

## **CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

### **(1) Summary of Significant Accounting Policies**

#### **A. Reporting Entity**

The City of Cypress (the City) is a municipal corporation, incorporated in 1956, and governed by an elected five-member council which, along with the Cypress Redevelopment Agency and the Cypress Recreation and Park District, comprise the reporting entity. As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the City's operations and, accordingly, data from these units are combined with the data of the City within these financial statements. The balances and transactions of these component units are blended within this report in all fund types except the General Fund. Separate financial statements are prepared for these blended component units and are available from the City. A description of the blended component units and discussion of the criteria used for inclusion in the reporting entity follows.

#### **Cypress Redevelopment Agency**

The Cypress Redevelopment Agency (the Agency) was activated in May 1979 by the City of Cypress. The primary purpose of the Agency is to eliminate blighted areas within the City by encouraging development of residential, commercial, industrial, recreational and public facilities. The City's Council members act as the Agency directors. Additionally, City staff acts as the Redevelopment Agency's staff and the City and Agency are financially interdependent. The City makes loans to the Agency to use on redevelopment projects and property tax revenues of the Agency are used to repay the loans. The fiscal year-end is June 30, the same as the City.

#### **Cypress Recreation and Park District**

The Cypress Recreation and Park District (the District) was formed in 1949 to provide park and recreational facilities for the areas now known as the Cities of Cypress and La Palma and adjacent unincorporated areas plus small portions of the adjacent cities of Los Alamitos, Buena Park and Anaheim. The District was under the control of the Orange County Board of Supervisors until 1971, when the City of La Palma and the other aforementioned cities withdrew from the District. On June 29, 1971, the District was established as a subsidiary district of the City, effective July 1, 1971. The members of the City Council act as the governing board of the District. The District is managed by employees of the City and overhead expenses are billed to the District each year. The fiscal year-end is June 30, the same as the City.

#### **B. Accounting and Reporting Policies**

The City has conformed to the pronouncements of the Governmental Accounting Standards Board (GASB), which are primary authoritative statements of accounting principles generally accepted in the United States of America applicable to state and local governments.

## CITY OF CYPRESS

Notes to the Basic Financial Statements, Continued

June 30, 2009

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

#### C. Basis of Accounting, Measurement Focus and Financial Statement Presentation

##### Government –Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities and Changes in Net Assets) report information on all of the nonfiduciary 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 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 of the City. Taxes and other items that are properly not included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fund financial statements of the proprietary funds while the fiduciary fund has no measurement focus. 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.

As a general rule, the effect of inter-fund 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.

##### Governmental Fund Financial Statements

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 60 days 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 other long-term liabilities, are recorded only when payment is due.

## CITY OF CYPRESS

Notes to the Basic Financial Statements, Continued

June 30, 2009

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

#### C. Basis of Accounting, Measurement Focus and Financial Statement Presentation (Continued)

Separate financial statements are provided for governmental funds, proprietary 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.

Property taxes, franchise taxes, licenses, 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. Grant funds earned but not received are reported as a receivable, and grant funds received before the revenue recognition criteria have been met are reported as deferred revenue. 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 – The General Fund is the City’s primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Recreation and Park District Special Revenue Fund – This fund accounts for all operating and capital project activity of the Cypress Recreation and Park District.

The Sewer Special Revenue Fund – This fund accounts for all the operating and capital project activities associated with the City’s sanitary sewer system.

The Redevelopment Agency Debt Service Fund – This fund accounts for the accumulation of resources for, and the payment of principal and interest on the debt and other long-term obligations of the Agency.

The City Capital Projects Fund – This fund accounts for construction of major transportation infrastructure and public facilities.

The Redevelopment Agency Capital Projects Fund – This fund accounts for the development and construction activity of the Agency.

Additionally, the City reports the following fund types:

#### **Governmental Funds**

Special Revenue Funds – These funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Fund – The Debt Service fund is used to account for the servicing of the City’s long-term debt.

## CITY OF CYPRESS

Notes to the Basic Financial Statements, Continued

June 30, 2009

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

#### C. Basis of Accounting, Measurement Focus and Financial Statement Presentation (Continued)

##### Proprietary Funds

Internal Service Funds – Internal Service Funds are used to account for the financing of goods or services provided by one department of the City to other departments or agencies of the City on a cost-reimbursement basis. The City currently uses internal service funds for the following activities: central services (which includes print shop, information systems, phone and equipment maintenance, building and grounds maintenance for the City's Civic Center and Corporate Yard, fleet maintenance for City vehicles and equipment, and for accumulating and expending monies for capital equipment acquisition and replacement), recreation central services (which includes the District's maintenance of equipment and the accumulation and expending of monies for the acquisition and replacement of District capital equipment items), employees' benefits, general liability insurance, and workers' compensation.

Proprietary funds are accounted for using the "economic resources" measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the statement of net assets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets. The City applies all applicable FASB pronouncements issued after November 1989 in accounting and reporting for its proprietary operations.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's internal service funds are charges to departments in the governmental funds of the City for services. Operating expenses for internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City's internal service funds are presented in the proprietary funds financial statements. Because the principal users of the internal services are the City's governmental activities, the financial statements of the internal service funds are consolidated into the governmental column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity (general government, public safety, public works, etc.)

##### Fiduciary Funds

Agency Funds – Agency funds are used to account for various activities in which the City acts as an agent, not as a principal. The Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds include amounts held for developer deposits, cash held with fiscal agent for non-city debt obligations, and amounts held on behalf of the West Cities Communication Center Joint Powers Authority.

## CITY OF CYPRESS

### Notes to the Basic Financial Statements, Continued

June 30, 2009

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

##### **D. Cash and Investments**

The City has implemented GASB 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." This standard requires investments with an original maturity greater than one year to be reported at fair value, and investments with an original maturity of less than one year be reported at amortized cost. In addition, all investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

In accordance with GASB 40, "Deposit and Investment Disclosure (an amendment of GASB 3), certain disclosure requirements, if applicable, for deposit and investment risks are specified for the following areas: Interest Rate Risk, Credit Risk (Overall Custodial Credit Risk, Concentrations of Credit Risk and Foreign Currency Risk).

Investments are classified within the financial statements as "Cash and investments" and are stated at fair value.

All cash and investments of proprietary funds are held in the City's investment pool. Therefore, all cash and investments in the proprietary funds are considered cash and cash equivalents for purposes of the statement of cash flows as these cash pools have the general characteristics of a demand deposit account.

##### **E. Inventory**

Inventories are valued at average cost and consist primarily of central stores, automotive parts and equipment, fuels, lubricants and other miscellaneous materials and supplies. The City follows the consumption method for inventory control whereby inventory items are reported as expenditures when consumed rather than when purchased.

##### **F. Advances to Other Funds**

Long-term interfund advances are reported as a receivable in the advancing fund with a corresponding reservation of fund balance that indicates the amount of the advance does not constitute available or expendable financial resources and therefore is not available for appropriations. Additionally, a long-term liability is recorded in the fund receiving the advance.

