cost cutting measures without affecting core City service levels to residents and businesses.

Revenues for Fiscal Year 2012 increased over budget estimates by approximately \$883,395, or 6%. Increased sales tax revenue contributed \$295,438, while property tax-related revenues decreased \$68,657. The City also recorded revenue of \$483,048 from the cable TV franchise agreement with Cox Cable, when Cox elected to join the State's cable franchise agreement, thereby preempting its agreement with the City.

Sales tax revenues were the City's largest revenue source at \$5,348,047, or 38%, of general revenue for the fiscal year ended June 30, 2012. Motor vehicle fees and in-lieu taxes of \$3,807,220, made up the City's second largest revenue source at 27% of general revenues. Property taxes of \$1,999,106 accounted for 14% of general revenues.

The City expects sales tax revenue, which increased during Fiscal Year 2012, to continue a slow-to moderate-growth trend, as consumer and business spending for goods and services recovers. The City's outlook for current year property tax revenue continues to be cautious due to declines in its property tax valuation base that will not likely recover quickly. The prolonged economic downturn has affected consumer confidence, reduced business pricing power and investment, and worsened regional and state budgets positions. However, certain data points to slowly improving general business conditions, despite continued higher than normal unemployment, are anticipated in coming months.

ATTACHMENT B

MAJOR PROJECTS FOR THE YEAR AND FOR THE FUTURE

Land Settlement

The City settled a multi-year dispute with Orange County over land transfers from the City's incorporation in 2000. As part of the settlement, the City transferred to the County an environmentally significant 15 acre parcel of land it purchased in 2009. In return, along with other settlement transactions, the County conveyed 92 acres of land to the City that may be developable and economically useful. As a result of the settlement, the City will have the opportunity to develop one of the largest sports parks in South Orange County. Also, the City will take steps to restore and enhance at least 80 acres of other land to native habitat conditions. The settlement was finalized and recorded in Fiscal Year 2010, with restoration plan production and implementation activities to occur over the next one to two years.

Public Safety

Federal Bureau of Investigation (FBI) 2011 Uniform Crime Report statistics show Rancho Santa Margarita as the safest city in California, among those with a population greater than 35,000 residents. This is the eleventh consecutive year that the City has been identified as one of the safest communities in Orange County and the State.

Public Works Improvements

Major projects included a slurry seal on Alicia Parkway and Melinda Road at Santa Margarita Parkway (\$295,000) and annual residential overlays totaling \$494,723. The City also completed installation of the traffic signal battery backup system at a cost of \$202,687. Federal Community Development Block Grant (CDBG) funds were used for the crosswalk bulb-out project on Fundadores at a cost of \$194,436.

Community Services Programs

Beginning in fiscal year 2002, the City's Community Services Division has hosted an annual New Year's Eve event with great success. This event has been held each New Year's Eve since then, and is planned for December 31, 2012, which will also be the City's thirteenth anniversary. This fiscal year the city continued to provide concerts in the park during the summer months, with the sixth annual series being received with great success. Community Services staff continued adding programs and activities at the Bell Tower Regional Community Center since assuming operations of the facility from a community foundation in July 2008. The City continues to collaborate with community partner tenants who provide youth, teen and senior services programs in the City-owned Center and seeks to expand opportunities for community participation and utilization in the Center for the foreseeable future.

MAJOR PROJECTS FOR THE YEAR AND FOR THE FUTURE, CONTINUED

Housing Element Update

The California Government Code requires all cities and counties to adopt a comprehensive, long-term general plan for the physical development of the county or city. The City of Rancho Santa Margarita adopted its General Plan in December 2002. The State has identified seven mandated elements for all general plans: land use, circulation, housing, conservation, open space, noise and safety. Of the required elements, only one, the housing element, must be reviewed by the State Housing and Community Development Department (HCD). In 2002, State HCD certified the City's General Plan Housing Element. State Law also requires that all housing elements be updated every five years, subject to the schedule of periodic housing needs review established by the State. The City adopted its Updated Housing Element on December 9, 2009, which the State certified on January 13, 2010.

ATTACHMENT C

OTHER INFORMATION

Records Management

The City Clerk's Office, a Division of the City Manager's Office, is responsible for the care and custody of all official records and documents for the City. This division provides for the efficient, economical, and effective controls over the creation, maintenance, disposition, and retention of all City records. Staff performs an annual inventory of existing records, including contract documents, as part of the City's records management "best practices." Continued imaging and migration of City records allows for efficient retrieval and safekeeping of important City documents, which allows for enhanced customer service to its residents and the community.

Economic Stimulus Program Reporting

As a recipient of Federal, State and County financial resources, the City is also responsible for reasonably ensuring that its internal control structure is adequate to provide compliance with applicable laws and regulations related to those programs. As part of the American Recovery and Reinvestment Act of 2009, the City has qualified for grant programs that include enhanced electronic reporting and monitoring requirements. To facilitate the operation of the various grant reporting components during the past, current and future fiscal years, the City has incorporated those elements into its current internal control structure, which is subject to ongoing monitoring and periodic evaluation by the management of the City and the City's independent auditors.

Independent Audit

The annual independent audit of the City's financial statements was conducted following the June 30th end of the fiscal year. The accounting firm of White Nelson Diehl Evans LLP was contracted by the City Council to perform the annual audit. As part of the City's annual audit, detailed examinations were made of the City's financial records and reports to verify their accuracy; and procedures were performed to determine the adequacy of the internal control structure, as well as to determine that the City has complied with applicable laws and regulations. The results of the City's annual audit for the fiscal year ended June 30, 2012, revealed no instances of material weaknesses or significant deficiencies in the internal control structure, or violations of applicable laws and regulations. The auditors' report on the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The City received what is commonly referred to as an unqualified audit opinion.

OTHER INFORMATION, CONTINUED

Interim Budgetary Review

Additionally, the City maintains budgetary controls. The objective of the budgetary controls is to reasonably ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. The annual budgets for both Fiscal Year 2012 and 2013 were adopted by the City Council at a public hearing, following several budget development study sessions. Activities of the General, Special Revenue, Debt Service and Capital Projects Funds are included in the annual appropriated budget. The City also maintains an encumbrance accounting system as one method of accomplishing budgetary control. Additionally, the City Council has requested and received interim updates of budgetary performance and variance analysis. The updates are intended to provide additional support for staff to monitor and adjust budgeted revenues and expenditures based on comparisons to current and historical activity, and to aid City Council discussions and decisions regarding the City's budget.

Reserves Policy

A continuing priority of the City Council has been to exercise prudent financial management, provide long term financial planning, and strong internal control of City asset uses, by adopting a policy regarding the City's accumulated net resources called fund balance. The City Council completed an annual review of the City's Reserves Policy and adopted to designate \$7,877,157 to several categories of available fund balance. Classifications essentially reflect a government's self-imposed limitations on the use of otherwise available current financial resources. The classification categories are: Council Strategic, Technology, Facilities, Vehicles, and Infrastructure and Emergency. The City Council has not established a minimum amount to be maintained in any of the classification categories.

Purchasing Policy and Contracts Administration

The City has engaged in an ongoing assessment and enhancement of procedures and practices for procurement of goods and services as a component of its delivery of City services to residents and businesses. Revisions to the City's standardized agreements to ensure the quality and suitability of the City's desired program objectives and risk management practices were begun in the past fiscal year and will continue in the current year.

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, 2011. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

A Certificate of Achievement is valid for a period of one year only. This is the eleventh consecutive year that the City has received this award. We believe our current report conforms to the Certificate of Achievement program requirements, and we are submitting it to GFOA for inclusion in the award program evaluations for this fiscal year ended June 30, 2012.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Rancho Santa Margarita
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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.



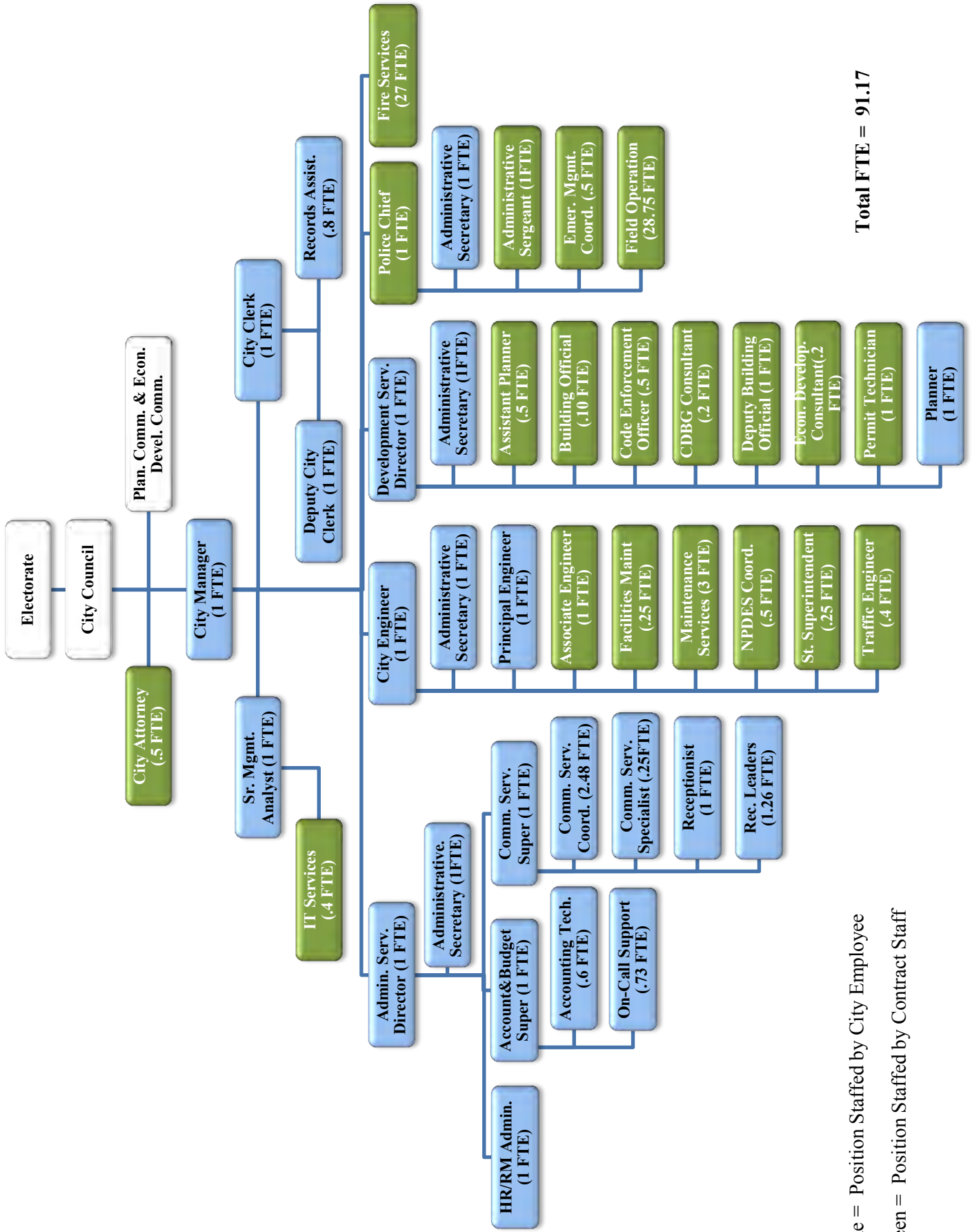
Linda C. Sandison

President

Jeffrey R. Enner

Executive Director

City of Rancho Santa Margarita
ORGANIZATION CHART BY CITY EMPLOYEES & CONTRACT STAFF



Blue = Position Staffed by City Employee
Green = Position Staffed by Contract Staff

Total FTE = 91.17

City of Rancho Santa Margarita

LIST OF PRINCIPAL OFFICIALS

Council – Manager Form of Government

CITY COUNCIL

L. ANTHONY BEALL
Mayor

STEVEN BARIC
Mayor Pro Tempore

CAROL A. GAMBLE
Council Member

JERRY HOLLOWAY
Council Member

JESSE PETRILLA
Council Member

CITY ADMINISTRATION

JENNIFER CERVANTEZ
City Manager/City Treasurer

Paul Boyer, Administrative Services Director/Finance Director

Kathleen Haton, Planning/Community Development Director

Greg Simonian, City Attorney

Molly McLaughlin, City Clerk

Lieutenant Brian Schmutz, Chief of Police Services

Wendi Redington, Community Services Supervisor

E. (Max) Maximous, City Engineer

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FINANCIAL SECTION

Financial Section

City of Rancho Santa Margarita, California

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Rancho Santa Margarita, California (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rancho Santa Margarita, California's management. Our responsibility is to express opinions 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinions.

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, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 28, 2012 on our consideration of the City of Rancho Santa Margarita, California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the information identified in the accompanying table of contents as management's discussion and analysis and required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis, the schedule of funding progress and the schedule of employer contributions related to the other post-employment benefit plan in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis, the schedule of funding progress and the schedule of employer contributions related to the other post-employment benefit plan because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison schedule has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rancho Santa Margarita, California's financial statements as a whole. The introductory section, combining fund financial statements and individual nonmajor budgetary comparison schedules and statistical tables, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

White Nelson Dick Evans LLP

Irvine, California
November 28, 2012



Management's Discussion & Analysis

City of Rancho Santa Margarita, California

CITY OF RANCHO SANTA MARGARITA MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Rancho Santa Margarita, California (City), we offer readers of the City of Rancho Santa Margarita's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year (FY) ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report, and with the City's financial statements which follow this discussion.

Financial Highlights

- The government-wide assets of the City exceeded its liabilities, at June 30, 2012, by \$130.7 million (*net assets*). Of this amount, \$17.1 million (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. Legal and contractual obligations restrict \$3.5 million of net assets for specific City programs. Investment in capital assets totals \$110.1 million.
- The government's total net assets increased by \$0.8 million during the fiscal year ended June 30, 2012. Revenues increased by \$0.8 million, due to \$0.5 million in one-time revenue from a cable grant agreement, a \$0.1 million increase in charges for services and \$0.2 million increase in sales tax revenue; offset by decreases in property tax revenue (\$0.04 million) and operating contributions (\$0.2 million). The net decrease from the prior year in total government expenses, due to capital projects spending fluctuations, matched the prior year's total net assets decrease, at \$1.6 million.
- As of June 30, 2012, the City's governmental funds reported combined ending fund balances of \$20.4 million, an increase of \$1.2 million in comparison with the prior year. Approximately 19.6 percent, or \$4.0 million of this total amount, has been allocated for specific obligations (*nonspendable, restricted, committed fund balance*), and 80.4 percent, or \$16.4 million is available for other spending purposes at the City Council's discretion (*assigned, unassigned fund balance*).
- At June 30, 2012, the unassigned fund balance of \$7.6 million and assigned fund balance of \$7.9 million for the City's General Fund total of \$15.5 million equaled 110 percent of total General Fund expenditures for the fiscal year ended June 30, 2012. However, the City Council has classified this \$15.5 million for specific purposes, including emergencies.
- The City's total long-term liabilities decreased by \$321,160 (2.7 percent) during the current fiscal year. This decrease reflects payment made for principal retirement on Certificates of Participation issued for the construction of City Hall and the Bell Tower Regional Community Center.

