

CITY OF DANA POINT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2009



Lisa Bartlett, Mayor
Steven Weinberg, Mayor Pro Tem
Lara Anderson, Council Member
Joel Bishop, Council Member
Scott Schoeffel, Council Member

Douglas C. Chotkevys, City Manager

Prepared by:
Department of Administrative Services

CITY OF DANA POINT
Comprehensive Annual Financial Report
For the Year Ended June 30, 2009

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INTRODUCTORY SECTION



November 23, 2009

To the Mayor, City Council, City Manager, and Citizens of the City of Dana Point:

The Comprehensive Annual Financial Report (CAFR) of the City of Dana Point for the fiscal year ended June 30, 2009, is submitted herewith. The Department of Administrative Services prepared this report. The responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management. This document reflects the City's commitment to the highest levels of financial reporting by using a reporting format which meets the standards adopted by the Governmental Accounting Standards Board (GASB), which is recognized as the authoritative body for the promulgation of standards of financial accounting and reporting for activities and transactions of state and local governments. We believe that the data provided in this report is accurate in all material respects and is presented in a manner designed to fairly reflect the financial position and results of operations of the City. In addition, we believe all disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

In developing the City's accounting system, consideration is given to the adequacy of internal accounting control systems. The objectives of the City's internal accounting control systems are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and to ensure that transactions are properly recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived and that estimates and judgments are required to be made by management in evaluating these costs and benefits.

It is the policy of the City to have an audit performed annually by an independent certified public accountant. The independent audit of the June 30, 2009, financial statements was performed by Rogers, Anderson, Malody and Scott, LLP. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2009, are free of material misstatement. Rogers, Anderson, Malody and Scott concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Dana Point's financial statements for the year ended June 30, 2009, are fairly presented in conformity with Generally Accepted Accounting Principles ("GAAP"). The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis ("MD&A"). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

PROFILE OF THE CITY

Dana Point is a city of approximately 6.7 square miles. Located on the southern coast of Orange County, California, the City has a population of approximately 36,000. The City draws its name from author Richard Henry Dana (1815-1882), who documented his experiences in an 1830's sea voyage from Boston to California in the novel *Two Years Before the Mast*. A replica of the sailing vessel he traveled on, the tallship *Pilgrim*, is permanently moored in the Dana Point Harbor.

Geographically, the City is comprised of a number of unique micro-communities. To the south is the Capistrano Beach area which consists mainly of residential housing and limited commercial and retail development. Adjacent to Capistrano Beach is the Doheny Village area which consists of a mix of commercial and retail businesses, multi-family residential housing and a mobile home park. The Dana Point Harbor, although located within City boundaries, is administered by the County of Orange. Located within the harbor are small-craft moorings, a small commercial fishing fleet, two hotels, shopping and many restaurants. Northeast of the Dana Point Harbor are the Town Center and Lantern Village communities. The Town Center area consists principally of resident and visitor-serving commercial and retail businesses, and runs along Pacific Coast Highway ("PCH") and Del Prado Street. In the northern part of the City is the Monarch Beach community, which is home to the City's two largest hotels (the Ritz Carlton and St. Regis), a golf course and large, upscale residential developments.

The City incorporated under the general laws of the State of California on January 1, 1989, and operates under a Council-Manager form of government. The City Council consists of five members, elected at large on a non-partisan basis to four-year terms. The mayor and mayor pro tem are honorary positions filled by Council members for one-year terms. For the first six months of cityhood the County of Orange (the "County") provided police, fire and code enforcement services for the City. The County also provided planning, building and engineering services for the first five months of operations. These services were provided free of charge for this six-month period, termed the "transition year."

Beginning with the City's first full year of operations on July 1, 1989, all of the previously provided services became the direct responsibility of the City and are now provided by the City at its own expense, either with in-house City staff, or by contract with private firms or the County. The City today operates in part as a "contract city," utilizing contracts with other governmental entities, private firms and individuals to provide certain of the traditional municipal services to the community.

On December 22, 1993, pursuant to a resolution of the Orange County Local Agency Formation Commission ("LAFCO"), the Capistrano Bay Park and Recreation District (the "Park District")

merged with the City of Dana Point. The merger resulted from the permanent reallocation by the State of California of 59% of the Park District's property tax revenue base. As a result of this revenue loss, the Park District ceased generating sufficient revenues to support its operations. At the recommendation of both the Dana Point City Council and the Park District's Board of Directors, LAFCO approved the merger of the two entities. In connection with the merger, the City agreed to assume the existing debt of the Park District, which at that time consisted of a \$5.9 million capital lease obligation. The City serviced that debt until its retirement in August of 2006.

Other governmental entities, such as the State of California, the County of Orange, the Orange County Fire Authority and numerous water, sewer, school and other districts, as well as electric and gas utilities, provide various levels of service within the City of Dana Point. These entities are legally separate from the City.

Budgets are adopted bi-annually by the City Council and are prepared for each fund in accordance with its basis of accounting. As provided by City ordinance, the City Manager is responsible for preparing the budget and for its implementation after adoption. All unencumbered budget appropriations lapse at year-end. The City Council has the legal authority to amend the budget at any time during the fiscal year. The City Manager has the authority to transfer appropriations from one function or activity to another within the same fund without Council approval, provided such changes will neither have a significant policy impact nor affect budgeted year-end fund balances.

LOCAL ECONOMY

The City serves a significant number of visitors each year, many of whom are drawn by the small boat harbor, beaches, parks, golf courses and resorts in the City. The City currently has two five-star resorts, one four-star resort, nine hotels and motels, and a 29 unit bed-and-breakfast inn, for a total of approximately 1,850 rooms. The City's coastal resources continue to draw visitors that support the visitor-oriented commercial and retail establishments within the City.

The City is highly reliant upon the tourism industry which is the City's principal revenue source. At 23% of governmental revenues, transient occupancy taxes were the City's single largest revenue source in fiscal 2009. This tax is imposed at the rate of 10% upon visitors staying in lodgings located in the City. The luxury hotels that many visitors stay in are also the City's largest individual property-tax payers, the largest employers and the largest sales-tax generators. Moreover, their guests dine in the restaurants, shop in retail establishments and partake of recreational opportunities within the City that provide other streams of revenue to the City's merchants as well as its government. In total, it is estimated that the tourism industry directly or indirectly normally contributes 45-50% of total General Fund revenues.

Due to very high property values and limited availability of suitable sites there is limited commercial and industrial development within the City. Most businesses are oriented toward serving visitors or local residents. The City does not have any malls, new car dealers or major franchise retailers. The City is nearly built-out, with limited future opportunities for new residential or commercial construction. The largest contiguous undeveloped parcels are located

in the Headlands area of the City, which is adjacent to the Dana Point Harbor. The Headlands project received final development approval from the City and the California Coastal Commission in fiscal 2006 and final grading operations were completed in fiscal 2008. The first new custom homes are currently nearing completion. The Headlands development will ultimately include 118 luxury homes together with public park facilities, open space, lodging and visitor-serving retail establishments. The Headlands area is expected to be built-out over the next five plus years, although this timetable may be significantly altered depending upon how the local and national economies fare over the next several years.

The City also receives significant revenue streams through the State of California. These include motor vehicle in-lieu fees and gasoline taxes, both of which are apportioned by the State based upon population, and property taxes in-lieu of motor vehicle license fees, which are apportioned similarly to property taxes.

Transient occupancy tax revenues dropped substantially in fiscal 2009, falling by \$2.7 million, or 23.6%, to \$8.6 million. While a small portion of this decrease was attributable to reduced room availability at one of the larger hotels (due to a major renovation project), most of the drop is attributable to economic factors. The City's two largest hotels, the Ritz Carlton and St. Regis Resort & Spa, appeal primarily to high-end domestic and international visitors, and have been impacted by the recession to a larger degree than the smaller lodgings which tend to draw mostly domestic visitors. The City experienced a continuing period of weakness for transient occupancy tax revenues, with revenue in every month of fiscal 2009 falling below the prior year monthly levels. This trend has continued into fiscal 2010. Sales tax generation also weakened in fiscal 2009, falling by \$673,000, or 18.3%. Since many of the largest sales tax generating businesses are reliant on tourism, this revenue tends to move in lock-step with transient occupancy. The summer season, when the largest proportion of transient occupancy and sales tax revenues are generated, was weak in calendar 2008 (i.e. during fiscal 2009), and the City anticipates total fiscal 2010 transient occupancy tax revenues will fall below fiscal 2009 levels.

Until last year, California's economic growth and unemployment rates have largely mirrored that of the rest of the United States. However, beginning in 2008 and continuing throughout 2009 the California economy, due largely to the collapse of the housing market, has weakened at a quicker pace. Although local unemployment rates are unavailable, the Bureau of Labor Statistics reports that unemployment rates in the greater Los Angeles / Orange County metro area have increased from 7.3% in 2008 to 11.9% in 2009. The 11.9% rate exceeds the national unemployment rate which averaged 9.5%. Locally, the Dana Point populace has experienced significant long-term growth in median household income (up 35.5% since 2000) and per capita income (up 23.7% since 2000). However, over the short-term, both median household income and per capita income declined in fiscal 2009, falling by \$1,892 (2.1%) and \$4,056 (7.9%), respectively. Recent economic forecasts point to income growth resuming over the next five years. Home prices have dropped by over 28% in the last 30 months and are widely expected to remain flat or drop further over the next several years.

Despite declining home prices, citywide assessed real property valuation actually increased by \$347 million, or 4.1%, in fiscal 2009. There are a couple of factors behind this seeming contradiction. First, the valuation date for the 2009 assessments is actually the April preceding

the start of the fiscal year (i.e. April 2008), so the assessment does not fully reflect the extent of market value declines. Secondly, and more importantly, the actual underlying *market* values typically increase or decrease much more than the assessed valuations. This is because under California's Proposition 13, growth in *assessed* valuation is limited to 2% per year, except in cases where property is sold, at which time it is reassessed to market value. As a result, in a period when housing prices grew astronomically, as they did in California through the mid-2000's, assessed values could grow by only 2% per year. Therefore, when the housing market declined, the market value of many properties was still above the assessed value. In the City's case, property tax revenues actually grew by \$175,000, or 2.9%, in fiscal 2009.

An ongoing threat to the City's economic future remains in the State of California's budget problems. The State continues to face structural budget deficits and in fiscal 2009 used a variety of spending cuts, tax increases and accounting gimmickry in an attempt to address the issue. However, due to rising unemployment and increasing economic weakness, the tax increases produced less revenue than expected, and the expenditure cuts did not produce the savings anticipated, and as a result the State is again facing a budget shortfall of about \$6 billion in fiscal 2010, and projects shortfalls of up to \$15 billion in fiscal 2011 and beyond. During fiscal 2009 the State borrowed (and subsequently repaid) a portion of the City's gasoline tax revenues, and did so again in early fiscal 2010. In order to help balance its fiscal 2010 budget, the State announced plans to borrow 8% of local jurisdiction's property tax revenues, to be repaid in three years. These actions by the State are representative of the direct fiscal impacts upon local governments as a result of the State's chronic inability to resolve its fiscal problems. It is unknown the extent to which future State budget actions may impact the City's revenues in future years, however in fiscal 2009 the City established a "State Budget Impact" fund balance reserve to cover potential revenue losses that could result from future State actions.

LONG-TERM FINANCIAL PLANNING

As of June 30, 2009, the City had \$19.5 million of designations of fund balance in the General Fund. These designations included \$6.4 million for emergencies, \$3.2 million for cash flow needs, \$2.0 million for potential revenue losses due to State actions, and \$3.2 million for the future replacement of City infrastructure assets. The remainder of \$4.7 million is designated to provide for economic uncertainties in future City revenues and expenditures. In fiscal 2007 the City Council formally adopted a policy to set aside each fiscal year permanent minimum reserves equal to 30% of General Fund revenues. This policy is reflected in the reserve balances.

Since incorporation the City has made a practice of living within its means. General Fund surpluses, as well as outside funding sources when available, have been used to fund improvements to the City's infrastructure. One key component of this strategy has been a requirement of all new development that the developer pay for any new infrastructure requirements necessitated by their projects. This includes not only streets and sidewalks, but also the addition of park facilities, public art and low income housing subsidies.

The City has aggressively pursued opportunities to work with the State, County, local agencies, developers and non-profit groups whenever possible to jointly fund the cost of infrastructure improvements. In the past, the City has joint-ventured with the local school district and

neighboring cities to improve shared recreational facilities, and continues to seek out similar partnerships. In fiscal 2009, the City was successful in obtaining \$777,000 of outside funding for a variety of capital improvement projects.

The City provides retirement benefits to its employees through contributions to the California Public Employee's Retirement System ("CalPERS"), a cost-sharing multiple-employer public employee defined benefit pension plan. As discussed in Note 7 to the financial statements, in fiscal 2006 CalPERS assigned the City to a risk pool consisting of similarly sized agencies. The purpose of the risk pool is to provide greater consistency in contribution rates from year to year. The risk pool has a substantial unfunded liability and as a result the City's pension contribution rates are expected to remain slightly higher than would otherwise be required for the next ten years in order to amortize the liability. To partially mitigate this increase, in fiscal 2010 the City intends to make a lump-sum prepayment of a portion of its future retirement obligation in the approximate amount of \$860,000.

MAJOR INITIATIVES

Beginning in fiscal 2005 the City initiated the development of the Town Center Specific Plan ("TCSP"). The Town Center is the City's symbolic "downtown." The City's goal, as set forth in the General Plan, is to create the conditions for a thriving diversity of retail, office and residential uses that will promote positive pedestrian activity. After numerous public hearings, newsletters and other outreach efforts, the City Council adopted the TCSP in 2006. The TCSP includes a series of policies, development standards and design guidelines which are intended to guide the transformation of the Town Center into a pedestrian-oriented, mixed-use district which serves the community more effectively and creates a more meaningful place that adds to the identity of Dana Point. The first major construction step towards implementation of the TCSP was undertaken in fiscal 2008 with the PCH Congestion Relief project. This \$6 million project, which was completed in 2009, relieved traffic congestion at the juncture of PCH and the entrance to the harbor through creation of an overhead pedestrian bridge, lane widening, sidewalk enhancements, bus turnouts and street reconfiguration. The City Council will develop additional programs in future fiscal years to implement additional elements of the TCSP.

The City continued its active participation to obtain approval from the California Coastal Commission ("CCC") for a major revitalization of the Dana Point harbor. Although the harbor is actually operated and administered by the County of Orange, it serves a major tourism draw and its operations directly impact the finances and operations of the City. In October, 2009, the CCC approved the land use portion of harbor revitalization plan which is aimed at the commercial core of the harbor, including a complete renovation of public facilities, structures and parking. Although this \$120 - \$150 million project will span several years or longer, it is expected that construction activity could commence in as soon as a year or two.

During fiscal 2009 the City worked with local hoteliers to form a Tourism Business Improvement District ("TBID"), ultimately gaining City Council approval with an effective formation date of May 1, 2009. The TBID membership consists of all hotels in the City with more than 190 rooms (there are four such hotels in the City), with the general managers of each hotel serving as advisory members. Effective January 1, 2010, TBID member hotels will begin

collecting a fee of \$3 per rented room night, the proceeds of which will be utilized to collectively promote and market Dana Point as an overnight destination. Such actions are increasingly important in order for the City's hotels to maintain (or increase) market share as new competing properties open along the Southern California coast. It is estimated that the TBID fee could raise between \$750,000 and \$1 million per year.

In December 2008 the City dedicated its newest public facility, Sea Terrace Park, located adjacent to Pacific Coast Highway in the Monarch Beach area of the City. This \$4 million project was in design for several years and under construction for nearly a year. The 22-acre park site is being developed in phases. This first completed phase consists of approximately five acres of drought-resistant landscaping, grass fields, trees, walkways, a gazebo with views of the Pacific Ocean and picnic areas. Future improvements may include a basketball and/or volleyball court, tot lot, bathroom, expanded parking and various other improvements. The park was largely paid for by the City, but additional funding was received from State park grants and also contributions from local property developers.

Work was undertaken on several infrastructure improvements during fiscal 2009. The City spent \$503,000 improving Lantern Bay Park, which was transferred to the City from the County in 2006. These improvements included tree replacement and planting, landscape replacement, irrigation repairs, sidewalk grinding and concrete repairs. The City spent \$524,000 for landscape beautification along the Pacific Coast Highway corridor, including the planting of drought tolerant landscape, cobblestone medians and irrigation upgrades. In the first part of a planned \$5 million roadway resurfacing program, the City spent \$1.1 million on road renovations through June 2009. This project is expected to be completed by the end of the calendar year. There were also a number of smaller projects undertaken in fiscal 2009 to install, upgrade or repair various street, sidewalk, storm drain and park facilities.

A number of other initiatives were undertaken in fiscal 2009. Following the total redesign of its web site last year, in 2009 the City launched a Twitter feed and also a free subscription to City news updates via e-mail. Work was also undertaken to enable online registration for City recreation programs, which is expected to be implemented in fiscal 2010. During fiscal 2009 the City took steps to participate in the railway "Quiet Zone" program for the railroad crossing at Pacific Coast Highway in the Capistrano Beach community. Once certain safety improvements are constructed and insurance requirements are met, the crossing can be certified as one in which trains are no longer required to sound their horns. Also in fiscal 2009, the City developed its first information technology master plan, which will be implemented in the coming years. In order to enhance public safety and improve traffic flow, the City installed a wireless camera system to enable remote monitoring of key City locations and assets. During fiscal 2008 the City undertook efforts to redesign the Community Development office space within City Hall in order to improve work flow and enhance counter service to the public. The associated construction work was completed in 2009 and City Staff were moved into the redesigned space in the spring. The next City Hall redesign phase will be focused on the Public Works area, and is expected to be completed in late fiscal 2010.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Dana Point for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

A Certificate of Achievement is valid for a period of one year only. The City of Dana Point has received a Certificate of Achievement for the last nineteen consecutive years (fiscal years 1989 through 2008). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

The preparation and development of this report would not have been possible without the special efforts of the entire Administrative Services Department. We would like to take this opportunity to compliment and express our gratitude to all those staff members of both the City and our independent auditors who were associated with the preparation of this report. We would also like to thank the City Manager, Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

Andrew Glass
Accounting & Data Processing Manager

Michael Killebrew
Assistant City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Dana Point
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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



A handwritten signature in black ink, appearing to read "M. L. R. M.", written over the printed name.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Egan", written over the printed name.

