

## **CITY OF CYPRESS**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

### **(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. 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 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

For the Fiscal Year Ended June 30, 2011

### (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. 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.

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 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

For the Fiscal Year Ended June 30, 2011

### (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 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.

The City reports the following major proprietary fund:

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

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

For the Fiscal Year Ended June 30, 2011

### (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 unless they conflict with GASB pronouncements.

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 enterprise fund are charges to customers for use of the sanitary sewer system, while the principal operating revenues of the internal service funds are charges to departments in the governmental funds of the City for services. Operating expenses for the enterprise fund and the 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. 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

For the Fiscal Year Ended June 30, 2011

### (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 fund balance classification of nonspendable 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

For the Fiscal Year Ended June 30, 2011

### (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 computed by deducting the accumulated depreciation from the original cost. Capital asset additions 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

For the Fiscal Year Ended June 30, 2011

### (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.

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 and the proprietary fund 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 governmental fund financial statements, fund balances are classified in the following categories in accordance with GASB Statement No. 54:

Nonspendable – Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

Restricted – Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed – Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body, and that remain binding unless removed in the same manner. The City Council is considered the highest authority for the City.

## CITY OF CYPRESS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

#### J. Net Assets and Fund Equity (Continued)

Assigned – Assigned fund balances encompass the portion of net fund resources reflecting the government’s intended use of resources. Assignment of resources can be done by the highest level of decision making or by an official designated for that purpose. The City Council has authorized the Director of Finance for that purpose.

Unassigned – This category is for any balances that have no restrictions placed upon them.

#### K. Spending Policy

In the government-wide financial statements, when expenses are incurred for purposes for which both restricted and unrestricted net assets are available, the City’s policy is to apply restricted net assets first.

In the governmental fund financial statements, when expenditures are incurred for purposes for which all categories of fund balances are available, the City’s general policy is to apply the expenditures against fund balance in the following order: restricted, committed, assigned, and unassigned.

#### L. 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.

#### M. New Accounting Pronouncement

The GASB has issued Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”, which expands the use of the alternative measurement method to an agent employer government that has an individual-employer OPEB plan with fewer than 100 total plan members. The Statement also provides guidance about the frequency and timing of measurements by governments that participate in agent multiple-employer other postemployment benefit plans and how those measurements must be coordinated with the reporting needs of the agent multiple-employer OPEB plan itself. The provisions of this Statement related to the use and reporting of the alternative measurement method were effective immediately upon the Statement’s issuance in December of 2009. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011.

### (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.

## CITY OF CYPRESS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

### (2) Property Taxes (Continued)

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.

#### 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
- Federal Agency Issues
- 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)
- Investment Trust of California (CalTRUST)
- 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, 2011, the carrying amount of the City's demand deposits was \$1,541,201. The bank balance of these funds totaled \$1,942,361. Of the demand deposits, \$266,114 was covered by federal depository insurance and \$1,676,247 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.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011

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

**Deposits and Risks (Continued)**

The following is a summary of pooled cash and investments, including restricted cash and investments, as of June 30, 2011:

	Government Wide Statement of Net Assets		Fiduciary Funds	Totals
	Governmental Activities	Business-type Activities	Statement of Net Assets	
Cash and cash equivalents	\$ 113,023,675	\$ 8,059,798	\$ 2,887,983	\$ 123,971,456
Restricted cash and investments	910,716	-	1,933,821	2,844,537
<b>Totals</b>	<b>\$ 113,934,391</b>	<b>\$ 8,059,798</b>	<b>\$ 4,821,804</b>	<b>\$ 126,815,993</b>

Restricted cash and investments held by the fiscal agent which are reported in governmental activities are restricted for the payment of principal and interest on the City's 2001 Lease Revenue Bonds. In the fiduciary funds, restricted cash and investments relate to monies held by fiscal agents for special assessment bonds.

As of June 30, 2011, the City had the following investments and maturities:

	Fair Value	Maturity
Deposits:		
Demand Deposits	\$ 1,478,653	One Year or Less
Investments:		
State of California Local Agency Investment Fund	122,492,803	One Year or Less
<b>Total Cash and Investments</b>	<b>\$ 123,971,456</b>	

*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, 2011, 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.

## CITY OF CYPRESS

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

##### External Investment Pool

The City is a voluntary participant in 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 \$50,000,000 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, 2011 the factor used was 1.00157647. The City's investment with LAIF includes a portion of pool funds invested in structured notes and asset-backed securities. As of June 30, 2011, the City had \$122,492,803 invested in LAIF, which had invested 5.01% of the pool's funds in structured notes and asset-backed securities.