##### **G. Capital Assets**

Capital assets, which include land, machinery and equipment (vehicles, computers, etc.), buildings and improvements, and infrastructure assets (street systems, storm drains, sewer systems, etc.), are reported in governmental activities column of the government-wide financial statements. Capital assets are defined by the City as all land and buildings, vehicles, computers and equipment with an initial individual cost of more than \$1,000; and improvements and infrastructure assets with costs of more than \$10,000. Purchased or constructed assets are recorded at historical cost or estimated historical cost. Donated or annexed capital assets are recorded at estimated market value at the date of donation or annexation.

## CITY OF CYPRESS

Notes to the Basic Financial Statements, Continued

June 30, 2009

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

#### G. Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation is recorded in the government-wide financial statements on a straight-line basis over the estimated useful life of the assets as follows:

Building and Improvements	10 to 40 years
Machinery and Equipment	3 to 10 years
Infrastructure	20 to 65 years

For all infrastructure systems, the City uses the Basic Approach as defined by GASB 34 for infrastructure reporting. The City commissioned an appraisal of City owned infrastructure and property as of June 30, 2002. This appraisal determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Original costs were developed in one of three ways: (1) historical records; (2) standard unit costs appropriate for the construction/acquisition date; or (3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, unrecovered cost method was computed using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost. Capital asset additions subsequent to the date of the appraisal are recorded at cost and depreciated over the same industry accepted life expectancies.

#### H. Compensated Absences

Compensated leave for all permanent employees is paid by the Employees' Benefit Internal Service Fund. The accrued leave payable represents the estimated liability for all accrued vacation, compensatory time, and 50% of the sick leave, as noted below, for all employees of the reporting entity. However, 100% of the sick leave has been accrued for Police Association members eligible for Service Retirement. The Employee Benefit Fund is reimbursed through payroll charges to other funds based on benefits earned during that year. Compensated absences are primarily considered a long-term liability, as accruals earned in each fiscal year are generally sufficient to cover leave taken during the same fiscal year. An estimate has been made for the portion of the liability at fiscal year end that will be due within one year for any employees terminating employment and receiving a payoff of their accrued leave balances.

Permanent employees may accumulate unlimited sick leave hours. Employees with 5 years of service terminated for any reason, and having 60 days or more of accumulated sick leave (equal to 480 hours), will be paid for 50% of their accumulated sick leave. Employees with more than 5 years of service terminated for any reason, and having between 240 hours and 480 hours, will be paid for 50% of their accumulated sick leave in excess of 240 hours. Employees having less than 240 hours will not be paid for their accumulated sick leave. The accumulation of vacation leave is generally limited to twice an employees' annual accrual. Employees who terminate for any reason are paid 100% of their accumulated vacation pay.

## CITY OF CYPRESS

Notes to the Basic Financial Statements, Continued

June 30, 2009

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

#### I. Long-Term Obligations and Bond Discounts/Issuance Costs

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Currently, the proprietary fund types do not have any debt outstanding.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### J. Net Assets and Fund Equity

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates and assumptions.

#### L. Use of Restricted Resources

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.

## CITY OF CYPRESS

Notes to the Basic Financial Statements, Continued

June 30, 2009

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

#### M. Adoption of New GASB Pronouncements

The City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 45 – *Financial Reporting for Postemployment Benefit Plans (OPEB) other than Pension Plans* establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations* addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

GASB Statement No. 55 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature.

GASB Statement No. 56 – *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments.

### (2) Property Taxes

Property taxes include assessments on both secured and unsecured property. Secured property taxes attach 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. The County of Orange (County) bills and collects the property taxes and remits them to the City in installments during the year. City property tax revenues are recognized when levied to the extent that they result in current receivables, defined as being received within 60 days after year-end.

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year. The City receives a share of this basic levy proportionate to what it received in the 1976 to 1978 period adjusted by State mandated transfers to the various school districts in fiscal years ended June 30, 1993 and June 30, 1994.

### (3) Cash and Investments

The City follows the practice of pooling cash and investments for all funds. Certain restricted funds that are held and invested by independent outside custodians through contractual bond indenture agreements are not pooled, and are reported as restricted cash and investments.

Investment income earned on pooled cash and investments is allocated quarterly to the various funds based on the average cash balance in each fund. Investment income from cash and investments with fiscal agents is credited directly to the fund earning the income.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(3) Cash and Investments (Continued)**

**Authorized Investments**

Under provision of the City’s annually adopted investment policy, and in accordance with Section 53601 of the California Government Code, the City may deposit and invest in the following:

- Securities of the U.S. Government
- Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan companies
- Bankers’ Acceptances
- Negotiable Certificates of Deposit
- Commercial Paper
- Local Agency Investment Fund (LAIF)
- Passbook Savings Account demand deposits
- Medium-term corporate notes

A five-year maximum maturity for each investment is allowed unless an extension of maturity is expressly permitted by the City Council.

**Deposits and Risks**

At June 30, 2009, the carrying amount of the City’s demand deposits was \$70,931. The difference between the bank balance of \$518,271 and the carrying amount resulted from outstanding checks and deposits in transit. Of the demand deposits, \$259,738 was covered by federal depository insurance and \$258,533 was collateralized with securities held by the pledging institutions name in accordance with Section 53652 of the California Government Code. The California Government Code requires California banks and savings and loans associations to secure a City’s deposit by pledging government securities with a value of 110% of a City’s deposits, or by pledging first trust deed mortgage notes having a total value of 150% of the City’s total deposits.

The following is a summary of pooled cash and investments, including restricted cash and investments, as of June 30, 2009:

	Government Wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	Totals
	<u>Governmental Activities</u>	<u>Net Assets</u>	<u>Totals</u>
Cash and investments	\$ 115,324,659	\$ 2,399,584	\$ 117,724,243
Restricted cash and investments	<u>892,547</u>	<u>1,794,404</u>	<u>2,686,951</u>
Totals	<u>\$ 116,217,206</u>	<u>\$ 4,193,988</u>	<u>\$ 120,411,194</u>

Restricted cash and investments held by fiscal agent in the Civic Center Debt Service Fund are restricted for the payment of principal and interest on the City’s 2001 Lease Revenue Bonds. In the Agency funds, restricted cash and investments relate to monies held by fiscal agents for special assessment bonds.

## CITY OF CYPRESS

### Notes to the Basic Financial Statements, Continued

June 30, 2009

#### (3) Cash and Investments (Continued)

##### Deposits and Risks (Continued)

As of June 30, 2009, the City had the following investments and maturities:

	<u>Fair Value</u>	<u>Maturity</u>
Deposits:		
Demand Deposits	<u>\$ 70,931</u>	One Year or Less
Investments:		
U.S. Government Securities	5	One Year or Less
State of California Local Agency Investment Fund	<u>117,653,307</u>	One Year or Less
Total Investments	<u>117,653,312</u>	
Total Cash and Investments	<u>\$ 117,724,243</u>	

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. At June 30, 2009, the City's entire pooled cash and investments had a maturity of less than one year with an average life of the portfolio of one day.