Executive Director

OFFICIALS OF THE CITY OF DANA POINT*

Members of the City Council

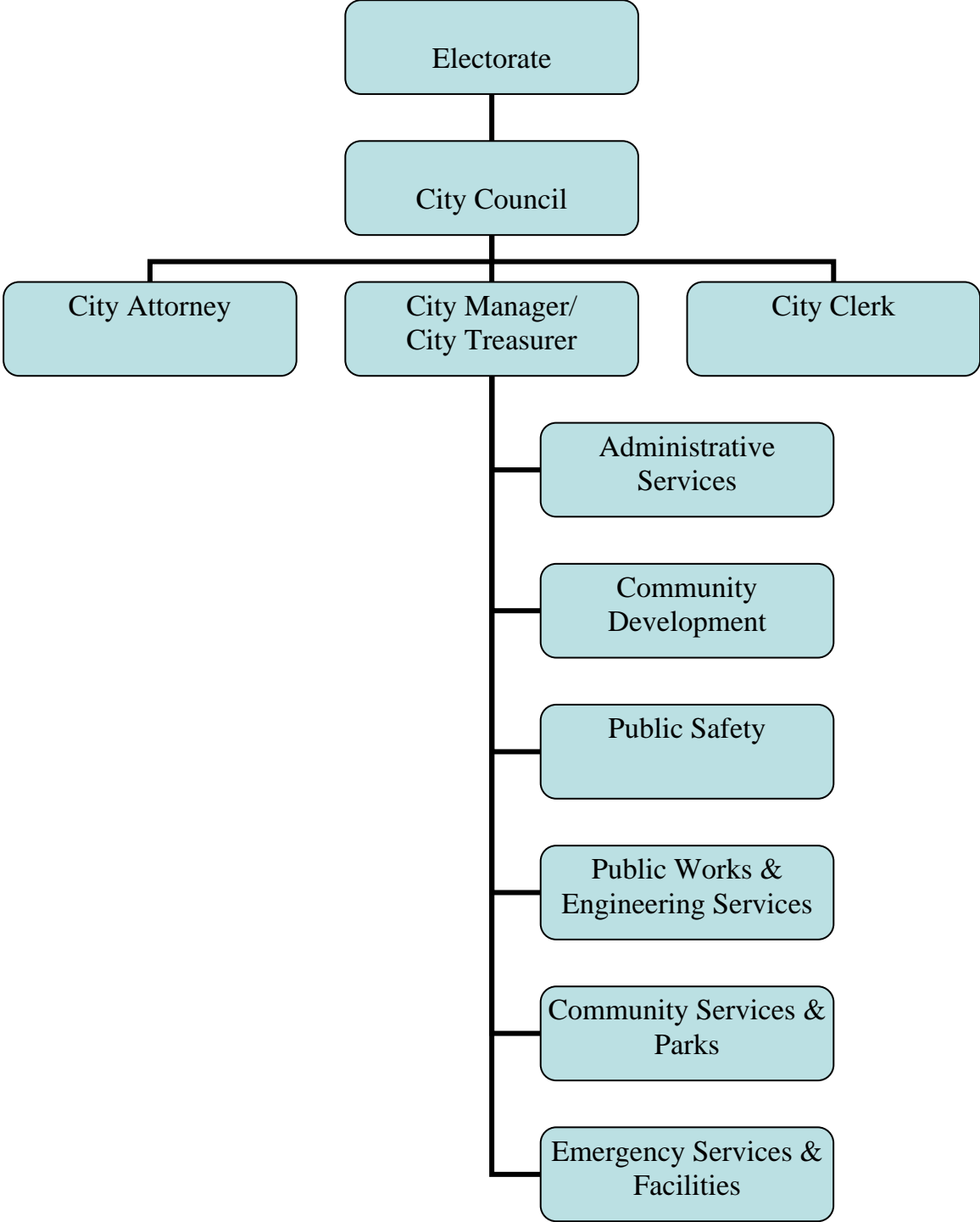
Lisa Bartlett, Mayor
Steven Weinberg, Mayor Pro Tem
Lara Anderson, Council Member
Joel Bishop, Council Member
Scott Schoeffel, Council Member

Administrative Staff

Douglas Chotkevys City Manager/City Treasurer
Kathy Ward City Clerk
Michael Killebrew..... Assistant City Manager
Kyle Butterwick Director of Community Development
Brad Fowler..... Director of Public Works & Engineering Services
Kevin Evans Director of Community Services & Parks
Lt. Mark Levy Chief of Police Services
Mike Rose Director of Emergency Services & Facilities
Patrick Munoz City Attorney

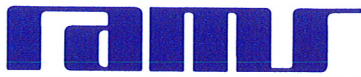
* Reflects office holders and positions as of the issue date of this report.

CITY OF DANA POINT
ORGANIZATIONAL CHART



INTRODUCTORY SECTION CONCLUDED

FINANCIAL SECTION



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS

JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
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TERRY P. SHEA, C.P.A.
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MATTHEW B. WILSON, C.P.A.
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LEENA SHANBHAG, C.P.A.

NANCY O'RAFFERTY, C.P.A.
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JENNY LIU, C.P.A.
TIMOTHY P. HORN, C.P.A.
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JOHN J. BADIA, C.P.A.
JONATHAN R. KUHN, C.P.A.
BRADFORD L. ROCKABRAND, C.P.A.
PAPA MATAR THIAW, C.P.A.

The Honorable City Council
City of Dana Point, California

Independent Auditor's 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 Dana Point, California, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Dana Point's management. Our responsibility is to express opinions on these basic 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Dana Point, California, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2009 on our consideration of the City of Dana Point's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

MEMBERS

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CERTIFIED PUBLIC ACCOUNTANTS

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The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dana Point's basic financial statements. The introductory section, supplementary information, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information, as listed in the table of contents, 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. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Rogers, Anderson, Malady & Scott, LLP

October 15, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Dana Point offers the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

FISCAL 2009 FINANCIAL HIGHLIGHTS

Long-term Economic Resource (Government-wide) Focus – Economic resources are differentiated from financial resources in that the economic measurement focus measures changes in net assets as soon as the event occurs regardless of the timing of related cash flows. Therefore this measurement focus includes both current spendable resources and fixed non-spendable assets, and long-term claims against these assets. The resulting net assets utilizing this measurement focus provides one measure of the City's overall long-term financial condition.

- The City's total net assets were \$171.2 million at June 30, 2009, which was a decrease of \$2.7 million from the prior year. Of this amount, \$128.3 million is invested in capital assets, \$3.2 million is restricted for various purposes and \$39.7 million is unrestricted.
- City-wide governmental revenues include program revenues of \$13.2 million and general revenues of \$24.9 million, for a total of \$38.1 million.
- Total City-wide governmental expenses were \$40.8 million.

Short-term Financial Resource (Fund) Focus – The Financial Resources focus measures inflows of current spendable assets. The resulting net difference between current financial assets and current financial liabilities, otherwise known as fund balance (or net working capital in the private sector), is a measure of the City's ability to finance activities in the near term.

- At the close of fiscal 2009, the City's Governmental Funds reported combined ending fund balances of \$43.3 million, a decrease of \$11.7 million from fiscal 2008. Of this amount, \$5.5 million is reserved, and \$37.8 million is unreserved.
- General Fund revenues totaled \$27.6 million, a decrease of \$5.3 million from fiscal 2008. Approximately \$2.7 million of this decrease represented reduced transient occupancy taxes, \$983,000 was from a drop in earnings on the City's investment portfolio, \$673,000 was from a decrease in sales taxes, \$560,000 was from a drop in charges for services, and \$132,000 was from a decrease in license, fee and permit revenues. Capital Improvements Fund revenues decreased by \$2.1 million to \$777,000. This drop is attributable to a decrease in co-funding from the County of Orange for various road programs. Combined, all Other Governmental Funds revenues decreased by \$94,000 to \$1.5 million.

- General Fund expenditures totaled \$27.3 million, an increase of \$1.0 million from fiscal 2008. The largest contributor to the fiscal 2009 increase related to the City’s share of the cost for an epidemiological study of the local watershed, in the amount of \$410,000. The City also spent \$270,000 in fiscal 2009 for the deployment of a citywide wireless camera system which is being used to monitor and improve traffic flow on arterial streets, improve public safety and monitor critical City assets. Among other items was a \$160,000 increase in the cost of police services (police services are provided through a contract with the County), a new \$30,000 sponsorship of a local bike race (“The Dana Point Grand Prix”) and a \$40,000 increase in the City’s liability insurance premiums. Capital Improvements Fund expenditures increased by \$10.0 million from fiscal 2008. There were two projects which accounted for most of this increase. The first project, at \$5.9 million, was construction of a pedestrian bridge over Pacific Coast Highway, adjacent to the harbor entrance point. The bridge not only facilitates traffic flow and enhances pedestrian safety, but also serves as an entry monument to the City. In addition, the City spent \$3.2 million for the completion of Sea Terrace Park. A new fund, CFD 2006-1 Facilities Acquisition, was created in fiscal 2009 to account for the construction and acquisition of certain public improvements in the Headlands area of the City. This community facilities district (“CFD”) raised approximately \$8.2 million through the issuance of bonds, and spent \$560,000 for issuance costs and \$7.6 million to reimburse the developer for the construction of the related public improvements. Combined expenditures for all Nonmajor Governmental Funds increased by \$666,000, which was attributable to the renovation of the City’s Community Development wing to increase workflow efficiency and improve service at the public counter.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City’s basic financial statements. There are four components to these financial statements, namely:

- (1) **Government-wide financial statements.** These statements are designed to provide readers with a broad overview of the City’s finances, in a manner similar to a private-sector business. The following reports comprise the government-wide financial statements:
 - a) Statement of Net Assets This report presents information on all the assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or weakening, though it is important to consider other non-financial factors in accurately assessing the overall health of the City; and

- b) Statement of Activities The information presented in this report shows how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenditures are reported in this statement for some items that will impact cash flows in future fiscal periods.

Both of these government-wide financial statements detail functions of the City that are principally supported by taxes and intergovernmental revenues (referred to as *governmental activities*). The *governmental activities* of the City of Dana Point include general government, public safety, community development, recreation and parks, and public works. Certain of these activities are funded through user fees and operating grants, while others are funded through general revenues such as sales and use taxes, transient occupancy taxes, property taxes and franchise taxes. The statement of activities assists users understanding the extent to which programs are self-supporting and which are subsidized through general revenues.

- (2) **Fund financial statements.** These statements show how City services were financed in the short term as well as what remains for future spending. These statements also report the City's operation in more detail than the government-wide statements by providing information about the City's most significant funds, but not the City as a whole. Funds are required to be established, either by State or Federal laws, in order to meet legal responsibilities associated with the usage of certain taxes, grants and other money. There are three kinds of funds, namely:

- a) Governmental funds. These statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information provides a short-term view of the City's general government operations and shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. These funds are reported using the *modified accrual method* of accounting, which measures cash and all other financial assets that can readily be converted to cash. The relationship between governmental activities and the governmental funds are reported in the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets and in the Reconciliation of the Statement of Revenues, Expenditures and

Changes in Fund Balances of Governmental Funds to the Statement of Activities.

- b) Proprietary funds. When a city charges for the services it provides, the services are generally reported in proprietary funds. The City does not have any financial transactions required to be accounted for using proprietary funds.
 - c) Fiduciary funds. These funds are used to account for resources held for the benefit of parties outside the government. They are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs.
- (3) **Notes to the financial statements.** The notes provide additional information essential to a full understanding of the government-wide and fund financial statements.
- (4) **Supplementary information.** In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information, which includes budgetary and combining schedules that provide additional details about the City's major and non-major Governmental Funds. These statements can be found immediately following the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

The largest portion of the City's net assets (75%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, equipment, infrastructure and construction in progress). There is no outstanding debt associated with the City's capital assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The remaining net assets of the City are concentrated primarily in cash and investments, including \$42.8 million of unrestricted cash and investments and \$150,000 of cash and investments which are restricted due to debt covenants or other legal restrictions on the manner in which they may be expended. The City also carries various receivables from other governmental agencies and the private sector which arise in the normal course of the City's operations.

Table 1
Net Assets
(in thousands)

	Governmental Activities		
	2008	2009	% Change
Assets:			
Current and other assets	\$57,907	\$46,197	-20.2%
Capital assets	119,292	128,285	7.5%
Total assets	177,199	174,482	-1.5%
Liabilities:			
Long-term liabilities	366	428	16.9%
Other liabilities	2,897	2,858	-1.3%
Total liabilities	3,263	3,286	0.7%
Net Assets:			
Invested in capital assets	119,292	128,285	7.5%
Restricted	2,855	3,257	14.1%
Unrestricted	51,789	39,654	-23.4%
Total net assets	\$173,936	\$171,196	-1.6%

As shown in Table 1, net assets of the City decreased by \$2.7 million, or 1.6%, to \$171.2 million, of which \$128.2 million is invested in capital assets such as land, buildings, equipment and infrastructure. Current assets fell by \$11.7 million due to a \$9.3 million decrease in cash and investment balances, a \$3 million decrease in accounts receivable, a \$273,000 decrease in interest receivable and an \$839,000 increase in prepaid expenditures.

New capital outlays in fiscal 2009 totaled \$14.6 million, and depreciation for the year totaled \$5.6 million, resulting in a net increase of \$9.0 million in capital assets. Several significant capital projects that were initiated in fiscal 2008 were constructed in fiscal 2009, including the two major projects noted earlier (Sea Terrace Park and the Pacific Coast Highway pedestrian bridge), as well as a number of smaller programs including park rehabilitation, median and sidewalk improvements and minor street work. In addition, major design work continued on future improvements to the Town Center area of the City (bordered by Pacific Coast Highway and Del Prado Street).

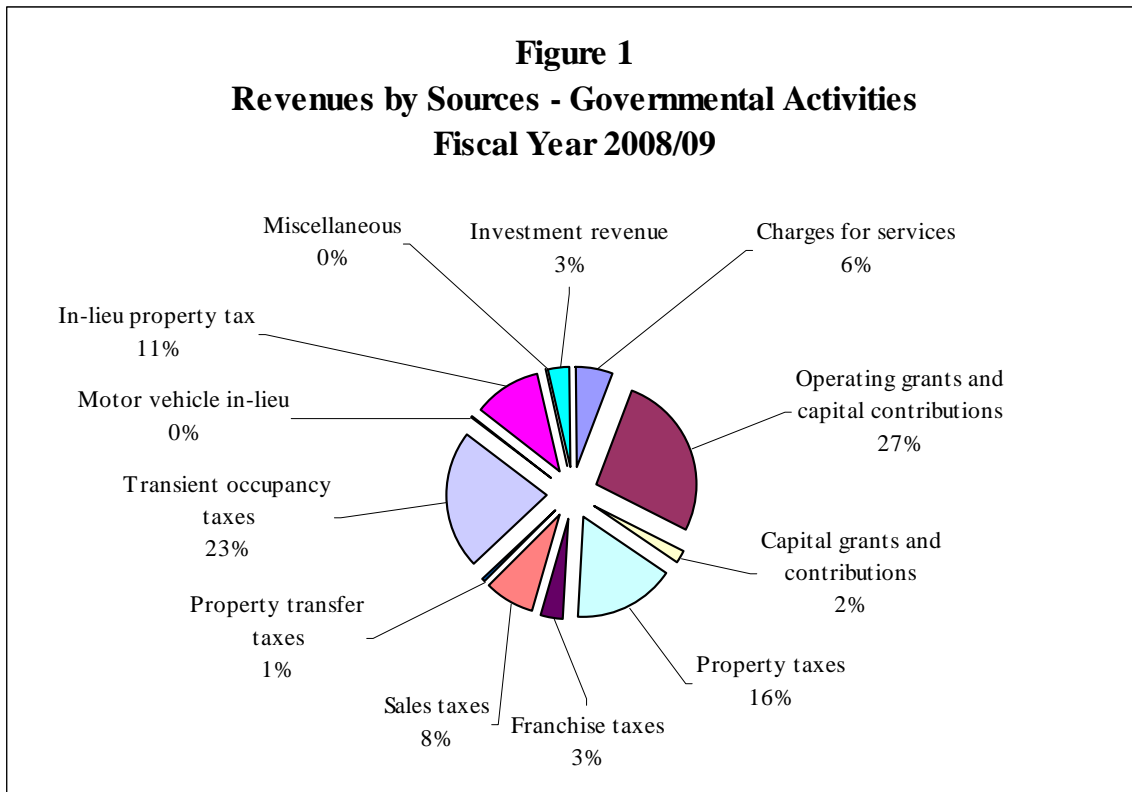
As of June 30, 2009, the City had remaining net assets totaling \$42.9 million. Of this amount, \$39.7 million is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors, or may be designated for other specific purposes that may be identified by the City Council. The remaining \$3.2 million of net assets are restricted by various debt covenants, legal restrictions or other constraints on the manner in which they may be expended.

Governmental Activities – The cost of all governmental activities in fiscal 2009 was \$40.8 million. As shown in Table 2, the City recovered \$13.2 million of these costs through program revenues such as user fees, grants and contributions from other governmental organizations, developers and property owners. The remaining \$27.6 million of expenses were subsidized through general City revenues.

Table 2
Changes in Net Assets
(in thousands)

	Governmental Activities		
	2008	2009	% Change
Revenues:			
Program Revenues:			
Charges for services	\$3,251	\$2,332	-28.3%
Operating grants and capital contributions	1,612	9,999	520.3%
Capital grants and contributions	3,159	852	-73.0%
General Revenues:			
Taxes:			
Property taxes	6,001	6,176	2.9%
Franchise taxes	1,239	1,294	4.4%
Sales taxes	3,671	2,998	-18.3%
In-lieu property taxes	4,276	4,154	-2.9%
Property transfer taxes	374	224	-40.1%
Transient occupancy taxes	11,298	8,630	-23.6%
Motor vehicle in-lieu	164	126	-23.2%
Miscellaneous	66	68	3.0%
Unrestricted investment earnings	2,210	1,227	-44.5%
Total revenues	37,321	38,080	2.0%
Expenses:			
General government	4,896	5,093	4.0%
Public safety	8,807	9,193	4.4%
Community development	2,811	2,625	-6.6%
Recreation and parks	4,037	4,270	5.8%
Public works	10,520	19,447	84.9%
Unallocated depreciation	187	192	2.7%
Total expenses	31,258	40,820	30.6%
Change in net assets	6,063	-2,740	-145.2%
Net assets at beginning of year	167,873	173,936	3.6%
Net assets at end of year	\$173,936	\$171,196	-1.6%

As demonstrated in Figure 1, Revenues by Sources – Governmental Activities, the City remains highly dependent on tourism in general, and transient occupancy taxes in particular, to fund its operations. This revenue, which represented 23% of governmental revenues in fiscal 2009, fell by \$2.7 million, or 23.6%. This is the largest year-to-year decrease the City has ever experienced, and follows on the heels of fiscal 2008, which was a record high year for transient occupancy tax revenues. Sales tax revenues, which typically track fairly closely with changes in transient occupancy taxes, also fell, dropping by \$673,000, or 18.3%. The City’s investment interest earnings fell by \$983,000, or 44.5% due to a combination of cascading yields plus the need to draw down the investment portfolio in order to fund capital outlays. Due to California’s Proposition 13, which tends to stabilize property tax revenues in declining markets, property tax revenues actually grew by \$175,000. However, property transfer taxes, which are based on sales activity, fell by \$150,000. In-lieu property taxes, which resulted from the State of California exchanging a major portion of motor-vehicle taxes and sales taxes for property taxes, fell by \$122,000, or 2.9%. Operating grants and contributions revenues increased by \$8.4 million in fiscal 2009 due to revenues associated with the bond issuance by the new Headlands CFD. However, charges for services fell by \$919,000, or 28.3% as permits and fees associated with new residential and commercial construction fell. In addition, there was \$2.2 million of capital grant revenues in fiscal 2008 that were non-recurring in fiscal 2009. Overall, the City experienced an increase of \$759,000, or 2.0%, in governmental revenues in fiscal 2009. However, after factoring out the non-recurring revenues associated with the Headlands CFD bond issuance and capital grants, recurring City revenues were actually down by \$5.3 million, or 14.2%.