#### (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, 2011:

Description	Balance			Balance June 30, 2011	Classification	
	July 1, 2010	Additions	Deletions		Due Within One Year	Due in More than One Year
Home Loans	\$ 963,424	\$ 384,787	\$ (154,483)	\$ 1,193,728	\$ -	\$ 1,193,728
Other Notes	322,515	9,598	-	332,113	-	332,113
Subtotal	1,285,939	394,385	(154,483)	1,525,841	-	1,525,841
Less: Allowance	(14,830)	(40,000)	7,550	(47,280)	-	(47,280)
Total	<u>\$ 1,271,109</u>	<u>\$ 354,385</u>	<u>\$ (146,933)</u>	<u>\$ 1,478,561</u>	<u>\$ -</u>	<u>\$ 1,478,561</u>

##### 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.

## CITY OF CYPRESS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

### (4) Notes Receivable (Continued)

#### Home Loans (Continued)

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 qualify for no interest, forgivable loans of up to \$20,000. 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 \$1,193,728 at June 30, 2011.

In the government-wide statements, a note receivable is recorded when issued to the homeowner and is decreased upon repayment. A total of \$1,146,448 (which is net of an allowance of \$47,280 for forgivable loans) is included in the amount reported as notes receivable in the government-wide statements at June 30, 2011.

#### 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 through June 30, 2011 is \$228,352. The total combined principal and interest outstanding on the note at June 30, 2011 is \$332,113.

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 \$332,113 is included in the amount reported as notes receivable in the government-wide statements at June 30, 2011.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011

**(5) Interfund Transactions**

**Interfund Balances**

The following summarizes the total due to and from other funds as of June 30, 2011:

	Due From Other Funds	
	General Fund	Total
Due To Other Funds		
Non-major Governmental Funds	\$ 100,820	\$ 100,820
<b>Total</b>	<b>\$ 100,820</b>	<b>\$ 100,820</b>

**Interfund Advances**

The following summarizes the total outstanding advances to and from other funds as of June 30, 2011:

	Advances from		
	Governmental Funds	Proprietary Funds	Total
Advances to	Debt Service - Redevelopment Agency	Enterprise - Sewer Fund	
Capital Projects Fund - City	\$ 23,920,000	\$ 6,000,000	\$ 29,920,000
<b>Total</b>	<b>\$ 23,920,000</b>	<b>\$ 6,000,000</b>	<b>\$ 29,920,000</b>

The amounts recorded as advances to and advances from other funds in the Governmental Funds and Proprietary Funds consist 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 was to provide immediate cash flow to fund necessary capital projects identified in the 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 fiscal year ended June 30, 2008. Effective on July 1, 2009, the outstanding note was transferred from the General Fund to the City's Capital Projects Fund.

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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011

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

**Interfund Advances (Continued)**

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 note refinanced 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. The newly established promissory note had a term of three years with interest paid annually at a rate equal to 5% and provided for repayment of all, or a portion of the note, should resources become available. Effective on July 1, 2009, the outstanding note was transferred from the General Fund to the City's Capital Projects Fund. On March 8, 2011 the Agency sold 13 acres of land held for resale to the City for its appraised value of \$18,580,000. The Agency used the proceeds from the sale of the land to repay the City \$18,580,000 of the outstanding note principal. A total of \$23,920,000 in principal remains outstanding and payable to the City as of June 30, 2011. Repayment will be made through future anticipated tax increment revenues annually collected by the Agency, if available. However, recent State legislation affecting redevelopment agencies (discussed later in Note 19) may result in the Agency being unable to make repayment on the advances.

**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.

Transfers between funds during the fiscal year ended June 30, 2011 are as follows:

		Transfers Out						
		General Fund	Recreation and Park District Fund	Redevelopment Agency Debt Service Fund	Capital Projects Fund - City	Redevelopment Agency Capital Projects Fund	Non-major Governmental Funds	Totals
<b>Transfers In</b>	General Fund	\$ -	\$ -	\$ -	\$ 4,300,000	\$ -	\$ 1,105,416	\$ 5,405,416
	Redevelopment Agency Debt Service Fund	-	-	-	-	18,580,000	-	18,580,000
	Capital Projects Fund - City	5,150,000	-	-	-	-	554,275	5,704,275
	Redevelopment Agency Capital Projects Fund	-	-	1,300,000	-	-	-	1,300,000
	Non-Major Governmental Funds	-	-	439,395	-	-	-	439,395
	Enterprise Fund	-	-	-	-	2,395,542	-	2,395,542
	Internal Service Funds	11,255	23,838	-	-	-	152,834	187,927
	<b>Totals</b>	<b>\$ 5,161,255</b>	<b>\$ 23,838</b>	<b>\$ 1,739,395</b>	<b>\$ 4,300,000</b>	<b>\$ 20,975,542</b>	<b>\$ 1,812,525</b>	<b>\$ 34,012,555</b>

The transfer to the General Fund from the Capital Projects Fund is to provide funding for storm drainage capital projects approved by City Council as part of the first year of the seven-year Capital Improvement Program.