*Credit Risk.* State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City's practice to limit its investments in these investment types to the top rating issued by NRSROs, including raters Standard & Poor's and Moody's Investors Service. The California Local Agency Investment Fund (LAIF) is not rated, but has a separate investment policy governed by Government Code Sections 16480-16481.2 that provides credit standards for its investments.

##### External Investment Pool

The City is a voluntary participant in the California Local Agency Investment Fund (LAIF), which is an external investment pool regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California through which local governments may pool investments. The City, the Agency and the District each may invest up to \$40,000,000 in the fund. Investments in LAIF are considered highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available.

The City values its investments in LAIF at a fair market value provided by LAIF. At June 30, 2009 the factor used was 1.001304743.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(3) Cash and Investments (Continued)**

**External Investment Pool (Continued)**

The City's investment with LAIF includes a portion of pool funds invested in structured notes and asset-backed securities. As of June 30, 2009, the City had \$117,653,307 invested in LAIF, which had invested 14.71% of the pool's funds in structured notes and asset-backed securities as compared to the prior year of 14.72%.

**(4) Notes Receivable**

**Changes in Notes Receivable**

The following is a summary of note receivable transactions for governmental activities for the year ended June 30, 2009:

Description	Balance			Balance June 30, 2009	Classification	
	July 1, 2008	Additions	Deletions		Due Within One Year	Due in More than One Year
Home Loans	\$ 992,479	\$ 74,000	\$ (111,643)	\$ 954,836	\$ -	\$ 954,836
Other Notes	303,319	9,598	-	312,917	-	312,917
Subtotal	1,295,798	83,598	(111,643)	1,267,753	-	1,267,753
Less: Allowance	(210,873)	-	177,848	(33,025)	-	(33,025)
Total	\$ 1,084,925	\$ 83,598	\$ 66,205	\$ 1,234,728	\$ -	\$ 1,234,728

**Home Loans**

The Cypress Redevelopment Agency administers two loan programs to assist qualified low and/or moderate income applicants. The Home Equity Loan Program (HELP I) can provide loans in the form of notes of up to \$25,000 for down payment assistance to eligible first time homebuyers. Payments to the Agency on the notes are deferred for the first five (5) years with no interest during the deferral period. The loan becomes due and payable on a monthly basis in years 6 through 30 with a 5% interest rate assessed during the amortization period.

The Home Enhancement Loan Program (HELP II) provides loans to assist single family homeowners with home improvement costs. Moderate income applicants are eligible for loans of up to \$20,000 with a 5% interest rate and payment deferred for the full 15 year term of the loan. The loans become due and payable in full upon sale, transfer of title, cash out refinances, or the end of the loan term, whichever comes first. Lower income applicants can also qualify for \$20,000 loans with the same terms as those noted for moderate income applicants but with no interest. No interest ten year forgivable loans of up to \$10,000 are also available to lower income homeowners. The principal amounts for the forgivable loans are reduced by ten percent (10%) annually and are completely forgiven after ten years. Some of the HELP II notes are eligible for federal grant reimbursement to the Agency upon issuance.

In the fund financial statements, an expenditure is recognized upon initial funding of the loan. A note receivable is set up at that time with a corresponding amount recorded as deferred revenue (or due to other government if funded by grant monies). Loan repayments are recorded as revenue when received. The Agency holds notes due from homeowners totaling \$954,836 at June 30, 2009.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(4) Notes Receivable (Continued)**

**Home Loans (Continued)**

In the government-wide statements, a note receivable is recorded when issued to the homeowner and is decreased upon repayment. A total of \$921,811 (which is net of an allowance of \$33,025 for forgivable loans) is included in the amount reported as notes receivable in the government-wide statements at June 30, 2009.

**Other Notes**

The Agency also has a promissory note from National Church Residences of Cypress, California for payment of offsite improvements and construction costs relating to the Cypress Sunrise Apartments. The promissory note was initially issued for up to \$192,455 in September 1987 and due to mature February 1, 2029. On September 24, 1987, an amount of \$120,384 was issued based on actual required assistance followed by a payment of \$16,573 (September 29, 1987) leaving a net principal outstanding of \$103,761. The note is not payable, in whole or in part either to principal or interest, prior to February 1, 2029. The interest rate on the note is 9.25% per annum and is not compounded. The outstanding interest accrued on the note though June 30, 2009 is \$209,156. The total combined principal and interest outstanding on the note at June 30, 2009 is \$312,917.

In the fund financial statements, the note receivable balance is adjusted annually for the increase in accrued interest. The outstanding note principal and interest has an equal amount recorded as deferred revenue since the amount of the note is unavailable to fund current operations. Loan repayments will be recorded as revenue when received.

In the government-wide statements, the note receivable is recorded when issued and is decreased upon repayment. A total of \$312,917 is included in the amount reported as notes receivable in the government-wide statements at June 30, 2009.

**(5) Interfund Transactions**

**Interfund Balances**

The following summarizes the total due to and from other funds as of June 30, 2009:

		Due From Other Funds	
		General Fund	Total
Due To Other Funds	Non-major Governmental Funds	\$ 86,680	\$ 86,680
	Total	\$ 86,680	\$ 86,680

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(5) Interfund Transactions (Continued)**

**Interfund Advances**

The following summarizes the total outstanding advances to and from other funds as of June 30, 2009:

		Advances from		
		Special Revenue- Sewer Fund	Debt Service - Redevelopment Agency	Total
Advances to	General Fund	\$ 6,000,000	\$ 42,500,000	\$ 48,500,000
	<b>Total</b>	<u>\$ 6,000,000</u>	<u>\$ 42,500,000</u>	<u>\$ 48,500,000</u>

The amounts recorded as advances to and from other funds in the Governmental Funds consists of the following:

On March 23, 2009, the City approved the execution of a \$6,000,000 promissory note between the City's General Fund and the City's Sewer Fund effective on June 30, 2009. The terms of the note provide for repayment in five-years on June 30, 2014 with interest paid annually at a rate equal to the rate earned on the State's Local Agency Investment Fund (LAIF) plus one-half of one percent. The purpose of the note is to provide immediate cash flow to fund necessary capital projects identified in the recent master plan prepared for the City's sanitary sewer system. Repayment will be made through gradual sewer user rate increases which were approved during the past fiscal year.

On June 30, 2009, the Agency and the City's General Fund consolidated seven outstanding promissory notes totaling \$42,500,000 into a single promissory note for the same amount. This \$42,500,000 promissory note has a term of three years with interest paid annually at a rate equal to 5%. This note refinances seven promissory notes previously entered into by the Agency and City which had differing maturation dates and interest rates. These promissory notes had provided cash flow for ongoing redevelopment assistance activities and the acquisition of land within the three project areas located within the Agency. Repayment will be made through proceeds from the sale of land and anticipated tax increment revenues annually collected by the Agency.