Dana Point is a “contract” City, wherein certain municipal services are provided to the community through contracts with other governmental entities, private firms and individuals. The City’s services are functionally divided into the following categories:

General Government is comprised of nine departments (City Council, City Manager, City Clerk, Public Information Services, City Attorney, Administrative Services, Risk Management, Facilities, and Non-Departmental), which provide the general governance services, executive management, legal, records management, insurance, human resources, finance and accounting, information technology and property maintenance services. City Attorney services are provided through a contract with a private firm.

Public Safety is comprised of three departments (Police Services, Volunteers in Police Support and Emergency Services), which provide law enforcement, and disaster and emergency planning services. The City contracts with the Orange County Sheriff’s Department to provide police services in the City. Fire services in the community are provided by the Orange County Fire Authority.

Community Development is comprised of four departments (Planning, Building, Code Enforcement and Economic Development), which provide development review and permitting services, building inspection, plan review and enforcement of municipal code services. During fiscal 2008 many of these services, which were previously provided via contracts with the private sector, were brought in-house.

Recreation and Parks is comprised of two departments (Community Services and Parks), which provide recreational and cultural arts programs, community outreach activities, senior services and park maintenance services. The City contracts with private firms to perform most park maintenance.

Public Works is comprised of six departments (Administration, Street and Drainage Maintenance, Traffic Engineering, Solid Waste, General Engineering, and Water Quality), which provide street maintenance, signal maintenance, median and sidewalk maintenance, traffic signage design, installation and maintenance, solid waste administration, storm drain repairs and maintenance services as well as overall administration of the City’s capital improvement program. The City contracts, as needed, with private firms and individuals to provide certain engineering review and design services. Solid waste collection services are provided to the community through a franchise agreement with a private firm. Street maintenance services are provided through contracts with the County of Orange and several private sector firms. Water, sewer, gas, electric and cable television services are provided by other governmental agencies or private sector enterprises.

As shown in Figure 2, Public Works and Public Safety were the two largest cost centers in fiscal 2009, together representing 72% of total expenditures. Public Safety expenditures rose by \$386,000, or 4.4%, driven primarily by a \$160,000 increase in the cost of contract police services and a \$56,000 increase in equipment replacement costs.

General Government outlays grew by \$197,000, or 4.0%. Approximately \$270,000 of the increase relates to the citywide camera installation noted earlier, together with a \$70,000 increase in facility maintenance costs and a \$40,000 increase in liability insurance premiums. These increase were partially offset by a \$140,000 decrease in outside legal fees for consultation matters and litigation.

Public Works outlays grew by \$8.9 million, or 84.9%. Of this, \$8.2 million relates to the debt issuance and acquisition costs from the new Headlands CFD. An additional \$410,000 relates to the City’s share of an epidemiological study to improve water quality. Street tree maintenance and replanting costs increased by \$100,000

Community Development expenditures fell by \$186,000, or 6.6%, due to non-recurring costs (from fiscal 2008) to convert several contract positions to in-house City employees.

Recreation and Parks expenditures grew by \$233,000, or 5.8%. The majority of this was attributable to increased outlays for park tree maintenance and an increase in City financial support for local community-serving organizations and events.

Overall, total expenses for governmental activities increased by \$9.6 million, or 30.6%, to \$40.8 million in fiscal 2009. However, after factoring out the non-recurring bond issuance and facility acquisition expenditures associated with the Headlands CFD, recurring expenditures were actually up by \$1.4 million, or 4.5%.

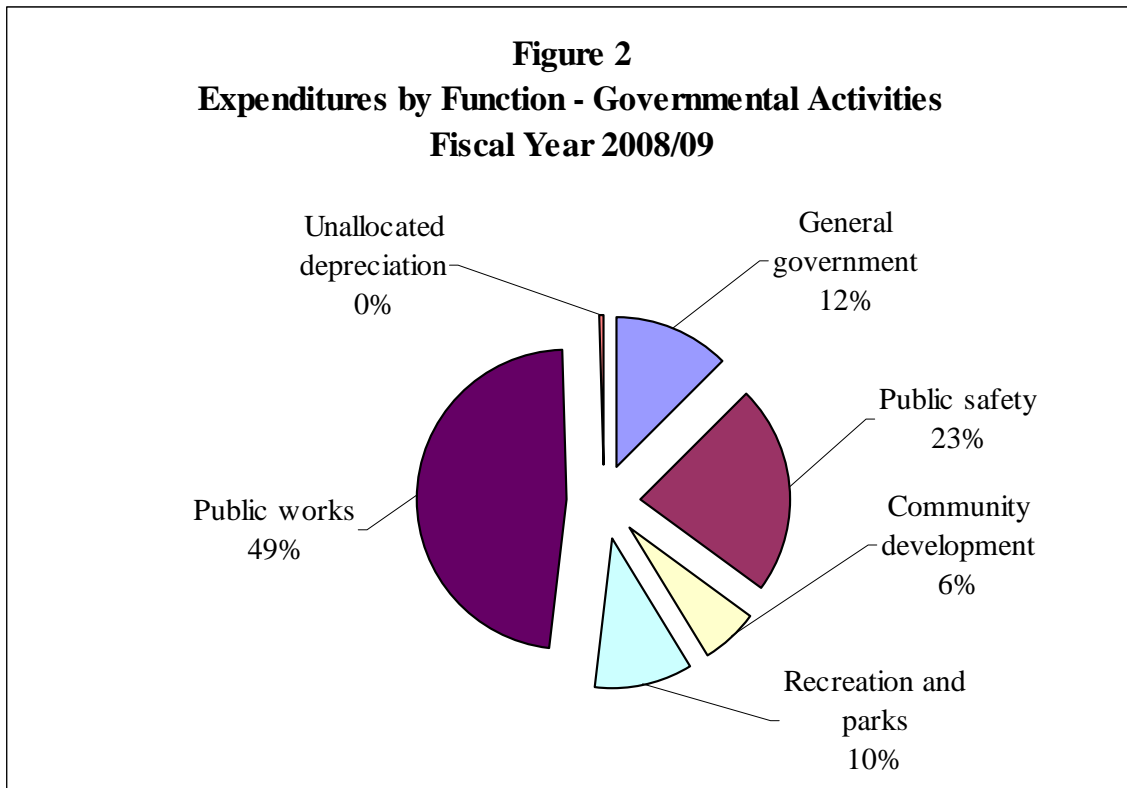
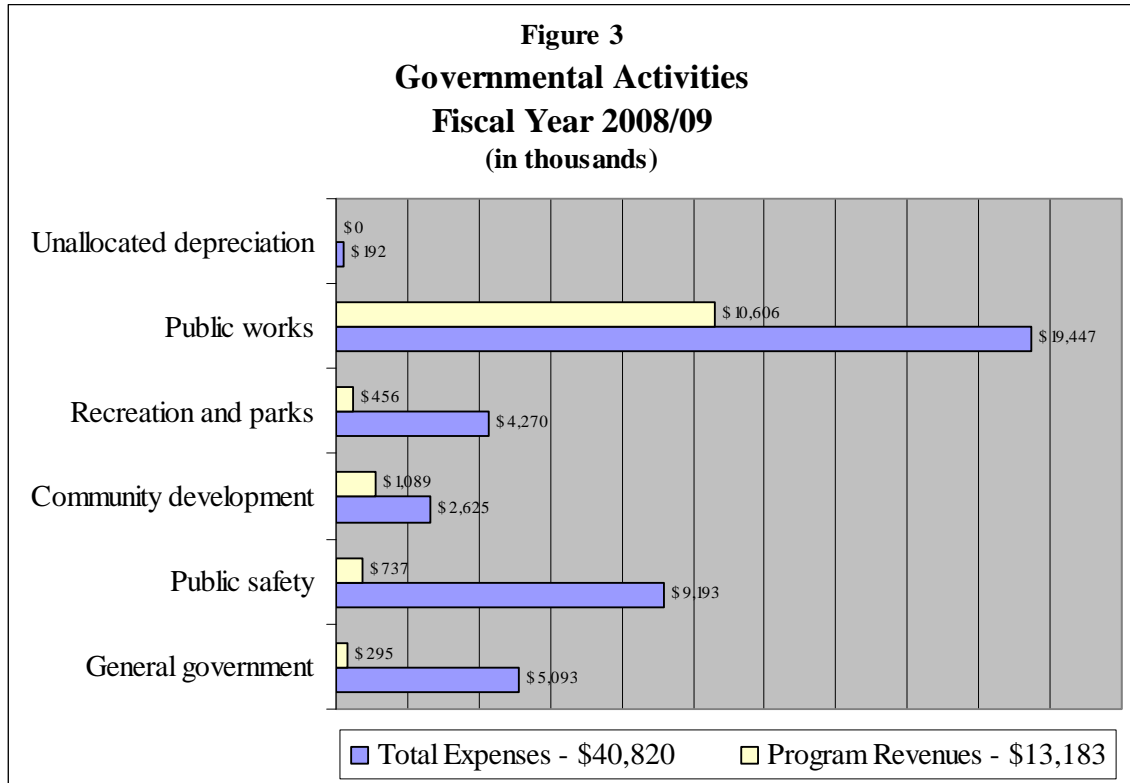


Table 3 and Figure 3 illustrate the City’s expenditures, by program, as well as the amount of revenue generated through direct fees, grants and contributions which funded the program activities. The excess of costs over program revenues were funded from general revenues.

Table 3
Net Cost of Governmental Activities
(in thousands)

	Total Cost of Services			Net Cost (Revenue) from Services		
	2008	2009	% Change	2008	2009	% Change
General government	\$4,896	\$5,093	4.0%	\$4,358	\$4,798	10.1%
Public safety	8,807	9,193	4.4%	7,861	8,456	7.6%
Community development	2,811	2,625	-6.6%	1,361	1,536	12.9%
Recreation and parks	4,037	4,270	5.8%	3,123	3,814	22.1%
Public Works	10,520	19,447	84.9%	6,346	8,841	39.3%
Unallocated depreciation	187	192	2.7%	187	192	2.7%
	\$31,258	\$40,820	30.6%	\$23,236	\$27,637	18.9%



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental funds utilize the financial resources measurement focus; the City's governmental funds provide information on near-term inflows and outflows, and balances of spendable resources. This information is useful in assessing the City's fiscal requirements. In particular, unreserved fund balance serves as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Fund balance – As of the end of the current fiscal year, the City's governmental funds reported combined fund balances of \$43.3 million, a decrease of \$11.7 million from the prior year. The General Fund represented \$20.9 million, or 48.3%, of the combined balances, the Capital Improvements Fund represented \$18.4 million, or 42.5%, and the remainder of \$4.0 million, or 9.2%, was in all other funds combined.

Reserved fund balance – The City has \$5.5 million of fund balance that is reserved to indicate it is not available to finance new activities because it has already been committed: 1) to fulfill contractual obligations and purchase orders (\$4.5 million), and 2) as a reserve for various fiscal 2010 expenses that were prepaid in fiscal 2009 (\$1.0 million).

Unreserved fund balance – The remaining \$37.8 million is classified as unreserved fund balance, which is available for spending at the City's discretion. The City Council has taken actions to designate portions of the unreserved fund balance to be used for specific purposes; however, these restrictions do not legally obligate the City to utilize the funds in the manner designated, and the designations may be modified at any time by a majority vote of the City Council. Refer to Note 9 in the Notes to the Financial Statements for more information concerning designations of fund balance.

Major activities in the Governmental Funds in the current fiscal year included the following:

The General Fund generated a \$297,000 net excess of revenues over expenditures. Interfund transfers out of the General Fund of \$1.8 million and \$525,000 were made to the Capital Improvements Projects Fund and Facilities Improvement Fund, respectively. The General Fund received a transfer in from the Gasoline Tax fund totaling \$764,000, which was used to fund street maintenance activities. As a result of these transactions, there was a net decrease of \$1.3 million in the fund balance of the General Fund in fiscal 2009.

Following growth of 3.8% in transient occupancy tax revenues in fiscal 2008,

there was a major turnaround in fiscal 2009, with revenues falling by \$2.7 million, or 23.6%. Transient occupancy taxes decreased in every month of fiscal 2009 (as compared to fiscal 2008). For the second consecutive year the City experienced year-to-year declines in sales tax revenues, which fell by \$673,000, or 18.3%, in fiscal 2009. Along with several other states that experienced significantly overheated housing markets in recent years, California has been severely impacted by the housing market decline. However, the immediate impact on local property tax revenues has been mitigated to some extent by Proposition 13, which placed a 2% annual limit on the growth of assessed value. As a consequence, although home values in the City have fallen significantly, most properties did not experience declines in assessed value. In fact, the total assessed value of real property in the City actually increased by 4.1% in fiscal 2009, resulting in a \$175,000 increase in property tax revenues. However, property transfer tax revenues, which are based on sales activity, fell by \$150,000, or 40.1%, due to a decline in both resale volume and selling prices.

After several years of planning and design, construction was completed on two major capital improvements in fiscal 2009. The larger project, noted earlier, was the pedestrian bridge constructed over Pacific Coast Highway at the harbor entrance. The City spent \$5.9 million on this project in fiscal 2009. The other completed project, development of Sea Terrace Park, consumed \$3.2 million. Major design work on a project to improve the Town Center area of the City was substantially completed in fiscal 2009, at a cost of \$1.7 million. Once funding sources for this project have been identified, it is expected to move into its construction phase. There were many other smaller capital improvement projects undertaken during fiscal 2009, including streets, drainage, water treatment, park improvement, tree planting, medians, sidewalks and general landscaping. Combined expenditures on these smaller projects totaled \$2.7 million. In aggregate, fiscal 2009 capital improvement expenditures totaled \$13.5 million, which was a \$10.0 million increase over fiscal 2008, and represents the highest single year of capital outlays since the City incorporated. In total, over the most recent five fiscal years, the City has spent \$46.8 million on capital improvement projects throughout the City and as of the end of fiscal 2009 had allocated an additional \$15.4 million for specific future projects.

Budgetary Highlights

The City adopts two-year operating and capital budgets, with fiscal 2009 being the second year of the two-year budget cycle. Due to the uncertainty and estimations involved in projecting certain revenues and expenditures, the City Council routinely amends the budget during the fiscal year. During fiscal 2009 the General Fund revenue budget was decreased by \$3.2 million. The major components of this decrease were:

Transient occupancy taxes – as noted earlier, the City experienced a significant decrease in transient occupancy taxes, and the budget was decreased by \$2.1 million during the year.

Sales taxes - due to the nature of the City's tourism-reliant tax basis, transient occupancy and sales tax revenues typically move synchronously. As transient occupancy taxes declined, sales taxes followed, and the associated budget was reduced by \$617,000.

Property transfer taxes – as the resale housing market slowed throughout the fiscal year, the City experienced a significant decline in property transfer taxes, which are generated from property resales and are based on sales price. As both volume and prices fell, the budget was reduced by \$290,000.

Permit revenues - as the real estate market declined, the City experienced drops in both new construction and home improvement activity. Accordingly, the permit revenue budget was reduced by \$237,000 to reflect this decline.

During fiscal 2009 the General Fund expenditure budget was increased by \$1.2 million. The major components of this increase were:

Carryover of encumbrances from fiscal 2008 – the City had \$994,000 of outstanding commitments at the end of fiscal 2008 in the form of purchase orders for which funding was re-appropriated in fiscal 2009. This included \$435,000 for the local watershed epidemiological study, with the remainder principally related to various professional services contracts.

Emerging issues and opportunities - in early fiscal 2009, the operating budget was increased by \$1 million to reflect a variety of emerging issues and opportunities that had arisen since the two-year operating budget had originally been adopted, including a \$345,000 increase in the cost of Police services (pursuant to the terms of the contract between the City and the County of Orange, under which the City receives services from the Orange County Sheriff), a \$275,000 increase in the planning budget to prepare a development plan for the Doheny Village area of the City, and \$400,000 for various other matters.

Wireless camera system - during fiscal 2009 a project was identified to develop and install a wireless mesh camera network throughout the City in order to enhance public safety, improve traffic flow management and enhance the City's ability to respond during disasters. To fund this, the facilities capital budget was increased by \$354,000.

Mid-year revisions - as the fiscal year progressed and it became evident that revenues were falling well short of expectations, a detailed reassessment of the operating budget was performed, which resulted in \$1.4 million of mid-year budget reductions. This included reductions of \$200,000 in personnel costs, \$525,000 in capital outlays, \$150,000 for implementation of the City's information technology master plan, \$290,000 in park maintenance outlays and \$300,000 of other reductions spread amongst most City departments.

The net impact of the various General Fund expenditure increases and decreases implemented throughout the fiscal year was a net increase of \$1.2 million.

Total General Fund revenues for fiscal 2009 were \$1.1 million, or 3.8%, short of the final budget amount. The major contributors to this unfavorable variance were transient occupancy taxes at \$428,000 and sales taxes at \$305,000. Although the revenue budgets for these items were adjusted downward during the year, increasing economic weakness in the second half of the fiscal year resulted in the City failing to reach even the revised budget level.