## CITY OF CYPRESS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

### (5) Interfund Transactions (Continued)

#### Interfund Transfers (Continued)

The transfer to the General Fund from the non-major Governmental Funds relates to eligible expenditure reimbursements from the Streets, Traffic Safety and Cable TV PEG Grant 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 Project Fund was required to provide for the partial repayment of the promissory note with the City.

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 non-major governmental funds relates to reimbursement from the Streets Fund for eligible capital improvements on the Moody Street Median and residential street resurfacing repairs and a reimbursement from the Narcotics Asset Seizure Fund for the installation of a closed circuit television system in the Police Department's property and evidence room.

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 Redevelopment Agency Capital Project Fund from the Redevelopment Agency Debt Service Fund was required for cash flows purposes to provide for Agency operations.

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 Enterprise Fund from the Redevelopment Agency Capital Projects Fund relates to eligible capital improvement project expenditures on the sanitary sewer system within the Lincoln Avenue Project Area.

The transfers to the Internal Service Funds from the various City operating funds represent reimbursements for the initial purchase of capital outlay items out of the City's and District's Central Services Funds as well as reimbursement for repairs made to the City's gun range that were paid for with grant proceeds.

## CITY OF CYPRESS

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

#### 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. One parcel is located at 6122 Lincoln Avenue and cost \$1,275,242, while the other property is located at 5732 Lincoln and has a basis of \$1,421,708. At the time of purchase, it was the intent of the Agency to resell these parcels for the development of low and moderate income housing units. On May 25, 2011 the Agency entered into a Disposition and Development Agreement with Habitat for Humanity of Orange County (Habitat) for the development of the parcel located at 6122 Lincoln Avenue. The proposed project provides for the development of fifteen (15) for-sale townhome style condominiums restricted for sale to income-qualified households at an affordable sales price. Under the terms of the Agreement, the Agency will provide financial assistance to Habitat in an amount not to exceed \$1,455,000. This financial assistance provided by the Agency will include the transfer of the land to Habitat, along with development fee and closing cost assistance. The assistance will be provided to Habitat in the form of a loan which will be forgiven upon Habitat's sale of the last unit to an income qualified household. In April 2011, an appraisal of the property at 6122 Lincoln Avenue was performed as part of the agreement. The property appraised for \$1,200,000 which is \$75,242 less than its original cost, resulting in an adjustment to the amount recorded as land held for resale and the recording of a loss during the fiscal year ended June 30, 2011.

On September 30, 2011 title to the property was transferred to Habitat and the forgivable loan from the Agency for \$1,455,000 was recorded. As of June 30, 2011, the Agency retained ownership of the two parcels of land on Lincoln Avenue and \$2,621,708 is classified as assets available for resale in the Redevelopment Agency Capital Projects Fund.

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 was \$20,257,703 and it was the intent of the Agency to enter a Development and Disposition Agreement with a developer for retail development that was consistent with the goals of the Agency. On March 8, 2011, the Agency sold the land to the City for its appraised value of \$18,580,000, which resulted in a loss totaling \$1,677,703 in the Agency's Capital Project Fund. The land was recorded as land held for resale in the City's Capital Projects Fund for its purchase price of \$18,580,000. The City intends to explore retail development opportunities for the property; however, no development agreements had been entered into as of June 30, 2011.

#### (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. At June 30, 2011, the City's capital assets consisted of the following:

**CITY OF CYPRESS**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

**(7) Capital Assets and Depreciation (Continued)**

	Governmental Activities	Business-type Activities	Total
Capital Assets, Not Depreciated:			
Land	\$ 7,793,597	\$ -	\$ 7,793,597
Construction in Progress	5,218,567	1,494,752	6,713,319
Total, Not Depreciated	<u>13,012,164</u>	<u>1,494,752</u>	<u>14,506,916</u>
Capital Assets, Being Depreciated:			
Buildings and Improvements	29,696,047	-	29,696,047
Machinery and Equipment	10,278,321	-	10,278,321
Infrastructure	196,465,051	19,337,825	215,802,876
Total, Being Depreciated	<u>236,439,419</u>	<u>19,337,825</u>	<u>255,777,244</u>
Less Accumulated Depreciation:			
Buildings and Improvements	(10,704,849)	-	(10,704,849)
Machinery and Equipment	(7,782,426)	-	(7,782,426)
Infrastructure	(71,715,926)	(10,735,065)	(82,450,991)
Total Accumulated Depreciation	<u>(90,203,201)</u>	<u>(10,735,065)</u>	<u>(100,938,266)</u>
Total Depreciated, Net	<u>146,236,218</u>	<u>8,602,760</u>	<u>154,838,978</u>
Total Capital Assets, Net	<u>\$ 159,248,382</u>	<u>\$ 10,097,512</u>	<u>\$ 169,345,894</u>