**Interfund Transfers**

With City Council approval, resources may be transferred from one City fund to another. The purpose of transfers is to reimburse a fund which has made an expenditure on behalf of another fund or to provide another fund a financing source for anticipated future expenditures.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(5) Interfund Transactions (Continued)**

Transfers between funds during the fiscal year ended June 30, 2009 are as follows:

		<b>Transfers Out</b>					
		General Fund	Recreation and Park District Fund	Redevelop- ment Agency Debt Service Fund	Redevelop- ment Agency Capital Projects Fund	Non-major Governmental Funds	Totals
<b>Transfers In</b>	General Fund	\$ -	\$ -	\$ -	\$ -	\$ 1,144,405	\$ 1,144,405
	Redevelopment Agency						
	Debt Service Fund	-	-	-	1,100,000	-	1,100,000
	Capital Projects						
	Fund - City	3,375,001	30,016	-	-	221,483	3,626,500
	Redevelopment Agency						
	Capital Projects Fund	-	-	1,322,942	-	-	1,322,942
	Non-Major Govern- mental Funds	500,000	-	437,150	363,971	485,044	1,786,165
Internal Service Funds	5,001	24,485	-	-	24,382	53,868	
<b>Totals</b>	<u>\$ 3,880,002</u>	<u>\$ 54,501</u>	<u>\$ 1,760,092</u>	<u>\$ 1,463,971</u>	<u>\$ 1,875,314</u>	<u>\$ 9,033,880</u>	

The transfer to the General Fund from the non-major Governmental Funds relates to eligible expenditure reimbursements from the Streets and Traffic Safety funds as well as reimbursements for administrative costs associated with the Stanton Channel Maintenance District and Lighting District funds.

The transfer to the Redevelopment Agency Debt Service Fund from the Redevelopment Agency Capital Projects Fund was required to pay the interest due to the General Fund through June 30, 2009 on the \$42.5 million promissory note between the City and Agency.

The transfers to the Capital Projects Fund – City from the General Fund were for capital projects approved by City Council as part of the first year of the seven-year Capital Improvement Program.

The transfer to the Capital Projects Fund – City from the Recreation and Park District Fund related to reimbursements for project improvements to the Community Center Parking Lot and the Boys and Girls Club facility.

The transfer to the Capital Projects Fund – City from the Non-major Governmental Funds related to reimbursements from the Streets Fund for project improvements to the Moody Street Median.

The transfer to the Redevelopment Agency Capital Projects Fund from the Redevelopment Agency Debt Service Fund represents the required 20% set aside tax increment revenue for low and moderate income housing.

## CITY OF CYPRESS

### Notes to the Basic Financial Statements, Continued

June 30, 2009

#### **(5) Interfund Transactions (Continued)**

##### **Interfund Transfers (Continued)**

The transfer to the Non-Major Governmental Funds from the General Fund represents the annual amount approved by Council to transfer to the Storm Drainage Fund for help pay for storm drainage operations and capital expenditures.

The transfer to the Non-Major Governmental Funds from the Redevelopment Agency Debt Service Fund represents the annual reimbursement to the Civic Center Debt Service Fund in accordance with the terms of the 2001 Lease Revenue Bonds and the associated lease-leaseback agreement.

The transfer to the Non-Major Governmental Funds from the Redevelopment Agency relates to reimbursement by the Agency for right-of-way acquisition within the Lincoln Avenue project area paid for in the Streets Fund.

The transfer within the Non-Major Governmental Funds relates to the drainage capital expenditures incurred within the Local Drainage Fund that were reimbursed with monies from the Storm Drainage Fund.

The transfers to the Internal Service Funds from the various fund types represent reimbursements for the initial purchase of capital outlay items out of the City's and District's Central Service Funds.

#### **6) Assets Available for Resale**

During the fiscal year ended June 30, 2004, the Agency acquired two parcels of land with a cost of \$2,696,950. It is the intent of the Agency to resell these parcels for the development of low and moderate income housing units.

On November 15, 2006, the Agency purchased approximately 13.33 acres of land located at the northwest corner of Winners Circle and Katella Avenue. The basis of the land is \$20,142,738 and it is the intent of the Agency to enter a Development and Disposition Agreement with a developer for retail development that is consistent with the goals of the Agency. Such an agreement with an identified developer had been tentatively approved by the Agency Board in the prior fiscal year, but the agreement fell through during the fiscal year ended June 30, 2009. As a result, the Agency is continuing to explore development options for this land.

As of June 30, 2009, the Agency retained ownership of the three parcels of land with a total cost of \$22,839,688 and is classified as assets available for resale in the Redevelopment Agency Capital Project Fund.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(7) Capital Assets and Depreciation**

In accordance with GASB 34, the City has reported all capital assets including infrastructure in the Government-Wide Statement of Net Assets. The City elected to use the basic approach (as defined by GASB 34) for all infrastructure reporting in which depreciation expense and accumulated depreciation has been recorded. The following table presents the capital asset activity for the year ended June 30, 2009.

<b>City of Cypress Capital Assets Summary</b>				
	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Governmental Activities:				
Capital Assets, Not Depreciated:				
Land	\$ 7,793,597	\$ -	\$ -	\$ 7,793,597
Construction in Progress	1,655,920	2,911,010	(957,743)	3,609,187
Total, Not Depreciated	<u>9,449,517</u>	<u>2,911,010</u>	<u>(957,743)</u>	<u>11,402,784</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	26,341,818	957,616	(65,885)	27,233,549
Machinery and Equipment	9,733,580	612,772	(809,553)	9,536,799
Infrastructure	210,567,974	1,858,116	-	212,426,090
Total, Being Depreciated	<u>246,643,372</u>	<u>3,428,504</u>	<u>(875,438)</u>	<u>249,196,438</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(8,463,097)	(728,901)	65,885	(9,126,113)
Machinery and Equipment	(6,964,614)	(622,791)	789,429	(6,797,976)
Infrastructure	(70,456,363)	(3,946,116)	-	(74,402,479)
Total Accumulated Depreciation	<u>(85,884,074)</u>	<u>(5,297,808)</u>	<u>855,314</u>	<u>(90,326,568)</u>
Total Depreciated, Net	<u>160,759,298</u>	<u>(1,869,304)</u>	<u>(20,124)</u>	<u>158,869,870</u>
Governmental Activities Capital Assets, Net	<u>\$ 170,208,815</u>	<u>\$ 1,041,706</u>	<u>\$ (977,867)</u>	<u>\$ 170,272,654</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

General Government	\$ 229,983
Recreation and Parks	406,677
Public Safety	73,648
Public Works	3,984,665
Internal Service Funds Depreciation (Charged to Programs Based on Usage)	<u>602,835</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 5,297,808</u>

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(8) Deferred Revenue**

The deferred revenues in the governmental fund financial statements at June 30, 2009 consisted of the following:

	<u>General Fund</u>	<u>Recreation and Park District Fund</u>	<u>Capital Projects Fund-City</u>	<u>Redevelop- ment Agency Capital Projects Fund</u>	<u>Other Gov- ernmental Funds</u>	<u>Totals</u>
Advances on Grants/Deposits	\$ 62,928	\$ -	\$ 37,000	\$ -	\$ 700,000	\$ 799,928
Prepaid Service Fees	-	5,355	-	-	-	5,355
Long-term notes receivable	-	-	-	925,120	-	925,120
<b>Totals</b>	<u>\$ 62,928</u>	<u>\$ 5,355</u>	<u>\$ 37,000</u>	<u>\$ 925,120</u>	<u>\$ 700,000</u>	<u>\$ 1,730,403</u>

The amount of deferred revenue presented above associated with advances on grants/deposits and prepaid service fees are reported in the government-wide statements as unearned revenue.

