

CITY OF LAGUNA WOODS  
Laguna Woods, California

Basic Financial Statements  
and Supplementary Data

Year ended June 30, 2006

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CITY OF LAGUNA WOODS  
Basic Financial Statements and Supplementary Data  
Year ended June 30, 2006

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CITY OF LAGUNA WOODS  
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CITY OF LAGUNA WOODS

Basic Financial Statements and Supplementary Data

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## FINANCIAL SECTION



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Honorable Mayor and City Council  
City of Laguna Woods  
Laguna Woods, California

### Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Laguna Woods, California, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Laguna Woods. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Laguna Woods, California, as of June 30, 2006, and the changes in financial position of the City of Laguna Woods, California for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Honorable Mayor and City Council  
City of Laguna Woods  
Laguna Woods, California  
Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Laguna Woods, California's basic financial statements. The supplementary schedules identified in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Laguna Woods, California. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 8, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayer Hoffman McCann P.C.*

Irvine, California  
August 8, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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# ***CITY OF LAGUNA WOODS***

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

This discussion and analysis of the City of Laguna Woods' financial statements provides an overview of the City's financial activities for the year ended June 30, 2006. This document should be read in conjunction with the accompanying transmittal letter and basic financial statements. Please note that this is the second year the City of Laguna Woods has used this reporting format. The City remains in full compliance with GASB 34 requirements and GAAP standards for reporting financial information.

### **FINANCIAL HIGHLIGHTS**

- The City ended Fiscal Year 2005-2006 with total net assets of \$17,192,638, including capital assets.
- During the year, the City's taxes and other revenues exceeded expenditures by \$3,124,923.
- The total revenue from all sources equaled \$9,418,119.
- The total expenses from all sources equaled \$6,293,196.
- The General Fund reported ending fund balance of \$12,601,089 and excess revenues over expenditures of \$3,346,553.
- The Gas Tax Special Revenue Fund reported ending fund balance of \$911,259 and excess expenditures over revenues of (\$43,139).
- The Federal Transportation Special Revenue Fund reported ending fund deficit of (\$175,855) and excess expenditures over revenues of (\$580,339).
- The Measure M Special Revenue Fund reported ending fund balance of \$182,2123 and excess expenditures over revenues of \$182,213.

### **USING THIS ANNUAL REPORT**

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

#### **Reporting the City as a Whole: The Statement of Net Assets and the Statement of Activities**

One of the most important questions asked about the City's finances is "Is the City as a whole better or worse off as a result of this year's activities?". The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its

activities in a way that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method 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 these net assets. The City's net assets, the difference between assets and liabilities, are one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. We are pleased to report that the City's net assets increased during Fiscal Year 2005-2006 despite significant fiscal challenges. Consideration should also be given to other non-financial factors, such as changes in the City's property tax bases and the condition of the City's roads, to assess the overall health of the City.

The City's basic services fall into the category of governmental activities. Governmental activities are activities generally financed through taxes, intergovernmental revenues, and other non-exchange revenues.

The Statement of Net Assets and the Statement of Activities present information about governmental activities, including General Government, Community Development, Public Safety, Public Works and Community Services. Property Tax, Sales Tax, Transient Occupancy Tax, Franchise Tax and Motor Vehicle-in-Lieu Fees finance approximately 90% of all governmental activities.

### **Reporting the City's Most Significant Funds: Fund Financial Statements**

The Fund Financial Statements provide detailed information about the most significant funds, not the City as a whole. Included are the General Fund and the Gas Tax, Federal Transportation and Measure M Special Revenue Funds which were classified as major funds. Lesser funds are reported collectively as Other Governmental Funds. Some funds are required to be established by State law, however, the City establishes many other funds to help control and manage money for specific purposes or to demonstrate compliance with legal requirements for using certain taxes, grants, and other monies. The City currently has only governmental funds.

*Governmental Funds* focus on how money flows into and out of those funds and the balances left at year-end that are available for future appropriation. Most of the City's basic services are reported in governmental funds. These funds are reported using the modified accrual accounting method. Under this method, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current fiscal period while expenditures are recognized in the accounting period in which the liability is incurred. There are five different types of governmental funds: the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. Currently, the City only has a general fund and special revenues funds.

The Governmental Fund statements provide a detailed view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or less financial resources that can be

spent in the near future to finance the City's programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and Governmental Funds are described in the reconciliation after the fund financial statements.

## THE CITY AS A WHOLE

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

*Table 1*  
*Net Assets*

### Governmental Activities

	<u>2005</u>	<u>2006</u>
Cash and investments	\$9,559,434	10,694,318
Capital assets, net	3,577,044	3,462,071
Other Receivables and Assets	<u>1,794,213</u>	<u>3,721,783</u>
<b>Total Assets</b>	<b><u>14,930,691</u></b>	<b><u>17,878,172</u></b>
Accounts payable and accrued expenses	871,539	519,990
Long-term liabilities	<u>168,496</u>	<u>165,544</u>
<b>Total Liabilities</b>	<b><u>1,040,035</u></b>	<b><u>685,534</u></b>
Invested in capital assets, net of accumulated depreciation	3,577,044	3,462,071
Restricted	1,499,746	1,447,579
Unrestricted	<u>8,813,866</u>	<u>12,282,988</u>
<b>Total net Assets</b>	<b><u>\$13,890,656</u></b>	<b><u>17,192,638</u></b>

**Table 2**  
**Changes in Net Assets**

Government and Business Type Activities		
	<u>2005</u>	<u>2006</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 338,399	1,114,356
Operating contributions and grants	1,825,538	1,984,898
Capital contributions and grants	<u>100,041</u>	<u>283,785</u>
<b>Total program revenues</b>	<b>2,263,978</b>	<b>3,383,039</b>
General revenues:		
Taxes:		
Property taxes	295,507	242,507
Sales taxes	977,462	913,131
Motor vehicle in lieu tax	3,058,770	3,768,506
Franchise taxes	271,879	334,089
Transient occupancy taxes	383,678	445,337
Investment income	197,674	313,331
Other	<u>9,540</u>	<u>18,179</u>
<b>Total general revenues</b>	<b><u>5,194,754</u></b>	<b><u>6,035,080</u></b>
<b>Total revenues</b>	<b><u>7,458,732</u></b>	<b><u>9,418,119</u></b>
<b>Expenses</b>		
Governmental activities:		
General government	1,916,351	2,006,257
Public safety	900,867	2,281,038
Public works	2,252,622	579,833
Community development	467,730	1,264,112
Community services	<u>315,140</u>	<u>161,956</u>
<b>Total expenses</b>	<b><u>5,852,710</u></b>	<b><u>6,293,196</u></b>
<b>Increase/(Decrease) in net assets</b>	<b><u>\$ 1,606,022</u></b>	<b><u>3,124,923</u></b>

- Current and other assets were \$14,053,888 as of year end, an increase of 24% over the prior year.

- Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations within Fund-specific guidelines are \$12,282,988, an increase of 40% over the prior year.
- The City's total program and general revenues were \$3,383,039 and \$6,035,080, respectively, totaling \$9,418,119 while the total cost of all programs and services was \$6,293,196.
- State Motor Vehicle-in-Lieu fees of \$3,768,506 are the City's largest revenue source at 40%. These revenues fund a significant portion of the City's basic services.
- Sales Tax of \$913,131 is the City's second largest revenue source at 10%.

### Government Activities

Table 3 presents the cost of each of the City's governmental activity programs, General Government, Community Development (planning and building), Public Safety, Community Services and Public Works, as well as, each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

**Table 3**  
**Net Cost of Governmental and Business-type Activities**

	<u>2005</u>		<u>2006</u>	
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
	<u>of Services</u>	<u>of Services</u>	<u>of Services</u>	<u>of Services</u>
General Government	\$1,916,351	(1,862,402)	2,006,257	(1,873,575)
Public Safety	900,867	(714,137)	2,281,038	(1,694,779)
Public Works	2,252,622	(671,191)	579,833	1,189,439
Community Development	467,730	(382,311)	1,264,112	(1,146,234)
Community Services	<u>315,140</u>	<u>41,309</u>	<u>161,956</u>	<u>614,992</u>
<b>Total</b>	<b><u>\$5,852,710</u></b>	<b><u>(3,588,732)</u></b>	<b><u>6,293,196</u></b>	<b><u>(2,910,157)</u></b>

- General Government expenses comprise 32% of the governmental expenditures, compared to 33% in the prior year, and include City Council, City Manager, City Clerk, City Attorney, Administrative Services, Support Services and Risk Management. Charges for services reduce the cost of this program.
- Public Safety expenses comprise 36% of the governmental expenses compared to 15% in the prior year. Revenue from fines and Federal and State operating grants reduce the cost of this program.