Total General Fund expenditures for fiscal 2009 were \$2.4 million, or 8.2%, under the final budgeted amount. Of these unexpended funds, \$339,000 was obligated at June 30, 2009, through encumbrances and was re-appropriated in fiscal 2010. As it became evident that there was significant deterioration in the City's revenue stream, steps were taken, wherever possible, to reduce and/or defer expenditures across the board. This included deferral of the \$275,000 budgeted for the Doheny Village study which had been added to the budget earlier in the year. Through these actions, professional services outlays were reduced by \$900,000, legal and litigation related outlays by \$100,000, police services outlays by \$116,000 and travel, conference and meeting outlays by \$87,000. Additional expenditures reductions were made in training, operating supplies, equipment maintenance, and virtually every other expenditure line item in the budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Government Accounting Standards Board Statement No. 34 requires the City to record all of its capital assets, including infrastructure. Infrastructure includes roads, bridges, signals, curbs, sidewalks, gutters, storm drains and similar public assets. At the end of fiscal 2009 the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 4:

Table 4
Capital Assets
(in thousands)

	Governmental Activities		
	2008	2009	% Change
Land	\$41,809	\$41,809	0.0%
Construction in progress	5,109	17,511	242.7%
Buildings and improvements	7,809	8,353	7.0%
Equipment	1,240	1,737	40.1%
Infrastructure	122,247	123,353	0.9%
Less: Accumulated depreciation	-58,922	-64,478	9.4%
Governmental activity capital assets, net	\$119,292	\$128,285	7.5%

Major capital asset transactions during the year included the following:

- Construction in progress increased by a net of \$12.4 million, which consisted of \$1.1 million of projects completed during the year and transferred into infrastructure and \$13.5 million of new project expenditures.
- Infrastructure construction projects completed during fiscal 2009 consisted of \$141,000 for storm drain and drainage improvements, \$749,000 for park and open space improvements and \$215,000 for street improvements.
- Improvements to buildings totaled \$544,000 and represented construction costs associated with the renovation of the City’s Community Development wing to provide improved public counter services and office space.
- New equipment additions totaled \$558,000, and dispositions of surplus and obsolete equipment totaled \$61,000.

For more detailed information regarding the City’s capital assets, refer to Note 4 in the Notes to the Financial Statements.

Long-term Debt

At the end of fiscal 2009, the City had total outstanding long-term debt of \$428,000, consisting entirely of compensated time-off obligations due to employees.

As of June 30, 2009, the City’s long-term debt was as shown in Table 5:

Table 5
Long-term Debt
(in thousands)

	Governmental Activities		
	2008	2009	% Change
Other debt:			
Compensated absences	\$366	\$428	16.9%
Total long-term debt	\$366	\$428	16.9%

For more detailed information regarding the City’s long-term debt, refer to Note 6 in the Notes to the Financial Statements.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Administrative Services, 33282 Golden Lantern, Dana Point, CA 92629.

BASIC FINANCIAL STATEMENTS

CITY OF DANA POINT
Statement of Net Assets
June 30, 2009

	Governmental Activities
ASSETS	
Cash and investments	\$42,768,803
Taxes receivable	855,965
Accounts receivable	303,596
Interest receivable	231,526
Intergovernmental receivables	848,253
Prepays	1,039,533
Restricted cash and investments	149,557
Capital assets, not depreciated	59,320,007
Capital assets, net of depreciation	68,964,802
Total assets	174,482,042
LIABILITIES	
Accounts payable	2,644,619
Accrued liabilities	213,625
Noncurrent liabilities:	
Due within one year	157,984
Due in more than one year	269,639
Total liabilities	3,285,867
NET ASSETS	
Invested in capital assets	128,284,809
Restricted for:	
Public safety	133,170
Community development	1,369,541
Recreation and parks	487,250
Public works	1,117,989
Development of Art in Public Places	149,557
Unrestricted	39,653,859
Total net assets	\$171,196,175

The notes to the financial statements are an integral part of this statement.

CITY OF DANA POINT
Statement of Activities
For the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
General government	\$5,093,314	\$262,683	\$32,566		(\$4,798,065)
Public safety	9,192,502	331,829	404,997		(8,455,676)
Community development	2,625,060	1,054,523	34,909		(1,535,628)
Recreation and parks	4,270,448	260,733		\$195,400	(3,814,315)
Public works	19,446,902	422,195	9,526,884	656,511	(8,841,312)
Unallocated depreciation	191,803				(191,803)
Total governmental activities	<u>\$40,820,029</u>	<u>\$2,331,963</u>	<u>\$9,999,356</u>	<u>\$851,911</u>	<u>(27,636,799)</u>
General revenues:					
Taxes:					
Property taxes					6,175,666
Franchise taxes					1,293,519
Sales taxes					2,998,490
In-lieu property taxes					4,154,369
Property transfer taxes					223,776
Transient occupancy taxes					8,630,213
Motor vehicle in-lieu (unrestricted)					125,747
Miscellaneous					68,163
Unrestricted investment earnings					1,227,088
Total general revenues					<u>24,897,031</u>
Change in net assets					(2,739,768)
Total net assets, beginning					173,935,943
Total net assets, ending					<u>\$171,196,175</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DANA POINT
Governmental Funds
Balance Sheet
June 30, 2009

	General	Capital Improvements	CFD 2006-1 Facilities Acquisition	Nonmajor Governmental Funds	Totals
ASSETS					
Cash and investments	\$19,371,537	\$19,446,348	\$74,416	\$3,876,502	\$42,768,803
Receivables:					
Taxes	723,729			132,236	855,965
Accounts	303,596				303,596
Interest	231,526				231,526
Intergovernmental	503,490	329,003		15,760	848,253
Prepaid expenditures	1,039,533				1,039,533
Restricted assets:					
Cash and investments	149,557				149,557
Total assets	<u>\$22,322,968</u>	<u>\$19,775,351</u>	<u>\$74,416</u>	<u>\$4,024,498</u>	<u>\$46,197,233</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$1,253,224	\$1,384,430	\$6,965		\$2,644,619
Accrued liabilities	213,625				213,625
Total liabilities	<u>1,466,849</u>	<u>1,384,430</u>	<u>6,965</u>		<u>2,858,244</u>
Fund Balances:					
Reserved for:					
Encumbrances	338,634	4,135,785			4,474,419
Prepaid expenditures	1,039,533				1,039,533
Unreserved, reported in:					
General Fund	19,477,952				19,477,952
Special Revenue Funds				2,553,249	2,553,249
Capital Projects Funds		14,255,136	67,451	1,471,249	15,793,836
Total fund balances	<u>20,856,119</u>	<u>18,390,921</u>	<u>67,451</u>	<u>4,024,498</u>	<u>43,338,989</u>
Total liabilities and fund balances	<u>\$22,322,968</u>	<u>\$19,775,351</u>	<u>\$74,416</u>	<u>\$4,024,498</u>	<u>\$46,197,233</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DANA POINT
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2009

Fund balances of governmental funds	\$43,338,989
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets, net of depreciation, have not been included as financial resources in governmental fund activity.	128,284,809
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Compensated absences	(427,623)
Net assets of governmental activities	<u>\$171,196,175</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DANA POINT
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2009

	General	Capital Improvements	CFD 2006-1 Facilities Acquisition	Nonmajor Governmental Funds	Totals
REVENUES					
Taxes	\$22,182,514			\$935,096	\$23,117,610
Licenses, fees and permits	1,932,992			63,600	1,996,592
Fines and forfeitures	432,949				432,949
Intergovernmental	435,835	\$679,311		421,332	1,536,478
Charges for services	1,111,703			38,120	1,149,823
Use of money and property	1,374,926		\$22,395	70,300	1,467,621
Contributions from property owners			8,199,559		8,199,559
Other	82,429	97,200			179,629
Total revenues	<u>27,553,348</u>	<u>776,511</u>	<u>8,221,954</u>	<u>1,528,448</u>	<u>38,080,261</u>
EXPENDITURES					
Current:					
General government	4,816,650			154,051	4,970,701
Public safety	8,966,405			157,153	9,123,558
Community development	2,594,142				2,594,142
Recreation and parks	4,185,655				4,185,655
Public works	6,113,359	70	559,457		6,672,886
Capital outlays	580,407	13,508,333	7,595,046	520,949	22,204,735
Total expenditures	<u>27,256,618</u>	<u>13,508,403</u>	<u>8,154,503</u>	<u>832,153</u>	<u>49,751,677</u>
Excess (deficiency) of revenues over expenditures	<u>296,730</u>	<u>(12,731,892)</u>	<u>67,451</u>	<u>696,295</u>	<u>(11,671,416)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	764,080	2,067,691		525,000	3,356,771
Transfers out	(2,354,304)			(1,002,467)	(3,356,771)
Total other financing sources (uses)	<u>(1,590,224)</u>	<u>2,067,691</u>	<u>-</u>	<u>(477,467)</u>	<u>-</u>
Net change in fund balances	(1,293,494)	(10,664,201)	67,451	218,828	(11,671,416)
Fund balances, beginning	22,149,613	29,055,122	-	3,805,670	55,010,405
Fund balances, ending	<u>\$20,856,119</u>	<u>\$18,390,921</u>	<u>\$67,451</u>	<u>\$4,024,498</u>	<u>\$43,338,989</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DANA POINT
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2009

Net change in fund balances - total governmental funds	(\$11,671,416)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	8,992,840
To record as an expense the net change in compensated absences in the Statement of Activities.	(61,192)
Change in net assets of governmental activities	<u><u>(\$2,739,768)</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF DANA POINT
Agency Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2009

ASSETS	
Cash and investments	<u>\$2,628,463</u>
Total assets	<u><u>\$2,628,463</u></u>
 LIABILITIES	
Deposits	\$1,676,367
Due to bondholders	936,311
Due to other agencies	<u>15,785</u>
Total liabilities	<u><u>\$2,628,463</u></u>

The notes to the financial statements are an integral part of this statement.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A) Description of the Reporting Entity

The City of Dana Point (the "City") was incorporated on January 1, 1989, under the laws of the State of California and enjoys all the rights and privileges pertaining to "General Law" cities. The City operates under a Council-Manager form of government and provides planning, engineering, park, recreation and general administrative services. Law enforcement services are provided through a contract with the County of Orange Sheriff's Department. Fire services are provided directly by the Orange County Fire Authority, of which the City is a member.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable, if any. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with the data of the primary government. A discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the government. There are no blended or discretely presented component units in these financial statements.

On December 22, 1993, pursuant to a resolution of the Orange County Local Agency Formation Commission ("LAFCO"), the Capistrano Bay Park and Recreation District (the "District") was merged with the City of Dana Point.

A number of other independent governmental entities, including the State of California, the County of Orange, various water, sewer and other districts provide services within the City of Dana Point.

B) Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

Government-Wide Statements: The Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All City activities are governmental; no business-type activities are reported in the statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are expenses that are clearly identifiable with

Notes to Financial Statements

a specific program, project, function or segment. Program revenues of the City include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items that are not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements: Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within two months of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, sales taxes, transient occupancy taxes, motor vehicle license fees, franchise taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual, and are therefore recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The Capital Improvements Fund accounts for the acquisition, construction and improvement of capital facilities financed by grants and operating transfers from the General Fund and other non-major funds.

Notes to Financial Statements

CFD 2006-1 Facilities Acquisition Fund is used to account for activities of the Community Facilities District No. 2006-1 of the City of Dana Point, which was formed to finance the acquisition and/or construction of certain public improvements in the area of the City known as The Headlands.

Additionally, the City reports the following fund types:

The Agency Funds are used to account for money received by the City as an agent for individuals, other governments and other entities. This includes deposits for road and park improvements which are passed through to other governmental agencies, as well as refundable security deposits collected to ensure compliance with City municipal code requirements for construction activities. An Agency Fund is also used to account for the assessment and collection of special taxes for bonds financed under the Mello-Roos Community Facilities Act of 1982.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Direct expenses have not been eliminated from the functional categories; indirect expenses and internal payments have been eliminated.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as they are needed.

D) Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances - total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$8,992,839 difference are as follows:

Capital Outlays	\$ 14,609,689
Depreciation Expense	<u>(5,616,850)</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	<u>\$ 8,992,839</u>

E) Budgetary Policy and Control

Budgets are adopted bi-annually by the City Council and prepared for all governmental funds in accordance with their basis of accounting. As provided by City ordinance, the City Manager is responsible for preparing the budget and for its implementation after adoption. All unencumbered appropriations lapse at year-end. The City Council has the legal authority to amend the budget at any time during the fiscal year. The City Manager has the authority to transfer appropriations from one function or activity to another within the same fund without Council approval provided such changes would neither have a significant policy impact nor affect budgeted year-end fund balances.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. For management purposes, the City monitors activity at the function and activity level, within each individual fund. Formal budgetary integration is employed as a management control device during the year for the Governmental Type Funds. Budgets for the Governmental Type Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted and as further amended by the City Council. During the 2008-09 fiscal year, the City Council made several supplemental budgetary appropriations, including an \$87,224 increase in the General Government budget, a \$408,902 increase in the Public Safety budget, a \$478,532 increase in the Community Development budget, a \$34,406 decrease in the Recreation and Parks budget, a \$1,253,804 increase in the Public Works budget, and a \$28,630,161 increase in the Capital Outlays budget.

For the year ended June 30, 2009, expenditures exceeded appropriations in the AB2766 Fund by \$3,252. These expenditures were for equipment originally anticipated to be acquired in fiscal 2008, but were delayed due to circumstances beyond the City's control. The fiscal 2009 expenditure was funded from available fund balances accumulated in prior fiscal years.

F) Cash and Investments

The City follows the practice of pooling cash and investments of all funds. Where required by State law, interest income earned on cash and investments is allocated in the fund financial statements among the various Special Revenue and Capital Projects Funds based upon their average cash and investment balances.

The City has implemented Governmental Accounting Standards Board ("GASB") Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. As a governmental entity other than an external investment pool in accordance with GASB Statement No. 31, the City's investments are stated at fair value.

Notes to Financial Statements

In applying GASB Statement No. 31, the City utilized the following methods and assumptions:

- 1) Fair value is based on quoted market prices as of the valuation date;
- 2) The portfolio did not hold investments in any of the following:
 - a) Items required to be reported at amortized cost,
 - b) Items subject to involuntary participation in an external pool, and
 - c) Items associated with a fund other than the fund to which the income is assigned;
- 3) Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss resulting from the valuation will be recognized within the General Fund to the extent its cash and investments' balance exceeds the cumulative value of those investments subject to GASB Statement No. 31; and,
- 4) The gain/loss resulting from valuation will be reported within the revenue account "Investment earnings" on the Statement of Activities.

The City has also implemented GASB Statement No. 40 *Deposit and Investment Risk Disclosures*. This provides enhanced disclosure regarding certain risks associated with cash and investments.

G) Property Taxes

Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10.

Under California law, property taxes are assessed and collected by the County at 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 upon complex formulas.

H) Interfund Payables/Receivables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

I) Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The City accounts for such items using the consumption method.

J) Restricted Assets

The City imposes impact fees upon new development in order to fund the creation, improvement and installation of art in locations throughout the City. In addition, the City imposes similar fees for future roadway improvements necessitated by additional traffic generated from new construction. These impact fees are restricted in use for the specific improvements for which the fees were collected. Accordingly, they are designated as restricted on the Statement of Net Assets and the Governmental Funds Balance Sheet.

K) Capital Assets

Capital assets, which include land, structures, equipment, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Assets purchased in excess of \$5,000 are capitalized if they have an expected useful life of 3 years or more. Infrastructure is capitalized if cost is in excess of \$50,000 and it has an expected useful life of 5 years or more. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major capital outlay for capital assets and improvements are capitalized as projects are constructed. For debt-financed capital assets, interest incurred during the construction phase is reflected in the capitalization value of the asset constructed, net of interest earned on the invested proceeds over the same period. Capital assets acquired through lease obligations are valued at the present value of future lease payments at the date acquired. Donated capital assets are valued at their estimated fair market value at the date of donation.

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

Buildings	50 years
Furniture & Equipment	3 – 20 years
Infrastructure	5 – 40 years

L) Use of Estimates

The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

Notes to Financial Statements

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2009, are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$42,768,803
Restricted cash and investments	149,557
Fiduciary funds:	
Cash and investments	2,628,463
Total cash and investments	<u>\$45,546,823</u>

Cash and investments as of June 30, 2009, consist of the following:

Cash on hand (petty cash)	\$4,200
Deposits with financial institutions	-1,201,660
Investments	46,744,283
Total cash and investments	<u>\$45,546,823</u>

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

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

Notes to Financial Statements

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	10%
Commercial Paper	270 days	15%	10%
Negotiable Certificates of Deposit	2 years	30%	None
Repurchase Agreements	1 year	50%	None
Time Deposits	1 year	15%	\$100,000
Money Market Mutual Funds	N/A	10%	10%
Local Agency Investment Fund (LAIF)	N/A	50%	None

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 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.

As of June 30, 2009, the City had the following investments. Except for the investment in money market funds, all investments are in the City's internal investment pool:

<u>Investment Type</u>	<u>Total Investment</u>	<u>Remaining Maturity (in months)</u>		
		<u>Less Than 6 Months</u>	<u>6 to 12 Months</u>	<u>13 to 24 Months</u>
U.S. Treasury Notes	\$24,674,000	\$4,189,000	\$8,435,000	\$12,050,000
State pool (LAIF)	21,085,256	21,085,256		
U.S. Treasury Money Market Fund	985,027	985,027		
Total	<u><u>\$46,744,283</u></u>	<u><u>\$26,259,283</u></u>	<u><u>\$8,435,000</u></u>	<u><u>\$12,050,000</u></u>

Notes to Financial Statements

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

As of June 30, 2009, the City did not have any investments considered to be highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's Investment Policy, or debt agreements, and the actual rating as of year end for each investment type. The column marked "exempt from disclosure" identifies those investment types for which GASB Statement No. 40 does not require disclosure as to credit risk:

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Unrated</u>
U.S. Treasury notes	\$24,674,000	N/A	\$24,674,000	-
State pool (LAIF)*	21,085,256	N/A	-	\$21,085,256
U.S. Treasury Money Market Fund	985,027	N/A	-	985,027
Total	<u>\$46,744,283</u>		<u>\$24,674,000</u>	<u>\$22,070,283</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. As of June 30, 2009, the City did not have any concentrations of credit risk requiring disclosure under GASB Statement No. 40.

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 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 risk for deposits, other than the following provision: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a

Notes to Financial Statements

depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The City's Investment Policy contains a requirement that would limit the exposure to custodial risk for investments by the following provision: All securities owned by the City, including collateral on repurchase agreements, shall be held in safekeeping by a third party bank trust department, acting as agent for the City under terms of a custody agreement executed by the bank and by the City. All security transactions entered into by the City shall be conducted on a delivery-versus-payment basis, i.e., the City's safekeeping agent will only release payment for a security after the security has been properly delivered.

GASB Statement No. 40 requires the following disclosure be made with respect to custodial credit risks relating to deposits and investments: The City had no deposits with financial institutions in excess of federal depository insurance limits.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based upon the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3. INTERFUND ACTIVITY

Interfund transfers for the year ended June 30, 2009, are as follows:

		TRANSFERS IN			
		General Fund	Capital Improvements	Facilities Improvement	Total
TRANSFERS	General Fund		\$1,829,304	\$525,000	\$2,354,304
OUT	Non-major Funds	\$764,080	238,387		1,002,467
	Total	\$764,080	\$2,067,691	\$525,000	\$3,356,771

The City has established certain funds to account for revenues which are subject to statutory requirements that the revenues not be commingled with other revenue sources. In cases where the associated expenditure of these revenues occur in other funds, the City utilizes interfund transfers to move the monies into the fund in which the expenditure occurs. Interfund transfers are also used to move unrestricted monies from the General Fund into other funds, as needed, to provide matching funds or supplemental funds for operating and/or capital expenditures.