The following is a summary of changes in the capital assets for governmental activities during the fiscal year:

	Governmental Activities			
	Restated Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
	Capital Assets, Not Depreciated:			
Land	\$ 7,793,597	\$ -	\$ -	\$ 7,793,597
Construction in Progress	2,178,733	3,039,834	-	5,218,567
Total, Not Depreciated	<u>9,972,330</u>	<u>3,039,834</u>	<u>-</u>	<u>13,012,164</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	29,297,157	442,540	(43,650)	29,696,047
Machinery and Equipment	9,712,175	637,879	(71,733)	10,278,321
Infrastructure	196,437,993	27,058	-	196,465,051
Total, Being Depreciated	<u>235,447,325</u>	<u>1,107,477</u>	<u>(115,383)</u>	<u>236,439,419</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(9,842,956)	(905,543)	43,650	(10,704,849)
Machinery and Equipment	(7,140,530)	(708,867)	66,971	(7,782,426)
Infrastructure	(67,970,539)	(3,745,387)	-	(71,715,926)
Total Accumulated Depreciation	<u>(84,954,025)</u>	<u>(5,359,797)</u>	<u>110,621</u>	<u>(90,203,201)</u>
Total Depreciated, Net	<u>150,493,300</u>	<u>(4,252,320)</u>	<u>(4,762)</u>	<u>146,236,218</u>
Governmental Activities Capital Assets, Net	<u>\$ 160,465,630</u>	<u>\$ (1,212,486)</u>	<u>\$ (4,762)</u>	<u>\$ 159,248,382</u>

**CITY OF CYPRESS**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

**(7) Capital Assets and Depreciation (Continued)**

Depreciation expense was charged to functions/programs of governmental activities for the fiscal year ended June 30, 2011 as follows:

General Government	\$ 311,072
Recreation and Parks	448,508
Public Safety	101,713
Public Works	3,812,370
Internal Service Funds Depreciation (Charged to Programs Based on Usage)	<u>686,134</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 5,359,797</u></u>

The following is a summary of changes in the capital assets for business-type activities during the fiscal year:

	<u>Business-type Activities</u>			
	Restated Balance July 1,2010	Additions	Deletions	Balance June 30, 2011
Capital Assets, Not Depreciated:				
Construction in Progress	\$ 185,789	\$ 1,308,963	\$ -	\$ 1,494,752
Total, Not Depreciated	<u>185,789</u>	<u>1,308,963</u>	<u>-</u>	<u>1,494,752</u>
Capital Assets, Being Depreciated:				
Infrastructure	19,337,825	-	-	19,337,825
Total, Being Depreciated	<u>19,337,825</u>	<u>-</u>	<u>-</u>	<u>19,337,825</u>
Less Accumulated Depreciation:				
Infrastructure	(10,412,736)	(322,329)	-	(10,735,065)
Total Accumulated Depreciation	<u>(10,412,736)</u>	<u>(322,329)</u>	<u>-</u>	<u>(10,735,065)</u>
Total Depreciated, Net	<u>8,925,089</u>	<u>(322,329)</u>	<u>-</u>	<u>8,602,760</u>
Business-type Activities Capital Assets, Net	<u><u>\$ 9,110,878</u></u>	<u><u>\$ 986,634</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,097,512</u></u>

Depreciation expense for business-type activities for the fiscal year ended June 30, 2011 was charged as follows:

Sewer	<u>\$ 322,329</u>
Total Depreciation Expense - Business-type Activities	<u><u>\$ 322,329</u></u>

**CITY OF CYPRESS**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

**(8) Deferred Revenue**

The deferred revenues in the governmental fund financial statements at June 30, 2011 consisted of the following:

	<b>General Fund</b>	<b>Recreation and Park District Fund</b>	<b>Capital Projects Fund-City</b>	<b>Redevelop- ment Agency Capital Projects Fund</b>	<b>Other Gov- ernmental Funds</b>	<b>Totals</b>
Advances on Grants/Deposits	\$ 405,122	\$ -	\$ 37,000	\$ -	\$ 732,673	\$ 1,174,795
State Borrowing of Property Tax	847,430	297,156	-	-	67,826	1,212,412
Prepaid Service Fees	4,575	12,202	-	500	-	17,277
Long-term notes receivable	-	-	-	971,856	-	971,856
<b>Totals</b>	<b>\$ 1,257,127</b>	<b>\$ 309,358</b>	<b>\$ 37,000</b>	<b>\$ 972,356</b>	<b>\$ 800,499</b>	<b>\$ 3,376,340</b>

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 and total \$1,192,072 at June 30, 2011.