**(9) Long-Term Debt**

**Changes in Long-Term Liabilities**

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

<u>Description</u>	<u>Balance</u>			<u>Balance June 30, 2009</u>	<u>Classification</u>	
	<u>July 1, 2008</u>	<u>Additions</u>	<u>Payments</u>		<u>Due Within One Year</u>	<u>Due in More than One Year</u>
Claims Payable	\$ 2,167,874	\$ 416,563	\$ (371,892)	\$ 2,212,545	\$ 795,000	\$ 1,417,545
Lease Revenue Bonds	4,025,000	-	(280,000)	3,745,000	295,000	3,450,000
Retiree's Health Benefits	-	4,964,883	(103,883)	4,861,000	107,000	4,754,000
Compensated Absences	2,236,531	1,222,244	(1,158,348)	2,300,427	575,107	1,725,320
	<u>\$ 8,429,405</u>	<u>\$ 6,603,690</u>	<u>\$ (1,914,123)</u>	<u>\$ 13,118,972</u>	<u>\$ 1,772,107</u>	<u>\$ 11,346,865</u>

Internal service funds serve the governmental funds. Accordingly, long-term liabilities in the internal service funds are included in the above analysis. All compensated absence amounts above relate to the internal service funds and are generally liquidated by the general fund through charges from the internal service funds. Also included in the internal service funds is the liability resulting from the implementation of GASB Statement No. 45 which relates to postemployment benefit plans other than pensions. Specifically, the City's liability relates to the actuarially determined retiree's health benefits that will be paid to both current and future retirees in accordance with the negotiated benefits of the various employee associations. Please see Note 11 for additional information on the City's Postemployment Health Care Benefits.

In July 2001, the Agency issued \$5,505,000 in Lease Revenue Bonds (Civic Center Refinancing and Improvement Projects) and the proceeds of the debt were used to refinance the Agency's 1991 Certificates of Participation. The proceeds of the Certificates of Participation funded the construction of the Senior Citizen's Center and provided monies to the Agency to repay outstanding debt. The Lease Revenue Bonds were issued in connection with the lease-leaseback of certain real property and civic center buildings located thereon. The

## CITY OF CYPRESS

### Notes to the Basic Financial Statements, Continued

June 30, 2009

#### (9) Long-Term Debt (Continued)

##### Changes in Long-Term Liabilities (Continued)

site is leased to the Agency under a base lease then leased back to the City by the Agency. The terms of the lease-leaseback agreement with the Lease Revenue Bonds are identical to the terms under the Certificates of

Participation whereby the annual lease amount is equal to the annual debt service requirement less any investment earnings during the year. The bonds were sold at interest rates ranging between 3.0% and 5.0%, with maturities from July 1, 2002 through July 1, 2021, and will be repaid from future tax increment monies collected by the Agency. The outstanding Lease Revenue Bonds at June 30, 2009 totaled \$3,745,000.

Annual principal and interest payments on the Lease Revenue Bonds are expected to require approximately 15% of future net tax increment revenues. The total principal and interest remaining to be paid on the bonds is \$4,746,082 as of June 30, 2009. For the fiscal year ended June 30, 2009, principal and interest paid on the bonds and funded by Agency tax increment monies was \$437,150 and net tax increment revenues (net of required pass-through payments and housing set-aside requirements) were \$3,006,585. The bonds required 14.5% of Agency net tax increment monies.

The annual requirements to amortize the Lease Revenue Bonds as of June 30, 2009 are as follows:

<u>Year Ending June 30:</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2010	\$ 167,393	\$295,000	\$462,393
2011	155,688	305,000	460,688
2012	142,925	325,000	467,925
2013	128,953	340,000	468,953
2014	113,542	360,000	473,542
2015-2019	292,581	2,120,000	2,412,581
	<u>\$ 1,001,082</u>	<u>\$3,745,000</u>	<u>\$4,746,082</u>

##### Non-City Obligations - Community Facilities District Special Tax Bonds

On November 20, 1990, \$13,590,000 of Special Tax Bonds were issued to provide improvements within the Community Facilities District No. 1 (Sorrento Homes) of the City (hereafter referred to as the CFD). Properties located in the CFD are assessed through a special tax for the cost of improvements with these assessments being payable over 25 years (term of debt issued). The bonds are limited obligations of the CFD payable solely from the special tax or funds held pursuant to the trust indenture. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. The City has no obligation beyond the cash balances in the Agency Fund for any delinquent CFD bond payments. The City acts solely as an agent for levying the assessments and paying the bondholders.

The CFD advance refunded the 1990 issue in 1994 in order to obtain more favorable interest rates. The 1994 issue was for \$14,425,000. In June 2004, the CFD subsequently refunded the 1994 issue to once again lower interest costs. At June 30, 2009, the CFD held cash and investments on behalf on the bondholders in the Agency Fund totaling \$2,088,929. The outstanding CFD bonds at June 30, 2009 totaled \$6,950,000.

## CITY OF CYPRESS

Notes to the Basic Financial Statements, Continued

June 30, 2009

### (9) Long-Term Debt (Continued)

#### **Non-City Obligations - Cypress Business and Professional Center Limited Obligation Improvement Bonds**

On February 18, 1998, \$2,160,000 of Limited Obligation Improvement Bonds were issued to finance the acquisition of certain improvements within the Cypress Business and Professional Center Assessment District (Assessment District) of the City. Assessments to secure the bonds are to be levied only on parcels within the Assessment District for the cost of improvements with these assessments being payable over 25 years (term of debt issued). The bonds are limited obligations of the Assessment District payable solely from the special assessment or funds held pursuant to the trust indenture. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. The City has no obligation beyond the cash balances in the Agency Fund for any delinquent Assessment District bond payments. The City acts solely as an agent for levying the assessments and paying the bondholders. At June 30, 2009, the District held in the Agency Fund cash and investments totaling \$730,455 including \$160,203 held for the bondholders and \$570,252 held for future improvements and other costs. The outstanding assessment bonds at June 30, 2009 totaled \$1,730,000.