Notes to Financial Statements

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$41,808,865			\$41,808,865
Construction in Progress	5,108,830	\$13,508,335	\$1,106,023	17,511,142
Total Capital Assets, not being depreciated	<u>46,917,695</u>	<u>13,508,335</u>	<u>1,106,023</u>	<u>59,320,007</u>
Capital Assets, being depreciated:				
Buildings	7,809,421	543,240		8,352,661
Equipment	1,239,859	558,115	60,742	1,737,232
Infrastructure	122,246,813	1,106,023		123,352,836
Total Capital Assets, being depreciated	<u>131,296,093</u>	<u>2,207,378</u>	<u>60,742</u>	<u>133,442,729</u>
Less accumulated depreciation:				
Buildings	1,947,822	258,764		2,206,586
Equipment	653,094	206,766	60,742	799,118
Infrastructure	56,320,903	5,151,320		61,472,223
Total accumulated depreciation	<u>58,921,819</u>	<u>5,616,850</u>	<u>60,742</u>	<u>64,477,927</u>
Total Capital Assets, being depreciated, net	<u>72,374,274</u>	<u>(3,409,472)</u>	<u>0</u>	<u>68,964,802</u>
Governmental Activities Capital Assets, net	<u>\$119,291,969</u>	<u>\$10,098,863</u>	<u>\$1,106,023</u>	<u>\$128,284,809</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 61,421
Public safety	68,944
Community development	30,918
Recreation and parks	84,793
Public works	5,178,971
Unallocated depreciation	<u>191,803</u>
Total depreciation expense - governmental activities	<u>\$ 5,616,850</u>

Notes to Financial Statements

Construction commitments

The City has active construction projects as of June 30, 2009. The projects include street construction, street resurfacing, landscaping, storm drain construction and curb, sidewalk, median, gutter construction and park improvements. At year end, the City had outstanding commitments to firms performing the construction work which totaled \$4,135,785.

5. OPERATING LEASE REVENUE

The City is the lessor under several leases for office space in its City Hall facility, which was purchased by the City on June 11, 1996. These leases are considered for accounting purposes to be operating leases. Lease revenues for the year ended June 30, 2009, amounted to \$81,135. Future minimum lease revenues based on the terms of the existing leases are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2010	38,540
2011	39,080
2012	22,162
Total	<u><u>\$99,782</u></u>

6. LONG-TERM DEBT

The following is a summary of the long-term liability activity for the year ended June 30, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences	\$366,432	\$211,478	(\$150,287)	\$427,623	\$157,984
Total	<u><u>\$366,432</u></u>	<u><u>\$211,478</u></u>	<u><u>(\$150,287)</u></u>	<u><u>\$427,623</u></u>	<u><u>\$157,984</u></u>

Compensated Absences

All full-time and certain part-time employees are eligible to receive comprehensive annual leave (CAL). The number of days each employee accrues is determined based upon length of employment and hours worked. An employee may accrue a maximum of two times their annual accrual rate. CAL vests immediately upon being earned.

All leave benefits are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are liquidated by the General Fund.

7. PENSION PLAN

Plan Description

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

Assembly Bill 1974, which added Sections 20840-20842 to the California Government Code, allowed CalPERS 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. As a result, the City was required to participate in a risk pool of other agencies with less than 100 employees. The valuation report as of June 30, 2005, contained two sections: 1) the specific information of the plan including the development of the pooled contribution rate, and 2) the report of the Risk Pool Actuarial Valuation as of June 30, 2005. The City participates in the 2% @ 55 pool.

Funding Policy

Employees are required to contribute 7% of their annual covered salary. During the period July 1, 1999 through August 31, 1999, those employees hired after June 30, 1995 were responsible for the 7% employee contribution. Effective September 1, 1999, the City paid both the employee and employer contributions for all employees. The City is required to contribute at an actuarially determined rate; the current rate is 11.954% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by CalPERS. The City's contributions to CalPERS for the years ended June 30, 2007, 2008 and 2009, were \$457,133, \$537,036 and \$585,321, respectively, equal to the required contributions for each year.

THREE YEAR TREND INFORMATION FOR CalPERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2007	\$457,133	100%	\$0
6/30/2008	\$537,036	100%	\$0
6/30/2009	\$585,321	100%	\$0

8. JOINT VENTURES

South Orange County Animal Services Authority

The City is a member of the South Orange County Animal Services Authority, along with the City of San Clemente. The Authority was established to provide animal control and animal shelter services to the member agencies. The Board of Directors of the Authority is comprised of one representative from each member agency.

Funding of the Authority's budgeted amounts is from contributions from non-profit organizations, with the member agencies paying any portion of unfunded costs allocated to the members in the budget. Separate financial statements of the Authority can be obtained at: San Clemente Animal Shelter, 535 Avenue Fabricante, San Clemente, CA 92672.

Orange County Fire Authority

In January 1995 the City of Dana Point entered into a joint powers agreement with several other Orange County cities and the County of Orange to create the Orange County Fire 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 structural 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 make cash contributions based on the Authority's annual budget. No determination has been made as to each participant's proportionate share of fund equity as of June 30, 2009. Upon dissolution of the Authority, all surplus money and property of the Authority will be conveyed or distributed to each member in proportion to all funds provided to the Authority by that member or by the County on behalf of that member during its membership.

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

Orange County 800 Megahertz Communications System

In May 1995, the City of Dana Point entered into a joint powers agreement with thirty other Cities and the County of Orange to create the Orange County 800 MHz CCCS Authority. The purpose of the Authority is to replace the existing communication system with an 800 megahertz coordinated law enforcement/public works/fire radio communication system (the 800 MHz CCCS). The Authority's governing board consists of one representative from each City, two from the County, the elected Sheriff and one other representative selected by the County Board of Supervisors. Each member is responsible

Notes to Financial Statements

for its percentage interest contribution of the Authority's annual budget. The percentage interest contribution is calculated based upon each member's equipment purchase divided by the total equipment purchases. The City of Dana Point's percentage contribution is 0.835%. Upon dissolution, all surplus money and property of the Authority will be conveyed or distributed to each member in proportion to all funds provided to the Authority by the member during its membership. The City of Dana Point's precise share of the Authority's assets, liabilities, equities and changes therein as well as summarized audited information of the Authority for the period ended June 30, 2009, were not available at the time of this report.

9. FUND BALANCES

Reservations and designations of fund balances on financial statements are created to: (1) satisfy legal covenants that require that a portion of the fund balance be segregated; (2) identify the portion of the fund balance that is not appropriable for future expenditures; or (3) indicate the governmental body has voluntarily designated a portion of the fund balance to be used for a specific purpose. The balance sheet itemizes the portions of the fund balances which are reserved for encumbrances, prepaid expenditures, investment market value adjustment and real property held for resale. The City Council has also created designations of the unreserved fund balances, which consist of the following items:

	Fund			
	General	Capital Improvements	CFD 2006-1 Facilities Acquisition	Nonmajor Governmental Funds
Unreserved fund balances:				
Designated for cash flow	\$3,191,000			
Designated for emergencies	6,382,000			
Designated for infrastructure replacement	3,169,000			
Designated for roadway improvements		\$3,000,000		
Designated for open space acquisition		1,091,463		
Designated for priority one projects		295,000		
Designated for art in public places	149,557			
Designated for investment market value adjustments	276,000			
Designated for potential State budget impacts	2,033,000			
Designated for future year's expenditures	4,277,395	9,868,673	\$67,451	\$4,024,498
Total Unreserved, designated	<u>\$19,477,952</u>	<u>\$14,255,136</u>	<u>\$67,451</u>	<u>\$4,024,498</u>

Definitions of reserved and unreserved, designated fund balances:

Reserve for encumbrances This reserve was created to represent encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the City but not completed as of the close of the fiscal year.

Notes to Financial Statements

Reserve for prepaid expenditures This reserve was created to represent payments made by the City in advance of the receipt of the underlying goods or services.

Unreserved/Designated for cash flow This designation was established to ensure that the City would have adequate cash resources on hand at all times to compensate for normal fluctuations in monthly cash receipts and disbursements.

Unreserved/Designated for emergencies This designation was established to ensure adequate funds are available to respond to unanticipated emergencies that might result from natural disasters or major economic calamities. Expenditure of funds from this fund balance designation requires a vote of 4/5's of the City Council members.

Unreserved/Designated for infrastructure replacement This designation was created to accumulate funds for the future replacement of major capital facilities.

Unreserved/Designated for roadway improvements This designation was established to accumulate funds for various improvements of the segment of Pacific Coast Highway located in Dana Point.

Unreserved/Designated for open space acquisition This designation was established to accumulate funds for the future acquisition of public open space within the City.

Unreserved/Designated for priority one projects This designation was established to accumulate funds for potential cost overruns and/or scope changes to capital improvement projects.

Unreserved/Designated for art in public places This designation was established to accumulate funds for the creation, improvement and installation of art in locations throughout the City that are available to the general public for viewing.

Unreserved/Designated for investment market value adjustments This designation was established to reflect the portion of reported cash and investment balances which represent unrealized gains. This is the difference between the cost basis and fair market value of investments at the reporting date. GASB Statement No. 31 requires that investments be stated at fair market value. The City considers unrealized gains to be unavailable for appropriation.

Unreserved/Designated for potential state budget impacts This designation was established to reflect potential revenue losses that could impact to the City in the event the State of California, in balancing its own budget, takes action to seize, delay or reduce future revenues that would otherwise accrue to the City.

Unreserved/Designated for future year's expenditures This is a general designation to accumulate funds to provide for economic uncertainties in future City revenues and expenditures.

10. RISK MANAGEMENT PROGRAM

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City accounts for all risk management activities in the General Fund.

Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The City is a member of the California Joint Powers Insurance Authority (“CJPIA”). The CJPIA is composed of 122 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the CJPIA is to arrange and administer programs for the pooling of self-insurance losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverages. The CJPIA’s pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee. The City's precise share of the CJPIA's assets, liabilities and equities is not available. Separate financial statements of CJPIA may be obtained at: 8081 Moody St., La Palma, California 90623.

Self-Insurance Programs of the CJPIA

General Liability Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between police and non-police. Costs are allocated to members by the following methods within each of the four layers of coverage: (1) the first \$30,000 of each occurrence is charged directly to the member’s primary deposit; (2) costs from \$30,000 to \$750,000 and the loss development reserves associated with losses up to \$750,000 are pooled based on the member’s share of losses under \$30,000; (3) losses from \$750,000 to \$2,000,000, and the associated loss development reserves, are pooled based on payroll; (4a) costs of covered claims from \$2,000,000 to \$50,000,000 are paid under reinsurance and excess insurance policies (4b) subject to a \$3,000,000 annual aggregate deductible (4c) and a quota-sharing agreement whereby the CJPIA is financially responsible for 40% of losses occurring within the \$2,000,000 to \$10,000,000 layer. The costs associated with 4a-c are estimated using actuarial models and pre-funded as part of the primary and retrospective deposits.

The overall policy limit for each member including all layers of coverage is \$50,000,000 per occurrence. Costs of covered claims for subsidence losses are paid by excess insurance with the following sub-limits per member: \$25,000,000 per occurrence with a \$15,000,000 annual aggregate.

Workers’ Compensation The City also participates in the workers’ compensation pool administered by the CJPIA. Each member pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is

Notes to Financial Statements

then made for each open claims year. Claims are pooled separately between public safety and non-public safety. Costs are allocated to members by the following methods within each of the four layers of coverage: (1) the first \$50,000 of each loss is charged directly to the member's primary deposit; (2) losses from \$50,000 to \$100,000 and the loss development reserve associated with losses up to \$100,000 are pooled based on the member's share of losses under \$50,000; (3) losses from \$100,000 to \$2,000,000 and loss development reserves associated with those losses are pooled based on payroll; (4) losses from \$2,000,000 up to statutory limits are paid under an excess insurance policy. Protection is provided per statutory liability under California Workers' Compensation law.

Employer's Liability losses are pooled among members to \$2,000,000, coverage from \$2,000,000 to \$4,000,000 is purchased as part of an excess insurance policy, and losses from \$4,000,000 to \$10,000,000 are pooled among members.

Purchased Insurance

Property Insurance The City participates in the all-risk property protection program of the CJPIA. This insurance protection is underwritten by several insurance companies. City property is currently insured according to a schedule of covered property submitted by the City to the CJPIA. Total all-risk property insurance coverage is \$20,688,467. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Environmental Insurance The City participates in the pollution legal liability and remediation legal liability insurance which is available through the CJPIA. The policy covers sudden and gradual pollution of scheduled property, streets and storm drains owned by the City. Coverage is on a claims-made basis. There is a \$50,000 deductible. The CJPIA has a limit of \$50,000,000 for the 3-year period from July 1, 2008, through July 1, 2011. Each member of the CJPIA has a \$10,000,000 sub-limit during the 3-year term of the policy.

Earthquake and Flood Insurance The City purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the CJPIA. City property currently has earthquake protection in the amount of \$9,900,932. There is a deductible of 5% of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Crime Insurance The City purchases crime insurance coverage in the amount of \$1,000,000 with \$2,500 deductible. The fidelity coverage is provided through the CJPIA. Premiums are paid annually and are not subject to retroactive adjustments.

Special Event Tenant User Liability Insurance The City further protects against liability damages by requiring tenant users of certain property to purchase low-cost tenant user liability insurance for certain

Notes to Financial Statements

activities on City property. The insurance premium is paid by the tenant user to the City according to a schedule. The City then pays for the insurance. The insurance is arranged by the CJPIA.

Business Interruption Insurance The City purchases insurance to mitigate potential losses in transient occupancy revenues which could result from damage to City lodgings as a result of floods, fires, earthquakes, other perils or acts of terrorism. The City purchased \$8 million of coverage per event and location per year, subject to a \$50,000 deductible.

The City does not participate in the California State Unemployment Insurance program. The City funds all claims for unemployment benefits from current resources on an as-incurred basis. In fiscal years 2008 and 2009, the City paid \$11,700 and \$0, respectively, for unemployment benefit claims.

Adequacy of Protection

During the past three fiscal (claims) years, none of the above programs of protection have had settlements or judgements that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

CJPIA premiums for fiscal years 2008 and 2009 were \$418,602 and \$461,318, respectively. Since claims are paid by the CJPIA and, in effect, charged back to the City via future insurance deposits, no long-term debt has been recorded.

As of June 30, 2009, the City's management was not aware of any material claims that were incurred but not reported, which would exceed the amounts insured by CJPIA. Accordingly, no provision has been made in the financial statements for such items (see Note 12).

11. REAL PROPERTY HELD FOR RESALE

On May 28, 2002, the City entered into a City Manager Housing Assistance Agreement (the "Agreement"), with an employee of the City. The purpose of the Agreement was to assist the employee with the purchase of a residence in Dana Point. The Agreement provided for the City to purchase a 50% interest in the property at a cost of \$249,500, for which the City received an undivided 50% interest as a co-tenant. In January 2009 the employee exercised his right under the agreement to purchase the City's 50% interest in the property for the sum of \$270,486. This amount represents the City's share of the original purchase price together with the City's share of capital improvements to the property during the period of co-ownership. The City has no further obligations under the Agreement.

12. CONTINGENCIES

As a CJPIA member (see Note 11), the City is insured for claims and judgments resulting from the normal operations of the City. Material losses not covered by the CJPIA program would be paid from the unreserved fund balance designated for emergencies (\$6,382,000 as of June 30, 2009) and/or other undesignated fund balances. Immaterial uninsured claims would be paid from routine operating revenues. There were no uninsured claims paid by the City in fiscal years 2008 or 2009.

The City is a defendant in several pending lawsuits of a nature common to many similar jurisdictions. City management estimates the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the financial statements of the City.

The City receives financial assistance from federal, state and local governmental agencies in the form of grants and allocations. The disbursement of funds received under these programs requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of the City's management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2009.

13. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In June 2004 the Governmental Accounting Standards Board ("GASB") issued Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement requires certain disclosures concerning the City's financial obligations and liabilities associated with non-pension benefits provided to employees after they separate from the City. Such benefits may include, but are not limited to, healthcare, life insurance and long-term care.

The City does not provide postemployment benefits to retirees except to the extent they are legally mandated under California's Public Employee Medical and Hospital Care Act ("PEMHCA"). Under PEMHCA, participants in the CalPERS health medical program (the City is a participant) are required to make a contribution to retiree's medical care, subject to certain eligibility criteria. In order for an employee to be eligible for a City contribution, they must (1) be a CalPERS member; (2) be a participant in the CalPERS health program at the time of retirement, and (3) elect to continue participation in the CalPERS health program (at their own expense) at the time of retirement. If the retiree meets all three criteria, then the City is required to make a monthly payment which is credited against the employee's cost of continued health insurance through the CalPERS health system. For calendar 2009, the City's mandated contribution rate was set at \$101/month per eligible retiree. The contribution rate is adjusted annually by the State of California based on the medical care component of the Consumer Price Index.

During fiscal 2009, there was one City retiree receiving the PEMHCA benefit. The total cost to the City was \$1,188. Since incorporation, the City only had two retirees elect to continue participation in the

Notes to Financial Statements

CalPERS health program after retirement, and only one employee currently remains active in the program. Due to the strict eligibility criteria and high cost to retirees, the City has determined that future retiree participation in the CalPERS health program is likely to remain minimal, and that any costs to the City associated with the PEMHCA program will not be material in nature; accordingly, the City has not recognized any expense nor recorded any liability in its financial statements.

14. COMMUNITY FACILITIES DISTRICT BONDS

Included within the City is Community Facilities District No. 2006-1 of the City of Dana Point (“CFD”), which was formed pursuant to the Mello-Roos Community Facilities Act of 1982 for the purpose of financing the acquisition and/or construction of certain public improvements in the area of the City known as The Headlands. The CFD is authorized to issue up to \$40 million of debt, which is to be repaid from revenues generated by special taxes levied on the taxable property within the CFD.

On July 2, 2008, the CFD sold 2008 Special Tax Bonds totaling \$8,710,000 of aggregate principal. The bonds mature in increments over a 30-year period. The bonds are not general obligations of the City, and neither the faith nor the taxing power of the City is pledged to the payment of these bonds. Therefore, the bonds are not recorded as liabilities of the City. The City has no obligation beyond the balances in the agency fund for any delinquent CFD bond payments. The bonds are limited obligations of the CFD payable solely from the special tax or funds held pursuant to the bond indenture agreement. The principal amount of bonds outstanding as of June 30, 2009 was \$8,710,000. An amount of \$936,311 is being held by the City and is reflected as due to bondholders at June 30, 2009 in the Statement of Fiduciary Assets and Liabilities.