- Public Works expenses comprise 9% of the governmental expenses, compared to 38% in the prior year. Operating contributions and grants help to reduce the cost of these expenses.
- Community Development expenses comprise 20% of the governmental expenses, compared to 8% in the prior year. Various building and planning fee revenues reduce the cost of this program.
- Community Services expenses comprise 3% of the governmental expenditures, compared to 5% in the prior year. Charges for special events and the use of City facilities help to offset these expenditures.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At fiscal year-end the City's Governmental Funds reported a combined fund balance of \$13,453,256, an increase of \$4,118,937 or 44% over the prior year fund balance. \$12,601,089 and \$911,259 of this fund balance is in the General Fund and the Gas Tax Fund, respectively. The City's General Fund Balance equates to about 200% of one full year of expenditures. Future fund balance levels are as yet undetermined.

### General Fund Budgetary Highlights:

**Revenues:** Actual revenues slightly exceeded the budget by \$1,096,513 or 22% primarily as a result of aggressive State and local revenue collection efforts. Correspondingly, Sales Tax, Transient Occupancy Tax and Motor Vehicle-in-Lieu Fees were higher than projected.

**Expenditures:** Actual expenditures were \$3,695,614 or 15% less than budgeted. Correspondingly, General Government and Community Development expenditures were less than projected.

## CAPITAL ASSETS

The capital assets for governmental activities totaled \$3,462,071 at year-end primarily consisting of the City's land assets. During the fiscal year, the City had \$108,988 of depreciation expense on capital assets which increased accumulated depreciation to \$412,071 as of fiscal year end. The capital asset detail is as follows:

**Table 4a**  
**Capital Assets at Year-End**  
(Net of Depreciation)  
Governmental Activities

	<u>2005</u>	<u>2006</u>
Land	\$3,050,000	3,050,000
Leasehold improvements	692,888	692,888
Equipment and furniture	171,849	151,899
Construction in progress	-	-

Less accumulated depreciation	<u>(337,693)</u>	<u>(432,716)</u>
<b>Total net capital assets</b>	<b><u>\$3,577,044</u></b>	<b><u>3,462,071</u></b>

### **Debt**

The City of Laguna Woods currently has no debt obligations. However, claims payable and compensated absences are classified as long-term liabilities and totaled \$10,000 and \$155,544, respectively, as of fiscal year end.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City's primary revenue sources are all potentially affected by economic factors, legislative action or state law. This is the final year of the first seven years since the City's incorporation in which population is estimated at three times number of registered voters. This inflated population is used to calculate state apportionments for the Motor Vehicle-in-Lieu Fee and Fuel Tax. Supplemental Property Tax in lieu of Motor Vehicle-in-Lieu Fees, which was adjusted to actual population in this fiscal year, will continue to be a significant revenue source in future years. Sales taxes are currently performing below expectations and this situation may continue due to consumer economic uncertainty. Property Tax is projected to slightly exceed initial budget projections due to higher market valuations, however this may be offset somewhat by a reduction in sales activity. The City's Transient Occupancy Tax is only partially reliant on tourism and thus continues to be a relatively stable source of revenue. Motor vehicle fines have increased due to the implementation of red light photo enforcement at two intersections, Moulton Parkway at El Toro Road and Moulton Parkway at Gate 12, however, it is likely that program costs will continue to exceed these revenues in future years.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide Laguna Woods citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City of Laguna Woods, Administrative Services Department, 24264 El Toro Road, Laguna Woods, California 92637 or call (949) 639-0500.

## BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

# CITY OF LAGUNA WOODS

## Statement of Net Assets

June 30, 2006

	Governmental Activities
Assets:	
Cash and investments (note 2)	\$ 10,694,318
Accounts receivable	6,723
Interest receivable	123,555
Prepaid items	73,520
Due from other governments	847,306
Deposits	2,670,679
Capital assets (note 5):	
Capital assets not being depreciated	3,050,000
Capital assets being depreciated, net of accumulated depreciation	412,071
Total assets	<u>17,878,172</u>
Liabilities:	
Accounts payable	497,533
Accrued expenses	22,457
Long-term liabilities (notes 6):	
Portion due within one year:	
Compensated absences	34,248
Claims payable	10,000
Portion due beyond one year:	
Compensated absences	121,296
Total liabilities	<u>685,534</u>
Net assets:	
Invested in capital assets	3,462,071
Restricted for:	
Public safety	193,304
Public works	1,190,243
Community services	64,032
Unrestricted	<u>12,282,988</u>
Total net assets	<u><u>\$ 17,192,638</u></u>

See accompanying note to basic financial statements.

## CITY OF LAGUNA WOODS

## Statement of Activities

Year ended June 30, 2006

	Program Revenues				Net Governmental Activities
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	
<u>Governmental activities:</u>					
General government	\$ 2,006,257	132,682	-	-	(1,873,575)
Community development	1,264,112	-	117,878	-	(1,146,234)
Public safety	2,281,038	302,474	-	283,785	(1,694,779)
Public works	579,833	115	1,769,157	-	1,189,439
Community services	161,956	679,085	97,863	-	614,992
 Total governmental activities	 <u>\$ 6,293,196</u>	 <u>1,114,356</u>	 <u>1,984,898</u>	 <u>283,785</u>	 <u>(2,910,157)</u>
 General revenues:					
Taxes:					
Property taxes					242,507
Sales taxes					913,131
Transient occupancy taxes					445,337
Franchise taxes					334,089
State motor vehicle in lieu					3,768,506
Investment income					313,331
Other					18,179
 Total general revenues					<u>6,035,080</u>
 Change in net assets					3,124,923
 Net assets at beginning of year, as restated (note 11)					<u>14,067,715</u>
 Net assets at end of year					<u>\$ 17,192,638</u>

See accompanying notes to basic financial statements.

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## FUND FINANCIAL STATEMENTS

CITY OF LAGUNA WOODS  
Governmental Funds  
Balance Sheet  
June 30, 2006

		Special Revenue Funds			Other	
			Federal		Governmental	
	General	Gas Tax	Transportation	Measure M	Funds	Totals
<b>Assets</b>						
Cash and investments (note 2)	\$ 9,138,519	915,174	-	-	640,625	10,694,318
Receivables:						
Accounts	-	-	-	-	6,723	6,723
Interest	123,555	-	-	-	-	123,555
Prepaid items	73,520	-	-	-	-	73,520
Due from other funds (note 3)	515,089	-	-	-	-	515,089
Due from other governments	173,281	165,989	175,855	182,213	149,968	847,306
Deposits (note 4)	2,670,679	-	-	-	-	2,670,679
Total assets	<u>\$ 12,694,643</u>	<u>1,081,163</u>	<u>175,855</u>	<u>182,213</u>	<u>797,316</u>	<u>14,931,190</u>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 71,097	169,904	18,604	96,050	141,878	497,533
Accrued salaries and benefits	22,457	-	-	-	-	22,457
Due to other funds (note 3)	-	-	157,251	122,013	235,825	515,089
Deferred revenue	-	-	175,855	182,213	84,787	442,855
Total liabilities	<u>93,554</u>	<u>169,904</u>	<u>351,710</u>	<u>400,276</u>	<u>462,490</u>	<u>1,477,934</u>
Fund balances (deficits):						
Reserved for:						
Deposits	2,660,000	-	-	-	-	2,660,000
Contingent liabilities	500,000	-	-	-	-	500,000
Unreserved:						
Undesignated, reported in:						
General fund	8,681,702	-	-	-	-	8,681,702
Special revenue funds	-	911,259	(175,855)	(218,063)	334,826	852,167
Designated for capital projects, reported in:						
General fund	759,387	-	-	-	-	759,387
Total fund balances (deficit)	<u>12,601,089</u>	<u>911,259</u>	<u>(175,855)</u>	<u>(218,063)</u>	<u>334,826</u>	<u>13,453,256</u>
Total liabilities and fund balances	<u>\$ 12,694,643</u>	<u>1,081,163</u>	<u>175,855</u>	<u>182,213</u>	<u>797,316</u>	<u>14,931,190</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA WOODS  
Governmental Funds

Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets

June 30, 2006

Fund balances of governmental funds	\$ 13,453,256
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets net of depreciation have not been included as financial resources in governmental fund activity.