### (10) Pension Plans

#### **Public Employees' Retirement System (PERS)**

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

Funding Policy: Miscellaneous employees are required to contribute 7% and public safety employees 9% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the rate for miscellaneous employees was 9.782% and for public safety employees was 26.990% of annual covered payroll for the fiscal year ended June 30, 2009. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost: For the fiscal year 2008-09, the City's annual pension cost of \$3,033,331 for PERS was equal to the City's required and actual contribution and includes the required employee contribution amount paid by the City on behalf of eligible employees. The required contribution was determined as part of the June 30, 2008 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) payroll growth of 3.25%. Each of the assumptions includes an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value). PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2008 was fourteen (14) years for miscellaneous employees and fifteen (15) years for public safety employees.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(10) Pension Plans (Continued)**

**Public Employees' Retirement System (PERS) (Continued)**

**THREE-YEAR TREND INFORMATION FOR PERS (Miscellaneous Employees)**

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/07	\$1,087,265	100%	\$ -
6/30/08	1,089,895	100%	-
6/30/09	1,176,128	100%	-

**THREE-YEAR TREND INFORMATION FOR PERS (Public Safety Employees)**

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/07	\$1,609,013	100%	\$ -
6/30/08	1,725,721	100%	-
6/30/09	1,857,203	100%	-

Plan Funding Status as of the Most Recent Actuarial Date (Miscellaneous Employees)

**SCHEDULE OF FUNDING PROGRESS (\$ Amount in Thousands) - (UNAUDITED)**

	<b>(A)</b>	<b>(B)</b>	<b>(C)</b>	<b>(D)</b>	<b>(E)</b>	<b>(F)</b>
<b>Actuarial Valuation Date</b>	<b>Actuarial Asset Value</b>	<b>Entry Age Actuarial Accrued Liability</b>	<b>Unfunded Liability (Excess Assets) [(B)-(A)]</b>	<b>Funded Ratio [(A)/(B)]</b>	<b>Covered Payroll</b>	<b>Unfunded Actuarial Liability as Percentage of Covered Payroll [(C)/(E)]</b>
6/30/06	39,360	40,602	1,242	96.9%	6,382	19.5%
6/30/07	42,522	43,350	828	98.1%	6,589	12.6%
6/30/08	45,163	46,538	1,375	97.0%	6,650	20.7%

Please see the RSI section for additional information.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(11) Post-Employment Health Care Benefits**

**Plan Description**

The City provides medical benefits to eligible retirees through the CalPERS healthcare program (PEMHCA). The City pays the PEMHCA minimum amount (\$101 per month in 2009) for all eligible retirees who choose to continue with their coverage through PEMHCA. All eligible employees become participants in PEMHCA on their date of hire. The following is a summary of eligible participants as of July 1, 2008.

Active Employees	162
Eligible Retirees - Enrolled	32
Eligible Retirees - Not Enrolled	51
	<hr/>
Total	<u>245</u>

In addition to the PEMHCA minimum amount, certain members of all retiree groups with at least ten years of continuous service receive supplemental retiree health benefits directly from the City. The benefits are based on negotiated memorandums of understanding with the various employee associations. The City provides a monthly contribution from \$100 to \$300 based on years of continuous service and employee classification, which can be used by the retiree to either continue their health care benefits as may be available under the City's current health care contract through PEMHCA or to use the monthly contribution amount to purchase alternative health care benefits. The City supplemental contribution terminates on the date the retiree reaches age 65 or becomes Medicare eligible whichever comes first.

All other City employees that are either ineligible or have elected out of the above supplemental post-employment health care plan are members of the City's Retiree Health Savings plan in which the City contributes monthly amounts on behalf of the employee to an account in the employee's name. These monthly contributions range between \$75 per month to \$185 per month for full-time employees based on employee association. The following is a summary of participants as of July 1, 2008.

Supplemental Post-Employment Healthcare Plan:	
-Active Employees	73
-Retirees	20
Retiree Health Savings Plan	89
	<hr/>
Total	<u>182</u>

**Funding Policy**

The contribution for PEMHCA are established and amended by CalPERS. The City pays the monthly contribution for all employees and retirees. As of June 30, 2009, 32 retirees were receiving this benefit and the total cost to the City for fiscal year 2008-09 was \$37,596.

The contribution requirements for the Supplemental Post-employment Health care plan are established and amended by the City. The required contribution is based on projected pay-as-you-go financing requirements. During the fiscal year ended June 30, 2009, the City paid \$66,287 to 23 retirees.

The contribution requirements for the Retirees Health Savings Plan (RHS) are established and amended by the City. The required contribution is based on pay-as-you-go financing requirements. During the fiscal year

## CITY OF CYPRESS

### Notes to the Basic Financial Statements, Continued

June 30, 2009

#### (11) Post-Employment Health Care Benefits (Continued)

##### Funding Policy (Continued)

ended June 30, 2009, the City paid \$110,995 into the RHS for eligible employees. The payments of the benefits are recognized as expenditures when the payments are made.

The total Actuarial Accrued Liability has been internally fully funded/expensed in the Employee Benefits Internal Service Fund (Proprietary Fund). The total liability as of June 30, 2009 was \$4,861,000 and is reflected in the Statement of Net Assets of the Proprietary Funds. The portion of this liability that is attributable to the Cypress Recreation and Park District is estimated at \$313,580, with the balance of the liability associated with employees of the City. The City has chosen not to transfer the required contributions to an irrevocable trust or equivalent arrangement, recognizing that this does not qualify as pre-funding under GASB 45.

##### Annual OPEB Cost and Net OPEB Obligation

The City's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution of the Employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB Obligation to the Plan:

Annual Required Contribution (ARC)	\$	413,000
Interest on net OPEB Obligation		-
Adjustment to Annual Required Contribution		-
Annual OPEB Cost (Expense)		<u>413,000</u>
Contributions Made		-
Increase in Net OPEB Obligation		<u>413,000</u>
Net OPEB Obligation - Beginning of Year		-
Net OPEB Obligation - End of Year	\$	<u><u>413,000</u></u>

The portion of Net OPEB Obligation in the above table that is attributable to the Cypress Recreation and Park District is estimated at \$24,970, with the balance of the liability associated with employees of the City.

##### Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The Actuarial Accrued Liability for benefits was \$4,633,000 and the actuarial value of assets was \$0, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$4,633,000. The total covered payroll (annual payroll of active employees covered by the plan) was \$11,173,000 and the ratio of the annual OPEB cost to the covered payroll was 3.7 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past experiences and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the Notes to the Financial Statements,

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(11) Post-Employment Health Care Benefits (Continued)**

**Funded Status and Funding Progress (Continued)**

presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the Actuarial Accrued Liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2008, actuarial valuation, the entry age actuarial cost method was used. The assumptions include a 4.25% investment rate of return which is based on the expected long-term return on funds invested by the City, and an annual healthcare cost trend of 3.00%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over multi-year periods. The UAAL is being amortized as a level percent of payroll over 30 years.