See Independent Auditors' Report

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

Notes to the Basic Financial Statements

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

Other Supplementary Information

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

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

See Independent Auditors' Report

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

Government-wide Financial Analysis

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

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

City of Rancho Santa Margarita
Summary of Net Assets
As of June 30, 2012 and 2011
(in thousands)

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Assets:		
Current and other assets	\$ 23,031	\$ 21,029
Capital assets	<u>121,477</u>	<u>122,865</u>
Total assets	<u>144,508</u>	<u>143,894</u>
Liabilities:		
Long-term liabilities	11,686	12,007
Other liabilities	<u>2,104</u>	<u>1,929</u>
Total liabilities	<u>13,790</u>	<u>13,936</u>
Net Assets:		
Invested in capital assets, net of related debt	110,117	111,200
Restricted	3,454	4,429
Unrestricted	<u>17,147</u>	<u>14,329</u>
Total net assets	<u>\$ 130,718</u>	<u>\$ 129,958</u>

During the fiscal year ended June 30, 2012, net assets of the City increased 0.58 percent to \$130.7 million, of which \$110.1 million is invested in capital assets such as equipment, buildings and infrastructure. Of the remaining total, \$3.5 million is restricted for fulfillment of specifically stipulated spending agreements originated by law, contract or other agreements with external parties. The remaining \$17.1 million, an increase of 19.5 percent from the prior year total of \$14.3 million is unrestricted; and may be used to meet the City's ongoing obligations, but is subject to classes and categories of use, for specific purposes as determined by the City Council.

See Independent Auditors' Report

City of Rancho Santa Margarita
Summary of Changes in Net Assets
For the Years Ended June 30, 2012 and 2011
(in thousands)

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Revenues		
Program revenues:		
Charges for service	\$ 1,435	\$ 1,353
Operating grants and contributions	2,965	3,169
General revenues:		
Property taxes	1,999	2,037
Sales taxes	5,348	5,167
Fees and intergovernmental	5,453	5,472
Other revenues	1,242	541
Investment revenue	120	99
Total revenues	<u>18,562</u>	<u>17,838</u>
Expenses		
General government	3,880	3,775
Building and planning	949	1,147
Public safety	7,564	7,527
Public works	4,432	6,462
Capital outlay	449	-
Interest expense	528	540
Total expenses	<u>17,802</u>	<u>19,451</u>
Excess (deficit) of revenues over expenses	<u>760</u>	<u>(1,613)</u>
Increase (Decrease) in net assets	760	(1,613)
Beginning net assets	<u>129,958</u>	<u>131,571</u>
Ending net assets	<u><u>\$ 130,718</u></u>	<u><u>\$ 129,958</u></u>

See Independent Auditors' Report

Overall, Citywide revenues for the fiscal year ended June 30, 2012 increased by \$0.72 million a 4 percent increase over the prior year. Sales tax revenue increased by \$0.18 million. Charges for other service increased \$0.08 million and other revenues increased by \$0.03 million.

- Total program revenues of \$4.4 million were 24 percent of total revenues.
- Total general revenues of \$14.2 million were 76 percent of total revenues.

Total related expenses decreased by \$1.6 million, an 8.5 percent decrease from the prior year. Public Works expenditures, which account for 25 percent of the total expenditures, were used primarily for slurry seal and overlay projects throughout the City. Public Safety expenditures accounted for 43 percent of total current expenditures. Expenditure decreases reflected the changeover in staffing which delayed the completion and expenditures for planned public works projects.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information may be useful in assessing the City's financing requirements.

As of June 30, 2012, the City's governmental funds reported total combined ending fund balances of \$20.39 million, an increase of \$1.15 million from the prior year. Approximately 43 percent of the City's governmental funds ending fund balances, or \$8.86 million, constitutes *assigned fund balance*, which have been classified by the City Council for specific uses. Approximately 38 percent of the City's governmental funds ending fund balances, or \$7.71 million, constitutes *unassigned fund balance* which is available for spending at the government's direction. *Restricted fund balance* of \$3.82 million, or 19 percent is available to: 1) pay debt service (\$0.85 million) and 2) use for specific purposes as required by special revenue funds (\$2.61 million). The remainder of fund balance, \$0.36 million, is *committed* to indicate that it is not available for new spending, because it has already been committed to: 1) liquidate contracts and purchase orders of the prior period (\$0.33 million), 2) a reserve for self-insurance deductible liability (\$0.03 million).

General Fund Financial Highlights

The general fund is the chief operating fund of the City. At June 30, 2012, assigned fund balance was \$7.97 million and unassigned fund balance of the general fund was \$7.71 million, while total fund balance was \$15.68 million. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 54 percent of the total General Fund expenditures. As mentioned above, however, the City Council has classified the assigned fund balance \$7.97 million for specified purposes.

See Independent Auditors' Report

City of Rancho Santa Margarita
Summary of Changes in Fund Balances - General Fund
For the Year Ended June 30, 2012 and 2011
(in thousands)

	<u>2012</u>	<u>2011</u>
Revenues		
Taxes	\$ 7,578	\$ 7,440
Fees and permits	2,072	1,793
Intergovernmental	4,209	4,035
Charges for service	658	756
Investment income	91	66
Fines, forfeits and penalties	278	249
Other	572	541
Total revenues	<u>15,458</u>	<u>14,880</u>
Expenditures		
General government	3,857	3,739
Building and planning	954	1,143
Public safety	7,501	7,355
Public works	1,908	1,962
Capital outlay	25	38
Total expenditures	<u>14,245</u>	<u>14,237</u>
(Deficit) of revenues over expenditures	1,213	643
Net transfers	<u>(108)</u>	<u>640</u>
Increase in Fund Balance	<u><u>\$ 1,105</u></u>	<u><u>\$ 1,283</u></u>

For the fiscal year ended June 30, 2012, the cash and investments balance in the General Fund was \$15.48 million, an increase of \$0.71 million from the prior fiscal year.

Overall, general fund revenues for the fiscal year ended June 30, 2012 increased by \$0.58 million, or 4 percent, over the prior year. Individual components of this change are summarized as follows and refer to comparisons detailed in the Summary of Changes in Net Assets presented on a prior page:

- Property tax revenues of the General Fund decreased by \$0.04 million, to \$2.00 million, due to decreases in assessed valuations.

See Independent Auditors' Report

- Sales tax revenues increased \$0.18 million, to \$5.35 million, due to the effects of increased general consumer spending and auto sales.
- Investment income revenues increased by \$0.03 million, to \$0.91 million, due to the overall changes in the economy and the calculations for fair market value on investments.

Changes in General Fund expenditures, by function, occurred as follows during the year ended June 30, 2012:

- General government expenditures increased by \$0.12 million, to \$3.86 million. This reflects a increase in professional services provided by independent contractors.
- Public safety expenditures increased by \$0.15 million to \$7.50 million, due to increased contract costs associated with police services provided by the Orange County Sheriff's Department. Public safety expenditures were 53 percent of total General Fund expenditures.
- Public works expenditures decreased by \$0.05 million, to \$1.91 million, with the primary decrease being related to staffing vacancies.
- Building and planning expenditures decreased by \$0.19 million, to \$0.95 million, reflecting a slight drop in building and development activity within the city.

General Fund Budgetary Highlights

Differences between the General Fund expenditures and the final amended budget were \$0.43 million and can be briefly summarized as follows:

- \$0.19 million in miscellaneous decreases in general government activities.
- \$0.01 million in increases allocated to public safety activities.
- \$0.25 million in decreases for building and planning activities.

These overall decreases can be attributed to the conservative spending maintained through the fiscal year as well as the conservative budgeting of anticipated revenues for the year. The original general fund budget was amended to increase general fund expenditures by \$0.13.

Other Major Funds Budgetary Highlights: Capital Projects Fund

The Capital Projects Fund accounts for street, bridge, traffic signal and other circulation related capital projects funded by grants, fees and interest revenue. Fund balance decreased by \$0.03 million due to expenditures of \$1.33 million in capital outlay for circulation capital projects. The fund balance is \$1.1 million of which \$0.9 million is assigned for future capital project expenditures.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental activities as of June 30, 2012, amounts to \$121.48 million, net of accumulated depreciation. This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the City's investment in capital assets for the current fiscal year was .01 percent.

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

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 6,684	\$ -	\$ -	\$ 6,684
Land - right of way	43,740	-	-	43,740
Construction in Progress	87	414	449	52
Infrastructure - pavement	46,766	-	-	46,766
Total capital assets not being depreciated	<u>97,277</u>	<u>414</u>	<u>449</u>	<u>97,242</u>
Capital assets, being depreciated:				
Buildings	16,619	-	-	16,619
Parks	906	-	-	906
Machinery and equipment	483	24	-	507
Infrastructure	61,451	449	-	61,900
Total capital assets being depreciated	<u>79,459</u>	<u>473</u>	<u>-</u>	<u>79,932</u>
Less accumulated depreciation for:				
Buildings	3,878	554	-	4,432
Parks	215	36	-	251
Machinery and equipment	412	35	-	447
Infrastructure	49,365	1,202	-	50,567
Total accumulated depreciation	<u>53,870</u>	<u>1,827</u>	<u>-</u>	<u>55,697</u>
Total capital assets, being depreciated, net	<u>25,589</u>	<u>(1,354)</u>	<u>-</u>	<u>24,235</u>
Governmental activities capital assets, net	<u>\$ 122,866</u>	<u>\$ (940)</u>	<u>\$ 449</u>	<u>\$ 121,477</u>

See Independent Auditors' Report

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

- Additions to construction in progress were \$0.41 million included the included design work for projects to be completed in future years for various street, traffic, and bridge improvements.
- Infrastructure additions for the year totaled \$0.45 million related to the completion of the traffic signal battery backup and crosswalk bulb-out projects.
- Machinery and Equipment acquisitions of \$0.02 million included an addition to the City's police service vehicles.

Additional information on the City's capital assets can be found entitled Note 4 – Capital Assets in the Notes to the Basic Financial Statements section of this report.

The City elected to use the modified approach in reporting its pavement subsystem. Under the modified approach, infrastructure assets that are part of a network or a subsystem of a network are not required to be depreciated as long as two requirements are met. First, the government shall manage the eligible infrastructure assets using an asset management system and secondly, the government shall document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. The condition of the pavement subsystem is measured using the Rancho Santa Margarita Pavement Condition Index. The City Council accepted the findings of the Pavement Condition Assessment Update in Fiscal Year 2012 and adopted a condition rating of 70 as the minimum acceptable Pavement Condition Index (PCI) for the entire street pavement subsystem. The assessed PCI was an average of 79.2, or very good. This average PCI was maintained since the last update in 2010. Actual expenses for pavement condition maintenance were less than budgeted amounts due to conservative cost estimates.

Long-term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$11.36 million.

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

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Long- Term	Due Within One Year
Certificates of Participation	\$ 11,665	\$ -	\$ 305	\$ 11,360	\$ 11,045	\$ 315
Compensated Absences	279	200	245	234	141	93
OPEB Obligation	63	33	5	91	91	-
Long-Term Liabilities Total	<u>\$ 12,007</u>	<u>\$ 233</u>	<u>\$ 555</u>	<u>\$ 11,685</u>	<u>\$ 11,277</u>	<u>\$ 408</u>

See Independent Auditors' Report

Long-term debt-related events during the fiscal year ended June 30, 2012 included:

- Compensated absences liabilities decreased by \$0.05 million and usage by employees amounted to \$0.25 million.
- Interest accrued on the Certificates of Participation for the fiscal year ended June 30, 2012 totaled \$0.13 million.
- Other post-employment benefit obligations, (OPEB) increased by \$0.03 million.

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

Economic Factors and Next Year's Budgets and Rates

The City of Rancho Santa Margarita's economy is clearly linked to the national and state economy. However, because the City is still maturing, its local economy can experience departures from other local, state or national trends with resultant recurring revenue fluctuations. Additionally, because the City's revenues are obtained from a limited number of sources, further revenue fluctuations may occur from year to year. The City uses the "Orange County Economic Forecast" prepared by Chapman University's Center for Economic Research as an information source for review of economic trends, in developing its budget model. Other data sources used by the City include UCLA Anderson School of Management and California State University Fullerton – Institute for Economic and Environmental Studies. Detailed information about the economic analysis, revenue assumptions, and other budgetary process parameters utilized in annual budget preparation, can be obtained from the City's 2012-2013 citywide budget, available through the City Manager's Office.

Requests for Information

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



Government - Wide Financial Statements

City of Rancho Santa Margarita, California

GOVERNMENT-WIDE FINANCIAL STATEMENTS

THE STATEMENT OF NET ASSETS AND THE STATEMENT OF 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 manner that considers longer-term resource needs and capacities' effects on the City's overall operations. 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 long term *financial health and physical upkeep and renewal* is improving or deteriorating, and at what pace. 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, and other infrastructure, 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, 2012

	Governmental Activities
Assets:	
Cash and investments (note 2)	\$ 19,840,333
Cash and investments with fiscal agent (note 2)	848,392
Receivables:	
Due from other governments	1,813,674
Accrued interest	12,469
Accounts, net	516,321
Non-depreciable capital assets (note 4)	97,242,178
Depreciable capital assets (note 4)	79,931,812
Less: accumulated depreciation (note 4)	<u>(55,697,122)</u>
Total assets	<u>144,508,057</u>
Liabilities:	
Accounts payable	1,621,934
Accrued liabilities	312
Wages payable	87,112
Unearned revenue (note 10)	116,381
Retentions payable	43,130
Deposits	103,375
Interest payable	131,290
Long-term liabilities (note 5):	
Due within one year	408,690
Due in more than one year	<u>11,277,265</u>
Total liabilities	<u>13,789,489</u>
Net assets:	
Invested in capital assets, net of related debt	110,116,868
Restricted for:	
Public safety	137,441
Public works	2,468,544
Debt service	848,392
Unrestricted	<u>17,147,323</u>
Total net assets	<u><u>\$ 130,718,568</u></u>

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

**CITY OF RANCHO SANTA MARGARITA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

		<u>Program Revenues</u>			<u>Net Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	
Governmental activities:					
General government	\$ 3,880,315	\$ 391,960	\$ 145,224	\$ -	\$ (3,343,131)
Building and planning	948,779	535,533	194,203	-	(219,043)
Public safety	7,564,128	281,666	134,266	-	(7,148,196)
Public works	4,431,877	225,528	2,491,698	-	(1,714,651)
Capital outlay	448,843	-	-	-	(448,843)
Interest expense	528,210	-	-	-	(528,210)
Total governmental activities	<u>\$ 17,802,152</u>	<u>\$ 1,434,687</u>	<u>\$ 2,965,391</u>	<u>\$ -</u>	<u>(13,402,074)</u>

General revenues:

Taxes:

Property taxes	1,999,106
Sales taxes	5,348,047
Real property transfer taxes	230,916
Franchise fees	1,414,887
Investment income	120,130
Motor vehicle fees, in-lieu taxes, unrestricted intergovernmental	3,807,220
Other	<u>1,241,844</u>

Total general revenues 14,162,150

Change in net assets 760,076

Net assets at beginning of year 129,958,492

Net assets at end of year \$ 130,718,568

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

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FUND FINANCIAL
STATEMENTS

Fund Financial Statements

City of Rancho Santa Margarita, California

GOVERNMENTAL FUNDS

GENERAL FUND

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

CAPITAL PROJECTS FUND

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

NON-MAJOR FUNDS

All other funds are combined into this category. Additional information about the individual funds can be found in the Supplementary Schedules Section of this document.