SUPPLEMENTARY INFORMATION

CITY OF DANA POINT
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$25,908,500	\$22,969,500	\$22,182,514	(\$786,986)
Licenses, fees and permits	2,165,100	1,928,100	1,932,992	4,892
Fines and forfeitures	480,000	516,000	432,949	(83,051)
Intergovernmental	410,900	397,100	435,835	38,735
Charges for services	1,283,200	1,376,436	1,111,703	(264,733)
Use of money and property	1,605,500	1,379,500	1,374,926	(4,574)
Other	54,800	66,800	82,429	15,629
Total revenues	<u>31,908,000</u>	<u>28,633,436</u>	<u>27,553,348</u>	<u>(1,080,088)</u>
EXPENDITURES				
Current:				
General government	5,607,630	5,544,055	4,816,650	727,405
Public safety	8,943,876	9,141,381	8,966,405	174,976
Community development	2,780,516	3,259,048	2,594,142	664,906
Recreation and parks	4,422,304	4,387,898	4,185,655	202,243
Public works	5,980,753	6,614,557	6,113,359	501,198
Capital outlays	778,000	743,095	580,407	162,688
Total expenditures	<u>28,513,079</u>	<u>29,690,034</u>	<u>27,256,618</u>	<u>2,433,416</u>
Excess of revenues over expenditures	<u>3,394,921</u>	<u>(1,056,598)</u>	<u>296,730</u>	<u>1,353,328</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	659,000	780,497	764,080	(16,417)
Transfers out	(2,416,225)	(2,354,304)	(2,354,304)	-
Total other financing sources (uses)	<u>(1,757,225)</u>	<u>(1,573,807)</u>	<u>(1,590,224)</u>	<u>(16,417)</u>
Net change in fund balance	1,637,696	(2,630,405)	(1,293,494)	1,336,911
Fund balance, beginning	22,149,613	22,149,613	22,149,613	-
Fund balance, ending	<u><u>\$23,787,309</u></u>	<u><u>\$19,519,208</u></u>	<u><u>\$20,856,119</u></u>	<u><u>\$1,336,911</u></u>

CITY OF DANA POINT
Major Capital Projects Funds
June 30, 2009

The City of Dana Point has established the following major capital projects funds to account for resources used for acquisition or construction of major capital facilities:

Capital Improvements Projects Fund

Used to account for the acquisition, construction and improvement of capital facilities financed by grants and operating transfers from the General Fund.

CFD 2006-1 Facilities Acquisition Fund

Used to account for the acquisition and/or construction of certain public improvements located within the boundaries of Community Facilities District No. 2006-1 of the City of Dana Point, commonly referred to as The Headlands.

CITY OF DANA POINT
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Capital Improvements Projects Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	-	\$727,283	\$679,311	(\$47,972)
Other	-	300,000	97,200	(202,800)
Total revenues	<u>-</u>	<u>1,027,283</u>	<u>776,511</u>	<u>(250,772)</u>
EXPENDITURES				
Current:				
Public works			70	(70)
Capital outlays	\$5,240,312	25,345,871	13,508,333	11,837,538
Total expenditures	<u>5,240,312</u>	<u>25,345,871</u>	<u>13,508,403</u>	<u>11,837,468</u>
Excess (deficiency) of revenues over expenditures	<u>(5,240,312)</u>	<u>(24,318,588)</u>	<u>(12,731,892)</u>	<u>11,586,696</u>
OTHER FINANCING SOURCES				
Transfers in	2,726,537	3,103,421	2,067,691	(1,035,730)
Total other financing sources	<u>2,726,537</u>	<u>3,103,421</u>	<u>2,067,691</u>	<u>(1,035,730)</u>
Net change in fund balance	<u>(2,513,775)</u>	<u>(21,215,167)</u>	<u>(10,664,201)</u>	<u>10,550,966</u>
Fund balance, beginning	29,055,122	29,055,122	29,055,122	-
Fund balance, ending	<u><u>\$26,541,347</u></u>	<u><u>\$7,839,955</u></u>	<u><u>\$18,390,921</u></u>	<u><u>\$10,550,966</u></u>

CITY OF DANA POINT
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
CFD 2006-1 Facilities Acquisition Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Investment interest earnings			\$22,395	\$22,395
Contributions from property owners		\$8,199,559	8,199,559	0
Total revenues	-	8,199,559	8,221,954	22,395
EXPENDITURES				
Current:				
Public works		620,000	559,457	60,543
Capital outlays		7,579,559	7,595,046	(15,487)
Total expenditures	-	8,199,559	8,154,503	45,056
Net change in fund balance	-	-	67,451	67,451
Fund balance, beginning	-	-	-	-
Fund balance, ending	-	-	\$67,451	\$67,451

CITY OF DANA POINT
Nonmajor Governmental Funds
June 30, 2009

The City of Dana Point has established the following nonmajor special revenue funds which are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes:

Gasoline Tax Fund	Used to account for revenues collected as the City's share of State gasoline taxes, pursuant to the California State Constitution and authorized by the State Legislature. All associated street repairs and maintenance expenditures are accounted for in the General Fund. Accordingly, gasoline tax revenues are transferred from the Gasoline Tax Fund to the General Fund.
Measure M Fund	Used to account for revenues collected pursuant to Measure M, a half-cent sales tax increase approved by Orange County voters in 1990. Measure M funds are restricted to use for transportation improvements made within the County. Transportation related improvements are accounted for in the Capital Improvements Fund. Accordingly, Measure M revenues are transferred to the Capital Improvements Fund.
Supplemental Law Enforcement Services Fund	Used to account for revenues collected pursuant to California Assembly Bill AB3229 which was passed in 1996. Known as the COPS program (Citizens' Option for Public Safety), it provides funds to cities and counties for use in supplementing law enforcement services.
CFD 2006-1 Facilities Maintenance Fund	Used to account for special tax revenues assessed on properties located within the Community Facilities District 2006-1 of the City of Dana Point, and associated costs for the maintenance of certain public facilities located within the District boundaries.
Coastal Transit Fund	Used to account for revenues collected from the California Coastal Commission for the purpose of providing coastal recreational transit services. Funds will be used to provide a summer shuttle service to and from the beach and harbor areas.
AB 2766 Fund	Used to account for funds received pursuant to the California Clean Air Act. Under this Act, the South Coast Air Quality Management District distributes fees generated from motor vehicle registrations to local jurisdictions for use in developing programs to reduce mobile sources of air pollution.

CITY OF DANA POINT
Nonmajor Governmental Funds
June 30, 2009

The City of Dana Point has established the following nonmajor capital projects funds to account for resources used for acquisition or construction of major capital facilities:

Facilities Improvement Fund

Used to account for major improvements or rehabilitation to the City Hall and Del Obispo Community Recreation Center facilities financed by operating transfers from other City funds.

Park Development Fund

Used to account for the acquisition, construction and improvement of park sites financed by General Fund operating transfers, interest earnings and developer contributions.

CITY OF DANA POINT
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2009

	Special Revenue Funds					Capital Projects Funds		Total Nonmajor Governmental Funds	
	Gasoline Tax	Measure M	Supplemental Law Enforcement Services	CFD 2006-1 Facilities Maintenance	Coastal Transit	AB 2766	Facilities Improvement		Park Development
ASSETS									
Cash and investments		\$879,732	\$117,410	\$38,570	\$1,306,514	\$63,027	\$983,999	\$487,250	\$3,876,502
Receivables:									
Taxes	\$74,727	57,509							132,236
Intergovernmental			15,760						15,760
Total assets	<u>\$74,727</u>	<u>\$937,241</u>	<u>\$133,170</u>	<u>\$38,570</u>	<u>\$1,306,514</u>	<u>\$63,027</u>	<u>\$983,999</u>	<u>\$487,250</u>	<u>\$4,024,498</u>
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable									
Total liabilities	-	-	-	-	-	-	-	-	-
Fund Balances:									
Reserved for encumbrances									
Unreserved:									
Designated for future years' expenditures	\$74,727	\$937,241	133,170	\$38,570	\$1,306,514	\$63,027	983,999	\$487,250	4,024,498
Total fund equity	<u>74,727</u>	<u>937,241</u>	<u>133,170</u>	<u>38,570</u>	<u>1,306,514</u>	<u>63,027</u>	<u>983,999</u>	<u>487,250</u>	<u>4,024,498</u>
Total liabilities and fund equity	<u>\$74,727</u>	<u>\$937,241</u>	<u>\$133,170</u>	<u>\$38,570</u>	<u>\$1,306,514</u>	<u>\$63,027</u>	<u>\$983,999</u>	<u>\$487,250</u>	<u>\$4,024,498</u>

CITY OF DANA POINT
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2009

	Special Revenue Funds					Capital Projects Funds		Total Nonmajor Governmental Funds
	Gasoline Tax	Measure M	Supplemental Law Enforcement Services	CFD 2006-1 Facilities Maintenance	Coastal Transit	AB 2766	Facilities Improvement	
REVENUES								
Taxes	\$545,316	\$389,780						\$935,096
Licenses, fees and permits							\$63,600	63,600
Intergovernmental	313,114		\$75,843		\$809	\$31,566		421,332
Charges for services				\$38,120				38,120
Investment interest earnings		18,150	4,800	450	34,100	1,000		70,300
Contributions from property owners								-
Total revenues	<u>858,430</u>	<u>407,930</u>	<u>80,643</u>	<u>38,570</u>	<u>34,909</u>	<u>32,566</u>	<u>-</u>	<u>1,528,448</u>
EXPENDITURES								
Current:								
General government						3,252	150,799	154,051
Public safety			157,153					157,153
Public works								-
Capital outlays							520,949	520,949
Total expenditures	<u>-</u>	<u>-</u>	<u>157,153</u>	<u>-</u>	<u>-</u>	<u>3,252</u>	<u>671,748</u>	<u>832,153</u>
Excess (deficiency) of revenues over expenditures	858,430	407,930	(76,510)	38,570	34,909	29,314	(671,748)	696,295
OTHER FINANCING SOURCES (USES)								
Transfers in							525,000	525,000
Transfers out	(1,002,467)							(1,002,467)
Total other financing sources (uses)	<u>(1,002,467)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>525,000</u>	<u>(477,467)</u>
Net change in fund balances	(144,037)	407,930	(76,510)	38,570	34,909	29,314	(146,748)	218,828
Fund balances, beginning	218,764	529,311	209,680		1,271,605	33,713	1,130,747	3,805,670
Fund balances, ending	<u>\$74,727</u>	<u>\$937,241</u>	<u>\$133,170</u>	<u>\$38,570</u>	<u>\$1,306,514</u>	<u>\$63,027</u>	<u>\$983,999</u>	<u>\$4,024,498</u>

CITY OF DANA POINT
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Gasoline Tax Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$659,000	\$619,000	\$545,316	(\$73,684)
Intergovernmental	376,585	376,585	313,114	(63,471)
Total revenues	<u>1,035,585</u>	<u>995,585</u>	<u>858,430</u>	<u>(137,155)</u>
OTHER FINANCING USES				
Transfers out	(1,035,585)	(1,157,082)	(1,002,467)	154,615
Net change in fund balance	-	(161,497)	(144,037)	17,460
Fund balance, beginning	218,764	218,764	218,764	-
Fund balance, ending	<u>\$218,764</u>	<u>\$57,267</u>	<u>\$74,727</u>	<u>\$17,460</u>

CITY OF DANA POINT
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Measure M Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$458,727	\$458,727	\$389,780	(\$68,947)
Investment interest earnings			18,150	18,150
Total revenues	<u>458,727</u>	<u>458,727</u>	<u>407,930</u>	<u>(50,797)</u>
OTHER FINANCING USES				
Transfers out	<u>(458,727)</u>	<u>(897,532)</u>	-	<u>897,532</u>
Net change in fund balance	-	(\$438,805)	407,930	846,735
Fund balance, beginning	529,311	529,311	529,311	-
Fund balance, ending	<u>\$529,311</u>	<u>\$90,506</u>	<u>\$937,241</u>	<u>\$846,735</u>

CITY OF DANA POINT
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Supplemental Law Enforcement Services Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental		\$100,000	\$75,843	(\$24,157)
Investment interest earnings	\$4,000	4,000	4,800	\$800
Total revenues	<u>4,000</u>	<u>104,000</u>	<u>80,643</u>	<u>(23,357)</u>
EXPENDITURES				
Public safety		211,397	157,153	54,244
Total expenditures	<u>-</u>	<u>211,397</u>	<u>157,153</u>	<u>54,244</u>
Net change in fund balance	4,000	(107,397)	(76,510)	30,887
Fund balance, beginning	209,680	209,680	209,680	-
Fund balance, ending	<u>\$213,680</u>	<u>\$102,283</u>	<u>\$133,170</u>	<u>\$30,887</u>

CITY OF DANA POINT
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Headlands CFD 2006-1 Maintenance Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$45,000	\$45,000	\$38,120	(\$6,880)
Investment interest earnings	500	500	450	(50)
Total revenues	<u>45,500</u>	<u>45,500</u>	<u>38,570</u>	<u>(6,930)</u>
EXPENDITURES				
Public works	43,085	43,085		43,085
Total expenditures	<u>43,085</u>	<u>43,085</u>	<u>-</u>	<u>43,085</u>
Net change in fund balance	2,415	2,415	38,570	36,155
Fund balance, beginning	-	-	-	-
Fund balance, ending	<u>\$2,415</u>	<u>\$2,415</u>	<u>\$38,570</u>	<u>\$36,155</u>

CITY OF DANA POINT
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Coastal Transit Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$1,000	\$1,000	\$809	(\$191)
Investment interest earnings	38,500	38,500	34,100	(4,400)
Total revenues	<u>39,500</u>	<u>39,500</u>	<u>34,909</u>	<u>(4,591)</u>
EXPENDITURES				
General government	120,000	120,000		120,000
Total expenditures	<u>120,000</u>	<u>120,000</u>	-	<u>120,000</u>
Net change in fund balance	(80,500)	(80,500)	34,909	115,409
Fund balance, beginning	1,271,605	1,271,605	1,271,605	-
Fund balance, ending	<u>\$1,191,105</u>	<u>\$1,191,105</u>	<u>\$1,306,514</u>	<u>\$115,409</u>

CITY OF DANA POINT
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
AB 2766 Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$38,000	\$38,000	\$31,566	(\$6,434)
Investment interest earnings			1,000	1,000
Total revenues	<u>38,000</u>	<u>38,000</u>	<u>32,566</u>	<u>(5,434)</u>
EXPENDITURES				
General government	-	-	3,252	(3,252)
Total expenditures	<u>-</u>	<u>-</u>	<u>3,252</u>	<u>(3,252)</u>
Net change in fund balance	38,000	38,000	29,314	(8,686)
Fund balance, beginning	33,713	33,713	33,713	-
Fund balance, ending	<u>\$71,713</u>	<u>\$71,713</u>	<u>\$63,027</u>	<u>(\$8,686)</u>

CITY OF DANA POINT
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Facilities Improvement Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
EXPENDITURES				
Current:				
General government		\$150,799	\$150,799	-
Capital outlays	\$525,000	1,504,948	520,949	\$983,999
Total expenditures	<u>525,000</u>	<u>1,655,747</u>	<u>671,748</u>	<u>983,999</u>
OTHER FINANCING SOURCES				
Transfers in	<u>525,000</u>	<u>525,000</u>	<u>525,000</u>	<u>-</u>
Net change in fund balance	-	(1,130,747)	(146,748)	983,999
Fund balance, beginning	1,130,747	1,130,747	1,130,747	-
Fund balance, ending	<u>\$1,130,747</u>	<u>-</u>	<u>\$983,999</u>	<u>\$983,999</u>

CITY OF DANA POINT
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Park Development Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Licenses, fees and permits	\$100,000	\$100,000	\$63,600	(\$36,400)
Investment interest earnings	5,000	5,000	11,800	6,800
Total revenues	<u>105,000</u>	<u>105,000</u>	<u>75,400</u>	<u>(29,600)</u>
OTHER FINANCING USE:				
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	105,000	105,000	75,400	(29,600)
Fund balance, beginning	411,850	411,850	411,850	-
Fund balance, ending	<u><u>\$516,850</u></u>	<u><u>\$516,850</u></u>	<u><u>\$487,250</u></u>	<u><u>(\$29,600)</u></u>

CITY OF DANA POINT

Agency Funds

June 30, 2009

The City of Dana Point has established the following agency funds which are used to account for funds held by the City in a trustee capacity:

Developer Deposits Fund	Used to account for deposits placed with the City by developers to ensure that developers perform required services. These deposits are fully refundable.
Due to Bondholders Fund	Used to account for special taxes collected from Community Facilities District 2006-1 of the City of Dana Point, which are due to the holders of the district's bonds.
Pass-through Deposits Fund	Used to account for revenues collected by the City on behalf of other governmental agencies.

CITY OF DANA POINT
 Combining Statement of Agency Funds Fiduciary Assets and Liabilities
 June 30, 2009

	Developer Deposits	Due to Bondholders	Pass-through Deposits	Totals
ASSETS				
Cash and investments	\$1,676,367	\$936,311	\$15,785	\$2,628,463
LIABILITIES				
Deposits	\$1,676,367			\$1,676,367
Due to bondholders		\$936,311		936,311
Due to other agencies			\$15,785	15,785
Total liabilities	\$1,676,367	\$936,311	\$15,785	\$2,628,463

CITY OF DANA POINT
Statement of Changes in Fiduciary Net Assets
Agency Funds
For the Year Ended June 30, 2009

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
<u>DEVELOPER DEPOSITS</u>				
ASSETS:				
Cash and investments	\$1,727,596	\$1,512,156	\$1,563,385	\$1,676,367
LIABILITIES:				
Deposits	\$1,727,596	\$1,512,156	\$1,563,385	\$1,676,367
<u>DUE TO BONDHOLDERS</u>				
ASSETS:				
Cash and investments	-	\$1,244,929	\$308,618	\$936,311
LIABILITIES:				
Due to bondholders	-	\$1,244,929	\$308,618	\$936,311
<u>PASS-THROUGH DEPOSITS</u>				
ASSETS:				
Cash and investments	\$315,918	\$111,617	\$411,750	\$15,785
LIABILITIES:				
Due to other agencies	\$315,918	\$111,617	\$411,750	\$15,785
<u>TOTAL - ALL AGENCY FUNDS</u>				
ASSETS:				
Cash and investments	\$2,043,514	\$2,868,702	\$2,283,753	\$2,628,463
LIABILITIES:				
Deposits	\$1,727,596	\$1,512,156	\$1,563,385	\$1,676,367
Due to bondholders	-	1,244,929	308,618	936,311
Due to other agencies	315,918	111,617	411,750	15,785
Total liabilities	\$2,043,514	\$2,868,702	\$2,283,753	\$2,628,463

SUPPLEMENTARY SECTION CONCLUDED

STATISTICAL SECTION

This part of the City of Dana Point's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

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

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Demographic and Economic Information (1)

This schedule offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

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These schedules contain service and activity level data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

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- (1) The City does not require business licensing, therefore data concerning principal employers within its jurisdiction is unavailable.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

CITY OF DANA POINT
Net Assets by Component
Last Seven Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental activities										
Invested in capital assets, net of related debt	-	-	-	\$70,422	\$79,950	\$84,296	\$102,009	\$120,561	\$119,292	\$128,285
Restricted	-	-	-	3,706	5,152	5,412	8,069	5,515	2,645	3,257
Unrestricted	-	-	-	46,909	40,503	42,388	37,504	41,797	51,789	39,654
Total governmental activities net assets	<u>N/A (1)</u>	<u>N/A (1)</u>	<u>N/A (1)</u>	<u>\$121,037</u>	<u>\$125,605</u>	<u>\$132,096</u>	<u>\$147,582</u>	<u>\$167,873</u>	<u>\$173,726</u>	<u>\$171,196</u>

(1) Net Asset by Component data prior to implementation of GASB Statement 34 is unavailable.