Funding Status as of the Most Recent Actuarial Date

**SCHEDULE OF FUNDING PROGRESS (\$ Amount in Thousands) - (UNAUDITED)**

	(A)	(B)	(C)	(D)	(E)	(F)
<b>Actuarial Valuation Date</b>	<b>Actuarial Asset Value</b>	<b>Entry Age Actuarial Accrued Liability</b>	<b>Unfunded Liability (Excess Assets) [(B)-(A)]</b>	<b>Funded Ratio [(A)/(B)]</b>	<b>Covered Payroll</b>	<b>Unfunded Actuarial Liability as Percentage of Covered Payroll [(C)/(E)]</b>
6/30/08	\$ -	4,633	(4,633)	0.0%	11,173	41.47%

Please see the RSI section for additional information.

**(12) Self-Insurance**

At June 30, 2009 the City was self-insured for workers' compensation and general liability. The self-insured portion for workers' compensation and general liability is limited to the first \$375,000 and \$150,000 respectively, of liability per occurrence. Coverage in excess of these amounts is maintained in layers to a maximum of \$42,000,000 for general liability and the statutory limit for workers compensation (of which \$3,000,000 per occurrence is for each employee accident or disease) through the California Insurance Pool Authority (CIPA). CIPA is a consortium of 11 cities in Orange County, established to pool resources, share risks, purchase excess insurance and to share costs for professional risk management and claims administration. Member agencies make payments based on underwriting estimates. Each agency may be assessed the difference between funds available and the \$42,000,000 annual aggregate in proportion to their annual premiums.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(12) Self-Insurance (Continued)**

The Governing Board is comprised of one member from each City and is responsible for the selection of management, and for the budgeting and financial management of CIPA. No determination has been made as to each participant's proportionate share of the fund equity as of June 30, 2009. Upon termination of CIPA, and after settlement of all claims, any excess or deficit will be divided among the cities in proportion to the amount of their contributions.

Liabilities associated with the self-insurance program area are accrued when incurred in the internal service funds (using the accrual basis of accounting). The amount accrued represents estimates of amounts to be paid for reported claims and incurred-but-not-yet-reported claims based upon past experience, modified for current trends and information. While the ultimate amount of losses incurred through June 30, 2009, is dependent on future developments, based upon information from the City Attorney, the City's claims administrators and others involved with the administration of programs, City management believes the accrual is adequate to cover such losses. Settled claims have not exceeded commercial coverage during the last five years. There have been no significant reductions in insurance coverage from the prior year.

All City departments participate in the self-insurance program. Payments made to the Liability Insurance and Workers' Compensation Internal Service Funds are based on estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. At June 30, 2009, the Liability Insurance Fund and the Workers' Compensation Fund had reserves for catastrophic losses of \$2,494,171 and \$3,159,231, respectively, which are reported as net assets in these funds. The claims liabilities of \$497,334 and \$1,715,211 reported in the Liability Insurance and Workers' Compensation Funds, respectively, at June 30, 2009, are based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that the liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claims liability amounts in fiscal year 2009 are as follows:

	<u>Liability Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
Balance at beginning of year	\$ 217,692	\$ 1,950,182	\$ 2,167,874
Current year claims and changes in estimates	333,191	83,372	416,563
Claims payments	<u>(53,549)</u>	<u>(318,343)</u>	<u>(371,892)</u>
Balance at year end	<u>\$ 497,334</u>	<u>\$ 1,715,211</u>	<u>\$ 2,212,545</u>

Copies of CIPA's annual financial statements may be obtained from their offices located at 240 Newport Center Drive, Suite 210, Newport Beach, CA 92660.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(13) Classifications of Net Assets and Fund Equity**

**Restricted Net Assets**

Restrictions reported in the government-wide financial statements that are imposed by constitutional provisions, legislation or mutual agreement with third parties on the City's Net Assets at June 30, 2009, are summarized as follows.

Net Assets restricted for:

Debt Service	\$ 9,136,580
Capital Improvement Projects	31,007,553
Promotional Activities	107,178
Recreation and Park District	5,057,743
Street Maintenance and Improvements	8,321,104
Street Lighting	3,506,117
Public Safety	377,242
Clean Air Act Programs	145,715
Local Drainage Improvements	1,484,829
Sewer Projects	1,105,716
Cable Television Equipment	292,887
Other Purposes	<u>29,202</u>
Total Restricted Net Assets	<u>\$ 60,571,866</u>

Restricted for Debt Service – This restriction represent amounts accumulated in the debt service funds to be used for future debt service, including amounts held in accordance with bond indentures or similar covenants.

Restricted for Capital Improvement Projects – This restriction represents Redevelopment Agency amounts that will be used for the construction and rehabilitation of both commercial and public property within the City.

Restricted for Promotional Activities – This restriction represents amounts contributed to the City by developers for the promotion of the City.

Restricted for Recreation and Park District – This restriction represents amounts required to be used for future Recreation and Park District operating and capital activities.

Restricted for Street Maintenance and Improvements – This restriction represents amounts received from State and Local governments and developers that are required to be used for the construction and maintenance of streets within the City.

Restricted for Street Lighting – This restriction represents property tax amounts assessed for expenditures for streetlights, traffic signal maintenance and construction.

Restricted for Public Safety – These funds are restricted for law enforcement purposes, supplementing but not supplanting other public safety funding.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(13) Classifications of Net Assets and Fund Equity (Continued)**

**Restricted Net Assets (Continued)**

Restricted for Clean Air Act Programs – This restriction represents amounts used to provide for the City’s programs implementing AB 2766, the California Clean Air Act of 1988, which mandates that the fees collected fund expenditures for the reduction of air pollution from motor vehicles.

Restricted for Local Drainage Improvements – These amounts received from developers are restricted for expenditures for master planned drainage projects.

Restricted for Sewer Projects – These amounts are restricted for maintenance and capital expenditures for the City’s sewer system.

Restricted for Cable Television Equipment – These amounts are restricted to provide enhancements to the City’s equipment used for video PEG access services as designated by the terms of the cable franchise transfer agreement.

Restricted for Other Purposes – These amounts are restricted to support a variety of grant funded and special programs as designated by law, the grant terms, or administrative regulations.

**Reservations and Designations of Fund Equity**

In the fund financial statements, the City has established reservations of fund equity to segregate fund balances that are not appropriable for expenditure or which are legally segregated for a specific future use. The City Council has also established designations of unreserved fund balances to indicate tentative plans for uses of financial resources in a future period.

The City’s fund equity reservations at June 30, 2009, are presented in the table below followed by explanations as to the nature and purpose of each reservation.