CITY OF RANCHO SANTA MARGARITA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

Assets	General	Capital Projects	Non-Major Governmental Funds	Totals
Cash and investments	\$ 15,477,962	\$ 2,051,629	\$ 2,310,742	\$ 19,840,333
Cash and investments with fiscal agent	-	-	848,392	848,392
Receivables:				
Due from other governments	1,557,288	-	256,386	1,813,674
Accrued interest	9,763	688	2,018	12,469
Accounts, net	311,864	21,441	-	333,305
Prepaid items	183,016	-	-	183,016
Total assets	<u>\$ 17,539,893</u>	<u>\$ 2,073,758</u>	<u>\$ 3,417,538</u>	<u>\$ 23,031,189</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 652,441	\$ 947,350	\$ 22,143	\$ 1,621,934
Accrued liabilities	312	-	-	312
Wages payable	87,112	-	-	87,112
Deferred revenue	786,261	-	-	786,261
Retentions payable	-	43,130	-	43,130
Deposits	103,375	-	-	103,375
Total liabilities	<u>1,629,501</u>	<u>990,480</u>	<u>22,143</u>	<u>2,642,124</u>
Fund balance:				
Nonspendable: Prepaid items	183,016	-	-	183,016
Restricted for debt service	-	-	848,392	848,392
Restricted for roads, grants, parks	58,982	-	2,547,003	2,605,985
Committed for street maintenance	142,428	188,906	-	331,334
Committed for self insurance	30,000	-	-	30,000
Assigned:				
Council projects/equipment/facilities	7,877,157	-	-	7,877,157
Capital projects working capital	-	894,372	-	894,372
Unassigned:	7,618,809	-	-	7,618,809
Total fund balance	<u>15,910,392</u>	<u>1,083,278</u>	<u>3,395,395</u>	<u>20,389,065</u>
Total liabilities and fund balance	<u>\$ 17,539,893</u>	<u>\$ 2,073,758</u>	<u>\$ 3,417,538</u>	<u>\$ 23,031,189</u>

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

**CITY OF RANCHO SANTA MARGARITA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Fund balances of governmental funds	\$ 20,389,065
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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 funds:	121,476,868
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Long term debt, accrued interest payable, compensated absences, and OPEB obligation have not been included in the governmental funds:

Certificates of Participation Payable	(11,360,000)
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Accrued Interest Payable	(131,290)
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Compensated Absences Payable	(234,225)
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Other Post Employment Benefits (OPEB) Obligation	(91,730)
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Certain receivables will be collected after year-end, but are not available to pay for current-period expenditures, and therefore are offset by deferred revenue in the governmental funds.	669,880
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Net assets of governmental activities	<u><u>\$ 130,718,568</u></u>
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See Independent Auditors' Report and Notes to the Basic Financial Statements.

**CITY OF RANCHO SANTA MARGARITA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	General	Capital Projects	Non-Major Governmental Funds	Totals
Revenues:				
Taxes	\$ 7,578,069	\$ -	\$ -	\$ 7,578,069
Fees and permits	2,072,595	-	-	2,072,595
Intergovernmental	4,209,382	253,061	2,151,683	6,614,126
Charges for services	657,598	-	-	657,598
Investment income	91,243	7,221	21,666	120,130
Fines, forfeits and penalties	277,866	-	-	277,866
Other	571,964	-	-	571,964
Total revenues	<u>15,458,717</u>	<u>260,282</u>	<u>2,173,349</u>	<u>17,892,348</u>
Expenditures:				
Current:				
General government	3,856,873	-	-	3,856,873
Building and planning	954,291	-	-	954,291
Public safety	7,501,236	-	59,109	7,560,345
Public works	1,908,481	466,798	267,517	2,642,796
Capital outlay	24,471	862,865	-	887,336
Debt Service:				
Principal Retirement	-	-	305,000	305,000
Interest	-	-	531,260	531,260
Total expenditures	<u>14,245,352</u>	<u>1,329,663</u>	<u>1,162,886</u>	<u>16,737,901</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,213,365</u>	<u>(1,069,381)</u>	<u>1,010,463</u>	<u>1,154,447</u>
Other financing sources (uses):				
Transfers in (note 3)	719,211	1,062,254	849,028	2,630,493
Transfers out (note 3)	<u>(827,587)</u>	<u>(21,441)</u>	<u>(1,781,465)</u>	<u>(2,630,493)</u>
Total financing sources (uses)	<u>(108,376)</u>	<u>1,040,813</u>	<u>(932,437)</u>	<u>-</u>
Net change in fund balances	1,104,989	(28,568)	78,026	1,154,447
Fund balances, beginning of year	<u>14,805,403</u>	<u>1,111,846</u>	<u>3,317,369</u>	<u>19,234,618</u>
Fund balances, end of year	<u>\$ 15,910,392</u>	<u>\$ 1,083,278</u>	<u>\$ 3,395,395</u>	<u>\$ 20,389,065</u>

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

**CITY OF RANCHO SANTA MARGARITA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds	\$ 1,154,447
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital Expenditures	438,493
Depreciation of Capital Assets	(1,826,954)

Retirement of principal on long term debt, accrued interest payable, compensated absences, and OPEB obligation 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:

Retired Principal on long term debt (Certificate of Participation)	305,000
Accrued Interest Payable on long term debt (Certificate of Participation)	3,050
Compensated Absences	44,848
Net OPEB Obligation	(28,688)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. Conversely, collection of these revenues are reported in the governmental funds when received, but not in the Statement of Activities since they have been recognized previously.

	669,880
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Change in net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">\$ 760,076</div>
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See Independent Auditors' Report and Notes to the Basic Financial Statements.

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Notes To The Financial Statements

City of Rancho Santa Margarita, California

NOTES TO THE FINANCIAL
STATEMENTS

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

(a) Reporting Entity

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

The City of Rancho Santa Margarita (the City) was incorporated on January 1, 2000 under the General Laws of the State of California. The City operates under a Council-Manager form of government. The City provides all municipal services, including street maintenance, street sweeping, street lighting, traffic signal maintenance, animal control, engineering, public works, building and planning operations, and law enforcement. The fiscal year ending June 30, 2012 was the tenth year that the City paid the full cost for all these services.

Generally accepted accounting principles require that these financial statements represent the City of Rancho Santa Margarita and its component units, entities for which the City is considered to be financially accountable. These basic financial statements of the City of Rancho Santa Margarita include the financial activities of the City and the City of Rancho Santa Margarita Nonprofit Corporation. Separate financial statements are not issued for the 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 construction, and future financing and refinancing projects of the City. The RSMNP is a separate legal entity from the City and is governed by a five-member Board of Directors consisting of the City Council Members. The City has entered into non-cancelable long-term leases with RSMNP which provide for lease payments in amounts sufficient to meet the annual debt service requirements on the certificates of participation issued by RSMNP to finance the construction projects. The leases are financing arrangements which transfer ownership of the constructed assets to the City at the end of the lease term. The financial data of RSMNP has been blended into various City funds as applicable and the capitalized leases have been eliminated for financial reporting purposes.

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

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

Basis of Accounting and Measurement Focus

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

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

Government-wide Financial Statements

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

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

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

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**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

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

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City has elected an availability period of 60 days notwithstanding involuntary state imposed temporary deferrals of revenues collected and regularly scheduled to be transmitted to the City.

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CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

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

Sales taxes, property taxes, franchise fees, gas taxes, motor vehicle in lieu, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period.

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

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

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

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**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

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

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

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *another financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

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

(b) Major Funds

The major funds are described as follows:

General Fund

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

Capital Projects Fund

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

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

“Total fund balances” of the City’s governmental funds equal to \$20,389,065 differs from “net assets” of governmental activities of \$130,718,568 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.

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CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (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	\$177,173,990
Accumulated depreciation	<u>(55,697,122)</u>
Net capital assets	<u>\$121,476,868</u>

Liabilities Transactions

Payment liabilities applicable to the City's governmental activities not due and payable in the current period are not reported as fund liabilities. Payment liabilities (both current and long-term) are reported in the Statement of Net Assets. Balances at June 30, 2012 were:

Long-term debt	\$11,360,000
Interest payable	131,290
Compensated absences	234,225
Net OPEB Obligation	<u>91,730</u>
Net long-term liabilities	<u>\$11,817,245</u>

Deferred Revenue

Certain receivables will be collected after year-end, but are not available to pay for current-period expenditures, and therefore are offset by deferred revenue in the governmental funds.

Long-term debt	\$ 669,880
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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 .

See Independent Auditors' Report

CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

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

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

Assets	Total Governmental Funds	Capital Related Items	Long-term Debt Transactions	Accrued Interest Payable	Deferred Revenue	Deferred Benefits *	Statement of Net Assets
Cash and investments	\$ 19,840,333	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,840,333
Restricted cash with fiscal agent	848,392	-	-	-	-	-	848,392
Receivables:							
Due from other governments	1,813,674	-	-	-	-	-	1,813,674
Accrued interest	12,469	-	-	-	-	-	12,469
Accounts, net	333,305	-	-	-	-	-	333,305
Prepaid items	183,016	-	-	-	-	-	183,016
Non-depreciable capital assets	-	97,242,178	-	-	-	-	97,242,178
Depreciable capital assets	-	79,931,812	-	-	-	-	79,931,812
Less: accumulated depreciation	-	(55,697,122)	-	-	-	-	(55,697,122)
Total assets	\$ 23,031,189	\$ 121,476,868	\$ -	\$ -	\$ -	\$ -	\$ 144,508,057
Liabilities and Fund Balances/Net Assets							
Liabilities:							
Accounts payable	\$ 1,621,934	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,621,934
Accrued liabilities	312	-	-	-	-	-	312
Wages payable	87,112	-	-	-	-	-	87,112
Deferred revenue	786,261	-	-	-	(669,880)	-	116,381
Retentions payable	43,130	-	-	-	-	-	43,130
Deposits payable	103,375	-	-	-	-	-	103,375
Long-term debt	-	-	11,360,000	-	-	325,955	11,685,955
Accrued interest payable	-	-	-	131,290	-	-	131,290
Total liabilities	2,642,124	-	11,360,000	131,290	(669,880)	325,955	13,789,489
Fund balances/net assets	20,389,065	121,476,868	(11,360,000)	(131,290)	669,880	(325,955)	130,718,568
Total liabilities and fund balances / net assets	\$ 23,031,189	\$ 121,476,868	\$ -	\$ -	\$ -	\$ -	\$ 144,508,057

* Deferred benefits includes: Compensated Absences of \$234,225 and OPEB Obligation of \$91,730.

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

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

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

The “net change in fund balances” for governmental funds \$1,154,447 differs from the “change in net assets” for governmental activities \$760,076 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the governmental funds.

Capital Related Items

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

Capital outlay	\$ 438,493
Depreciation expense	<u>(1,826,954)</u>
Difference	<u>\$ (1,388,461)</u>

See Independent Auditors’ Report

CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

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

Liabilities Transactions

Some liabilities changes applicable to the City's governmental activities are not reported as fund liabilities. All liabilities balances (both current and long-term) are reported in the Statement of Net Assets. Differences at June 30, 2012 were:

Retired Principal on long-term debt (COP)	\$ 305,000
Accrued Interest on long-term debt (COP)	<u>3,050</u>
Liabilities changes	<u><u>\$ 308,050</u></u>

Other Liabilities

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

Compensated Absences	\$ 44,848
Net OPEB Obligation	\$ (28,688)

Deferred Revenue

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. Conversely, collection of these revenues are reported in the governmental funds when received, but not in the Statement of Activities since they have been recognized previously.

Deferred Revenue	\$ 669,880
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Reclassification and Eliminations

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

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CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

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

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

	Total Governmental Funds	Capital Related Items	Long-term Debt Transactions	Accrued Interest Payable	Deferred Revenue	Reclassifications and Eliminations	Deferred Benefits *	Statement of Activities
Revenues:								
Taxes	\$ 7,578,069	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,578,069
Fees and permits	2,072,595	-	-	-	-	-	-	2,072,595
Intergovernmental	6,614,126	-	-	-	-	-	-	6,614,126
Charges for services	657,598	-	-	-	-	-	-	657,598
Investment income	120,130	-	-	-	-	-	-	120,130
Fines, forfeits and penal	277,866	-	-	-	-	-	-	277,866
Capital contribution	-	-	-	-	-	-	-	-
Other	571,964	-	-	-	669,880	-	-	1,241,844
Total revenues	<u>17,892,348</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>669,880</u>	<u>-</u>	<u>-</u>	<u>18,562,228</u>
Expenditures:								
Current:								
General government	3,856,873	33,221	-	-	-	-	(9,779)	3,880,315
Building and planning	954,291	-	-	-	-	-	(5,512)	948,779
Public safety	7,560,345	1,524	-	-	-	-	2,259	7,564,128
Public works	2,642,796	1,792,209	-	-	-	-	(3,128)	4,431,877
Capital outlay	887,336	(438,493)	-	-	-	-	-	448,843
Debt service:								
Principal Retirement	305,000	-	(305,000)	-	-	-	-	-
Interest	531,260	-	-	(3,050)	-	-	-	528,210
Total expenses	<u>16,737,901</u>	<u>1,388,461</u>	<u>(305,000)</u>	<u>(3,050)</u>	<u>-</u>	<u>-</u>	<u>(16,160)</u>	<u>17,802,152</u>
Other financing sources (uses):								
Transfers in	2,630,493	-	-	-	-	(2,630,493)	-	-
Transfers out	(2,630,493)	-	-	-	-	2,630,493	-	-
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	1,154,447	(1,388,461)	305,000	3,050	669,880	-	16,160	760,076
Fund balances / net assets beginning of year	<u>19,234,618</u>	<u>122,865,329</u>	<u>(11,665,000)</u>	<u>(134,340)</u>	<u>-</u>	<u>-</u>	<u>(342,115)</u>	<u>129,958,492</u>
Fund balances / net assets, end of year	<u>\$ 20,389,065</u>	<u>\$ 121,476,868</u>	<u>\$ (11,360,000)</u>	<u>\$ (131,290)</u>	<u>\$ 669,880</u>	<u>\$ -</u>	<u>\$ (325,955)</u>	<u>\$ 130,718,568</u>

* Deferred benefits includes: Compensated Absences of \$(44,848) and OPEB Obligation of \$28,688.

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**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

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

(g) Cash and Investments

Investments are reported in the accompanying Balance Sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings and changes in fair value. The City pools cash and investments of all funds, except investments held by fiscal agent. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*.

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

(h) Capital Assets

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

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

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

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

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

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

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

(i) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two 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.

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**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

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

(j) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded, is employed in the governmental funds. Encumbrances at year end are reported as restricted, committed, or assigned fund balance depending on the resources that have been identified to fund the applicable encumbrance.

(k) Interfund Transactions

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (short-term interfund loans) or “advances to/from other funds” (long-term interfund loans).

The portion of fund balance associated with amounts that have been disbursed to other funds in the form of long-term interfund advances have been classified as nonspendable unless the funds associated with repayment of the advance are otherwise restricted for specific purposes.

(l) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Specifically, the City has made certain estimates and assumptions related to the collectability of its receivables, the depreciation of its capital assets and the ultimate outcome of claims and judgments. Actual results could differ from those estimates and assumptions.

(m) Fund Equity

Due to the implementation of GASB No. 54, the components of the fund balances of governmental funds now reflect the component classifications described below.

Fund balances are reported in the fund statements in the following classifications:

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**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

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

Nonspendable Fund Balance

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Council action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

Committed Fund Balance – this includes amount that can be used only for the specific purposes determined by a formal action of the Council. It includes Legislation (Council action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Council action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The City considers a resolution, an ordinance, or a minutes action to constitute a formal action of City Council for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are designated or expressed by the Council, but does not require a formal action like a resolution or ordinance. The Council may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of authority has been granted to the City Manager by the City Council.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the city's policy, adopted by the City Council, that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources.