**(9) Long-Term Debt**

**Changes in Long-Term Liabilities**

The following is a summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2011:

<b>Description</b>	<b>Balance</b>			<b>Balance June 30, 2011</b>	<b>Classification</b>	
	<b>July 1, 2010</b>	<b>Additions</b>	<b>Payments</b>		<b>Due Within One Year</b>	<b>Due in More than One Year</b>
Claims Payable	\$ 2,291,970	\$ 295,986	\$ (315,779)	\$ 2,272,177	\$ 650,000	\$ 1,622,177
Lease Revenue Bonds	3,450,000	-	(305,000)	3,145,000	325,000	2,820,000
Retiree's Health Benefits	4,992,676	117,568	(105,244)	5,005,000	112,000	4,893,000
Compensated Absences	2,491,756	1,538,676	(1,378,653)	2,651,779	663,000	1,988,779
	<b>\$ 13,226,402</b>	<b>\$ 1,952,230</b>	<b>\$ (2,104,676)</b>	<b>\$ 13,073,956</b>	<b>\$ 1,750,000</b>	<b>\$ 11,323,956</b>

Internal service funds serve the governmental funds. Accordingly, long-term liabilities in the internal service funds are included in the above. 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. Claims payable are recorded in the internal service funds and are discussed in more detail in Note 12. 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.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011

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

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

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 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. Such repayment assumes the ongoing operations of the Agency will not be impacted by State legislation (see Note 19). The outstanding Lease Revenue Bonds at June 30, 2011 totaled \$3,145,000.

Annual principal and interest payments on the Lease Revenue Bonds are expected to require approximately 15% to 20% of future net tax increment revenues, assuming the continued operations of the Agency. The total principal and interest remaining to be paid on the bonds is \$3,811,127 as of June 30, 2011. For the fiscal year ended June 30, 2011, principal and interest paid on the bonds and funded by Agency tax increment monies was \$439,395 and net tax increment revenues (net of required pass-through payments, housing set-aside requirements and any State revenue shifts) were \$2,658,372. The bonds required 16.5% of Agency net tax increment monies.

The annual requirements to amortize the Lease Revenue Bonds as of June 30, 2011 are as follows:

<u>Year Ending June 30:</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	\$ 142,925	\$325,000	\$467,925
2013	128,953	340,000	468,953
2014	113,542	360,000	473,542
2015	96,702	380,000	476,702
2016	78,562	400,000	478,562
2017-2019	105,443	1,340,000	1,445,443
	<u>\$ 666,127</u>	<u>\$3,145,000</u>	<u>\$3,811,127</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.

## CITY OF CYPRESS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

#### **Non-City Obligations - Community Facilities District Special Tax Bonds (Continued)**

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, 2011, the CFD held cash and investments on behalf on the bondholders in the Agency Fund totaling \$2,134,788. The outstanding CFD bonds at June 30, 2011 totaled \$5,430,000.

#### **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, 2011, the District held in the Agency Fund cash and investments totaling \$746,229 including \$160,175 held for the bondholders and \$586,054 held for future improvements and other costs. The outstanding assessment bonds at June 30, 2011 totaled \$1,555,000.

### (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 10.310% and for public safety employees was 28.123% of annual covered payroll for the fiscal year ended June 30, 2011. The contribution requirements of plan members and the City are established and may be amended by PERS.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

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

Annual Pension Cost: For the fiscal year 2010-11, the City's annual pension cost of \$3,261,064 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, 2010 was thirteen (13) years for miscellaneous employees and fifteen (15) years for public safety employees.

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

<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
6/30/09	\$1,176,128	100%	\$ -
6/30/10	1,199,867	100%	-
6/30/11	1,267,293	100%	-

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

<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
6/30/09	\$1,857,203	100%	\$ -
6/30/10	1,887,163	100%	-
6/30/11	1,993,772	100%	-

**CITY OF CYPRESS**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

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

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

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

	(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	\$45,163	\$46,538	\$1,375	97.0%	\$6,650	20.7%
6/30/09	47,064	50,543	3,479	93.1%	7,154	48.6%
6/30/10	48,992	53,069	4,077	92.3%	7,316	55.7%

The City's plan for public safety employees is part of a risk pool established for entities with fewer than 100 active members in a specific plan. Actuarial valuations performed include other plan participants within the same risk pool. Therefore, standalone information of the schedule of the funding progress for the City's public safety employees is not available. Please see the RSI section for additional information.

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

**Plan Description**

The City provides medical benefits to eligible retirees through the CalPERS healthcare program (an agent multiple-employer plan) entitled Public Employees' Medical and Welfare Trust Medical Plan (PEMHCA). The City pays the PEMHCA minimum amount (\$108 per month in 2011) 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 June 30, 2011, which is the date of the most recent actuarial valuation.