Cost of capital assets	3,894,787
Accumulated depreciation	(432,716)

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Assets.

Compensated absences	(155,544)
Claims payable	(10,000)

Some of the revenue will be collected after year-end, but is not available soon enough to pay for the current period's expenditures, and therefore is reported as deferred revenue in the governmental funds.

	<u>442,855</u>
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Net assets of governmental activities

	<u><u>\$ 17,192,638</u></u>
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See accompanying notes to basic financial statements.

CITY OF LAGUNA WOODS  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2006

	General	Special Revenue Funds			Other Governmental Funds	Totals
		Gas Tax	Federal Transportation	Measure M		
Revenues:						
Taxes	\$ 687,844	792,747	-	-	-	1,480,591
Intergovernmental	4,681,637	-	874,019	366,406	940,445	6,862,507
Franchise fees	334,089	-	-	-	-	334,089
Licenses and permits	679,213	-	-	-	-	679,213
Charges for services	63,975	-	-	-	68,694	132,669
Fines and forfeitures	302,474	-	-	-	-	302,474
Investment income	263,321	34,566	-	706	14,738	313,331
Miscellaneous	29,614	-	-	-	-	29,614
Total revenues	<u>7,042,167</u>	<u>827,313</u>	<u>874,019</u>	<u>367,112</u>	<u>1,023,877</u>	<u>10,134,488</u>
Expenditures:						
Current:						
General government	1,733,696	-	-	-	166,525	1,900,221
Public safety	1,087,793	-	-	-	176,319	1,264,112
Public works	273,525	870,452	293,680	549,325	294,056	2,281,038
Community development	433,194	-	-	-	146,639	579,833
Community services	161,956	-	-	-	-	161,956
Capital outlay	5,450	-	-	-	-	5,450
Total expenditures	<u>3,695,614</u>	<u>870,452</u>	<u>293,680</u>	<u>549,325</u>	<u>783,539</u>	<u>6,192,610</u>
Net change in fund balances	3,346,553	(43,139)	580,339	(182,213)	240,338	3,941,878
Fund balances, beginning of year, as restated (note 11)	<u>9,254,536</u>	<u>954,398</u>	<u>(756,194)</u>	<u>(35,850)</u>	<u>94,488</u>	<u>9,511,378</u>
Fund balances (deficit), end of year	<u>\$ 12,601,089</u>	<u>911,259</u>	<u>(175,855)</u>	<u>(218,063)</u>	<u>334,826</u>	<u>13,453,256</u>

See accompanying notes to basic financial statements.

CITY OF LAGUNA WOODS  
Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 3,941,878
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Amounts reported for governmental activities in  
the Statement of Activities are different because:

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 decreased by the amount of depreciation expense charged for the year, net of disposals.

Capital outlay, net of disposals	(5,985)
Depreciation expense	(108,988)

Changes in compensated absences payable is an expenditure in the governmental funds, but the expenditure reduces long-term liabilities in the statement of net assets.	(17,574)
--	----------

Some of the revenue will be collected after year-end, but is not available soon enough to pay for the current period's expenditures, and therefore is reported as deferred revenue in the governmental funds.	(704,934)
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Changes in claims payable is an expenditure in the governmental funds, but the expenditure reduces long-term liabilities in the statement of net assets.	<u>20,526</u>
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Changes in net assets of governmental activities	<u><u>\$ 3,124,923</u></u>
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See accompanying notes to basic financial statements.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies

The accounting policies of the City of Laguna Woods conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

(a) Reporting Entity

The City of Laguna Woods was incorporated March 24, 1999 under the laws of the State of California and enjoys all rights and privileges pertaining to "General Law" cities. The City operates under the Council-Manager form of government and currently provides the following services as authorized by its general laws: public safety, public works, community development, community services and general administrative services.

(b) Basis of Accounting, Measurement Focus and Financial Statement Presentation

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

- a. Government-wide financial statements
- b. Fund financial statements
- c. Notes to the basic financial statements

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These statements include a single column for the governmental activities of the primary government and its blended component unit. The City of Laguna Woods has no business-type activities and no discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the City.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting, Measurement Focus and Financial Statement Presentation, (Continued)

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

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

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

Fund Financial Statements

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

Fund financial statements for the primary government's governmental 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.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting, Measurement Focus and Financial Statement Presentation,  
(Continued)

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses an availability period of 60 days, except for motor vehicle in lieu which has a 30 day availability period. Sales taxes, property taxes, franchise taxes, gas taxes, motor vehicle in lieu, transient occupancy taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period. Other revenue items are considered to be measurable and available where cash is received by the government.

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed 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, expenditures, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 which requires that local governments defer grant revenue that is not received within their availability period of 60 days after the fiscal year ends to meet the "available" criteria of revenue recognition.

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."

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(b) Basis of Accounting, Measurement Focus and Financial Statement Presentation, (Continued)

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 are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts.

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

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

(c) Fund Classifications

The City reports the following major governmental funds:

General Fund

The General Fund is the general operating fund of the City. The General Fund accounts for activities and services traditionally associated with governments such as police, which are financed primarily through tax-generated revenues and not required to be accounted for in another fund.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(c) Fund Classifications, (Continued)

Gas Tax Fund

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

Federal Transportation Fund

The Federal Transportation fund is used to account for receipts and expenditures from grants received from the State of California Department of Transportation for transportation related projects.

Measure M Fund

The Measure M fund is used to account for the operations of the street and maintenance projects of the public works department. Financing is provided by the City's share of County Measure M funds.

(d) Cash and Investments

Investments are reported in the accompanying statement of net assets 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. 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, except for investment income associated with funds not legally required to receive pooled investment income which has been assigned to and recorded as revenue of the general fund, as provided by California Government Code Section 53647.

(e) 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 \$5,000 are capitalized if they have an expected useful life of three years or more.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(e) Capital Assets, (Continued)

Capital assets exclude public domain (infrastructure) general capital assets consisting of certain improvements including roads, streets, sidewalks, medians, and storm drains. The City excluded infrastructure capital assets for the year ended June 30, 2006. GASB Statement No. 34 gives phase 3 cities the option of reporting infrastructure assets in the Statement of Net Assets. Since the City of Laguna Woods qualified as a phase 3 city, as defined by GASB Statement No. 34, they chose not to include infrastructure capital assets.

The City uses the straight-line method in the government-wide financial statements for depreciating storm drains, park equipment, buildings, vehicles, equipment and furniture and leasehold improvements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. The range of lives used for depreciation purposes for each capital asset class are as follows:

<u>Item</u>	<u>Useful Life</u>
Leasehold improvements	8-9 years
Equipment and furniture	5 years

(f) Due from Other Governments

The amounts recorded as a receivable due from other governments include sales taxes, gas taxes, Measure M revenue, reimbursement grant revenues and other revenues collected or provided by Federal, State, County and City governments that were unremitted to the City as of June 30, 2006. The County of Orange assesses, bills, and collects property taxes for the City.

(g) Compensated Absences

Permanent, full-time City employees earn 22-27 paid leave days a year, which includes vacation and sick time. The City accounts for compensated absences in accordance with GASB Statement No. 16. In governmental funds, compensated absences are recorded as expenditures in the year paid, and it is the City's policy to liquidate any unpaid vacation or sick leave at June 30 from future resources rather than currently available expendable resources.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(h) Claims and Judgments

The City records a liability for material litigation, judgments, and claims (including incurred but not reported losses) when it is probable that an asset has been significantly impaired or a material liability has been incurred prior to year end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated.