Note: The City of Dana Point engages in governmental activities only.

CITY OF DANA POINT
Changes in Net Assets
Last Seven Fiscal Years
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Expenses										
Governmental activities:										
General Government				\$3,782	\$3,715	\$4,588	\$4,977	\$4,569	\$4,896	\$5,093
Public Safety				6,217	6,845	7,014	7,558	8,068	8,807	9,193
Community Development				1,779	1,875	2,149	2,582	2,330	2,811	2,625
Recreation and Parks				1,486	1,678	2,085	3,303	3,708	4,037	4,270
Public Works				6,476	6,646	8,777	8,294	9,687	10,520	19,447
Interest on Long-term Debt				249	225	207	187	15	0	0
Unallocated Depreciation				74	76	85	122	131	187	192
Total governmental activities expenses	-	-	-	\$20,063	\$21,060	\$24,905	\$27,023	\$28,508	\$31,258	\$40,820
Program Revenues										
Governmental activities:										
Charges for services:										
General Government				\$265	\$138	\$843	\$155	\$321	\$493	\$263
Public Safety				339	418	488	461	454	539	332
Community Development				1,331	1,161	1,344	2,266	1,359	1,396	1,054
Recreation and Parks				254	219	221	224	224	262	261
Public Works				265	155	288	131	469	561	422
Operating grants and contributions				2,665	1,475	1,585	1,449	1,694	1,612	9,999
Capital grants and contributions				2,612	1,836	5,176	13,459	16,321	3,159	852
Total governmental activities program revenues	-	-	-	\$7,731	\$5,402	\$9,945	\$18,145	\$20,842	\$8,022	\$13,183
Total government net expense	-	-	-	\$12,332	\$15,658	\$14,960	\$8,878	\$7,666	\$23,236	\$27,637
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes										
Property taxes				\$3,912	\$4,209	\$4,524	\$5,009	\$5,373	\$6,001	\$6,176
Franchise taxes				942	936	1,034	1,076	1,201	1,239	1,294
Sales taxes				3,795	4,015	3,117	3,447	3,761	3,671	2,998
In-lieu property taxes				0	0	2,665	3,119	3,867	4,276	4,154
Property transfer taxes				319	498	525	441	395	374	224
Transient occupancy taxes				8,146	8,478	7,763	9,533	10,888	11,298	8,630
Motor vehicle in-lieu (unrestricted)				2,095	1,678	852	255	199	164	126
Miscellaneous				113	61	152	52	234	66	68
Unrestricted Investment earnings				1,275	351	819	1,433	2,038	2,210	1,227
Total governmental activities	-	-	-	\$20,597	\$20,226	\$21,451	\$24,365	\$27,956	\$29,299	\$24,897
Change in Net Assets	N/A (1)	N/A (1)	N/A (1)	\$8,265	\$4,568	\$6,491	\$15,487	\$20,290	\$6,063	(\$2,740)

(1) Change in Net Asset data prior to implementation of GASB Statement 34 is unavailable.

CITY OF DANA POINT
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General fund										
Reserved	940	1,249	1,447	1,555	2,105	1,318	3,715	561	1,466	1,378
Unreserved	22,817	28,139	28,593	20,324	14,251	12,808	12,605	17,836	20,684	19,478
Total general fund	<u>\$23,757</u>	<u>\$29,388</u>	<u>\$30,040</u>	<u>\$21,879</u>	<u>\$16,356</u>	<u>\$14,126</u>	<u>\$16,320</u>	<u>\$18,397</u>	<u>\$22,150</u>	<u>\$20,856</u>
All other governmental funds										
Reserved	\$2,459	\$2,119	\$2,950	\$4,301	\$6,699	\$3,741	\$5,225	\$414	\$8,747	\$4,136
Unreserved, reported in:										
Special revenue funds	336	506	386	1,330	1,475	1,499	1,424	1,555	2,263	2,553
Capital project funds	8,973	10,640	14,129	23,293	21,368	27,429	22,986	27,225	21,851	15,794
Total all other governmental funds	<u>\$11,768</u>	<u>\$13,265</u>	<u>\$17,465</u>	<u>\$28,924</u>	<u>\$29,542</u>	<u>\$32,669</u>	<u>\$29,635</u>	<u>\$29,194</u>	<u>\$32,861</u>	<u>\$22,483</u>

CITY OF DANA POINT
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenues										
Taxes	\$13,773	\$14,346	\$15,802	\$17,278	\$18,247	\$19,666	\$22,626	\$25,391	\$26,715	\$23,117
Licences, fees and permits	1,973	1,812	1,716	2,451	1,960	1,936	1,926	2,048	2,186	1,997
Fines and forfeitures	315	310	353	352	428	492	469	470	636	433
Intergovernmental	3,251	3,226	4,122	4,711	3,189	3,805	7,181	6,011	3,464	1,536
Charges for services	837	737	817	1,050	921	1,894	1,906	1,475	1,672	1,150
Use of money and property	2,141	3,108	2,242	1,638	573	1,016	1,740	2,423	2,590	1,468
Contributions from property owners	0	0	0	0	0	0	0	0	0	8,199
Other	182	183	198	815	352	1,271	337	246	93	180
Total revenues	<u>22,472</u>	<u>23,722</u>	<u>25,250</u>	<u>28,295</u>	<u>25,670</u>	<u>30,080</u>	<u>36,185</u>	<u>38,064</u>	<u>37,356</u>	<u>38,080</u>
Expenditures										
General government	3,973	3,135	3,489	3,687	3,586	4,450	4,846	4,526	4,809	4,971
Public safety	5,179	5,237	5,448	6,217	6,843	7,008	7,544	8,035	8,767	9,123
Community development	1,398	1,331	1,397	1,768	1,866	2,132	2,565	2,312	2,772	2,594
Recreation and parks	873	1,025	1,253	1,235	1,622	2,029	3,237	3,627	3,953	4,186
Public works	1,963	2,378	2,951	4,336	4,129	5,405	5,133	5,243	5,803	6,673
Capital outlay	5,370	3,243	5,336	7,727	12,007	7,639	13,180	9,667	3,832	22,205
Debt service:										
Principal	230	245	260	270	290	305	325	2,925	0	0
Interest	291	278	264	249	232	215	196	93	0	0
Total expenditures	<u>19,277</u>	<u>16,872</u>	<u>20,398</u>	<u>25,489</u>	<u>30,575</u>	<u>29,183</u>	<u>37,026</u>	<u>36,428</u>	<u>29,936</u>	<u>49,752</u>
Excess of revenues over (under) expenditures	3,195	6,850	4,852	2,806	(4,905)	897	(841)	1,636	7,420	(11,672)
Other financing sources (uses)										
Transfers in	8,777	4,641	8,263	16,631	11,642	764	4,237	3,922	6,658	3,357
Transfers out	(8,777)	(4,641)	(8,263)	(16,631)	(11,642)	(7,964)	(4,238)	(3,922)	(6,658)	(3,357)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cumulative effect of a change in accounting principle	-	278	-	-	-	-	-	-	-	-
Prior period adjustment	-	-	-	492	-	-	-	-	-	-
Net change in fund balances	<u>\$3,195</u>	<u>\$7,128</u>	<u>\$4,852</u>	<u>\$3,298</u>	<u>(\$4,905)</u>	<u>\$897</u>	<u>(\$841)</u>	<u>\$1,636</u>	<u>\$7,420</u>	<u>(\$11,672)</u>
Debt service as a percentage of noncapital expenditures	2.7%	3.1%	2.6%	2.0%	1.7%	1.8%	1.4%	8.3%	0.0%	0.0%

CITY OF DANA POINT
 Program Revenues by Function/Program
 Last Seven Fiscal Years
 (accrual basis of accounting)
 (amounts expressed in thousands)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Function/Program										
Governmental activities:										
General government	-	-	-	\$310	\$182	\$878	\$203	\$377	\$538	\$295
Public safety	-	-	-	713	751	943	746	930	946	737
Community development	-	-	-	2,379	1,212	1,368	2,306	1,415	1,450	1,089
Recreation and parks	-	-	-	932	800	824	470	11,211	914	456
Public works	-	-	-	3,398	2,457	5,931	14,419	6,909	4,174	10,606
Total governmental activities	N/A (1)	N/A (1)	N/A (1)	\$7,732	\$5,402	\$9,944	\$18,144	\$20,842	\$8,022	\$13,183

(1) Program Revenues by Function/Program data prior to implementation of GASB Statement 34 is unavailable.

CITY OF DANA POINT
Tax Revenues By Source, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(amounts expressed in thousands)

Fiscal Year	Property Tax (1)	Franchise Tax	Sales Tax (2)	Gasoline Tax	Measure M Tax	In-lieu Property Tax (2)	Property Transfer Tax	Transient Occupancy Tax (3)	Total
2000	\$3,097	\$852	\$3,325	\$802	\$349	-	\$255	\$5,945	\$14,625
2001	3,291	894	3,417	692	381	-	287	6,278	15,240
2002	3,606	987	3,605	603	356	-	282	7,350	16,789
2003	3,912	941	3,795	737	368	-	319	8,147	18,219
2004	4,209	936	4,015	674	373	-	498	8,478	19,183
2005	4,524	1,034	3,117	680	392	\$2,665	525	7,763	20,700
2006	5,009	1,076	3,447	670	407	3,119	441	9,533	23,702
2007	5,373	1,201	3,762	670	436	3,867	395	10,888	26,592
2008	6,001	1,239	3,867	655	440	4,276	374	11,298	28,150
2009	6,176	1,294	2,998	545	390	4,154	194	8,630	24,381

- (1) Property taxes are imposed by the County of Orange at a rate of 1% of assessed value, pursuant to Proposition 13. Refer to Direct and Overlapping Property Tax Rate schedule for distribution information.
- (2) Beginning in fiscal 2005 the State of California swapped 25% of the 1% basic sales tax levy allocated to municipalities for In-lieu sales taxes, which represent an equivalent amount of property taxes. Therefore sales tax revenues were reduced from 1.00% of gross sales to .75% of gross sales. The City does not impose a local sales tax.
- (3) Transient occupancy tax is imposed by the City at the rate of 10%.

CITY OF DANA POINT
Property Tax Levies and Collections
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total property tax levy	\$3,086	\$3,274	\$3,670	\$3,956	\$4,285	\$4,602	\$5,129	\$5,556	\$6,174	\$6,256
Current year collections	\$3,023	\$3,208	\$3,579	\$3,876	\$4,181	\$4,501	\$4,973	\$5,338	\$5,908	\$5,985
Current year collections as % of levy	98.0%	98.0%	97.5%	98.0%	97.6%	97.8%	97.0%	96.1%	95.7%	95.7%
Current year delinquencies	\$63	\$66	\$91	\$80	\$104	\$101	\$156	\$218	\$266	\$271
Current year delinquencies as % of levy	2.0%	2.0%	2.5%	2.0%	2.4%	2.2%	3.0%	3.9%	4.3%	4.3%
City direct rate applied to base (1)	0.076%	0.076%	0.076%	0.076%	0.076%	0.076%	0.076%	0.076%	0.076%	0.076%

Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Assessed value	\$4,331,939	\$4,594,761	\$5,111,519	\$5,516,436	\$5,941,465	\$6,250,662	\$6,998,388	\$7,693,012	\$8,532,709	\$8,879,909
Estimated actual value (see note)	\$4,331,939	\$4,594,761	\$5,111,519	\$5,516,436	\$5,941,465	\$6,250,662	\$6,998,388	\$7,693,012	\$8,532,709	\$8,879,909
Annual increase in assessed value	\$468,762	\$262,822	\$516,758	\$404,917	\$425,029	\$309,197	\$747,726	\$694,624	\$839,697	\$347,200
Annual % increase in assessed value	12.1%	6.1%	11.2%	7.9%	7.7%	5.2%	12.0%	9.9%	10.9%	4.1%

(1) The property tax rate is based upon 1% of assessed valuation. The City's receives 7.6% of the 1% levy. A complete breakdown of the 1% levy can be found on the Direct and Overlapping Property Tax Rate schedule.

Note: Under Proposition 13, the real estate tax on a parcel of residential property is limited to 1% of its assessed value, until the property is resold, and the assessed value may only be increased by a maximum of 2% per year. The Orange County Assessor does not provide estimates of actual value.

Source: Orange County Assessor

CITY OF DANA POINT
Direct and Overlapping Property Tax Rates
Last Nine Fiscal Years

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<u>Distribution of Basic 1% Levy (per \$100 of assessed value)</u>										
Capistrano Unified School District	-	\$0.3890	\$0.3890	\$0.3890	\$0.3890	\$0.3890	\$0.3890	\$0.3890	\$0.3890	\$0.3890
Educational Revenue Augmentation Fund	-	0.1660	0.1660	0.1660	0.1660	0.1660	0.1660	0.1660	0.1660	0.1660
Orange County Fire Authority	-	0.1220	0.1220	0.1220	0.1220	0.1220	0.1220	0.1220	0.1220	0.1220
South Orange County Comm. College District	-	0.0960	0.0960	0.0960	0.0960	0.0960	0.0960	0.0960	0.0960	0.0960
Orange County General Fund	-	0.0530	0.0530	0.0530	0.0530	0.0530	0.0530	0.0530	0.0530	0.0530
City of Dana Point	-	0.0760	0.0760	0.0760	0.0760	0.0760	0.0760	0.0760	0.0760	0.0760
Orange County Flood Control District	-	0.0210	0.0210	0.0210	0.0210	0.0210	0.0210	0.0210	0.0210	0.0210
Orange County Library District	-	0.0180	0.0180	0.0180	0.0180	0.0180	0.0180	0.0180	0.0180	0.0180
Orange County Department of Education	-	0.0180	0.0180	0.0180	0.0180	0.0180	0.0180	0.0180	0.0180	0.0180
Orange County Harbors, Beaches & Parks	-	0.0166	0.0166	0.0166	0.0166	0.0166	0.0166	0.0166	0.0166	0.0166
Capistrano Beach County Water District	-	0.0106	0.0106	0.0106	0.0106	0.0106	0.0106	0.0106	0.0106	0.0106
Tri Cities Municipal Water District	-	0.0091	0.0091	0.0091	0.0091	0.0091	0.0091	0.0091	0.0091	0.0091
Orange County Transportation Authority	-	0.0030	0.0030	0.0030	0.0030	0.0030	0.0030	0.0030	0.0030	0.0030
Orange County Vector Control	-	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012	0.0012
Orange County Cemetary District	-	0.0005	0.0005	0.0005	0.0005	0.0005	0.0005	0.0005	0.0005	0.0005
Total Basic 1% Levy (1)	-	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
<u>Tax Rate Area 28-019:</u>										
Metro Water District MWDOC Annex #4	-	0.0088	0.0077	0.0077	0.0058	0.0052	0.0052	0.0047	0.0043	0.0043
Capistrano Unified ID#1 1999 Bond Fund - Series A	-	0.0086	0.0053	0.0053	0.0034	0.0031	0.0031	0.0027	0.0028	0.0031
Capistrano Unified ID#1 1999 Bond Fund - Series B	-	0.0000	0.0031	0.0031	0.0054	0.0049	0.0049	0.0043	0.0045	0.0043
Capistrano Unified ID#1 1999 Bond Fund - Series C	-	0.0000	0.0000	0.0000	0.0031	0.0027	0.0027	0.0024	0.0025	0.0028
Combined Total Property Tax Rate (2)	N/A (3)	\$1.0174	\$1.0161	\$1.0161	\$1.0177	\$1.0160	\$1.0160	\$1.0142	\$1.0140	\$1.0144

Notes:

Property tax rates are limited to 1% of assessed valuation, pursuant to Proposition 13. Local taxes may only be increased by a majority vote of the City's residents. The City does not impose any property taxes or special assessments.