	<u>General Fund</u>	<u>Recreation and Park District Fund</u>	<u>Sewer Fund</u>	<u>City Capital Projects Fund</u>	<u>Redevelop- ment Agency Capital Projects Fund</u>	<u>Non-major Governmental Funds</u>	<u>Totals</u>
Continuing appropriations	\$ 422,655	\$ 50,720	\$ 1,105,716	\$ 3,834,291	\$ -	\$ 3,279,752	\$ 8,693,134
Assets available for resale	-	-	-	-	22,839,688	-	22,839,688
Future reimbursements	-	-	-	-	138,159	-	138,159
Low to moderate income housing set-aside	-	-	-	-	1,712,598	-	1,712,598
Unfunded retirement	-	150,000	-	-	-	-	150,000
Advances to other funds	48,500,000	-	-	-	-	-	48,500,000
Open space	-	545,583	-	-	-	-	545,583
Restricted revenues	107,178	-	-	-	-	-	107,178
<b>Totals</b>	<b>\$ 49,029,833</b>	<b>\$ 746,303</b>	<b>\$ 1,105,716</b>	<b>\$ 3,834,291</b>	<b>\$ 24,690,445</b>	<b>\$ 3,279,752</b>	<b>\$ 82,686,340</b>

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(13) Classifications of Net Assets and Fund Equity (Continued)**

**Reservations and Designations of Fund Equity (Continued)**

Reserved for Continuing Appropriations (Encumbrances) - These reserves represent the portion of purchase orders and contracts awarded for which the goods or services had not yet been received at June 30, 2009. These reserves also include budgeted project amounts that were not encumbered as of fiscal year end, but were carried over and will be encumbered and expended during the next fiscal year.

Reserved for Assets Available for Resale - Reserves have been established in the Redevelopment Agency Capital Projects Fund for land and associated improvements being held for resale.

Reserved for Future Reimbursements - This reserve represents monies that may be required to be reimbursed to eligible new businesses within the Los Alamitos Race Track project area of the Agency.

Reserved for Low to Moderate Income Housing Set-Aside - These reserves represent tax increment funds which have been set-aside in the Redevelopment Agency Capital Projects Fund and are required to be used for low to moderate cost housing pursuant to State of California law.

Reserved for Unfunded Retirement - This reserve was established for the unfunded retirement liability for Recreation District employees who are members of the Orange County Employees Retirement System.

Reserved for Advances to Other Funds - The reserve for advances to other funds includes one promissory note to the Agency and one promissory note to the City's Sewer fund, as further described in note 5. The reserve was established because the promissory notes do not represent current spendable resources.

Reserved for Open Space - This reserve segregates funds received from developers for open space use.

Reserved for Restricted Revenues - This reserve was established to segregate funds restricted in use by legislative action such as promotional fund income received from developers.

The City's designations of unreserved fund balances at June 30, 2009, are presented in the table below.

	General Fund	Recreation and Park District Fund	City Capital Projects Fund	Redevelop- ment Agency Capital Projects Fund	Non-major Governmental Funds	Totals
Subsequent year expenditures	\$ -	\$ 4,211,440	\$ -	\$ -	\$ 16,724,210	\$ 20,935,650
Emergencies	-	-	7,237,071	-	-	7,237,071
Contingencies	6,030,892	100,000	-	-	-	6,130,892
Capital projects	3,605,000	-	1,815,647	2,479,074	-	7,899,721
<b>Totals</b>	<b>\$ 9,635,892</b>	<b>\$ 4,311,440</b>	<b>\$ 9,052,718</b>	<b>\$ 2,479,074</b>	<b>\$ 16,724,210</b>	<b>\$ 42,203,334</b>

Designated for Subsequent Years' Expenditures - This designation represents funds restricted by law or administrative action to be used for specific purposes in future years.

Designated for Emergencies - This designation represents the adopted policy of the City Council to set aside 30% of General Fund expenditures in the City's Capital Projects fund to be used in case of a major emergency.

## CITY OF CYPRESS

Notes to the Basic Financial Statements, Continued

June 30, 2009

### (13) Classifications of Net Assets and Fund Equity (Continued)

#### Reservations and Designations of Fund Equity (Continued)

Designated for Contingencies - This designation represents City Council adopted policy to set aside 25% of General Fund expenditures and a set amount in the Recreation District as general contingencies.

Designated for Capital Projects - In the General Fund this designation represents the City Council adopted policy to annually set aside a minimum of \$1.6 million in General Fund monies for the construction of capital improvement projects. The actual amount the City Council has set aside for fiscal year 2009-10 totals \$3,605,000. In the Capital Project Funds this designation represents amounts accumulated and set-aside for future capital projects.

Fund balance amounts reported as unreserved, undesignated have not been specifically designated by the City Council, and are available for use in future periods.

### (14) Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial. The City is a defendant in various other lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

### (15) Joint Venture

On December 23, 1996, the West Cities Communications Center Joint Powers Authority (JPA) was created under a joint exercise of powers agreement. It was formed to consolidate law enforcement communications for the cities of Cypress, Los Alamitos and Seal Beach. The governing board consists of one member appointed from each participating agency. The approval of budget and assumption of financial obligations must be approved by all members. The participant contributions are City of Cypress 45.3%, City of Los Alamitos 24.4% and the City of Seal Beach 30.3%.

The purpose of the JPA is to save the participants some individual expense through the sharing of communication obligations. The JPA intends to utilize the personnel and resources of the member agencies to provide financial, legal, personnel, risk management and other services as needed. The City of Cypress provides the JPA with financial and human resources services. The City has no equity interest in the JPA and does not receive a share of the operating results. Accordingly, the assets and liabilities of the JPA are shown in the City's Agency Fund. Separate financial statements of the West Cities Communications Center Joint Powers Authority are available by contacting the City of Cypress, P.O. Box 609, Cypress, CA 90630.

### (16) Other Required Fund Disclosures

The following funds had deficit fund balances as of June 30, 2009:

Redevelopment Agency Debt Service Fund	<u>(\$40,502,165)</u>
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The Agency expects future tax increment revenue and the sale of land currently held for resale to cover this deficit in future periods.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements, Continued

June 30, 2009

**(17) Subsequent Event**

Subsequent to June 30, 2009, the State of California (State) has decided to borrow, to defer certain revenue payments and to take certain funds from local governments including the City. These amounts are significant to the City and are as estimated as follows for the fiscal year 2009-10:

8% of Property Taxes (City)	\$ 917,534
8% of Property Taxes (District)	\$ 297,155
Redevelopment Agency	\$ 1,886,000

Property taxes borrowed by the State for fiscal year 2009-10 were nearly \$2 billion statewide to help the State's budget shortfall. Both the City and District have sufficient reserves necessary to withstand the significant cash-flow shortfalls that will occur from the State takeaway of property taxes.

Redevelopment Agency funds have been estimated for a two-year takeaway by the State, with the majority of the takeaway (and reflected in the above table) related to fiscal year 2009-10. This decision is to be litigated by the California Redevelopment Association and other parties, with the hope that this will be considered unconstitutional, as was last year's State proposed Redevelopment Agency takeaway.

Additionally, the State decided to defer Gas Tax revenue payments to local governments with funds to be released after January 1, 2010. The impact of this cash flow delay is not expected to materially affect the City.