(i) Property Taxes

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities based on complex formulas. Accordingly, the City of Laguna Woods recognizes as revenue only those taxes which are received within 60 days after year end.

The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment – November 1 Second Installment – February 1
Delinquent Date:	First Installment – December 11 Second Installment – April 11

Taxes are collected by the County of Orange and are remitted to the City periodically. Dates and percentages are as follows:

December	30% advance
January	Collection No. 1
April	10% advance
May	Collection No. 2
July	Collection No. 3

(j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses, during the reporting period. Actual results could differ from those estimates.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(2) Cash and Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of Net Assets:

Cash and investments	<u>\$10,694,318</u>
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Cash and investments held by the City at June 30, 2006 consisted of the following:

Petty cash	\$ 1,606
Demand deposits	1,649,969
State Treasurer's Investment Pool (LAIF)	<u>9,042,743</u>
Total cash and investments held by City	<u>\$10,694,318</u>

The City is generally authorized under Section 53601 of the Government Code and the City's investment policy to invest in: FDIC insured accounts and the Local Agency Investment Fund of the State of California.

Investments Authorized by the California Government Code and the City of Laguna Woods' Investment Policy

Allowable investment instruments are defined in the California Government Code Section 53600, et. seq., as amended. If the Code is further revised to allow additional investments or is changed regarding the limits on certain categories of investments, the City is authorized to conform to these changes, excluding those changes that may be prohibited by this policy. Where the Government Code specifies a percentage limitation for a particular category of investments, that percentage is applicable only at the date of purchase.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(2) Cash and Investments, (Continued)

The table below identifies the investment types that are authorized for the City by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment In One Issuer</u>
Local Agency Bonds	No	5 years	None	5%
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	No	180 days	40%	5%
Commercial Paper	No	180 days	15%	5%
Negotiable Certificates of Deposit	No	5 years	30%	5%
Repurchase Agreements	No	1 year	None	5%
Reverse Repurchase Agreements	No	92 days	20% of base value	5%
Medium-Term Notes	No	5 years	30%	5%
Mutual Funds	No	N/A	20%	5%
Money Market Mutual Funds	No	N/A	20%	5%
Mortgage Pass-Through Securities	No	5 years	20%	5%
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

\* Based on state law requirements or investment policy requirements, whichever is more restrictive.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(2) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

As of June 30, 2006, the City of Laguna Woods had no investments from debt proceeds held by bond trustees.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>				<u>Total</u>
	<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>	
State Investment Pool	<u>\$9,042,743</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,042,743</u>
Total	<u>\$9,042,743</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,042,743</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

During the fiscal year ended June 30, 2006, the City of Laguna Woods did not hold any investments that were highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(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 of Laguna Woods' investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
State investment pool	<u>\$9,042,743</u>	N/A	<u>-</u>	<u>-</u>	<u>9,042,743</u>
Total	<u>\$9,042,743</u>		<u>-</u>	<u>-</u>	<u>9,042,743</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. During the fiscal year ended June 30, 2006, the City of Laguna Woods did not hold any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(2) Cash and Investments, (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City of Laguna Woods deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2006, the City of Laguna Woods did not have any deposits with financial institutions in excess of federal depository insurance limits that were held in uncollateralized accounts.

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 of Laguna Woods' investment in this pool is reported in the accompanying financial statements at amounts based upon the City of Laguna Woods' 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.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(3) Interfund Receivables and Payables

Current interfund receivables and payables balances at June 30, 2006 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Federal Transportation	\$157,251 (a)
	Measure M	122,013 (a)
	Nonmajor governmental funds	<u>235,825 (a)</u>
	Total General Fund	<u>\$515,089</u>

- (a) The amounts owed the General Fund represent short-term borrowings to manage cash flows.

(4) Deposits

On August 12, 2005, the City deposited with the Treasurer of the County of Orange the sum of Two Million Six Hundred Sixty Thousand Dollars (\$2,660,000), pursuant to California Code of Civil Procedure Sections 1255.010(a) and 1255.070, for the acquisition of the City Hall site through eminent domain proceedings. The amount is refundable, less attorney fees, should the City decide to withdrawal from the eminent domain proceedings. On July 6, 2006, an additional Nine Hundred and Ninety Thousand (\$990,000) was deposited with the Treasurer of the County of Orange which was also refundable.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(5) Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2006</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>\$3,050,000</u>	<u>-</u>	<u>-</u>	<u>3,050,000</u>
Total capital assets not being depreciated	<u>3,050,000</u>	<u>-</u>	<u>-</u>	<u>3,050,000</u>
Capital assets being depreciated:				
Furniture and equipment	171,849	-	(19,950)	151,899
Leasehold improvements	<u>692,888</u>	<u>-</u>	<u>-</u>	<u>692,888</u>
Total capital assets being depreciated	<u>864,737</u>	<u>-</u>	<u>(19,950)</u>	<u>844,787</u>
Less accumulated depreciation for:				
Furniture and equipment	(77,150)	(30,380)	13,965	(93,565)
Leasehold improvements	<u>(260,543)</u>	<u>(78,608)</u>	<u>-</u>	<u>(339,151)</u>
Total accumulated depreciation	<u>(337,693)</u>	<u>(108,988)</u>	<u>13,965</u>	<u>(432,716)</u>
Total capital assets being depreciated, net	<u>527,044</u>	<u>(108,988)</u>	<u>-</u>	<u>412,071</u>
Total capital assets, net of accumulated depreciation	<u>\$3,577,044</u>	<u>(108,988)</u>	<u>(5,985)</u>	<u>3,462,071</u>

Depreciation expense was charged to functions as follows:

General government \$108,988

There were no significant construction commitments at June 30, 2006.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 were as follows:

	<u>Balance at June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2006</u>	<u>Due Within One Year</u>
Governmental Activities:					
Claims payable	\$ 30,526	10,000	(30,526)	10,000	10,000
Compensated absences	<u>137,970</u>	<u>65,087</u>	<u>(47,513)</u>	<u>155,544</u>	<u>34,248</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$168,496</u>	<u>75,087</u>	<u>(78,039)</u>	<u>165,544</u>	<u>44,248</u>

(7) Other Required Disclosures

The following funds had excess of expenditures over appropriations as of June 30, 2006:

	<u>Budget</u>	<u>Actual</u>	<u>Variance (Unfavorable)</u>
Federal Transportation Fund	\$ -	293,680	(293,680)
Air Quality Improvement Fund	-	130,778	(130,778)
Community Development Block Grant Fund	125,000	146,639	(21,639)
Seatbelt Safety Enforcement Fund	-	4,080	(4,080)
Traffic Congestion Relief Fund	-	1,688	(1,688)
California Law Enforcement Equipment Program Fund	84,969	85,309	(340)

The following funds had deficit fund balances as of June 30, 2006:

Federal Transportation Special Revenue Fund	\$175,855
Measure M Special Revenue Fund	218,063
California Law Enforcement Equipment Program Special Revenue Fund	16,743
Park State Bonds Special Revenue Fund	70,622
Community Development Block Grant Special Revenue Fund	24,124
Traffic Mitigation Fees Special Revenue Fund	37,489
Seatbelt Safety Enforcement Special Revenue Fund	4,080
Urban Area Security Initiative Special Revenue Fund	9,692
E-Waste U-Waste Grant Special Revenue Fund	38,744

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(8) Insurance Policies

The City is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 109 California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500, et. seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverages. The Authority's pool began covering claims of its members in 1978. Each member government has a representative on the Board of Directors. The Board operates through a 9-member Executive Committee.

General Liability

Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). Six months after the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Costs are spread to members as follows: the first \$30,000 of each occurrence is charged directly to the City; costs from \$30,001 to \$750,000 are pooled based on a member's share of costs under \$30,000; costs from \$750,001 to \$5,000,000 are pooled based on payroll. Costs of covered claims above \$5,000,000 are currently paid by reinsurance. The protection for the City is \$50,000,000 per occurrence and \$50,000,000 annual aggregate.