Active Employees	158
Eligible Retirees - Enrolled	39
Eligible Retirees - Not Enrolled	<u>57</u>
Total	<u><u>254</u></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's supplemental contribution plan is a single-employer plan and terminates for retirees on the date the retiree reaches age 65 or becomes Medicare eligible whichever comes first.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2011

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

**Plan Description (Continued)**

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 June 30, 2011.

Supplemental Post-Employment Healthcare Plan:	
-Active Employees	73
-Retirees	17
Retiree Health Savings Plan	<u>85</u>
Total	<u><u>175</u></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, 2011, 39 retirees were receiving this benefit and the total cost to the City for fiscal year 2010-11 was \$42,171.

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, 2011, the City paid \$63,073 to 19 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 ended June 30, 2011, the City paid \$91,660 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, 2011 was \$5,005,000 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 \$310,860, 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.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

**Annual OPEB Cost and Net OPEB Obligation (Continued)**

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)	\$ 432,000
Interest on net OPEB Obligation	32,000
Adjustment to Annual Required Contribution	<u>(57,984)</u>
Annual OPEB Cost (Expense)	406,016
Contributions Made	<u>(105,244)</u>
Increase in Net OPEB Obligation	300,772
Net OPEB Obligation - Beginning of Year	<u>747,228</u>
Net OPEB Obligation - End of Year	<u>\$ 1,048,000</u>

The portion of Net OPEB Obligation in the above table that is attributable to the Cypress Recreation and Park District is estimated at \$65,100, with the balance of the liability associated with employees of the City.

The City's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Contribution</u>	<u>Percent of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2009	\$ 413,000	\$ -	0%	\$ 413,000
6/30/2010	430,553	96,325	22%	747,228
6/30/2011	406,016	105,244	26%	1,048,000

**Funded Status and Funding Progress**

As of June 30, 2011, the most recent actuarial valuation date, the plan was zero percent funded. The Actuarial Accrued Liability for benefits was \$5,005,000 and the actuarial value of assets was \$0, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$5,005,000. The total covered payroll (annual payroll of active employees covered by the plan) was \$11,840,000 and the ratio of the annual OPEB cost to the covered payroll was 3.6 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, 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.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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

**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, 2011, 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, inflation and annual healthcare cost trend of 3.00%, and projected salary increases of 3.25%. It is not anticipated that the plan amounts paid on behalf of retirees will be increased or changed in the future. 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 a 30 year closed period.

Funding Status as of the Most Recent Actuarial Date

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

	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded Liability (Excess Assets) [(B)-(A)]	Funded Ratio [(A)/(B)]	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll [(C)/(E)]
6/30/08	\$ -	4,633	4,633	0.0%	11,173	41.5%
06/30/11	-	5,005	5,005	0.0%	11,840	42.3%

Please see the RSI section for additional information.

**(12) Self-Insurance**

At June 30, 2011 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 \$300,000 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 13 cities in Southern California, 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

For the Fiscal Year Ended June 30, 2011

#### (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, 2011. 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, 2011 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, 2011, the Liability Insurance Fund and the Workers' Compensation Fund had reserves for catastrophic losses of \$2,236,688 and \$4,279,071, respectively, which are reported as net assets in these funds. The claims liabilities of \$658,026 and \$1,614,151 reported in the Liability Insurance and Workers' Compensation Funds, respectively, at June 30, 2011, 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 2011 are as follows:

	<u>Liability Insurance</u>	<u>Workers' Compensation</u>	<u>Total</u>
Balance at beginning of year	\$ 394,248	\$ 1,897,722	\$ 2,291,970
Current year claims and changes in estimates	361,153	(65,167)	295,986
Claims payments	<u>(97,375)</u>	<u>(218,404)</u>	<u>(315,779)</u>
Balance at year end	<u>\$ 658,026</u>	<u>\$ 1,614,151</u>	<u>\$ 2,272,177</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  
For the Fiscal Year Ended June 30, 2011

**(13) Classifications of Net Assets**

**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, 2011, are summarized as follows.

	Government Wide Statement of Net Assets		Totals
	Governmental Activities	Business-type Activities	
Net Assets restricted for:			
Debt Service	\$ 470,640	\$ -	\$ 470,640
Capital Improvement Projects	31,447,995	-	31,447,995
Promotional Activities	73,252	-	73,252
Recreation and Park District	6,051,015	-	6,051,015
Recreation Open Space Improvements	501,634	-	501,634
Street Maintenance and Improvements	8,165,312	-	8,165,312
Street Lighting	3,481,529	-	3,481,529
Public Safety	874,596	-	874,596
Clean Air Act Programs	219,399	-	219,399
Local Drainage Improvements	712,251	-	712,251
Cable Television Equipment	353,021	-	353,021
Sanitary Sewer System	-	8,325,661	8,325,661
Other Purposes	26,940	-	26,940
<b>Totals</b>	<b>\$ 52,377,584</b>	<b>\$ 8,325,661</b>	<b>\$ 60,703,245</b>

Restricted for Debt Service – This restriction represent amounts accumulated in the Agency debt service fund 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 Agency amounts that will be used for the construction and rehabilitation of both commercial and public property within the City and City amounts invested in land held for resale and advances receivable that will be used for capital improvement projects.