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**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS

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

Statement of Net Assets:

Cash and investments	\$19,840,333
Cash and investments with fiscal agent	<u>848,392</u>
Total Cash and Investments	<u>\$20,688,725</u>

Cash and investments at June 30, 2012 consisted of the following:

Cash and Investments held by City:	
Deposits in banks	\$ 7,482,044
Local Agency Investment Fund (LAIF)	<u>12,358,289</u>
Total Cash and Investments held by City	<u>\$19,840,333</u>
Cash and Investments held by Fiscal Agent:	
Money Market Mutual Fund	<u>\$ 848,392</u>
Total Cash and Investments held by Fiscal Agent	<u>\$ 848,392</u>
Total Cash and Investments	<u>\$20,688,725</u>

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Bills	5 years	60%	None
U.S. Agency Notes	5 years	40%	None
Banker's Acceptances	180 days	10%	30%
Commercial Paper	180 days	10%	10%
Certificates of Deposit	5 years	10%	None
Federal Agency Securities	5 years	20%	20%
Passbook Savings Demand Accounts	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$20,000,000
Local Government Investment Pool	N/A	None	\$20,000,000

* 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

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CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

NOTE 2 – CASH AND INVESTMENTS, (Continued)

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

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City currently manages its exposure to interest rate risk by participating in short term investments such as the Local Agency Investment Fund (LAIF), which invests in a combination of investments with a relatively short term weighted average maturity 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>Remaining Maturity (in Months)</u>				
	<u>Total Amount</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)	\$ 12,373,362	\$ 12,373,362	\$ -	\$ -	\$ -
Held by bond fiscal agent:					
Money Market Mutual Fund	848,392	848,392	-	-	-
Total	<u>\$ 13,221,754</u>	<u>\$ 13,221,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Disclosures Relating to Credit Risk

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

Investment Type	Total Amount	Minimum Legal Rating	Rating as of Fiscal Year End	
			AAA	Not Rated
Local Agency Investment Fund (LAIF)	\$ 12,373,362	N/A	\$ -	\$ 12,373,362
Held by bond fiscal agent: Money Market Mutual Fund	848,392	A	848,392	-
Total	<u>\$ 13,221,754</u>		<u>\$848,392</u>	<u>\$ 12,373,362</u>

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investment securities* 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 securities, 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 that must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a market value of at least 150% of the secured public deposits, and letters of credit drawn on the Federal Home Loan Bank may have a minimum market value of 105% of the secured public deposits. At June 30, 2012, the City deposits (bank balances) were either insured by the Federal Deposit Insurance Corporation or collateralized in accordance with the California Government Code.

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**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated.

NOTE 3 – TRANSFERS IN AND OUT

Transfers in and out for the year ended June 30, 2012 are as follows:

	Transfers From:			
	General Fund	Capital Projects Fund	Non-major Funds	Total
Transfers To:				
General Fund	\$ -	\$ -	\$ 719,211	\$ 719,211
Capital Projects	-	-	1,062,254	1,062,254
Non-major Funds	827,587	21,441	-	849,028
Total Transfers	<u>\$ 827,587</u>	<u>\$ 21,441</u>	<u>\$ 1,781,465</u>	<u>\$ 2,630,493</u>

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

- The transfer of \$719,211 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 \$1,062,254 from the Non-major Funds to the Capital Project Fund was primarily to fund the various slurry seal and overlay road projects throughout the city (\$753,072), and traffic signal synchronization projects (\$205,568).
- The transfer of \$21,441 from Capital Projects Fund to the Non-major Funds was reimbursement for capital project expenses subsequently covered by grant funds.
- The transfer of \$827,587 from the General Fund to the Non-major Funds was transferred to the RSM Non-Profit Debt Service Fund to pay principal and interest on the Certificates of Participation.

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CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 6,683,500	\$ -	\$ -	\$ 6,683,500
Land - right of way	43,740,119	-	-	43,740,119
Construction in Progress	86,654	414,022	448,843	51,833
Infrastructure - pavement	46,766,726	-	-	46,766,726
Total capital assets not being depreciated	<u>97,276,999</u>	<u>414,022</u>	<u>448,843</u>	<u>97,242,178</u>
Capital assets being depreciated:				
Machinery & Equipment	483,141	24,471	-	507,612
Buildings	16,618,510	-	-	16,618,510
Parks	906,478	-	-	906,478
Infrastructure - all others	61,450,369	448,843	-	61,899,212
Total capital assets being depreciated	<u>79,458,498</u>	<u>473,314</u>	<u>-</u>	<u>79,931,812</u>
Less accumulated depreciation:				
Machinery & Equipment	410,620	34,745	-	445,365
Buildings	3,877,651	553,950	-	4,431,601
Parks	216,100	36,259	-	252,359
Infrastructure	49,365,797	1,202,000	-	50,567,797
Total accum. Depreciation:	<u>53,870,168</u>	<u>1,826,954</u>	<u>-</u>	<u>55,697,122</u>
Total capital assets being depreciated, net	<u>25,588,330</u>	<u>(1,353,640)</u>	<u>-</u>	<u>24,234,690</u>
Total capital assets, net	<u>\$122,865,329</u>	<u>\$ (939,618)</u>	<u>\$ 448,843</u>	<u>\$121,476,868</u>

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

Activities:	General government	\$ 33,221
	Public safety	1,524
	Public works	1,792,209
	Total	<u>\$1,826,954</u>

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CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

NOTE 4 – CAPITAL ASSETS, (Continued)

Construction commitments

The City had various active, on-going and un-completed construction projects at June 30, 2012. At year-end, in the Capital Projects fund, the City's encumbrances with contractors for work performed before June 30, 2012, but not yet paid were as follows:

	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Pavement Rehabilitaion Coto/La Promesa	\$ 15,956	\$ 81,844
Residential Slurry Seal	\$ 17,950	\$ 1,970
Robinson Ranch Road Traffic Calming	12,630	19,475
Santa Margarita Parkway Rehabilitation	\$ 31,378	\$ 66,422
Traffic Signal Battery Back-up System	\$ 179,430	\$ 19,195
Total	<u>\$ 257,344</u>	<u>\$ 188,906</u>

NOTE 5 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the fiscal year ended June 30, 2012 was as follows:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2012</u>	<u>Due Within One Year</u>
Certificates of Participation:					
City Hall & Regional Community Center	\$ 11,665,000	\$ -	\$ 305,000	\$ 11,360,000	\$ 315,000
Compensated absences	279,073	200,614	245,462	234,225	93,690
OPEB Obligation (Note 7)	<u>63,042</u>	<u>33,208</u>	<u>4,520</u>	<u>91,730</u>	<u>-</u>
Total Governmental Long-Term Liabilities	<u>\$ 12,007,115</u>	<u>\$ 233,822</u>	<u>\$ 554,982</u>	<u>\$ 11,685,955</u>	<u>\$ 408,690</u>

Compensated absences and OPEB obligation liabilities have typically been paid from the City's General Fund. There is no fixed payment schedule for the long term liabilities.

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CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

NOTE 5 – LONG-TERM LIABILITIES, (Continued)

City of Rancho Santa Margarita Nonprofit Corporation Certificates of Participation (COP) 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 is leased to the City. Term certificates are due as follows: \$1,730,000 on October 1, 2027, with an interest rate of 4.75%; \$1,995,000 on October 1, 2030, with an interest rate of 4.75%; and \$2,300,000 on October 1, 2033, with an interest rate of 5.00%. Serial certificates are due in annual installments ranging from \$265,000 to \$805,000 commencing on October 1, 2007. The serial certificates bear interest ranging from 3.25% to 4.75%, payable semi-annually on April 1 and October 1 of each year. Interest component payments were capitalized through April 1, 2005. The amount outstanding as of June 30, 2012 was \$11,360,000.

The COPs are subject to federal arbitrage regulations. In October 2008 an interim arbitrage rebate analysis was performed to determine whether the City was required to remit an arbitrage rebate payment to the United States Department of the Treasury for excess arbitrage liabilities for the previous five year period. The computational analysis showed no payment was due or required by the City, nor was the City required to file form 8038-T with the Internal Revenue Service. The next rebate installment payment computational analysis will be due not later than November 30, 2013.

The annual requirements to amortize the outstanding Certificates of Participation as of June 30, 2012, are as follows:

<u>Fiscal Year</u>	<u>Principle</u>	<u>Interest</u>
2013	\$ 315,000	\$ 518,860
2014	330,000	505,960
2015	340,000	492,560
2016	355,000	478,660
2017	375,000	463,872
2017-2021	2,115,000	2,059,985
2022-2026	2,630,000	1,515,973
2027-2031	3,330,000	810,876
2032-2033	1,570,000	79,500
Totals	<u>\$ 11,360,000</u>	<u>\$ 6,926,246</u>

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**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 – PENSION PLAN

CalPERS Defined Benefit Pension Plan for Miscellaneous Employees

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

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

Funding Policy Plan participants (members) for Tier 1 (2.5% @ 55 formula) are required to contribute 8% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. Plan participants for Tier 2 (2% @ 60 formula) are required to contribute 7% of their annual covered salary. The City is also required to contribute additional amounts at an actuarially determined rate. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirements of plan members and the City are established and may be amended by CalPERS. The City has authority for establishing and amending the funding policy.

Contributions For each of the fiscal years shown below, the City has contributed at the actuarially determined rate provided by PERS' actuaries. Under GASB 27, as amended by GASB 50, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2011 to June 30, 2012 has been determined by an actuarial valuation of the plan as of June 30, 2009. The City's covered payroll for PERS was \$1,607,088 for the year ended June 30, 2012, while the City's total payroll for all employees was \$1,894,917 during the same period. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2012, the contribution rate is multiplied by the payroll of covered employees who were actually paid during the period from July 1, 2011 to June

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CITY OF RANCHO SANTA MARGARITA
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FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

NOTE 6 – PENSION PLAN, (Continued)

30, 2012. For all years of participation in this plan the actual contribution made equaled the required contribution.

Three Year Trend Information The following table provides the employer contribution rate, the required contribution amount, and the actual percentage contributed for fiscal year ended June 30, 2012 and the prior two years.

<u>Fiscal Year</u>	<u>Plan</u>	<u>Employer Contribution Rate</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>
6/30/2010	Tier 1	13.08%	\$ 236,020	100%
6/30/2011	Tier 1	13.34%	\$ 248,521	100%
6/30/2012	Tier 1	16.50%	\$ 260,467	100%
	Tier 2	8.70%	\$ 2,456	100%
6/30/2012	Total		\$ 262,923	

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description The City provides a single-employer defined benefit plan as part of the City's participation in an elective group medical insurance plan for current employees administered by CalPERS. The CalPERS medical insurance plan offers a comprehensive program of individual and family HMO and PPO coverages, and has typical deductible and co-pay requirements. The City's contractual agreement with CalPERS to participate in the plan and offer health insurance benefits to employees, their partners and/or relatives stipulates that the City must pay a minimum monthly amount as a premium subsidy benefit; for all employees who retire from City service, continue medical coverage and pay additional amounts to retain coverage and meet other eligibility parameters.

Eligibility Employees are eligible to receive the minimum medical premium subsidy benefit amount provided by the plan if they: 1) Satisfy eligibility requirements for vesting of benefits required by CalPERS; 2) Retire from employment with the City; 3) Elect to continue medical insurance coverage through the CalPERS plan; and 4) Pay all additional premium amounts required for the coverage option selected by them to continue in the group medical insurance plan upon retirement from the City, but must pay all premiums required to retain coverage. To receive the City's medical premium subsidy benefit,

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NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

retirees must also be vested members of the CalPERS retirement system; i.e., retire on or after age 50 with 5 years of CalPERS retirement membership contributions. If the retiree discontinues coverage in the CalPERS health insurance plan, the City's obligation to pay a premium subsidy benefit ends. Retirees may continue in the CalPERS plan for the remainder of their lives. The City is not obligated under the group medical insurance plan to pay premiums for any retirees or provide post-retirement medical or health insurance benefits for retirees, or their spouses, partners, or relatives; other than the required minimum benefit payment. Eligibility for the City plan consisted of the following at June 30, 2012:

Eligible retirees from City service	4
Active employees, both enrolled and un-enrolled in the City's CalPERS health insurance plan	<u>18</u>
Total	<u><u>22</u></u>

City's Funding Policy The City pays only the minimum required monthly premium subsidy benefit amount for retired City employees; an amount that can be amended by City Council action. The required premium is made (paid) monthly directly to CalPERS at the current-fiscal-year rate set by CalPERS, which is adjusted annually based on the medical cost component of the consumer price index. For Fiscal Year 2011-12, the City paid \$112 per month as the full amount required by the plan for each retiree from City service, for a total of \$4,520.

Annual OPEB Cost and Net OPEB Obligation The City's measurement and disclosure of retiree healthcare liabilities is made pursuant to Government Accounting Standards Board (GASB) Statement No. 45, which became effective for the City in the Fiscal Year ended June 30, 2011. According to this statement, an alternative measurement method that differs from a full actuarial valuation is permitted for employers with fewer than one hundred plan members. Employers who qualify for and use the alternative measurement method should perform new calculations every three years.

The City qualifies to use, and elects to use the alternative measurement method, which allows simplification of certain actuarial assumptions, as a valid means of measuring past, present and future City OPEB costs. The total of all such costs as they are incurred in the future is expressed in current dollars as the present value of those costs. The actuarial accrued liability (AAL) is the present value of benefit costs attributed to past service only. The City has not established a trust that is administered by the City for the purpose of holding assets accumulated for plan payment obligations for current or future retirees. Because the City does not have an irrevocable trust for the pre-funding of those

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

benefit costs as they become realized in the future, the City has an equal *unfunded* accrued liability (UAL). The service cost is the proportion of the present value of future benefit costs allocated to the current period (fiscal year) by the actuarial method used in the valuation.

The actuarial cost method used in the City's current valuation, dated July 1, 2009, is the projected unit credit (PUC) method; one of six permitted by GASB No. 45, under which the present value of costs is apportioned into AAL and service cost. The annual required contribution (ARC) is an amount equal to the combination of service cost for the current fiscal year and amortization, or allocation of a portion of the unfunded liability to the current fiscal year. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover service costs each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years based on an open group.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for these benefits:

Present value of all projected benefits	\$437,475
Actuarial accrued liability (AAL) using PUC	\$141,927
Service cost – at 6/30/2012	\$ 24,924
30 year amortization of UAL	<u>9,233</u>
Annual required contribution	\$ 34,157
Interest on net OPEB obligation	3,152
Adjustments to annual required contributions	<u>(4,101)</u>
Annual OPEB cost (expense)	\$ 33,208
Contributions made	<u>(4,520)</u>
Increase in net OPEB obligation	\$ 28,688
Net OPEB obligation-beginning of year	<u>\$ 63,042</u>
Net OPEB obligation-end of year	<u>\$ 91,730</u>

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NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

The three-year trend information of GASB No. 45, the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2012 were as follows:

Fiscal Year	Annual OPEB Cost	Actual Contribution Net of Adjustments	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 34,157	\$ 2,068	6.05%	\$ 32,089
6/30/2011	\$ 34,157	\$ 3,204	9.38%	\$ 63,042
6/30/2012	\$ 34,157	\$ 4,520	13.23%	\$ 91,930

Funded Status and Funding Progress The funded status of the plan as of July 1, 2009, was as follows:

Actuarial accrued liability (AAL)	\$141,927
Actuarial value of plan assets	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$141,927</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$1,607,088
UAAL as a percentage of covered payroll	8.83%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Actuarial Methods and Assumptions Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each

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**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB), (Continued)

valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Projected Unit Credit Actuarial Cost Method. For the actuarial valuation date of 7/1/2009, the actuarial assumptions included an annual healthcare cost trend rate of 7 percent initially, reduced by decrements of 1 percent per year to an ultimate rate of 5 percent after the third year. The annual inflation rate assumed 4 percent increases in medical costs. The UAAL is being amortized as a level dollar of projected payroll over an open 30 year period. It is assumed the City's payroll will increase 5 percent per year.