Workers Compensation

The City also participated in the workers compensation pool administered by the Authority. Pool deposits and retrospective adjustments are valued in a manner similar to the General Liability pool. The City is charged for the first \$50,000 of each claim. Costs are pooled above that level to \$50,000. Costs from \$50,001 to \$100,000 per claim are pooled based on the City's losses under its retention level. Costs between \$100,001 and \$2,000,000 per claim are pooled based on payroll. Costs between \$2,000,000 and \$10,000,000 are paid by excess insurance purchased by the Authority. Costs in excess of \$10,000,000 are pooled by the members based on payroll.

Since incorporation on March 24, 1999, the City's liability for claims payable, if any, did not significantly exceed its deposit with CJPIA. In addition, since incorporation, claim payments have not exceeded the amount of applicable insurance coverage for the past three years. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year. Claims payable at June 30, 2006 was \$10,000.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(9) Joint Venture

Orange County Fire Authority

In 1999, the City of Laguna Woods entered into a joint powers agreement with the Cities of Buena Park, Cypress, Dana Point, Irvine, Laguna Hills, Laguna Niguel, Lake Forest, La Palma, Los Alamitos, Placentia, San Clemente, San Juan Capistrano, Seal Beach, Stanton, Tustin, Villa Park, Westminster and Yorba Linda and the County of Orange to create the Orange County Fire Authority (Authority). The purpose of the Authority is to provide for mutual fire protection, prevention and suppression services and related and incidental services including, but not limited to, emergency medical and transport services, as well as providing facilities and personnel for such services. The effective date of formation was March 1, 1995. The Authority's governing board consists of one representative from each City and two from the County. The operations of the Authority are funded with fire fees collected by the County through the property tax roll for the unincorporated area and on behalf of all member Cities except for the Cities of Stanton, Tustin, San Clemente, Buena Park, Placentia and Seal Beach. The County pays all structural fire fees it collects to the Authority. The Cities of Stanton, Tustin, San Clemente, Buena Park, Placentia and Seal Beach are considered "cash contract Cities" and accordingly make cash contributions based on the Authority's annual budget. The City of Laguna Woods does not have an equity interest in the assets of the Orange County Fire Authority.

Complete financial statements may be obtained from the Orange County Fire authority, 180 S. Water Street, Orange, California, 92866.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(10) Defined Benefit Pension Plan

Plan Description

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 "P" Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% of their annual covered salary. The City made all of the contribution required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate calculated as a percentage of payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2005 to June 30, 2006 has been determined by an actuarial valuation of the plan as of June 30, 2003. The contribution rate indicated for the period is 13.624% of payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2006, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2005 to June 30, 2006.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(10) Defined Benefit Pension Plan, (Continued)

A summary of principle assumptions and methods used to determine the ARC is shown below.

Valuation Date	June 30, 2003
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	17 Years as of the Valuation Date
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.0% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization period may not be lower than the payment calculated over a 30 year amortization period.

Assembly Bill 194, which added Sections 20840-20842 to the California Government Code allowed PERS to create risk pools and mandate public agency participation in those pools. Commencing with the valuation of June 30, 2003, mandatory pooling was established for plans with less than 100 active members. Henceforth, the City of Laguna Woods was required to participate in a risk pool of cities with less than 100 employees. The valuation report as of June 30, 2003 contained three sections: 1) the specific information of the plan including the development of the pooled contribution rate, 2) the report of the Risk Pool Actuarial Valuation as of June 30, 2003, and 3) the Final Stand-Alone Actuarial Valuation of the City of Laguna Woods as of June 30, 2003 (to be removed in later years).

The unfunded actuarial liability is amortized over a period ending June 30, 2016.

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements

(Continued)

(10) Defined Benefit Pension Plan, (Continued)

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll.

Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (Employer Contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/04	\$ 95,961	100%	-0-
6/30/05	117,983	100%	-0-
6/30/06	118,822	100%	-0-

Schedule of Funding Progress for PERS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Asset (A)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (B/A)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a % of Covered Payroll [(B-A)/C]</u>
6/30/03	\$2,596,966,545	2,372,879,034	224,087,511	91.4%	725,020,458	30.9%
6/30/04	2,746,095,668	2,460,944,656	285,151,012	89.6%	743,691,970	38.3%
6/30/05	2,891,460,651	2,588,713,000	302,747,651	89.5%	755,046,679	40.1%

CITY OF LAGUNA WOODS  
Notes to Basic Financial Statements  
(Continued)

(11) Prior Period Adjustment

Fund balance has been restated in the General Fund and net assets in the government-wide financial statements for amounts listed in accounts payable related to invoices paid in previous years.

	<u>General Fund</u>
Fund balance, as previously reported at July 1, 2005	\$9,077,477
To adjust accounts payable for invoices previously paid	<u>177,059</u>
Fund balance, as restated at July 1, 2005	<u>\$9,254,536</u>

  

	<u>Government- Wide</u>
Net assets, as previously reported at July 1, 2005	\$13,890,656
To adjust accounts payable for invoices previously paid	<u>177,059</u>
Net assets, as restated at July 1, 2005	<u>\$14,067,715</u>

(12) Reserves and Designation of Fund Balance

Reserves and designations segregate portions of fund balance that are not available expendable resources. General Fund reserves for deposits and contingencies totaled \$2,660,000 and \$500,000, respectively, as of June 30, 2006. General Fund designations for various capital projects totaled \$759,387, as of June 30, 2006.

## REQUIRED SUPPLEMENTARY INFORMATION

## **GENERAL FUND**

The General Fund is the general operating fund of the City. The General Fund accounts for activities and services traditionally associated with governments such as police, which are financed primarily through tax-generated revenues and not required to be accounted for in another fund.

## **SPECIAL REVENUE FUND**

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for a particular purpose. The following funds have been classified as major funds. The budget-actual comparison for these funds have been presented in the accompanying financial statements as Required Supplementary Information:

### Gas Tax Fund

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

### Federal Transportation

The Federal Transportation fund is used to account for receipts and expenditures from grants received from the State of California Department of Transportation for transportation related projects.

### Measure M Fund

The Measure M fund is used to account for the operations of the street and maintenance projects of the public works department. Financing is provided by the City's share of County Measure M funds.

CITY OF LAGUNA WOODS  
General Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Taxes	\$ 641,619	699,019	687,844	(11,175)
Intergovernmental	3,452,862	4,142,252	4,681,637	539,385
Franchise fees	290,203	313,483	334,089	20,606
Licenses and permits	225,000	225,000	679,213	454,213
Charges for services	56,000	56,000	63,975	7,975
Fines and forfeitures	113,100	319,900	302,474	(17,426)
Investment income	100,000	165,000	263,321	98,321
Miscellaneous	-	25,000	29,614	4,614
Total revenues	<u>4,878,784</u>	<u>5,945,654</u>	<u>7,042,167</u>	<u>1,096,513</u>
Expenditures:				
Current:				
General government	2,229,608	2,285,773	1,733,696	552,077
Public safety	941,119	1,147,919	1,087,793	60,126
Public works	366,324	376,324	273,525	102,799
Community development	562,394	562,394	433,194	129,200
Community services	214,295	248,045	161,956	86,089
Capital outlay	10,000	10,000	5,450	4,550
Total expenditures	<u>4,323,740</u>	<u>4,630,455</u>	<u>3,695,614</u>	<u>934,841</u>
Net change in fund balance	555,044	1,315,199	3,346,553	2,031,354
Fund balance, beginning, as restated	<u>9,254,536</u>	<u>9,254,536</u>	<u>9,254,536</u>	<u>-</u>
Fund balance, ending	<u>\$ 9,809,580</u>	<u>10,569,735</u>	<u>12,601,089</u>	<u>2,031,354</u>

CITY OF LAGUNA WOODS  
Gas Tax Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Taxes	\$ 894,020	807,240	792,747	(14,493)
Investment income	14,100	31,000	34,566	3,566
Total revenues	908,120	838,240	827,313	(10,927)
Expenditures:				
Current:				
Public works	1,137,475	1,137,475	870,452	267,023
Total expenditures	1,137,475	1,137,475	870,452	267,023
Net change in fund balance	(229,355)	(299,235)	(43,139)	256,096
Fund balance, beginning	954,398	954,398	954,398	-
Fund balance, ending	\$ 725,043	655,163	911,259	256,096