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.

## CITY OF CYPRESS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

### (13) Classifications of Net Assets (Continued)

#### Restricted Net Assets (Continued)

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.

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 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 Sanitary Sewer System – These amounts received from system users are restricted for maintenance and capital expenditures for the City's sanitary sewer system.

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.

**CITY OF CYPRESS**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

**(14) Classifications of Fund Balances**

The City has adopted the provisions of GASB Statement No. 54, "Fund Balance and Governmental Fund Type Definitions". GASB 54 establishes fund balance classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The governmental fund statements conform to the new classification and are summarized as follows.

	<b>General Fund</b>	<b>Recreation and Park District Fund</b>	<b>Redevelop- ment Agency Debt Service</b>	<b>City Capital Projects Fund</b>	<b>Redevelop- ment Agency Capital Projects Fund</b>	<b>Non-major Governmental Funds</b>	<b>Totals</b>
<b>Nonspendable</b>							
Notes Receivable	\$ -	\$ -	\$ -	\$ 29,920,000	\$ -	\$ -	\$ 29,920,000
Land Held for Resale	-	-	-	18,580,000	2,621,708	-	21,201,708
Total Nonspendable	-	-	-	48,500,000	2,621,708	-	51,121,708
<b>Restricted</b>							
Community Promotion	73,252	-	-	-	-	-	73,252
Open Space	-	501,634	-	-	-	-	501,634
Youth League Renovations	-	51,488	-	-	-	-	51,488
Recreation	-	5,702,371	-	-	-	-	5,702,371
Future Development Reimbursen	-	-	-	-	138,159	-	138,159
Community Redevelopment	-	-	-	-	225,846	-	225,846
Low and Moderate Income Hous	-	-	-	-	2,957,706	-	2,957,706
Streets	-	-	-	-	-	8,165,312	8,165,312
Local Drainage	-	-	-	-	-	712,251	712,251
Landscape Maintenance	-	-	-	-	-	26,940	26,940
Street Lighting	-	-	-	-	-	3,413,703	3,413,703
Cable Television Equipment	-	-	-	-	-	353,021	353,021
Clean Air Act Programs	-	-	-	-	-	219,399	219,399
Police	-	-	-	-	-	874,596	874,596
Total Restricted	73,252	6,255,493	-	-	3,321,711	13,765,222	23,415,678
<b>Committed</b>							
Stabilization Agreement	6,030,892	-	-	7,237,071	-	-	13,267,963
Storm Drainage	4,503,702	-	-	-	-	-	4,503,702
Capital Improvements	-	-	-	3,760,907	-	-	3,760,907
Total Committed	10,534,594	-	-	10,997,978	-	-	21,532,572
<b>Assigned</b>							
Future Capital Improvements	8,232,133	-	-	15,475,707	-	-	23,707,840
Storm Drainage	5,405,361	-	-	-	-	-	5,405,361
Business Relocation Stabilization	1,652,568	-	-	-	-	-	1,652,568
Carryover Appropriations	431,146	-	-	-	-	-	431,146
Debt Service Requirements	-	-	-	-	-	1,359,662	1,359,662
Total Assigned	15,721,208	-	-	15,475,707	-	1,359,662	32,556,577
<b>Unassigned</b>							
	34,545	-	(23,374,566)	-	-	-	(23,340,021)
<b>Total Fund Balances</b>	<b>\$ 26,363,599</b>	<b>\$ 6,255,493</b>	<b>\$ (23,374,566)</b>	<b>\$ 74,973,685</b>	<b>\$ 5,943,419</b>	<b>\$ 15,124,884</b>	<b>\$ 105,286,514</b>

The stabilization agreement amount of \$6,030,892 presented as committed fund balance in the General Fund has been formally approved by the City Council and is for unforeseen situations (such as a temporary revenue interruption due to business activity or disaster). The amount is equal to 25% of the General Fund's annual operating budget and may only be used should annual estimated revenues decrease by a minimum of 10 percent or annual expenditures are estimated to increase by over 10 percent. In addition to these variances in revenues or expenditures, it is further established that in order for these fund balance amounts to be expended such variances must create a situation in which the City's ability to provide basic services (as defined by the City Council) is threatened. Further, City Council authorization is required for use of this amount.