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters.

General Liability

The City purchases general liability insurance from Public Agency Risk Sharing Authority of California (PARSAC). There is a self-insured retention of \$10,000 per claim. PARSAC provides limits to \$1,000,000. Excess coverage is provided through a combination of pooling and reinsurance for total coverage limits of \$34 million. The total premium for this coverage was \$104,053 for the fiscal year ending June 30, 2012.

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 \$59,433 for the fiscal year ending June 30, 2012.

Property Insurance

The City purchases commercial property insurance from PARSAC with program limits of \$1 billion for personal property with \$5,000 deductible per occurrence.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 8 – RISK MANAGEMENT, (Continued)

Fidelity Bonds

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

Insurance premium 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, 2012. Furthermore, there have been no claims settlements or judgments that have exceeded insurance coverage since the City's inception on January 1, 2000.

NOTE 9 – CONTINGENT LIABILITIES

Grants, awards and allocations of revenues for restricted purposes that have been received or are receivable from other agencies are subject to audit and adjustment by those grantor agencies. Any ineligible or disallowed expenditures of those funds, including amounts already collected, may constitute a liability of the City to return applicable funds, or request an extension of time to perform in compliance of specific requirements. The amount, if any, of such disallowed funds usage claims made by other agencies cannot be determined at this time. However, the City's management does not expect such amounts, if any, to materially impact the City's General Fund balance reserves.

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

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. The total commitment of \$12 million was negotiated for payment in two distinct methodologies. The first methodology comprised a series of annual \$1.1 million payments for 6 years with a \$600,000 final payment, for a total of \$7.2 million. This portion of the commitment payments was completed in Fiscal Year 2007. The remaining annual payments associated with the commitment are contingent upon future receipt of sales tax revenues by the City in a respective fiscal year prorated in excess of a indexed base amount for that year. Those payments have not occurred since

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 9 – CONTINGENT LIABILITIES, (Continued)

2009 due to sales tax revenue declines, but are open ended until the remaining balance of \$1,900,535 is repaid.

NOTE 10 – UNEARNED REVENUE

For the governmental funds, revenues are recognized for monies received when the related expenditures are measurable or incurred or eligibility requirements are satisfied. Deferred revenue reported in the General Fund represents advancements that have not been earned under the measurability criteria of GASB 34. The City has reported the same amount as “unearned revenue” on the government wide financial statements. For the Fiscal Year ended June 30, 2012, in the General Fund, \$786,261 was deferred, primarily consisting of \$669,880 of prior year capital project costs not received by year end. Additional amount of \$82,553 is revenue received in advance of planned Community Services programs or events.

Deferred revenue at July 1, 2011 included a balance of \$483,048 related to cable TV franchise agreement. A lump sum amount of \$805,080 was received in 2005 and was being amortized over fifteen years. On November 15, 2011, the City’s cable TV franchisee Cox Communications notified the City of its intention to opt into the State TV franchise, thereby pre-empting the City’s franchise agreement with Cox. The remaining balance of \$483,048 was recognized as revenue in Fiscal Year ended June 30, 2012.

NOTE 11 – GENERAL FUND BALANCE CLASSIFICATIONS

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

See Independent Auditors’ Report

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 11 – GENERAL FUND BALANCE CLASSIFICATIONS, (Continued)

The City's fund balance classifications at June 30, 2012, are presented below and followed by explanations as to the nature and purpose of each classification.

General Fund:

Assigned:

Council Strategic	\$ 2,183,413	
Technology	1,290,920	
Facilities	2,958,949	
Vehicles	304,216	
Infrastructure	1,139,659	
Total Assigned: Council projects/equipment/facilities		<u>\$ 7,877,157</u>

Unassigned:

Emergency Policy	7,618,809	
Total Unassigned: Emergency Policy		<u>\$ 7,618,809</u>

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

Assigned for Technology – To be used for replacement and enhancement of technology, and shall require a majority vote (3/5) of the City Council to access these funds.

Technology is defined as computers (CPUs, servers, etc.), software, Council Chambers media, etc.

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

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

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

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 11 – GENERAL FUND BALANCE CLASSIFICATIONS, (Continued)

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

Under GASB 54 provisions, unless earmarked for specific identifiable improvements or projects, emergency funds may not be classified as committed or assigned; and are therefore included in the unassigned classification.

NOTE 12 – COMMITMENTS

As of June 30, 2012, City commitments for outstanding encumbrances (purchase orders and contracts for goods and services not yet delivered) and self insurance for the General Fund are as follows:

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General Fund:	Committed for street maintenance	\$ 142,428
	Committed for self insurance	30,000
		<u>\$ 172,428</u>

NOTE 13 – OPERATING LEASE

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

<u>Year Ending June 30,</u>	<u>Annual Rent</u>
2013	13,992
	<u>\$ 13,992</u>

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**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 13 – OPERATING LEASE, (Continued)

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

<u>Year Ending June 30,</u>	<u>Annual Rent</u>
2013	2,144
	<u>\$ 2,144</u>

NOTE 14 – LITIGATION SETTLEMENT

A Corrected Final Judgment was entered June 23, 2010 in San Diego County Superior Court and recorded in Orange County, California on August 18, 2010 relative to on-going litigation of the City. On January 28, 2009, the City Council approved a Settlement Agreement with the County of Orange, the Endangered Habitats League, and Rancho Mission Viejo, ending litigation initiated in 2005 by the City over the ownership of 502 acres of land in and around the City. In mid-2002, the City became aware that not all of the properties that should have been transferred from the County upon the City's incorporation had actually been transferred. While there was agreement as to many of the property interests, the City and County differed in their views as to who should have ownership of 502 acres that had originally been dedicated to the County, prior to the City's incorporation, for open space, recreation and transportation purposes.

When the parties were not able to resolve their differences, the City filed a lawsuit in 2005, claiming ownership to the entire 502-acre parcel. While the lawsuit was moving forward, the County, the Fish and Wildlife Service, the Santa Margarita Water District and Rancho Mission Viejo, LLC entered into an Implementation Agreement regarding the Southern Sub-region HCP Habitat Reserve. The effect of this was to designate specific natural habitat that would be protected in perpetuity and there would be certainty as to the Habitat Reserve.

After more than a year of negotiations, the parties negotiated a settlement agreement which, in addition to finalizing the transfer of property easements that belonged to the City upon incorporation, such as open space and public access easements, included the following key terms. The specific transactions and related items were completed at the times noted and with particular actions as noted.

The City received title to the 92-acre Chiquita Ridge open space parcel from the County of Orange. The City valued that land at \$50,000 per acre, for a total of \$4,600,000, based

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**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 14 – LITIGATION SETTLEMENT, (Continued)

on recent local and regional comparable sales and appraisals. The 92-acres are not encumbered by the Habitat Reserve designation. While there are no plans for development, the agreement provides that at such time that there is development; there shall be a minimum 23-acre active sports park that will benefit the residents of the City of Rancho Santa Margarita as well as the nearby residents of the unincorporated County area. Development of the 92-acre parcel is limited to 55 acres and any of the remaining 37 acres which are disturbed during construction must be restored to natural habitat conditions.

In addition to any portion of the 37 acres which are restored, the City shall enhance and restore 80 acres of habitat to increase the environmental value of the habitat. The 80 acres will be in or close to the City and will provide a benefit to the City's residents. The County received title to the remaining 410 acres that were in dispute thereby protecting that property as natural habitat and ensuring its enrollment in the Habitat Reserve. The City is required by the Settlement Agreement to prepare a restoration plan by the end of the third year after the Chiquita Ridge parcel conveyance, and begin restoration efforts by the end of the fourth year after conveyance. A consultant has been retained to prepare a restoration plan, and City staff will negotiate with third parties, including the County and resource agencies, to determine acceptable sites and restoration programs. As of June 30, 2012 the cost and timeframe of the required restoration efforts was not reasonably determinable and therefore no estimate of those costs is disclosed here or included in the City's financial statements. Expenditures will be recorded in the City's financial statements as costs are incurred for restoration efforts in future fiscal years.

In a related transaction required in the agreement, the City transferred to the County the 15.1 acre "Wynne Parcel" it purchased for \$2,566,351 in Fiscal Year 2009, following approval of the Settlement Agreement. The County will enroll the parcel in the Habitat Preserve. This parcel is a critical link in the regional wildlife corridor and contains valuable vernal pools and protected species including the fairy shrimp. The County will also enroll approximately 100 acres of Dove Canyon Open Space into the Habitat Reserve.

NOTE 15 – SUBSEQUENT EVENTS

Community Facilities District ("CFD") Nos. 86-1 and 86-2, which encompass property that now lies within the incorporated boundaries of the City of Rancho Santa Margarita, were formed by the Orange County Board of Supervisors in 1986 to finance the construction and/or acquisition of certain public improvements and facilities necessitated by development in the area. In 2010, the County of Orange reviewed the financial

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

NOTE 15 – SUBSEQUENT EVENTS, (Continued)

condition of its CFD 86-2 and CFD 86-1 and notified the City of the availability of CFD funds for reimbursement to the City for public traffic signal and bridge safety and lighting improvements that were constructed using City funding sources after incorporation. The City submitted six separate reimbursement requests totaling \$669,880. On August 21, 2012, the Board of Supervisors approved payment of CFD revenue in the amount of \$669,880 to be paid to the City for reimbursement of costs related to the construction of certain street, traffic signal, and bridge improvements. The recognition of the revenue is included in the government-wide statements and according to GFOA availability guidelines is recorded in the fund financials as deferred revenue at June 30, 2012.

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Required Supplementary Information

City of Rancho Santa Margarita, California

**CITY OF RANCHO SANTA MARGARITA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The Schedule of Funding Progress below presents three-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits. For the three-fiscal-year period of implementation of GASB No. 45, the following information is presented:

**SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFITS**

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c)
6/30/2010	7/1/2009	\$ -	\$141,927	\$141,927	0%	\$1,808,008	7.85%
6/30/2011	7/1/2009	\$ -	\$141,927	\$141,927	0%	\$1,847,685	7.68%
6/30/2012	7/1/2009	\$ -	\$141,927	\$141,927	0%	\$1,607,088	8.83%

**SCHEDULE OF EMPLOYER CONTRIBUTION
OTHER POST-EMPLOYMENT BENEFITS**

Year Ended June 30	Amount
2010	\$2,068
2011	\$3,204
2012	\$4,520

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**CITY OF RANCHO SANTA MARGARITA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

This fund, as the primary operational fund for the City, is classified as a major fund and is used to account for resources and uses traditionally associated with overall government operations; which are not required legally or by regulation or standards to be accounted for in another fund.

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**CITY OF RANCHO SANTA MARGARITA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	AMOUNTS	FINAL BUDGET
				POSITIVE
				(NEGATIVE)
Budgetary fund balances, July 1	\$ 14,566,182	\$ 14,566,182	\$ 14,805,403	\$ 239,221
Resources (inflows):				
Taxes	7,370,319	7,370,319	7,578,069	207,750
Fees and permits	1,727,883	1,727,883	2,072,595	344,712
Intergovernmental	4,357,584	4,357,584	4,209,382	(148,202)
Charges for service	673,886	673,886	657,598	(16,288)
Investment income	64,543	64,543	91,243	26,700
Fines, forfeits and penalties	252,200	252,200	277,866	25,666
Other	95,073	95,073	571,964	476,891
Transfers from other funds	992,266	992,266	719,211	(273,055)
Amounts available for appropriation	30,099,936	30,099,936	30,983,331	883,395
Charges to appropriations (outflows):				
General government	3,920,651	4,047,881	3,856,873	191,008
Building and planning	1,189,632	1,189,632	954,291	235,341
Public safety	7,517,011	7,517,011	7,501,236	15,775
Public works	1,911,373	1,911,373	1,908,481	2,892
Capital outlay	-	-	24,471	(24,471)
Transfers to other funds	836,260	836,260	827,587	8,673
Total charges to appropriations	15,374,927	15,502,157	15,072,939	429,218
Budgetary fund balances, June 30	\$ 14,725,009	\$ 14,597,779	\$ 15,910,392	\$ 1,312,613

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**CITY OF RANCHO SANTA MARGARITA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE 1 – CAPITAL ASSETS – MODIFIED APPROACH FOR INFRASTRUCTURE

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

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

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

The second requirement is to document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. A condition assessment must be performed every three years for financial reporting purposes. 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. In order to establish and maintain eligibility for Measure M transportation funding provided by Orange County, California, the City must adopt and fund a local Pavement Management Plan (PMP). The local PMP is required to be updated every 2 years to maintain Measure M eligibility. The City Council accepted the findings of the PMP update performed in Fiscal Year 2012 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 PCI assessment is performed for financial reporting purposes within three years of this assessment. The results of the most recent condition assessments were as follows:

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**CITY OF RANCHO SANTA MARGARITA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)**

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

Assessments performed in the fiscal years ended June 30:

	<u>Actual Assessed Condition Level</u>	<u>Minimum Condition Level</u>
2012: Pavement subsystem	79.2	70
2010: Pavement subsystem	78.5	70
2008: Pavement subsystem	76.5	70
2007: Pavement subsystem	73.9	70
2004: Pavement subsystem	75.1	70

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

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

Based on the pavement condition assessment update performed in FY 2012, as of June 30, 2012, the streets had an average deficiency rating or Pavement Condition Index (PCI) of 79.2, or Very Good.

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CITY OF RANCHO SANTA MARGARITA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

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

During the fiscal year ending June 30, 2012, street maintenance costs were \$1,743,138 compared to the budgeted estimate of \$2,096,757. Street maintenance costs for the fiscal years ending June 30, 2011, June 30, 2010, June 30, 2009, June 30, 2008, June 30, 2007, June 30, 2006, June 30, 2005, June 30, 2004 and June 30, 2003 (the first year of implementation of the modified approach for street pavement) were \$2,857,557, \$1,210,581, \$1,042,169, \$2,132,675, \$3,812,219, \$1,818,402, \$919,528, \$783,609 and \$908,403, respectively. Budgeted street maintenance costs for the years ended June 30, 2011, June 30, 2010, June 30, 2009, June 30, 2008, June 30, 2007, June 30, 2006, June 30, 2005, June 30, 2004 and June 30, 2003 were \$3,171,799, \$3,056,000, \$1,808,700, \$3,277,392, \$5,091,446, \$2,246,154, \$1,160,000, \$943,000 and \$1,200,000. Appropriations totaling \$2,608,357 have been budgeted for the fiscal year ending June 30, 2013 for maintenance/rehabilitation to maintain the minimum PCI standard.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

See Independent Auditors' Report

CITY OF RANCHO SANTA MARGARITA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING, (Continued)

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

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

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

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SUPPLEMENTARY SCHEDULES

Supplementary Schedules

City of Rancho Santa Margarita, California

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

Gas Tax – This fund is used to account for the City’s share of the motor vehicle gas tax imposed under the provisions of the Street and Highway Code of the State of California under Sections 2105, 2106, 2107, 2107.5 and 2103 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”, and renewed Measure M. The monies are legally restricted for the acquisition, construction and improvement of public streets.