CITY OF LAGUNA WOODS  
Federal Transportation Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	<u>\$ 158,220</u>	<u>-</u>	<u>874,019</u>	<u>874,019</u>
Total revenues	<u>158,220</u>	<u>-</u>	<u>874,019</u>	<u>874,019</u>
Expenditures:				
Public works	<u>158,220</u>	<u>-</u>	<u>293,680</u>	<u>(293,680)</u>
Total expenditures	<u>158,220</u>	<u>-</u>	<u>293,680</u>	<u>(293,680)</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>580,339</u>	<u>580,339</u>
Fund balance, beginning	<u>(756,194)</u>	<u>(756,194)</u>	<u>(756,194)</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ (756,194)</u>	<u>(756,194)</u>	<u>(175,855)</u>	<u>580,339</u>

CITY OF LAGUNA WOODS  
Measure M Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	Budgeted Amounts			Variances with Final Budget
	Original	Final	Actual	Positive (Negative)
Revenues:				
Intergovernmental	\$ 778,829	778,829	366,406	(412,423)
Interest income	<u>1,000</u>	<u>1,000</u>	<u>706</u>	<u>(294)</u>
Total revenues	<u>779,829</u>	<u>779,829</u>	<u>367,112</u>	<u>(412,717)</u>
Expenditures:				
Public works	<u>686,713</u>	<u>686,713</u>	<u>549,325</u>	<u>137,388</u>
Total expenditures	<u>686,713</u>	<u>686,713</u>	<u>549,325</u>	<u>137,388</u>
Net change in fund balance	93,116	93,116	(182,213)	(275,329)
Fund balance, beginning	<u>(35,850)</u>	<u>(35,850)</u>	<u>(35,850)</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ 57,266</u>	<u>57,266</u>	<u>(218,063)</u>	<u>(275,329)</u>

## CITY OF LAGUNA WOODS

### Notes to Required Supplementary Information

Year Ended June 30, 2006

#### (1) Budgetary Policy

The City Manager shall prepare and submit the proposed annual budget to the City Council for its approval for all governmental funds. City Council reviews the proposed budget during two separate public workshops and two separate regular City Council meetings. The budget is legally enacted by means of a budget resolution passed by the City Council. Upon final adoption, the budget shall be in effect for the ensuing fiscal year.

The level of budgetary control (this is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. City Council approval is required for any budget revisions that affect total appropriations within each fund.

Appropriations lapse at the end of the fiscal year unless they are re-appropriated through the formal budget process. Open encumbrances are recorded as reservations of fund balance since the commitments will be paid by subsequent year's budget appropriations. Encumbrances do not constitute expenditures or liabilities of the City.

Budgeted amounts are as originally adopted, or as amended in accordance with prescribed procedures throughout the fiscal year. During the year, there were budget modifications and supplemental appropriations amounting to \$148,495, through amendments approved by the City Council.

#### (2) Other Required Disclosures

The following major special revenue funds had deficit fund balances as of June 30, 2006:

Federal Transportation Special Revenue Fund	\$175,855
Measure M Special Revenue Fund	218,063

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## SUPPLEMENTARY SCHEDULES

## NON-MAJOR SPECIAL REVENUE FUNDS

The following Special Revenue funds have been classified as non-major funds in the accompanying financial statements:

Traffic Congestion Relief Fund – accounts for the receipts from the State of California that augment the annual citywide pavement program.

Arterial Highway Rehabilitation Fund – The Arterial Highway Rehabilitation fund is used to account for receipts and expenditures from the State of California Department of Transportation for street rehabilitation projects.

Air Quality Improvement Fund – to account for funds received from the South Coast Air Quality Management District for enacting policies to improve air quality.

California Law Enforcement Equipment Program Fund – accounts for receipts and expenditures for the purchase of safety equipment.

Supplemental Law Enforcement Services Fund – accounts for the receipts and expenditures from the State of California's Citizens Option for Public Safety (COPS) program.

Grants Fund – to account for revenues received under Federal, State and local grants.

Exercise Challenge Fund – accounts for receipts from donors and expenditures on a special event that encourages safe and healthy exercise by residents, workers and students in Laguna Woods.

Emergency Management Fund – accounts for receipts from the state and expenditures for the purchase of emergency operations equipment to be used in the event of an earthquake, terrorist attack or other emergency.

Park State Bonds Fund – accounts for receipts from the state and expenditures for the purchase and improvement of parks and open space.

Senior Mobility Fund – accounts for receipts from the Orange County Transportation Authority and expenditures for demand-responsive transportation services for seniors aged 60 and older.

Community Development Block Grant Fund – to account for the receipts and expenditures of the U.S. Housing and Urban Development – Community Development Block Grant Programs.

Traffic Mitigation Fees - The Traffic Mitigation Fees fund is used to account for receipts and expenditures for programs related to traffic mitigation.

Seatbelt Safety Enforcement - The Seatbelt Safety Enforcement fund is used to account for receipts and expenditures for enforcement and awareness programs related to seatbelt safety.

Urban Area Security Initiative - The Urban Area Security Initiative fund is used to account for receipts and expenditures for programs related to anti-terrorism efforts.

E-Waste U-Waste - The E-Waste U-Waste fund is used to account for receipts and expenditures for enforcement and awareness programs related to E-waste and U-waste.

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CITY OF LAGUNA WOODS  
Non-Major Special Revenue Funds  
Combining Balance Sheet  
June 30, 2006

	<u>Traffic Congestion Relief</u>	<u>Arterial Highway Rehabilitation</u>	<u>Air Quality Improvement</u>	<u>CA Law Enforcement Equipment</u>	<u>Supplemental Law Enforcement</u>
<u>Assets:</u>					
Cash and investments	\$ 117,197	108,128	69,487	-	147,126
Receivables:					
Accounts receivable	-	-	6,076	-	-
Interest receivable	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from other governments	<u>54,432</u>	<u>-</u>	<u>1,379</u>	<u>-</u>	<u>2,582</u>
Total assets	<u>\$ 171,629</u>	<u>108,128</u>	<u>76,942</u>	<u>-</u>	<u>149,708</u>
<u>Liabilities and Fund Balances:</u>					
Liabilities:					
Accounts payable	\$ 1,640	-	25,607	-	12,393
Deferred revenue	-	-	-	-	-
Due to other funds	<u>-</u>	<u>50,468</u>	<u>-</u>	<u>16,743</u>	<u>-</u>
Total liabilities	<u>1,640</u>	<u>50,468</u>	<u>25,607</u>	<u>16,743</u>	<u>12,393</u>
Fund balances (deficits):					
Undesignated, reported in:					
Special revenue funds	<u>169,989</u>	<u>57,660</u>	<u>51,335</u>	<u>(16,743)</u>	<u>137,315</u>
Total fund balances (deficits)	<u>169,989</u>	<u>57,660</u>	<u>51,335</u>	<u>(16,743)</u>	<u>137,315</u>
Total liabilities and fund balances	<u>\$ 171,629</u>	<u>108,128</u>	<u>76,942</u>	<u>-</u>	<u>149,708</u>

<u>Grants</u>	<u>Exercise Challenge</u>	<u>Emergency Management</u>	<u>Park State Bonds</u>	<u>Senior Mobility</u>	<u>Community Development Block Grant</u>	<u>Traffic Mitigation Fees</u>
65,338	2,606	1,734	13,664	115,345	-	-
190	-	-	-	457	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	1,635	-	-	89,940	-
<u>65,528</u>	<u>2,606</u>	<u>3,369</u>	<u>13,664</u>	<u>115,802</u>	<u>89,940</u>	<u>-</u>
12,908	-	-	48,384	16,728	8,489	4,800
-	-	-	-	37,648	47,139	-
-	-	-	35,902	-	58,436	32,689
<u>12,908</u>	<u>-</u>	<u>-</u>	<u>84,286</u>	<u>54,376</u>	<u>114,064</u>	<u>37,489</u>
<u>52,620</u>	<u>2,606</u>	<u>3,369</u>	<u>(70,622)</u>	<u>61,426</u>	<u>(24,124)</u>	<u>(37,489)</u>
<u>52,620</u>	<u>2,606</u>	<u>3,369</u>	<u>(70,622)</u>	<u>61,426</u>	<u>(24,124)</u>	<u>(37,489)</u>
<u>65,528</u>	<u>2,606</u>	<u>3,369</u>	<u>13,664</u>	<u>115,802</u>	<u>89,940</u>	<u>-</u>