- (1) Sub-total rate represents assessments common to all Dana Point properties, and was established by Proposition 13 at a rate of \$1 per \$100 of assessed valuation.
- (2) Tax Rate Area 28-019 (the largest in the City) was used in this schedule to demonstrate additional assessments (beyond the basic 1% levy), which vary by tax rate area. There are 145 tax rate areas located within the City of Dana Point.
- (3) Data prior to fiscal 2001 is not available

SOURCE: Orange County Auditor-Controller

CITY OF DANA POINT
Principal Property Taxpayers
Current Year and nine Years Ago

Taxpayer	Fiscal Year 2009				Fiscal Year 2000			
	Taxable Assessed Value	Taxes Paid	Rank	% of Total Taxes Paid	Taxable Assessed Value	Taxes Paid	Rank	% of Total Taxes Paid
SHC Laguna Niguel 1 LLC	\$286,559,156	\$224,662	1	3.64%	\$193,784,981	\$161,082	1	5.20%
CPH Monarch Golf LLC	199,306,987	156,257	2	2.53%	-	-	-	-
Bank of the West Trust Glen Mathis	178,187,819	139,699	3	2.26%	-	-	-	-
Regency Laguna	193,389,770	151,618	4	2.45%	-	-	-	-
MMB Management LLC	94,241,826	73,886	5	1.20%	-	-	-	-
Monarch Bay Two	92,677,162	72,659	6	1.18%	41,202,958	65,967	3	2.13%
Headlands Reserve, LLC	64,433,032	50,515	7	0.82%	71,772,770	44,305	4	1.43%
Bear Brand Partners	30,081,003	23,584	8	0.38%	25,168,284	7,855	13	0.25%
CPH Monarch Golf	27,592,214	21,632	9	0.35%	-	-	-	-
ST Apartments LLC	25,358,734	19,881	10	0.32%	19,739,613	17,681	7	0.57%
Dana Point Partners	25,191,451	19,750	11	0.32%	-	-	-	-
Sunrise IV Seal Bluffs SL LP	22,810,770	17,884	12	0.29%	-	-	-	-
Felcor Suites Limited	20,634,957	16,178	13	0.26%	17,288,956	13,179	8	0.43%
Theresa C. Morrison Trust	19,336,559	15,160	14	0.25%	11,825,834	9,851	9	0.32%
SFC Holdings LLC	15,391,800	12,067	15	0.20%	-	-	-	-
CPH Resorts I LLC					116,000,000	95,498	2	3.08%
Raymond E. & Karen W. Dellerba					25,463,250	21,166	5	0.68%
Connecticut General Life Ins. Co.					35,432,383	19,811	6	0.64%
Pamela M. Jannard					3,692,818	9,387	10	0.30%
Jerrold D. Cantor Trust					3,361,148	8,544	11	0.28%
Frances A. Bass Trust					3,285,910	8,353	12	0.27%
Steven F. Udvar-Hazy Trust					8,627,865	7,171	14	0.23%
Robert D. & Deborah L. Trette					2,716,203	6,904	15	0.22%
Totals	<u>\$1,295,193,240</u>	<u>\$1,015,432</u>		<u>16.44%</u>	<u>\$579,362,973</u>	<u>\$496,754</u>		<u>16.04%</u>

Source: HDL, Coren & Cone

CITY OF DANA POINT
 Transient Occupancy Taxes
 Last Ten Fiscal Years
 (Amounts Expressed in Thousands)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<u>Lodging Facilities, listed alphabetically:</u>										
Best Western Inn by the Sea	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Blue Lantern Inn	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Capistrano Beach Resort	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Capistrano Seaside Inn	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Capistrano Surfside Inn	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Dana Marina Motel	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Dana Point Doubletree	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Dana Point Harbor Inn	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Dana Point Marina Inn	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Holiday Inn Express	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Marriott's Laguna Cliffs Resort	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Ritz Carlton	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Riviera Beach Resort	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Riviera Beach Spa	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
St. Regis Monarch Beach Resort	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Total revenues	<u>\$5,945</u>	<u>\$6,278</u>	<u>\$7,350</u>	<u>\$8,147</u>	<u>\$8,478</u>	<u>\$7,763</u>	<u>\$9,533</u>	<u>\$10,888</u>	<u>\$11,298</u>	<u>\$8,630</u>
Transient Occupancy Tax Rate	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%

Notes:

(1) California Government Code section 6254(i) prohibits the disclosure of taxpayer identifiable information in connection with the collection of local taxes (transient occupancy taxes are a locally imposed tax). Accordingly, the City may only present an alphabetical listing of the taxpayers and the gross transient occupancy tax revenues paid.

SOURCE: City of Dana Point, Administrative Services Department

CITY OF DANA POINT
Retail Sales Tax Generation, by Major Business Category
Last Ten Fiscal Years

Fiscal Year	Retail Group	Non-store & part-time retailers	Business, Service and Repair Group	Manufacturer and Wholesale Group	State Sales Tax Pool Allocations	County Sales Tax Pool Allocations	Total
2000	\$2,111,840	\$88,709	\$891,661	\$90,932	\$16,367	\$349,664	\$3,549,173
2001	2,394,960	53,853	423,714	64,847	7,319	332,132	3,276,825
2002	2,325,201	49,691	767,534	63,125	5,601	334,962	3,546,114
2003	2,398,450	48,965	844,343	82,343	7,549	348,455	3,730,105
2004	2,589,353	37,522	902,628	67,727	6,917	349,917	3,954,064
2005	2,807,904	30,919	816,613	78,492	4,830	390,946	4,129,704
2006	3,028,841	33,548	935,997	49,693	23,676	443,378	4,515,133
2007	3,257,295	24,714	1,144,110	88,120	11,610	477,317	5,003,166
2008	3,156,899	25,540	1,179,287	107,470	2,953	463,688	4,935,837
2009	2,896,404	19,750	962,106	82,186	1,957	413,129	4,375,532

Top 25 Sales Tax Producers
Fiscal Year 2009

Business Name (1)

Albertsons
Big 5
Capo Beach 76
Chart House
Chevron USA
Circle K
Convenience Retail
CVS Pharmacy
Dana Point Am/Pm
Dana Point Shell
Doheny Builders Supply
Ganahl Lumber
Gelsons Market
Hennesseys Tavern
Kwik/Al Sal Oil
Marriott Laguna Cliffs Resort & Spa
Mobil Oil
Monarch Bay Chevron
Ralphs - Del Prado
Ralphs - Golden Lantern
Ritz Carlton
Salt Creek Grille
Smart & Final
St. Regis Monarch Beach Resort
Wind & Sea Restaurant

Business Type

Grocery stores
Sporting goods/bike stores
Service stations
Restaurants
Service stations
Grocery stores
Service stations
Service stations
Drug stores
Service stations
Service stations
Lumber/building materials
Lumber/building materials
Grocery stores
Restaurants
Service stations
Hotels
Service stations
Service stations
Grocery stores
Grocery stores
Hotels
Hotels
Restaurants
Grocery stores
Hotels
Restaurants

Percent of total paid by top 25 accounts = 54.32%

(1) California Revenue & Taxation Code Section 7056 prohibits release of sale tax revenue information, other than an alphabetical listing of the taxpayers.

Sources: The HdL Companies; California Board of Equalization

CITY OF DANA POINT
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities Capital Leases	Total Primary Government	Percentage of Personal Income	Per Capita
2000	\$4,620,000	\$4,620,000	0.293%	123
2001	4,375,000	4,375,000	0.277%	116
2002	4,115,000	4,115,000	0.303%	116
2003	3,845,000	3,845,000	0.240%	106
2004	3,555,000	3,555,000	0.214%	100
2005	3,250,000	3,250,000	0.188%	87
2006	2,925,000	2,925,000	0.175%	79
2007	0	0	0.000%	0
2008	0	0	0.000%	0
2009	0	0	0.000%	0

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

See the Schedule of Demographics and Economic Statistics for personal income and population data.

CITY OF DANA POINT
Direct and Overlapping Governmental Activities Debt
As of June 30, 2009

<u>OVERLAPPING DEBT:</u>	Gross Debt Balance	% Applicable to City	City Share @ 6/30/09
Metropolitan Water District	\$58,573,724	2.551%	\$1,494,094
Capistrano Unified School District Facilities Impv. Dist. No. 1 - 1999 Bond #2002C	16,245,000	19.931%	3,237,723
Capistrano Unified School District Facilities Impv. Dist. No. 1 - 1999 Bond #2001B	21,909,930	19.931%	4,366,777
Capistrano Unified School District Facilities Impv. Dist. No. 1 - 1999 Bond #2000A	15,535,000	19.931%	3,096,216
South Coast Water District 1990 Bond Fund	4,515,000	58.087%	2,622,611
Moulton Niguel Water District, I.D. #7	775,000	11.963%	92,713
Santa Margarita Water District I.D. #3 1978 Bond	23,990,000	0.182%	43,558
Total Overlapping Debt			<u>\$14,953,692</u>
 <u>DIRECT DEBT:</u>			
None			

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule shows the portion of the outstanding debt of those overlapping governments this is borne by the residents and businesses of the City of Dana Point. This process recognize that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and therefore responsible for repaying the debt of each overlapping government.

SOURCE: HdL, Coren & Cone, Orange County Assessor

CITY OF DANA POINT
 Legal Debt Margin Information
 Last Ten Fiscal Years
 (amounts expressed in thousands)

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Assessed Valuation	<u>\$4,331,939</u>	<u>\$4,594,761</u>	<u>\$5,111,519</u>	<u>\$5,516,436</u>	<u>\$5,941,465</u>	<u>\$6,250,662</u>	<u>\$6,998,388</u>	<u>\$7,693,012</u>	<u>\$8,530,360</u>	<u>\$8,879,909</u>
Legal Debt Limit = 3.75% of Total Assessed Valuation	162,448	172,304	191,682	206,866	222,805	234,400	262,440	288,488	319,889	332,997
Amount of Debt Applicable to Limit:										
Certificates of Participation/Capital Lease	4,620	4,375	4,115	3,845	3,555	3,250	2,925	0	0	0
Legal Debt Margin	<u>157,828</u>	<u>167,929</u>	<u>187,567</u>	<u>203,021</u>	<u>219,250</u>	<u>\$237,650</u>	<u>\$265,365</u>	<u>\$288,488</u>	<u>\$319,889</u>	<u>\$332,997</u>

Note:
 (1) The general laws of the State of California for municipalities provide for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was established based on 25% of market value. Effective with FY1981-82, taxable property is assessed at 100% of market value. Although the debt limit provision has not been amended by the State since this change, the percentage has been proportionately modified to 3.75% for the purposes of this calculation for consistency with the original intent of the State's debt limit.

CITY OF DANA POINT
Demographic and Economic Statistics
Last Ten Fiscal Years

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population	37,611	37,611	35,415	36,312	35,416	37,283	36,854	36,884	36,441	35,822
Age Distribution:										
0 - 4	2,089	2,089	1,917	1,913	1,890	1,996	1,950	1,953	1,903	1,915
5 - 14	4,168	4,168	3,897	4,020	3,837	4,079	4,026	4,049	3,757	3,734
15 - 19	2,058	2,058	1,955	1,953	1,925	1,987	1,911	1,960	1,933	1,764
20 - 24	2,252	2,252	1,763	1,980	2,106	2,216	2,181	2,097	2,029	1,852
25 - 34	5,753	5,753	4,874	4,537	4,323	4,503	4,503	4,431	4,560	4,707
35 - 44	7,617	7,617	5,929	5,935	5,639	5,812	5,587	5,568	5,179	5,034
45 - 64	9,022	9,022	10,185	10,747	10,459	11,209	11,335	11,519	11,480	11,235
65 - 74	2,742	2,742	2,709	2,848	2,816	2,861	2,777	2,753	2,939	2,992
75-84	1,458	1,458	1,735	1,876	1,895	2,045	1,994	1,939	1,958	1,886
85 and over	452	452	451	503	526	575	590	615	703	703
Total	<u>37,611</u>	<u>37,611</u>	<u>35,415</u>	<u>36,312</u>	<u>35,416</u>	<u>37,283</u>	<u>36,854</u>	<u>36,884</u>	<u>36,441</u>	<u>35,822</u>
Median Age	37.5	37.5	40.7	41.5	41.6	41.8	42.0	42.1	42.9	42.9
Per capita income	\$41,945	\$41,945	\$38,303	\$44,179	\$46,848	\$46,381	\$45,461	\$47,055	\$50,978	\$46,922
Personal income (,000,000)	\$1,578	\$1,578	\$1,357	\$1,604	\$1,659	\$1,729	\$1,675	\$1,736	\$1,858	\$1,681
Median household income	\$70,306	\$70,306	\$68,949	\$72,590	\$75,190	\$78,392	\$78,160	\$80,508	\$88,429	\$86,537
Average household income	\$102,799	\$102,799	\$90,945	\$106,384	\$111,959	\$111,051	\$110,715	\$114,824	\$124,494	\$113,457
Civilian unemployment rate (1)	n/a	n/a	n/a	n/a	5.3%	5.2%	4.4%	4.9%	7.3%	11.9%
Number of families	9,431	9,431	9,235	9,278	9,219	9,753	9,435	9,467	9,320	9,248
Number of households	15,251	15,251	14,582	14,850	14,596	15,342	14,909	14,889	14,697	14,585
Average household size	2.45	2.45	2.42	2.43	2.42	2.42	2.46	2.47	2.47	2.44
Households, by income:										
Less than \$15,000	781	781	781	858	829	839	794	791	630	646
\$15,000 - \$24,999	871	871	933	984	912	840	829	694	604	602
\$25,000 - \$34,999	1,090	1,090	1,110	910	900	928	890	805	727	744
\$35,000 - \$49,999	1,961	1,961	1,913	2,084	1,705	1,698	1,551	1,502	1,147	1,168
\$50,000 - \$74,999	3,487	3,487	3,234	2,803	2,931	2,951	3,024	3,010	2,944	2,812
\$75,000 - \$99,999	2,481	2,481	2,051	2,077	2,038	2,346	2,224	2,308	2,136	2,452
\$100,000 - \$149,999	2,474	2,474	2,682	2,608	2,657	2,913	2,729	2,759	3,191	3,176
Over \$150,000	2,106	2,106	1,878	2,526	2,624	2,827	2,868	3,020	3,318	2,985
Total	<u>15,251</u>	<u>15,251</u>	<u>14,582</u>	<u>14,850</u>	<u>14,596</u>	<u>15,342</u>	<u>14,909</u>	<u>14,889</u>	<u>14,697</u>	<u>14,585</u>

(1) Reflects civilian unemployment rate for Los Angeles - Long Beach - Santa Ana metropolitan area. Local rate for Dana Point is not available.

SOURCE: ESRI Business Information Solutions

CITY OF DANA POINT
 Full-time equivalent City Government Employees Authorized, by Function
 Last Ten Fiscal Years

Function	Full-time Equivalent Employees as of June 30									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<u>General government:</u>										
City Manager's Office	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
City Clerk	4.00	4.00	4.00	2.75	3.75	3.75	3.75	4.00	4.00	4.00
Administrative Services	4.50	4.50	4.50	5.75	5.75	5.75	6.75	6.75	7.00	7.00
Facilities	-	0.33	0.33	-	-	0.50	1.50	1.50	1.50	1.50
<u>Public Safety</u>										
Police Services	-	-	-	-	-	-	-	-	-	-
Emergency Services	1.00	1.00	1.00	1.00	1.00	1.50	1.50	1.50	1.50	1.50
<u>Community Development</u>										
Planning	3.00	4.00	3.00	4.00	5.00	6.00	7.00	7.00	8.00	8.00
Building	0.50	1.50	1.50	1.50	1.50	2.50	3.50	2.50	7.50	7.50
Code Enforcement	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	3.50	3.50
Economic Development	-	-	-	-	-	-	-	2.00	2.00	2.00
<u>Recreation and Parks</u>										
Parks	0.67	1.00	1.00	0.67	1.67	1.67	3.00	3.00	3.00	3.00
Community Services	4.00	3.00	4.00	3.00	4.00	4.00	4.00	4.00	5.00	5.00
<u>Public Works</u>										
Administration	3.33	3.33	3.33	4.33	4.33	4.33	2.33	2.33	2.33	2.33
Street/Drainage Maintenance	0.67	1.00	1.00	1.17	1.16	1.16	1.33	1.33	1.33	1.33
Traffic Engineering	0.50	0.50	0.50	0.50	-	-	1.00	1.00	1.00	1.00
Solid Waste	0.33	0.33	0.33	0.33	0.33	0.33	0.34	0.33	0.33	0.33
Engineering	0.50	1.00	1.00	1.50	1.00	2.00	5.00	5.00	10.00	13.00
Water Quality	-	0.50	0.50	0.50	1.50	1.50	1.00	1.00	1.00	1.00
Total	<u>27.50</u>	<u>30.50</u>	<u>30.50</u>	<u>31.50</u>	<u>35.50</u>	<u>39.50</u>	<u>46.50</u>	<u>47.75</u>	<u>61.00</u>	<u>64.00</u>

CITY OF DANA POINT
Operating Indicators by Function/Program
Fiscal Years 2006 through 2009

	Fiscal Year			
	2006	2007	2008	2009
<u>Police (1)</u>				
Arrests	2,153	418	404	1,009
Calls for service	17,091	20,028	16,479	16,501
Parking citations issued	9,795	9,652	10,895	7,955
Traffic citations issued	6,666	6,320	5,816	6,528
<u>Fire (2)</u>				
Incidents	2,326	2,449	2,700	2,654
Unit responses	4,619	4,771	4,946	4,684
Fires	55	66	66	63
Inspections conducted	720	848	1,059	452
<u>Refuse Collection (3)</u>				
Refuse collected (tons/day)	83	86	42	53
Recyclables collected (tons/day)	82	78	44	55
<u>Community Development</u>				
Building permits issued	1,663	1,648	1,456	1,500
Value of building permits issued	\$49,420,168	\$37,818,104	\$56,799,416	\$45,852,490
Inspections conducted	7,960	8,341	7,497	7,571
New code enforcement cases opened	699	614	867	1,241
Code enforcement cases closed	687	484	956	1,187
<u>Public Works</u>				
Miles of street resurfaced	8	8	2	1
Potholes repaired	103	25	150	312
Inspections completed	300	478	575	653
<u>Parks and recreation</u>				
Number of classes offered	421	475	471	680
Number of activities/trips conducted	10	6	4	4
Number of participants:				
Youth classes	1,168	1,436	1,492	1,069
Adult classes	769	1,279	1,286	1,125
Sports leagues	600	402	401	446
Excursions	259	173	101	176
Total participants	<u>2,796</u>	<u>3,290</u>	<u>3,280</u>	<u>2,816</u>

Sources: Various City departments, Orange County Fire Authority, Orange County Sheriff, CR&R

(1) Police services are provided to the City via contract with County of Orange

(2) Fire services are provided by Orange County Fire Authority

(3) Refuse collection is provided via franchise with CR&R

CITY OF DANA POINT
Capital Asset Statistics by Function/Program
Fiscal Years 2006 through 2009

	Fiscal Year			
	2006	2007	2008	2009
<u>Police (1)</u>				
Stations	1	1	1	1
Patrol units (cars)	12	12	12	12
Patrol units (motorcycles)	3	3	3	3
Fire stations	2	2	2	2
<u>Refuse Collection (3)</u>				
Collection trucks	16	13	18	15
<u>Public Works</u>				
Miles of arterial streets maintained	12	12	19	19
Miles of non-arterial streets maintained	63	63	56	56
Miles of storm drains maintained	15	18	18	18
Number of traffic signals	36	36	36	37
Number of street lights (4)	1,466	1,467	1,467	1,470
<u>Parks and recreation</u>				
Number of parks	21	23	23	23
Total park acreage	65.7	85.4	85.4	85.4
Number of baseball/softball diamonds	7	7	7	7
Number of community centers	1	1	1	1
Number of tennis courts	8	8	8	8
Number of basketball courts	5	6	5	7

Sources: Various City departments, Orange County Fire Authority, Orange County Sheriff, CR&R

(1) Police services are provided to the City via contract with County of Orange - substation is located in Dana Point

(2) Fire stations are owned by Orange County Fire Authority

(3) Refuse collection vehicles are owned by franchisee CR&R

(4) Includes 1,335 street lights owned by San Diego Gas & Electric, energy cost paid by City