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

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

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

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

Debt Service Fund

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

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

**CITY OF RANCHO SANTA MARGARITA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

	Special Revenue Funds		
	<u>Gas Tax</u>	<u>Measure M</u>	<u>Air Quality Management District</u>
Assets			
Cash and investments	\$ 1,484,717	\$ 446,890	\$ 241,784
Cash and investments with fiscal agent	-	-	-
Due from other governments	140,800	100,740	14,846
Interest receivable	1,318	417	192
Total assets	<u>\$ 1,626,835</u>	<u>\$ 548,047</u>	<u>\$ 256,822</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 22,143	\$ -	\$ -
Total liabilities	<u>22,143</u>	<u>-</u>	<u>-</u>
Fund balances:			
Restricted for debt service	-	-	-
Restricted for roads, grants, parks	<u>1,604,692</u>	<u>548,047</u>	<u>256,822</u>
Total fund balances	<u>1,604,692</u>	<u>548,047</u>	<u>256,822</u>
Total liabilities and fund balances	<u>\$ 1,626,835</u>	<u>\$ 548,047</u>	<u>\$ 256,822</u>

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<u>California Law Enforcement Eqpt. Program</u>	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>		
	<u>Traffic Congestion</u>	<u>Supplemental Law Enforcement Services</u>	<u>Rancho Santa Margarita Non-Profit</u>		<u>Totals</u>
\$ 197	\$ -	\$ 137,154	\$ -		\$ 2,310,742
-	-	-	848,392		848,392
-	-	-	-		256,386
-	1	90	-		2,018
<u>\$ 197</u>	<u>\$ 1</u>	<u>\$ 137,244</u>	<u>\$ 848,392</u>		<u>\$ 3,417,538</u>
\$ -	\$ -	\$ -	\$ -		\$ 22,143
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>22,143</u>
-	-	-	848,392		848,392
<u>197</u>	<u>1</u>	<u>137,244</u>	<u>-</u>		<u>2,547,003</u>
<u>197</u>	<u>1</u>	<u>137,244</u>	<u>848,392</u>		<u>3,395,395</u>
<u>\$ 197</u>	<u>\$ 1</u>	<u>\$ 137,244</u>	<u>\$ 848,392</u>		<u>\$ 3,417,538</u>

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**CITY OF RANCHO SANTA MARGARITA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Special Revenue Funds		
	<u>Gas Tax</u>	<u>Measure M</u>	<u>Air Quality Management District</u>
Revenues:			
Intergovernmental	\$ 1,393,329	\$ 598,212	\$ 60,142
Investment income	9,412	4,501	1,691
Total revenues	<u>1,402,741</u>	<u>602,713</u>	<u>61,833</u>
Expenditures:			
Current:			
Public safety	-	-	-
Public works	267,517	-	-
Debt service:			
Principal retirement	-	-	-
Interest	-	-	-
Total expenditures	<u>267,517</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>1,135,224</u>	<u>602,713</u>	<u>61,833</u>
Other financing sources (uses):			
Transfers in	-	21,441	-
Transfers out	(926,328)	(800,346)	(52,996)
Total financing sources (uses)	<u>(926,328)</u>	<u>(778,905)</u>	<u>(52,996)</u>
Net change in fund balances	208,896	(176,192)	8,837
Fund balances, beginning of year	<u>1,395,796</u>	<u>724,239</u>	<u>247,985</u>
Fund balances, end of year	<u>\$ 1,604,692</u>	<u>\$ 548,047</u>	<u>\$ 256,822</u>

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<u>Special Revenue Funds</u>			<u>Debt Service</u>	<u>Totals</u>
<u>California Law Enforcement Eqpt. Program</u>	<u>Traffic Congestion</u>	<u>Supplemental Law Enforcement Services</u>	<u>Rancho Santa Margarita Non-Profit</u>	
\$ -	\$ -	\$ 100,000	\$ -	\$ 2,151,683
-	598	670	4,794	21,666
-	598	100,670	4,794	2,173,349
-	-	59,109	-	59,109
-	-	-	-	267,517
-	-	-	305,000	305,000
-	-	-	531,260	531,260
-	-	59,109	836,260	1,162,886
-	598	41,561	(831,466)	1,010,463
-	-	-	827,587	849,028
-	(1,795)	-	-	(1,781,465)
-	(1,795)	-	827,587	(932,437)
-	(1,197)	41,561	(3,879)	78,026
197	1,198	95,683	852,271	3,317,369
<u>\$ 197</u>	<u>\$ 1</u>	<u>\$ 137,244</u>	<u>\$ 848,392</u>	<u>\$ 3,395,395</u>

See Independent Auditors' Report

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

The following Schedules of Revenues, Expenditures and Changes in Fund Balance are presented:

Special Revenue Funds

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

Debt Service Fund

- Non-Profit Debt Service

Capital Projects Fund

- Capital Projects

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA
GAS TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	AMOUNTS	FINAL BUDGET
				POSITIVE
				(NEGATIVE)
Budgetary fund balances, July 1	\$ 928,282	\$ 928,282	\$ 1,395,796	\$ 467,514
Resources (inflows):				
Intergovernmental	1,339,950	1,339,950	1,393,329	53,379
Investment income	4,050	4,050	9,412	5,362
Transfers from other funds	-	-	-	-
Amounts available for appropriation	<u>2,272,282</u>	<u>2,272,282</u>	<u>2,798,537</u>	<u>526,255</u>
Charges to appropriations (outflows):				
Public works	316,920	316,920	267,517	49,403
Transfers to other funds	<u>1,203,353</u>	<u>1,203,353</u>	<u>926,328</u>	<u>277,025</u>
Total charges to appropriations	<u>1,520,273</u>	<u>1,520,273</u>	<u>1,193,845</u>	<u>326,428</u>
Budgetary fund balances, June 30	<u>\$ 752,009</u>	<u>\$ 752,009</u>	<u>\$ 1,604,692</u>	<u>\$ 852,683</u>

See Independent Auditors' Report

CITY OF RANCHO SANTA MARGARITA
MEASURE M FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<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	\$ 926,681	\$ 926,681	\$ 724,239	\$ (202,442)
Resources (inflows):				
Intergovernmental	555,531	555,531	598,212	42,681
Investment income	4,469	4,469	4,501	32
Transfers in from other funds	-	-	21,441	21,441
Amounts available for appropriation	<u>1,486,681</u>	<u>1,486,681</u>	<u>1,348,393</u>	<u>(138,288)</u>
Charges to appropriations (outflows):				
Transfers to other funds	<u>940,357</u>	<u>940,357</u>	<u>800,346</u>	<u>140,011</u>
Total charges to appropriations	<u>940,357</u>	<u>940,357</u>	<u>800,346</u>	<u>140,011</u>
Budgetary fund balances, June 30	<u>\$ 546,324</u>	<u>\$ 546,324</u>	<u>\$ 548,047</u>	<u>\$ 1,723</u>

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA
AIR QUALITY MANAGEMENT DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	AMOUNTS	FINAL BUDGET
				POSITIVE
				(NEGATIVE)
Budgetary fund balances, July 1	\$ 258,953	\$ 258,953	\$ 247,985	\$ (10,968)
Resources (inflows):				
Intergovernmental	59,392	59,392	60,142	750
Investment income	608	608	1,691	1,083
Amounts available for appropriation	318,953	318,953	309,818	(9,135)
Charges to appropriations (outflows):				
Transfers to other funds	64,000	64,000	52,996	11,004
Total charges to appropriations	64,000	64,000	52,996	11,004
Budgetary fund balances, June 30	\$ 254,953	\$ 254,953	\$ 256,822	\$ 1,869

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA
CALIFORNIA LAW ENFORCEMENT EQUIPMENT PROGRAM FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<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	-

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA
TRAFFIC CONGESTION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<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	\$ 404,802	\$ 404,802	\$ 1,198	\$ (403,604)
Resources (inflows):				
Intergovernmental	-	-	-	-
Investment income	-	-	598	598
Amounts available for appropriation	404,802	404,802	1,796	(403,006)
Charges to appropriations (outflows):				
Transfers to other funds	169,556	169,556	1,795	167,761
Total charges to appropriations	169,556	169,556	1,795	167,761
Budgetary fund balances, June 30	<u>\$ 235,246</u>	<u>\$ 235,246</u>	<u>\$ 1</u>	<u>\$ (235,245)</u>

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA
SUPPLEMENTARY LAW ENFORCEMENT SERVICES FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	AMOUNTS	FINAL BUDGET
				POSITIVE
				(NEGATIVE)
Budgetary fund balances, July 1	\$ 95,063	\$ 95,063	\$ 95,683	\$ 620
Resources (inflows):				
Intergovernmental	-	-	100,000	100,000
Investment income	-	-	670	670
Amounts available for appropriation	95,063	95,063	196,353	101,290
Charges to appropriations (outflows):				
Public safety - current	65,133	65,133	59,109	6,024
Public safety - capital outlay	-	-	-	-
Total charges to appropriations	65,133	65,133	59,109	6,024
Budgetary fund balances, June 30	\$ 29,930	\$ 29,930	\$ 137,244	\$ 107,314

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA
NON-PROFIT DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	AMOUNTS	FINAL BUDGET
				POSITIVE
				(NEGATIVE)
Budgetary fund balances, July 1	\$ 854,699	\$ 854,699	\$ 852,271	\$ (2,428)
Resources (inflows):				
Investment income	-	-	4,794	4,794
Transfers from other funds	836,260	836,260	827,587	(8,673)
Amounts available for appropriation	1,690,959	1,690,959	1,684,652	(6,307)
Charges to appropriations (outflows):				
Principal Retirement	305,000	305,000	305,000	-
Interest	531,260	531,260	531,260	-
Total charges to appropriations	836,260	836,260	836,260	-
Budgetary fund balances, June 30	\$ 854,699	\$ 854,699	\$ 848,392	\$ (6,307)

See Independent Auditors' Report

**CITY OF RANCHO SANTA MARGARITA
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL	AMOUNTS	FINAL BUDGET
				POSITIVE
				(NEGATIVE)
Budgetary fund balances, July 1	\$ 1,042,144	\$ 1,042,144	\$ 1,111,846	\$ 69,702
Resources (inflows):				
Intergovernmental	701,000	701,000	253,061	(447,939)
Investment income	-	-	7,221	7,221
Transfers from other funds	1,385,000	1,385,000	1,062,254	(322,746)
Amounts available for appropriation	<u>3,128,144</u>	<u>3,128,144</u>	<u>2,434,382</u>	<u>(693,762)</u>
Charges to appropriations (outflows):				
Public works	1,405,000	1,405,000	466,798	938,202
Capital Outlay	1,121,000	1,121,000	862,865	258,135
Transfers to other funds	-	-	21,441	(21,441)
Total charges to appropriations	<u>2,526,000</u>	<u>2,526,000</u>	<u>1,351,104</u>	<u>1,174,896</u>
Budgetary fund balances, June 30	<u>\$ 602,144</u>	<u>\$ 602,144</u>	<u>\$ 1,083,278</u>	<u>\$ 481,134</u>

See Independent Auditors' Report



Statistical Section

City of Rancho Santa Margarita, California

STATISTICAL SECTION

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

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

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

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

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

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

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

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

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

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

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

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report for the relevant year.

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

	2012	2011	2010	2009	2008
GOVERNMENTAL ACTIVITIES					
Invested in Capital Assets, Net of Related Debt	\$ 110,116,868	\$ 111,200,329	\$ 112,583,691	\$ 111,994,564	\$ 110,152,663
Restricted for:					
Public Safety	137,441	95,880	128,859	138,057	178,529
Public Works	2,468,544	3,481,064	4,925,379	4,581,004	4,625,130
Debt Service	848,392	852,271	854,699	853,179	868,427
Unrestricted	17,147,323	14,328,948	13,078,887	13,623,344	16,733,118
Total Governmental Activities Net Assets	<u>\$ 130,718,568</u>	<u>\$ 129,958,492</u>	<u>\$ 131,571,515</u>	<u>\$ 131,190,148</u>	<u>\$ 132,557,867</u>
PRIMARY GOVERNMENT					
Invested in Capital Assets, Net of Related Debt	\$ 110,116,868	\$ 111,200,329	\$ 112,583,691	\$ 111,994,564	\$ 110,152,663
Restricted for					
Public Safety	137,441	95,880	128,859	138,057	178,529
Public Works	2,468,544	3,481,064	4,925,379	4,581,004	4,625,130
Debt Service	848,392	852,271	854,699	853,179	868,427
Unrestricted	17,147,323	14,328,948	13,078,887	13,623,344	16,733,118
Total Primary Government Net Assets	<u>\$ 130,718,568</u>	<u>\$ 129,958,492</u>	<u>\$ 131,571,515</u>	<u>\$ 131,190,148</u>	<u>\$ 132,557,867</u>

Source: City Finance Division, Comprehensive Annual Financial Report (2003-2012)

2007	2006	2005	2004	2003
\$ 112,633,691	\$ 114,598,789	\$ 116,793,296	\$ 115,726,409	\$ 113,405,225
210,445	224,639	198,267	181,637	208,194
3,218,553	5,044,761	4,089,607	7,172,790	3,462,045
868,883	868,498	870,578	1,423,415	-
16,165,385	11,209,879	7,611,925	4,295,039	10,968,241
<u>\$ 133,096,957</u>	<u>\$ 131,946,566</u>	<u>\$ 129,563,673</u>	<u>\$ 128,799,290</u>	<u>\$ 128,043,705</u>

\$ 112,633,691	\$ 114,598,789	\$ 116,793,296	\$ 115,726,409	\$ 113,405,225
210,445	224,639	198,267	181,637	208,194
3,218,553	5,044,761	4,089,607	7,172,790	3,462,045
868,883	868,498	870,578	1,423,415	-
16,165,385	11,209,879	7,611,925	4,295,039	10,968,241
<u>\$ 133,096,957</u>	<u>\$ 131,946,566</u>	<u>\$ 129,563,673</u>	<u>\$ 128,799,290</u>	<u>\$ 128,043,705</u>

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

	2012	2011	2010	2009
EXPENSES				
Governmental Activities:				
General Government	\$ 3,880,315	\$ 3,774,471	\$ 4,180,760	\$ 4,542,993
Building & Planning	948,779	1,147,306	1,075,710	1,064,493
Public Safety	7,564,128	7,527,342	7,829,913	8,040,476
Public Works	4,431,877	6,462,078	4,601,904	4,786,938
Capital Outlay	448,843	-	-	-
Interest Expense	528,210	539,942	550,222	560,110
Total Governmental Activities Expenses	<u>17,802,152</u>	<u>19,451,139</u>	<u>18,238,509</u>	<u>18,995,010</u>
PROGRAM REVENUES				
Governmental Activities:				
Charges for Services:				
General Government	391,960	421,986	373,889	345,078
Building and Planning	535,533	570,911	470,654	482,309
Public Safety	281,666	253,103	269,325	274,251
Public Works	225,528	106,590	31,440	61,750
Operating Contributions and Grants	2,965,391	3,169,109	3,170,366	2,758,111
Capital Contributions and Grants	-	-	-	-
Total Governmental Activities Program Revenues	<u>4,400,078</u>	<u>4,521,699</u>	<u>4,315,674</u>	<u>3,921,499</u>
Total Net Revenues (Expenses)	<u><u>\$ (13,402,074)</u></u>	<u><u>\$ (14,929,440)</u></u>	<u><u>\$ (13,922,835)</u></u>	<u><u>\$ (15,073,511)</u></u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS				
Governmental Activities:				
Taxes:				
Property Taxes	\$ 1,999,106	\$ 2,037,141	\$ 1,465,724	\$ 2,199,059
Sales Taxes	5,348,047	5,167,358	4,481,302	5,145,381
Real Property Transfer Taxes	230,916	235,626	217,950	206,466
Motor Vehicle License Fees	-	-	-	-
Motor Vehicle in-lieu tax, unrestricted intergovernmental	3,807,220	3,790,596	3,820,297	4,012,068
Prop 1A, unrestricted intergovernmental	-	-	598,935	-
Franchise fees	1,414,887	1,445,587	1,417,649	1,453,986
Investment Income	120,130	99,019	123,100	422,358
Contribution from other government entity - Settlement Agreement	-	-	2,033,649	-
Other	1,241,844	541,090	145,595	266,475
Total Governmental Activities	<u>14,162,150</u>	<u>13,316,417</u>	<u>14,304,201</u>	<u>13,705,793</u>
Changes in Net Assets	<u><u>\$ 760,076</u></u>	<u><u>\$ (1,613,023)</u></u>	<u><u>\$ 381,366</u></u>	<u><u>\$ (1,367,718)</u></u>