(Continued)

CITY OF LAGUNA WOODS  
Non-Major Special Revenue Funds  
Combining Balance Sheet  
(Continued)

	<u>Seatbelt Safety Enforcement</u>	<u>Urban Area Security Initiative</u>	<u>E-Waste U-Waste</u>	<u>Totals</u>
<u>Assets:</u>				
Cash and investments	\$ -	-	-	640,625
Receivables:				
Accounts receivable	-	-	-	6,723
Interest receivable	-	-	-	-
Due from other funds	-	-	-	-
Due from other governments	-	-	-	149,968
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ -	-	-	797,316
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts payable	\$ 4,080	1,763	5,086	141,878
Deferred revenue	-	-	-	84,787
Due to other funds	-	7,929	33,658	235,825
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	4,080	9,692	38,744	462,490
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Fund balances (deficits):</u>				
Undesignated, reported in:				
Special revenue funds	(4,080)	(9,692)	(38,744)	334,826
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances (deficits)	(4,080)	(9,692)	(38,744)	334,826
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ -	-	-	797,316
	<hr/>	<hr/>	<hr/>	<hr/>

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CITY OF LAGUNA WOODS  
Non-major Special Revenue Funds  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2006

	<u>Traffic Congestion Relief</u>	<u>Arterial Highway Rehabilitation</u>	<u>Air Quality Improvement</u>	<u>CA Law Enforcement Equipment</u>	<u>Supplemental Law Enforcement</u>
Revenues:					
Intergovernmental	\$ 171,046	385,300	16,640	-	101,572
Charges for services	-	-	-	-	-
Investment income	<u>462</u>	<u>-</u>	<u>4,626</u>	<u>2,302</u>	<u>5,798</u>
Total revenues	<u>171,508</u>	<u>385,300</u>	<u>21,266</u>	<u>2,302</u>	<u>107,370</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	162,547
Public works	1,688	1,575	130,778	85,309	-
Community development	-	-	-	-	-
Community service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>1,688</u>	<u>1,575</u>	<u>130,778</u>	<u>85,309</u>	<u>162,547</u>
Excess (deficiency) of revenues over (under) expenditures	169,820	383,725	(109,512)	(83,007)	(55,177)
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	169,820	383,725	(109,512)	(83,007)	(55,177)
Fund balances (deficit), beginning of year	<u>169</u>	<u>(326,065)</u>	<u>160,847</u>	<u>66,264</u>	<u>192,492</u>
Fund balances (deficit), end of year	<u>\$ 169,989</u>	<u>57,660</u>	<u>51,335</u>	<u>(16,743)</u>	<u>137,315</u>

<u>Grants</u>	<u>Exercise Challenge</u>	<u>Emergency Management</u>	<u>Park State Bonds</u>	<u>Senior Mobility</u>	<u>Community Development Block Grant</u>	<u>Traffic Mitigation Fees</u>
6,044	-	-	-	97,863	117,878	44,102
-	-	-	-	68,694	-	-
711	-	-	-	839	-	-
<u>6,755</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>167,396</u>	<u>117,878</u>	<u>44,102</u>
-	-	-	-	166,525	-	-
-	-	-	-	-	-	-
8,512	-	-	-	-	-	36,383
-	-	-	-	-	146,639	-
-	-	-	-	-	-	-
<u>8,512</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>166,525</u>	<u>146,639</u>	<u>36,383</u>
(1,757)	-	-	-	871	(28,761)	7,719
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>(1,757)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>871</u>	<u>(28,761)</u>	<u>7,719</u>
<u>54,377</u>	<u>2,606</u>	<u>3,369</u>	<u>(70,622)</u>	<u>60,555</u>	<u>4,637</u>	<u>(45,208)</u>
<u>52,620</u>	<u>2,606</u>	<u>3,369</u>	<u>(70,622)</u>	<u>61,426</u>	<u>(24,124)</u>	<u>(37,489)</u>

(Continued)

CITY OF LAGUNA WOODS  
Non-major Special Revenue Funds  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
(Continued)

	<u>Seatbelt Safety Enforcement</u>	<u>Urban Area Security Initiative</u>	<u>E-Waste U-Waste</u>	<u>Totals</u>
Revenues:				
Intergovernmental	\$ -	-	-	940,445
Charges for services	-	-	-	68,694
Investment income	-	-	-	14,738
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	-	-	-	1,023,877
	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures:				
Current:				
General government	-	-	-	166,525
Public safety	4,080	9,692	-	176,319
Public works	-	-	29,811	294,056
Community development	-	-	-	146,639
Community service	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	4,080	9,692	29,811	783,539
	<hr/>	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over (under) expenditures	(4,080)	(9,692)	(29,811)	240,338
	<hr/>	<hr/>	<hr/>	<hr/>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources and (uses)	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balances	(4,080)	(9,692)	(29,811)	240,338
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances (deficit), beginning of year	-	-	(8,933)	94,488
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances (deficit), end of year	\$ (4,080)	(9,692)	(38,744)	334,826
	<hr/>	<hr/>	<hr/>	<hr/>

CITY OF LAGUNA WOODS  
Traffic Congestion Relief  
Non-major Special Revenue Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	\$ 57,269	171,046	113,777
Investment income	<u>-</u>	<u>462</u>	<u>462</u>
 Total revenues	 <u>57,269</u>	 <u>171,508</u>	 <u>114,239</u>
 Expenditures:			
Public works	<u>-</u>	<u>1,688</u>	<u>(1,688)</u>
 Net change in fund balance	 57,269	 169,820	 169
 Fund balance, beginning	 <u>169</u>	 <u>169</u>	 <u>-</u>
 Fund balance, ending	 <u>\$ 57,438</u>	 <u>169,989</u>	 <u>169</u>

CITY OF LAGUNA WOODS  
Arterial Highway Rehabilitation  
Non-Major Special Revenue Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	Budget	Actual	Variances with Final Budget Positive (Negative)
Revenues:			
Intergovernmental	\$ 23,163	385,300	362,137
Total revenues	<u>23,163</u>	<u>385,300</u>	<u>362,137</u>
Expenditures:			
Current:			
Public works	<u>23,163</u>	<u>1,575</u>	<u>21,588</u>
Total expenditures	<u>23,163</u>	<u>1,575</u>	<u>21,588</u>
Net change in fund balance	-	383,725	383,725
Fund balance (deficit), beginning	<u>(326,065)</u>	<u>(326,065)</u>	<u>-</u>
Fund balance (deficit), ending	<u><u>\$ (326,065)</u></u>	<u><u>57,660</u></u>	<u><u>383,725</u></u>

CITY OF LAGUNA WOODS  
 Air Quality Improvement  
 Non-Major Special Revenue Fund  
 Budgetary Comparison Schedule  
 Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	\$ 23,075	16,640	(6,435)
Investment income	<u>-</u>	<u>4,626</u>	<u>4,626</u>
Total revenues	<u>23,075</u>	<u>21,266</u>	<u>(1,809)</u>
Expenditures:			
Public works	<u>-</u>	<u>130,778</u>	<u>(130,778)</u>
Total expenditures	<u>-</u>	<u>130,778</u>	<u>(130,778)</u>
Net change in fund balance	23,075	(109,512)	(132,587)
Fund balance, beginning	<u>160,847</u>	<u>160,847</u>	<u>-</u>
Fund balance, ending	<u>\$ 183,922</u>	<u>51,335</u>	<u>(132,587)</u>

CITY OF LAGUNA WOODS  
California Law Enforcement Equipment Program  
Non-Major Special Revenue Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
Revenues:			
Investment income	<u>\$ -</u>	<u>2,302</u>	<u>2,302</u>
Total revenues	<u>-</u>	<u>2,302</u>	<u>2,302</u>
Expenditures:			
Public works	<u>84,969</u>	<u>85,309</u>	<u>(340)</u>
Total expenditures	<u>84,969</u>	<u>85,309</u>	<u>(340)</u>
Net change in fund balance	(84,969)	(83,007)	1,962
Fund balance, beginning	<u>66,264</u>	<u>66,264</u>	<u>-</u>
Fund balance (deficit), ending	<u><u>\$ (18,705)</u></u>	<u><u>(16,743)</u></u>	<u><u>1,962</u></u>