## CITY OF CYPRESS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

### (14) Classifications of Fund Balances (Continued)

The stabilization agreement amount of \$7,237,071 presented as committed fund balance in the City Capital Project Fund has been formally approved by the City Council and is for emergency capital needs (such as a natural disaster that damages City assets). The amount is equal to 30% of the General Fund's annual operating budget and may be expended only in the event such an emergency is deemed to occur and with City Council's authorization.

### (15) 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.

### (16) 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.

### (17) Other Required Fund Disclosures

The following funds had deficit fund balances as of June 30, 2011:

Redevelopment Agency Debt Service Fund	<u>(\$23,374,566)</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  
For the Fiscal Year Ended June 30, 2011

**(18) Prior Period Adjustments**

The City recorded the following prior period adjustments in the Government-Wide Financial Statements:

	<u>Net Assets as Previously Reported</u>	<u>Prior Period Adjustments</u>	<u>Net Assets as Restated</u>
<b>Governmental Activities</b>			
Net Assets	\$ 293,791,988	\$ (7,796,480)	\$ 285,995,508
Total governmental activities	<u>\$ 293,791,988</u>	<u>\$ (7,796,480)</u>	<u>\$ 285,995,508</u>
<b>Business-type Activities</b>			
Net Assets	\$ -	\$ 9,008,892	\$ 9,008,892
Total business-type activities	<u>\$ -</u>	<u>\$ 9,008,892</u>	<u>\$ 9,008,892</u>

A total of \$9,008,892 was restated from the beginning net assets for governmental activities to the beginning net assets for business-type activities to reclassify the Sewer Enterprise Fund from governmental activities to business-type activities and to reclass the related capital assets and accumulated depreciation associated with the sanitary sewer system. An additional adjustment to the beginning net assets for governmental activities was made in the amount of \$1,212,412 which represents the amount the State of California borrowed from the City under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009. The amount borrowed by the State of California equaled 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period.

The City recorded the following prior period adjustments in the Fund Financial Statements:

	<u>Governmental Funds</u>			<u>Proprietary Funds</u>	<u>Totals</u>
	<u>General Fund</u>	<u>Special Revenue- Sewer Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Enterprise- Sewer Fund</u>	
Fund Balance at July 1, 2010	\$ 14,489,432	\$ (101,986)	\$ 22,383,702	\$ -	\$ 36,771,148
Fund Reclassification - Sewer Fund	-	101,986	-	(101,986)	-
Fund Reclassification - Storm Drainage Fund	6,966,185	-	(6,966,185)	-	-
Capital Assets - Sewer System	-	-	-	9,110,878	9,110,878
Fund Balance at July 1, 2010, as Restated	<u>\$ 21,455,617</u>	<u>\$ -</u>	<u>\$ 15,417,517</u>	<u>\$ 9,008,892</u>	<u>\$ 45,882,026</u>

The reclassification of the Special Revenue Sewer Fund fund balance as of June 30, 2010 to the Enterprise Sewer Fund was due to the implementation of GASB 54 during fiscal year ended June 30, 2011.

The reclassification of the Storm Drainage Fund (reported as part of the Nonmajor Governmental Funds) to the General Fund was due to the implementation of GASB 54 during fiscal year ended June 30, 2011.

## CITY OF CYPRESS

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

### **(18) Prior Period Adjustments (Continued)**

Capital Assets were reclassified from governmental activities to the Enterprise Sewer Fund (and business-type activities) due to the implementation of GASB 54 during fiscal year ended June 30, 2011.

### **(19) Recent Changes in Legislation Affecting California Redevelopment Agencies**

On June 28, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that a city "may use any available funds not otherwise obligated for other uses" to make this payment. The City has chosen not to participate in the Voluntary Alternative Redevelopment Program or to make the payments required to facilitate the continued existence of the Agency.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the Agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the Agency are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. Subsequently, an additional challenge to the legislation was filed by Rutan and Tucker on behalf of the City of Cypress and nine (9) other Southern California cities. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

## **CITY OF CYPRESS**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

### **(19) Recent Changes in Legislation Affecting California Redevelopment Agencies (Continued)**

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in ABX1 26.

On August 22, 2011, the Cypress City Council adopted Resolution No. 6269 which exercised the City of Cypress' right to "opt out" of the Voluntary Alternative Redevelopment Program instituted by AB X1 27. If the pending litigation challenging AB X1 26 and AB X1 27 upholds the constitutionality of the legislation, the Cypress Redevelopment Agency will be dissolved.

The nature and extent of the operation of redevelopment agencies in the State of California is dependent upon the outcome of litigation surrounding the actions of the State. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is still a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

### **(20) Subsequent Events**

Management has evaluated subsequent events to determine if events or transactions occurring through December 16, 2011, the date the basic financial statements were available to be issued, require adjustment to, or disclosure in the basic financial statements. No such events or transactions were identified.