Source: City Finance Division, Comprehensive Annual Financial Report (2003-2012)

2008	2007	2006	2005	2004	2003
\$ 4,794,245	\$ 4,235,381	\$ 4,505,272	\$ 5,016,167	\$ 4,674,016	\$ 4,962,868
1,148,291	1,089,509	972,352	1,139,485	1,005,053	970,918
7,642,333	6,440,965	6,033,988	5,746,796	5,437,001	4,822,527
6,080,878	7,342,870	5,401,937	4,694,739	4,332,835	6,365,863
-	-	-	-	-	-
569,088	707,434	577,548	597,540	688,289	107,250
20,234,835	19,816,159	17,491,097	17,194,727	16,137,194	17,229,426
31,773	19,839	26,188	40,136	67,114	38,275
539,869	540,904	508,793	864,537	670,081	638,749
320,097	338,571	363,045	278,978	296,973	260,897
177,512	94,822	38,709	117,702	93,083	80,040
3,055,388	3,582,070	3,014,400	1,039,721	1,888,519	2,299,941
-	-	-	1,512,370	1,374,956	23,034
4,124,639	4,576,206	3,951,135	3,853,444	4,390,726	3,340,936
\$ (16,110,196)	\$ (15,239,953)	\$ (13,539,962)	\$ (13,341,283)	\$ (11,746,468)	\$ (13,888,490)
\$ 2,261,933	\$ 2,015,510	\$ 1,449,752	\$ 1,528,596	\$ 1,563,215	\$ 1,459,741
6,400,424	6,325,108	6,365,432	5,935,350	5,621,674	4,886,699
192,964	294,601	476,045	476,358	493,220	410,416
-	-	-	-	-	3,696,539
4,126,226	4,943,750	5,275,527	4,290,512	3,498,199	-
-	-	-	-	-	-
1,413,134	1,407,872	1,245,702	1,012,122	1,027,076	911,547
904,939	1,054,180	631,305	364,559	214,800	341,895
-	-	-	-	-	-
271,486	349,323	479,089	501,701	104,656	17,363
15,571,106	16,390,344	15,922,852	14,109,198	12,522,840	11,724,200
\$ (539,090)	\$ 1,150,391	\$ 2,382,890	\$ 767,915	\$ 776,372	\$ (2,164,290)

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
GENERAL FUND				
Nonspendable	\$ 183,016	\$ -	\$ -	\$ -
Restricted	58,982	-	-	-
Committed	172,428	55,892	59,085	37,810
Assigned	7,877,157	7,421,985	13,463,475	13,955,115
Unassigned	7,618,809	7,327,526	3,192,501	2,639,821
Total General Fund	<u>\$ 15,910,392</u>	<u>\$ 14,805,403</u>	<u>\$ 13,522,560</u>	<u>\$ 13,992,925</u>
ALL OTHER GOVERNMENTAL FUNDS				
Committed for encumbrances	\$ 188,906	\$ 28,839	\$ 1,113,041	\$ 87,264
Restricted for debt service	848,392	852,271	854,699	853,178
Restricted roads, grants, parks	2,547,003	2,465,098	-	-
Assigned, Reported in:				
Capital Project Funds	894,372	-	-	-
Unassigned, Reported in:				
Capital Project Funds	-	1,083,007	748,696	1,991,978
Other	-	-	-	-
Total All Other Governmental Funds	<u>\$ 4,478,673</u>	<u>\$ 4,429,215</u>	<u>\$ 2,716,436</u>	<u>\$ 2,932,420</u>

Source: City Finance Division, HdL, Coren & Cone, Comprehensive Annual Financial Report (2003-2012)

2008	2007	2006	2005	2004	2003
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
157,204	46,426	-	-	-	10,231
16,904,167	16,042,455	12,778,446	9,578,780	12,660,311	11,712,397
2,708,598	2,602,150	3,877,746	3,118,222	3,943,369	3,498,174
<u>\$ 17,061,371</u>	<u>\$ 16,088,881</u>	<u>\$ 12,778,446</u>	<u>\$ 9,578,780</u>	<u>\$ 12,660,311</u>	<u>\$ 11,722,628</u>
\$ 227,552	\$ -	\$ -	\$ -	\$ 86,405	\$ 115,383
868,427	868,883	868,498	870,578	1,423,415	-
-	-	-	-	-	-
-	-	-	-	-	-
1,867,508	826,848	1,391,654	1,169,652	2,608,808	409,545
-	-	-	-	1,072,021	-
<u>\$ 2,963,487</u>	<u>\$ 1,695,731</u>	<u>\$ 2,260,152</u>	<u>\$ 2,040,230</u>	<u>\$ 5,190,649</u>	<u>\$ 524,928</u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
REVENUES				
Taxes	\$ 7,578,069	\$ 7,440,125	\$ 6,763,911	\$ 7,550,906
Fees & Permits	2,072,595	1,793,566	1,655,184	1,736,087
Intergovernmental	6,614,126	6,959,705	6,990,663	6,770,179
Charges for Services	657,598	755,808	638,448	607,036
Investment Income	120,130	99,019	123,100	422,358
Fines, forfeits and penalties	277,866	248,803	269,325	274,251
Other	571,964	541,090	145,595	266,475
Total Revenues	<u>17,892,348</u>	<u>17,838,116</u>	<u>16,586,226</u>	<u>17,627,292</u>
EXPENDITURES				
Current:				
General Government	3,856,873	3,739,202	4,097,146	4,496,860
Building and Planning	954,291	1,142,245	1,066,318	1,059,697
Public Safety	7,560,345	7,488,564	7,823,666	8,019,896
Public Works	2,642,796	4,193,615	2,340,380	2,545,637
Capital Outlay	887,336	633,846	549,624	3,831,109
Debt Service:				
Principal Retirement	305,000	295,000	290,000	280,000
Interest	531,260	542,523	552,760	562,385
Service fees & other charges	-	-	-	-
Total Expenditures	<u>16,737,901</u>	<u>18,034,995</u>	<u>16,719,894</u>	<u>20,795,584</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,154,447</u>	<u>(196,879)</u>	<u>(133,668)</u>	<u>(3,168,292)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	2,630,493	3,495,811	2,361,221	2,592,624
Transfers Out	(2,630,493)	(3,495,811)	(2,361,221)	(2,592,624)
Issuance of Debt	-	-	-	-
Total Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>1,154,447</u>	<u>(196,879)</u>	<u>(133,668)</u>	<u>(3,168,292)</u>
Fund Balances, beginning of year	19,234,618	19,431,497	19,565,165	22,733,457
Fund Balances, end of year	<u>\$ 20,389,065</u>	<u>\$ 19,234,618</u>	<u>\$ 19,431,497</u>	<u>\$ 19,565,165</u>
DEBT SERVICE AS A PERCENTAGE OF				
NON CAPITAL EXPENDITURES	5.13%	4.81%	5.21%	4.97%

Note: Excludes infrastructure per Governmental Accounting Standards Board Statement No. 34

Source: City Finance Division, Comprehensive Annual Financial Report (2003-2012)

	2008	2007	2006	2005	2004	2003
\$	8,855,321	\$ 8,635,219	\$ 8,291,229	\$ 7,940,304	\$ 7,678,109	\$ 6,756,856
	1,835,160	1,764,706	1,546,410	1,580,822	1,507,143	1,473,745
	8,381,614	7,325,820	8,288,428	6,842,601	6,161,674	6,022,030
	327,128	298,731	274,483	453,674	350,211	191,651
	904,939	1,054,180	631,304	364,561	214,800	341,895
	320,097	338,571	363,044	278,978	296,973	260,896
	271,486	349,323	479,089	501,701	704,656	18,063
	<u>20,895,745</u>	<u>19,766,550</u>	<u>19,873,987</u>	<u>17,962,641</u>	<u>16,913,566</u>	<u>15,065,136</u>
	4,740,844	4,807,153	4,902,918	4,876,998	4,733,646	5,032,730
	1,134,310	1,088,534	973,131	1,141,458	1,003,705	970,918
	7,623,419	6,434,622	6,028,949	5,740,329	5,411,742	4,778,075
	3,865,499	5,140,138	3,204,397	2,560,259	2,774,830	4,642,292
	348,737	250,138	9,932	10,121,622	9,073,287	398,628
	265,000	-	-	-	-	-
	571,241	575,547	575,548	575,540	239,811	-
	-	-	-	-	426,478	-
	<u>18,549,050</u>	<u>18,296,132</u>	<u>15,694,875</u>	<u>25,016,206</u>	<u>23,663,499</u>	<u>15,822,643</u>
	<u>2,346,695</u>	<u>1,470,418</u>	<u>4,179,112</u>	<u>(7,053,565)</u>	<u>(6,749,933)</u>	<u>(757,507)</u>
	2,271,638	3,310,023	2,244,604	7,644,226	1,534,764	2,956,907
	(2,271,638)	(3,310,023)	(2,244,604)	(7,644,226)	(1,534,764)	(2,956,907)
	-	-	-	-	12,795,000	-
	-	-	-	-	12,795,000	-
	<u>2,346,695</u>	<u>1,470,418</u>	<u>4,179,112</u>	<u>(7,053,565)</u>	<u>6,045,067</u>	<u>(757,507)</u>
	20,386,762	18,916,344	14,737,232	21,790,797	15,745,730	16,503,237
\$	<u>22,733,457</u>	<u>\$ 20,386,762</u>	<u>\$ 18,916,344</u>	<u>\$ 14,737,232</u>	<u>\$ 21,790,797</u>	<u>\$ 15,745,730</u>
	4.59%	3.19%	3.67%	3.86%	4.57%	0.00%

City of Rancho Santa Margarita
Taxable Sales by Category
Last Ten Fiscal Years
(In Thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Apparel Stores	*	\$ 9,426	\$ 9,957	\$ 9,904
General Merchandise	*	59,349	57,149	56,695
Food Stores	*	24,911	24,534	25,293
Eating & Drinking Places:	*	59,009	57,543	57,942
Building Materials	*	37,355	35,049	32,870
Auto Dealers & Supplies	*	105,688	83,057	80,635
Service Stations	*	62,197	50,757	42,020
Other Retail Stores	*	63,075	60,604	61,961
All Other Outlets	*	109,967	104,163	95,901
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	*	\$ 530,977	\$ 482,813	\$ 463,221
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
City Direct Sales Tax Rate	0.75%	0.75%	0.75%	0.85%

*Data for fiscal year 2011-2012 not available at this time.

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

Source: California State Board of Equalization, HdL Companies

2008	2007	2006	2005	2004	2003
\$ 10,510	\$ 12,301	\$ 12,741	\$ 12,922	\$ 14,622	\$ 15,387
57,874	62,512	60,200	54,495	52,474	49,577
25,673	26,690	27,624	25,759	24,115	24,847
59,973	64,279	62,260	59,106	54,695	50,429
38,815	46,435	46,825	47,693	49,027	42,772
132,705	175,569	191,710	179,802	166,490	135,801
52,205	46,631	45,191	41,902	36,443	30,668
76,683	86,573	93,810	89,502	78,232	71,227
115,820	134,217	129,245	120,005	129,832	115,692
<u>\$ 570,258</u>	<u>\$ 655,207</u>	<u>\$ 669,606</u>	<u>\$ 631,186</u>	<u>\$ 605,930</u>	<u>\$ 536,400</u>
0.75%	0.75%	0.75%	0.75%	1.00%	1.00%

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

Fiscal Year	Sales and Use Tax	Property Tax	Real Property Transfer	Total
2012	\$ 5,348,047	\$ 1,999,106	\$ 230,916	\$ 7,578,069
2011	5,167,358	2,037,141	235,626	7,440,125
2010	4,481,302	2,064,659	217,950	6,763,911
2009	5,145,381	2,199,059	206,466	7,550,906
2008	6,400,424	2,261,933	192,964	8,855,321
2007	6,325,108	2,015,510	294,601	8,635,219
2006	6,365,432	1,449,752	476,045	8,291,229
2005	5,935,350	1,528,596	476,358	7,940,304
2004	5,621,674	1,563,215	493,220	7,678,109
2003	4,886,699	1,459,741	410,416	6,756,856

Source: City Finance Division, Comprehensive Annual Financial Report (2003-2012)

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

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Miscellaneous Property	Less: Tax-Exempt Property	Total Taxable Assessed Value (1)	Total Direct Rate
2012	\$ 5,531,375,422	\$ 471,169,396	\$ 408,247,722	\$ 214,027,762	-	\$ 6,624,820,302	0.03%
2011	5,494,764,386	477,885,672	413,512,495	216,438,704	-	6,602,601,257	0.03%
2010	5,427,807,446	492,989,116	441,113,787	254,584,859	-	6,616,495,208	0.03%
2009	5,732,867,423	380,038,052	305,419,495	479,713,183	-	6,898,038,153	0.03%
2008	5,819,200,351	373,671,244	286,424,261	497,659,141	-	6,976,954,997	0.03%
2007	5,477,649,646	370,791,656	269,361,787	453,170,650	-	6,570,973,739	0.03%
2006	4,990,738,000	353,751,230	261,808,655	383,406,176	-	5,989,704,061	0.03%
2005	4,555,259,930	342,546,269	238,993,681	365,193,604	-	5,501,993,484	0.03%
2004	4,193,972,829	308,585,993	221,362,605	324,985,962	-	5,048,907,389	0.03%
2003	3,910,985,949	259,633,179	205,372,612	321,428,759	-	4,697,420,499	0.03%

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

Source: HdL Companies

City of Rancho Santa Margarita
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Rate per \$100 of Taxable Value)

Agency	2011/12	2010/11	2009/10	2008/09
Basic Levy^{1,5}	1.00000	1.00000	1.00000	1.00000
Capistrano Union	0.01101	0.01105	0.01077	0.00971
Metropolitan Water District Oc Annex #15	0.00000	0.00000	0.00000	0.00000
Metropolitan Water District	0.00370	0.00370	0.00430	0.00430
Metropolitan Water District Annex	0.00370	0.19120	0.19180	0.19180
Saddleback Valley Unified	0.03163	0.03194	0.03043	0.02834
Santa Margarita Water District	4.21220	4.22640	4.98790	4.03430
Total Direct & Overlapping² Tax Rates	5.26224	5.46429	6.22520	5.26845
 City's Share of 1% Levy Per Prop 13³	 0.02978	 0.02978	 0.02978	 0.02978
Total Direct Rate^{4,6}	0.02978	0.02978	0.02978	0.02978

Notes:

¹In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. This 1.00 % is shared by all taxing agencies in which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a % of assessed property values for the payment of any voter approved bonds.

²Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all city property owners.