CITY OF LAGUNA WOODS  
Supplemental Law Enforcement  
Non-Major Special Revenue Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	\$ 100,041	101,572	1,531
Investment income	<u>3,075</u>	<u>5,798</u>	<u>2,723</u>
Total revenues	<u>103,116</u>	<u>107,370</u>	<u>4,254</u>
Expenditures:			
Public Safety	<u>186,448</u>	<u>162,547</u>	<u>23,901</u>
Total expenditures	<u>186,448</u>	<u>162,547</u>	<u>23,901</u>
Net change in fund balance	(83,332)	(55,177)	28,155
Fund balance, beginning	<u>192,492</u>	<u>192,492</u>	<u>-</u>
Fund balance, ending	<u>\$ 109,160</u>	<u>137,315</u>	<u>28,155</u>

CITY OF LAGUNA WOODS  
Grants  
Non-Major Special Revenue Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	\$ 11,150	6,044	(5,106)
Investment income	<u>-</u>	<u>711</u>	<u>711</u>
Total revenues	<u>11,150</u>	<u>6,755</u>	<u>(4,395)</u>
Expenditures:			
Public works	<u>28,000</u>	<u>8,512</u>	<u>19,488</u>
Total expenditures	<u>28,000</u>	<u>8,512</u>	<u>19,488</u>
Net change in fund balance	(16,850)	(1,757)	15,093
Fund balance, beginning	<u>54,377</u>	<u>54,377</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 37,527</u></u>	<u><u>52,620</u></u>	<u><u>15,093</u></u>

CITY OF LAGUNA WOODS  
Exercise Challenge  
Non-Major Special Revenue Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
Revenues:			
Total revenues	<u>\$ -</u>	<u>-</u>	<u>-</u>
Expenditures:			
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	-	-
Fund balance, beginning	<u>2,606</u>	<u>2,606</u>	<u>-</u>
Fund balance, ending	<u><u>\$ 2,606</u></u>	<u><u>2,606</u></u>	<u><u>-</u></u>

CITY OF LAGUNA WOODS  
Emergency Management  
Non-Major Special Revenue Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	<u>\$ 894</u>	<u>-</u>	<u>(894)</u>
Total revenues	<u>894</u>	<u>-</u>	<u>(894)</u>
Expenditures:			
Community services	<u>1,129</u>	<u>-</u>	<u>1,129</u>
Total expenditures	<u>1,129</u>	<u>-</u>	<u>1,129</u>
Net change in fund balance	<u>(235)</u>	<u>-</u>	<u>235</u>
Fund balance, beginning	<u>3,369</u>	<u>3,369</u>	<u>-</u>
Fund balance, ending	<u>\$ 3,134</u>	<u>3,369</u>	<u>235</u>

CITY OF LAGUNA WOODS  
 Park State Bonds  
 Non-Major Special Revenue Fund  
 Budgetary Comparison Schedule  
 Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	<u>\$ 195,000</u>	<u>-</u>	<u>(195,000)</u>
Total revenues	<u>195,000</u>	<u>-</u>	<u>(195,000)</u>
Expenditures:			
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	195,000	-	(195,000)
Fund balance (deficit), beginning	<u>(70,622)</u>	<u>(70,622)</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ 124,378</u>	<u>(70,622)</u>	<u>(195,000)</u>

CITY OF LAGUNA WOODS  
 Senior Mobility  
 Non-Major Special Revenue Fund  
 Budgetary Comparison Schedule  
 Year Ended June 30, 2006

	Budget	Actual	Variances with Final Budget Positive (Negative)
Revenues:			
Intergovernmental	\$ 153,836	97,863	(55,973)
Charges for services	-	68,694	68,694
Investment income	-	839	839
Total revenues	<u>153,836</u>	<u>167,396</u>	<u>13,560</u>
Expenditures:			
General government	<u>224,181</u>	<u>166,525</u>	<u>57,656</u>
Total expenditures	<u>224,181</u>	<u>166,525</u>	<u>57,656</u>
Net change in fund balance	(70,345)	871	71,216
Fund balance, beginning	<u>60,555</u>	<u>60,555</u>	-
Fund balance, ending	<u>\$ (9,790)</u>	<u>61,426</u>	<u>71,216</u>

CITY OF LAGUNA WOODS  
Community Development Block Grant  
Non-Major Special Revenue Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	<u>\$ 125,000</u>	<u>117,878</u>	<u>(7,122)</u>
Total revenues	<u>125,000</u>	<u>117,878</u>	<u>(7,122)</u>
Expenditures:			
Community development	<u>125,000</u>	<u>146,639</u>	<u>(21,639)</u>
Total expenditures	<u>125,000</u>	<u>146,639</u>	<u>(21,639)</u>
Net change in fund balance	-	(28,761)	(28,761)
Fund balance, beginning	<u>4,637</u>	<u>4,637</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ 4,637</u>	<u>(24,124)</u>	<u>(28,761)</u>

CITY OF LAGUNA WOODS  
Traffic Mitigation Fees Fund  
Non-Major Special Revenue Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	<u>\$ 1,500,000</u>	<u>44,102</u>	<u>(1,455,898)</u>
Total revenues	<u>1,500,000</u>	<u>44,102</u>	<u>(1,455,898)</u>
Expenditures:			
Public works	<u>1,500,000</u>	<u>36,383</u>	<u>1,463,617</u>
Total expenditures	<u>1,500,000</u>	<u>36,383</u>	<u>1,463,617</u>
Net change in fund balance	-	7,719	7,719
Fund balance, beginning	<u>(45,208)</u>	<u>(45,208)</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ (45,208)</u>	<u>(37,489)</u>	<u>7,719</u>

CITY OF LAGUNA WOODS  
 Seatbelt Safety Enforcement Fund  
 Non-Major Special Revenue Fund  
 Budgetary Comparison Schedule  
 Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
Revenues:			
Total revenues	<u>\$ -</u>	<u>-</u>	<u>-</u>
Expenditures:			
Public safety	<u>-</u>	<u>4,080</u>	<u>(4,080)</u>
Total expenditures	<u>-</u>	<u>4,080</u>	<u>(4,080)</u>
Net change in fund balance	<u>-</u>	<u>(4,080)</u>	<u>(4,080)</u>
Fund balance, beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance (deficit), ending	<u><u>\$ -</u></u>	<u><u>(4,080)</u></u>	<u><u>(4,080)</u></u>

CITY OF LAGUNA WOODS  
Urban Area Security Initiative Fund  
Non-Major Special Revenue Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
Revenues:			
Intergovernmental	\$ 14,750	-	(14,750)
Total revenues	<u>14,750</u>	<u>-</u>	<u>(14,750)</u>
Expenditures:			
Public safety	<u>14,750</u>	<u>9,692</u>	<u>5,058</u>
Total expenditures	<u>14,750</u>	<u>9,692</u>	<u>5,058</u>
Net change in fund balance	-	(9,692)	(9,692)
Fund balance, beginning	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ -</u>	<u>(9,692)</u>	<u>(9,692)</u>

CITY OF LAGUNA WOODS  
E-Waste U-Waste Fund  
Non-Major Special Revenue Fund  
Budgetary Comparison Schedule  
Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Positive (Negative)</u>
Revenues:			
Total revenues	<u>\$ -</u>	<u>-</u>	<u>-</u>
Expenditures:			
Public works	<u>48,000</u>	<u>29,811</u>	<u>18,189</u>
Total expenditures	<u>48,000</u>	<u>29,811</u>	<u>18,189</u>
Net change in fund balance	(48,000)	(29,811)	18,189
Fund balance, beginning	<u>(8,933)</u>	<u>(8,933)</u>	<u>-</u>
Fund balance (deficit), ending	<u><u>\$ (56,933)</u></u>	<u><u>(38,744)</u></u>	<u><u>18,189</u></u>

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