³City's Share of 1% Levy is based on the share of the general fund tax rate area with the largest net taxable value within the city. ERAF general fund tax shifts may not be included in tax ratio figures.

⁴Total Direct Rate is the weighted average of all individual direct rates applied by the City.

⁵Under Article IXXXA of the California Constitution, local agencies within the State of California can only levy a tax rate for general obligation bonds. In addition, Article XIII A of the California Constitution specifies that the counties within the State of California may levy a basic tax rate, distributing the proceeds to the proper agencies.

⁶This tax rate does not include any Mello-Roos tax or special assessments.

Source: Orange County Assessor 2002/03 - 2011/12 Tax Rate Table

2007/08	2006/07	2005/06	2004/05	2003/04	2002/03
1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
0.01019	0.00947	0.01078	0.01191	0.01292	0.01054
0.00000	0.00000	0.00000	0.00000	0.00000	0.01020
0.00450	0.00470	0.00520	0.00580	0.00610	0.00670
0.19200	0.19220	0.19270	0.19330	0.19360	0.19420
0.02668	0.03694	0.03079	0.03626	0.00000	0.00000
2.78400	2.85940	3.02670	6.53500	2.65500	2.55000
4.01737	4.10271	4.26617	7.78227	3.86762	3.77164
0.02978	0.02978	0.02978	0.02978	0.02978	0.02978
0.02978	0.02978	0.02978	0.02978	0.02978	0.02985

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

	2012			2003		
	Total Assessed Value	Percentage of Total City Taxable Assessed Value	Rank	Total Assessed Value	Percentage of Total City Taxable Assessed Value	Rank
Taxpayer						
Applied Medical Resources Corporation	\$ 120,509,458	1.82%	1			
El Prado LLC	70,414,643	1.06%	2			
BRE Properties Inc.	45,397,328	0.69%	3	\$ 40,443,315	0.86%	3
Villa La Paz Partners LP	36,951,239	0.56%	4	32,045,502	0.68%	4
Antonio Acquisition Co. LLC	34,530,987	0.52%	5	26,834,494	0.57%	7
CoxCom Inc	32,478,905	0.49%	6			
Cox Com Inc (Orange)	26,887,605	0.41%	7	65,258,424	1.39%	1
KRC Santa Margarita	25,505,519	0.38%	8	21,549,847	0.46%	9
Crescent Limited Partnership	24,359,667	0.37%	9	21,125,640	0.45%	10
FG RSM Senior Apartment	24,072,418	0.36%	10			
Northwestern Mutual Life				41,758,361	0.89%	2
ERP Operating LP				28,410,047	0.60%	5
Sanyo Foods Corporation				26,876,266	0.57%	6
Pacific Mutual Life				24,539,509	0.52%	8
Totals	<u>\$ 441,107,769</u>	<u>6.66%</u>		<u>\$ 328,841,405</u>	<u>7.00%</u>	

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

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

Fiscal Year	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Total Tax Collections	Percentage of Levy
2012	\$ 1,898,324	\$ 1,778,174	93.67%	\$ 6,180	\$ 1,872,561	98.64%
2011	1,885,068	1,857,054	98.51%	62,096	1,857,053	98.51%
2010	1,886,013	1,234,269	65.44%	91,579	1,845,196	97.84%
2009	1,981,063	1,906,112	96.22%	93,040	1,912,628	96.55%
2008	1,986,995	1,910,346	96.14%	57,180	1,913,808	96.32%
2007	1,862,630	1,801,581	96.72%	33,987	1,813,177	97.34%
2006	1,445,537	1,419,756	98.20%	25,804	1,499,752	100.00%
2005	1,534,511	1,506,541	98.20%	22,087	1,528,596	99.61%
2004	1,575,818	1,549,698	98.30%	*	1,537,095	97.54%
2003	1,459,678	1,426,632	97.70%	*	1,459,741	100.00%
2002	1,467,648	1,430,843	97.50%	*	1,454,780	99.12%

*Data prior to FY 04/05 not available.

Source: O.C. Auditor-controller, City Finance Division, Comprehensive Annual Financial Report (2003-2012)

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

Fiscal Year	General Obligation Bonds	Lease Revenue Bonds	Certificates of Participation	Mitigation Obligation ⁽³⁾	Total Governmental Activities	As % of Personal Income ⁽¹⁾	Per Capita ⁽²⁾
2012	\$ -	\$ -	\$ 11,360,000	\$ -	11,360,000	0.59%	235
2011	-	-	11,665,000	-	11,665,000	0.58%	234
2010	-	-	11,960,000	-	11,960,000	0.55%	241
2009	-	-	12,250,000	-	12,250,000	0.60%	247
2008	-	-	12,530,000	-	12,530,000	0.80%	254
2007	-	-	12,795,000	600,000	13,395,000	0.83%	274
2006	-	-	12,795,000	1,000,000	13,795,000	0.85%	281
2005	-	-	12,795,000	1,000,000	13,795,000	*	282
2004	-	-	12,795,000	1,000,000	13,795,000	*	283
2003	-	-	12,795,000	1,000,000	13,795,000	*	284

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

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

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

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

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

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

Fiscal Year	Population	Total General Obligation Bonds	Less Debt Service Fund ⁽¹⁾	Net Bonded Debt	Percent of Debt to Assessed Value ⁽²⁾	Debt per Capita
2012	48,079	\$ -	\$ -	\$ -	0.00%	\$ -
2011	48,278	-	-	-	0.00%	-
2010	49,945	-	-	-	0.00%	-
2009	49,643	-	-	-	0.00%	-
2008	49,501	-	-	-	0.00%	-
2007	49,306	-	-	-	0.00%	-
2006	48,969	-	-	-	0.00%	-
2005	49,006	-	-	-	0.00%	-
2004	48,988	-	-	-	0.00%	-
2003	48,809	-	-	-	0.00%	-
2002	48,507	-	-	-	0.00%	-

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

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

Source: City Finance Division, Department of Finance, Bureau of Economic Analysis (U. S. Census Bureau)

**City of Rancho Santa Margarita
Direct & Overlapping Bonded Debt
June 30, 2012**

	Rate Applies to	Gross Bonded Debt Balance	Percent Applicable to City	Net Bonded Debt
Direct Debt				
A65.01 City of RSM Nonprofit Corp. COP		\$ 11,360,000	100%	\$ 11,360,000
Total Direct Debt				11,360,000
Overlapping Debt				
628.01 Capistrano Unified SFID#1 1999 Bond#2002C		14,990,000	1.55%	231,770
629.01 Capistrano Unified SFID#1 1999 Bond#2001B		16,429,930	1.55%	254,034
640.02 Capistrano Unified SFID#1 1999 Bond#2000A		14,090,000	1.55%	217,854
6AB.01 Saddleback Valley USD 2004 Bond#2004A		84,500,000	14.53%	12,273,421
6AW.01 Saddleback Valley USD 2004 Series B		47,425,000	14.53%	6,888,367
*C55.14 Metro Water Dist-MWDOC-1205999		39,848,053	1.76%	700,640
C76.56 Santa Margarita Water ID#4-Bond	Land	136,420,000	44.16%	60,241,353
C76.58 Santa Margarita Water ID#3-Bond	Land	20,370,000	99.83%	20,334,349
Total Overlapping Debt				101,141,788
Total Direct and Overlapping Debt				\$ 112,501,788

2011/12 Assessed Valuation: \$6,624,820,302.

Debt To assessed Valuation Ratios:	Direct Debt	0.17%
	Overlapping Debt	1.53%
	Total Debt	1.70%

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

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

Source: HdL Companies

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**City of Rancho Santa Margarita
Legal Debt Margin
Last Ten Fiscal Years**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assessed Valuation	\$ 6,624,820,302	\$ 6,602,601,257	\$ 6,616,495,208	\$ 6,898,038,153
Conversion Percentage	25%	25%	25%	25%
Adjusted Assessed Valuation	\$ 1,656,205,076	\$ 1,650,650,314	\$ 1,654,123,802	\$ 1,724,509,538
Debit Limit Percentage	15%	15%	15%	15%
Debt Limit	\$ 248,430,761	\$ 247,597,547	\$ 248,118,570	\$ 258,676,431
Total Net Debt Applicable to Limit: General Obligation Bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Legal Debt Margin	<u>\$ 248,430,761</u>	<u>\$ 247,597,547</u>	<u>\$ 248,118,570</u>	<u>\$ 258,676,431</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	0.00%	0.00%	0.00%	0.00%

Note:

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

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

2008	2007	2006	2005	2004	2003
\$ 6,979,954,997	\$ 6,570,973,739	\$ 5,989,704,151	\$ 5,501,993,484	\$ 5,048,907,389	\$ 4,697,420,499
25%	25%	25%	25%	25%	25%
\$ 1,744,988,749	\$ 1,642,743,435	\$ 1,497,426,038	\$ 1,375,498,371	\$ 1,262,226,847	\$ 1,174,355,125
15%	15%	15%	15%	15%	15%
\$ 261,748,312	\$ 246,411,515	\$ 224,613,906	\$ 206,324,756	\$ 189,334,027	\$ 176,153,269
-	-	-	-	-	-
<u>\$ 261,748,312</u>	<u>\$ 246,411,515</u>	<u>\$ 224,613,906</u>	<u>\$ 206,324,756</u>	<u>\$ 189,334,027</u>	<u>\$ 176,153,269</u>
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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

Fiscal Year	Population	Personal Income ⁽¹⁾ (in thousands)	Per Capita Personal Income	Income per Median Household	Median Age	School Enrollment	Unemployment Rate
2012	48,079	\$ 1,914,458	\$ 39,819	\$ 96,503	34.1	6255	5.60%
2011	48,278	1,933,727	40,054	96,503	33.5	6143	6.20%
2010	49,945	2,174,555	43,539	100,166	32.7	5965	5.80%
2009	49,643	2,048,221	41,259	97,744	31.9	5842	5.50%
2008	49,501	1,566,261	31,641	106,222	31.9	5488	3.80%
2007	49,306	1,535,550	31,143	103,028	31.9	5454	2.60%
2006	48,969	1,505,441	30,743	99,967	31.9	5420	1.80%
2005	49,006	*	*	*	*	*	*
2004	48,988	*	*	*	*	*	*
2003	48,809	*	*	*	*	*	*

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

(1) Estimated for 2012

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

**City of Rancho Santa Margarita
Principal Employers
Current Year and Six Years Ago**

Employer	2012		2006	
	Number of Employees	Percentage of Employment	Number of Employees	Percentage of Employment
Applied Medical	1,698	10.49%	1,100	3.77%
Cox Communications	783	4.84%	750	2.57%
O'Connell Landscape	1,033	6.38%	450	1.54%
Saddleback Valley School District	344	2.13%	572	1.96%
Lucas & Mercier Construction	300	1.85%	567	1.94%
Control Components Inc. (CCI)	268	1.66%	400	1.37%
Target Corporation	200	1.24%	300	1.03%
Car Sound Exhaust System, Inc.	207	1.28%	*	*
Capistrano Unified School District	154	0.95%	200	0.68%
PADI	200	1.24%	200	0.68%
Santa Margarita Catholic H.S.	207	1.28%	200	0.68%
Kohl's	110	0.68%	*	*

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

* Data not available

Source: City Finance Division, Development Services

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

FUNCTION	Full-Time and Part-Time Employees as of June 30									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
City Manager Full-Time	2.00	2.00	3.00	3.00	3.00	5.00	8.50	8.75	8.25	7.25
City Clerk Full-Time	2.80	2.80	2.60	2.60	2.60	2.38	2.38	2.50	2.40	2.00
Finance Full-Time	-	-	-	-	-	2.35	2.00	2.00	2.20	3.20
Police Services Full-Time	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Bldg./Planning Full-time	3.00	3.75	3.60	3.50	3.50	7.00	4.75	4.75	3.75	3.75
Engr./Pub. Works Full-Time	3.00	3.00	3.00	3.00	3.00	4.55	4.55	4.50	4.50	4.50
Comm. Services Full-Time	-	-	-	-	-	2.25	2.25	2.50	2.00	2.50
Admin. Services Full-Time	11.32	11.07	14.10	8.60	8.35	-	-	-	-	-
Total	<u>23.12</u>	<u>23.62</u>	<u>27.30</u>	<u>21.70</u>	<u>21.45</u>	<u>24.53</u>	<u>25.43</u>	<u>26.00</u>	<u>24.10</u>	<u>24.20</u>

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

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

Source: City Finance Division, City Human Resources, Adopted Operating Budget and Capital Improvement Plan FY 2012-2013

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

FUNCTION	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
General Government										
Civic Center/City Hall Building	1	1	1	1	1	1	1	1	-	-
Police Services										
Support Vehicles	1	1	1	1	1	1	1	1	1	1
Motorcycles	2	2	2	3	3	3	3	3	3	3
Public Works										
Streets (Miles)	99	99	99	99	99	99	99	99	*	*
Traffic Signals	159	159	159	159	159	158	156	156	*	*
Community Services										
Dog Parks	1	1	1	1	1	1	1	1	-	-
Skate Parks	1	1	1	1	1	1	1	1	-	-

*Data is not available.

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

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

FUNCTION	2012	2011	2010	2009
General Government				
Financial Reports & Audits Completed	49	15	12	12
Checks/Wire Transfers	1,759	1,645	2,502	1,664
Police Services				
Physical Arrests	*	1,317	1,054	1,226
Parking Citations	*	1,613	2,168	2,308
Traffic Citations	*	3,184	2,627	3,928
Public Works				
Street Paving (miles)	8	13	30	6
Sidewalks replaced (sq. ft.)	1,025	3,973	8,585	4,000
Curb refurbished (linear feet)	15,500	19	1,614	23,000
Traffic signs replaced/installed	600	56	458	536
Pavement Condition Index (70 = min. acceptable)	79.2	77.9	76.5	76.5
Building and Planning				
Building Permits Issued	1,026	782	764	807
Building Inspections Completed	2,387	2,127	1,801	1,953
Plan Checks Performed	194	223	185	126
Community Services				
Recreational & Instructional Classes Offered	725	712	460	134
Senior Mobility Ride Vouchers	665	609	623	422
Community Events Attendance	17,500	15,000	17,000	30,500
Community Magazine Publications	3	3	3	3

* Data not readily available.

Source: City Finance Division, Public Safety Department, Public Works Department, Development Services and Community Services Division

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
12	7	6	7	6	5
2,355	2,152	2,389	2,401	*	*
986	770	737	643	493	376
2,090	3,544	3,467	2,142	2,570	2,284
3,814	3,384	3,886	5,163	4,571	4,491
25	15	51	15	25	46
2,975	1,443	3,118	2,300	*	*
19,769	12,726	14,526	11,200	*	*
559	432	304	438	*	*
76	73	70	78	75	78
786	751	742	903	722	*
3,460	3,613	4,042	3,271	2,074	*
355	327	355	618	461	*
102	121	106	122	757	563
440	145	688	585	516	*
30,000	19,300	17,900	2,500	8,000	12,000
3	3	3	3	3	3

City of Rancho Santa Margarita
Miscellaneous Statistics
June 30, 2012

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:	48,079
Area in square miles:	13
Form of Government:	Council-Manager
Date of Incorporation:	January 1, 2000
Number of Full Time Employees:	18
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:	21 Privately owned and operated parks 1 County owned and operated park 2 Privately owned golf courses
Schools:	
Elementary Schools	11
Middle Schools	2
High Schools	1
Master Home Owners' Associations	7
Miles of Streets	99.5 miles
Number of Streetlights	159

Source: City Finance Division

City of Rancho Santa Margarita

California