



**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2010**

CITY OF ROLLING HILLS  
FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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CITY OF ROLLING HILLS  
FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
City of Rolling Hills, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rolling Hills, California, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rolling Hills' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rolling Hills as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison of the General Fund and COPS Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2010, on our consideration of the City of Rolling Hills' internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



To the Honorable Mayor and Members of the City Council  
City of Rolling Hills, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Lance, Soll & Luyhard, LLP*

November 17, 2010

## Management Discussion and Analysis

The following narrative provides an overview and analysis of the financial activities of the City of Rolling Hills for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

### Financial Highlights

- The City's total net assets increased by \$133,205. \$124,894 of this increase includes FY 2009/10 COPS annual allocation.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,434,075. Of this amount \$5,358,195 (unreserved, undesignated fund balance) is available for spending at the City's discretion.
- At the end of the current year, unreserved, undesignated fund balance for the general fund was \$3,146,014 which represents 2.19 times the total general fund expenditures.
- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5,434,075 (net assets). Of this amount, \$4,959,223 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements contain the following three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements and 3) Notes to the Financial Statements.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business. These statements include all assets and liabilities of the City using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change regardless of the timing of related cash flows. Thus, some of the revenues and expenses reported in this statement will have no effect on cash until some future fiscal period.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover some or all of their costs through user fees and charges (business-type activities).

*Governmental activities.* Most of the City's basic services are reported in this category, including the general administration (city manager, city clerk, finance, administration, etc.), public safety, planning and development, recreation and public works. Property taxes, sales tax, real estate transfer tax, licenses and permits, franchise fees, charges for services, interest income, grants, contributions from other agencies, and other revenues finance these activities.

*Business-type activities.* The City charges a fee to customers to cover all or most of the costs of certain services it provides. The City's Refuse Collection operation is reported in this category.

The government-wide financial statements can be found on pages 9 to 11 of this report.

**Fund Financial Statements.** The fund financial statements provide detailed information about the City's most significant funds. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

*Governmental funds.* Most of the City's basic services are reported in governmental funds, which focus on how money flows in and out of those funds and balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The difference between the results in the Governmental Fund financial statements to those in the Government wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

In addition to the major funds reported separately on the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance, the City also maintains 5 special revenue funds and one capital project fund. Data from these funds are combined into a single, aggregated presentation referred to as other governmental funds.

Individual fund data for each of these non-major governmental funds are provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for all of its governmental and proprietary funds. A budget comparison statement has been provided for the general fund to demonstrate compliance with this budget. This comparison can be found on page 19 of this report.

The basic governmental fund financial statements can be found on pages 12 to 18 of this report.

*Proprietary funds.* When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Within the category of proprietary funds are Enterprise Funds and Internal Service Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its Refuse activity. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its Municipal Self Insurance costs. Because these services predominantly benefit governmental rather than business-type functions, this fund has been included within the governmental activities in the government-wide financial statement.

The basic proprietary fund financial statements can be found on pages 21 to 23 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 - 41 of this report.

### **Governmental-wide Financial Analysis**

For Rolling Hills, at the close of fiscal year 2009/10, total assets exceeded total liabilities by \$5,434,075.

A summary of the government-wide statement of net assets follows:

	Governmental Activities	Business Activities	Total Primary Government
<b>Assets:</b>			
Current and other Assets	\$6,226,363	\$187,132	\$6,413,495
Capital Assets	<u>564,040</u>	<u>-</u>	<u>564,040</u>
Total assets	<u>6,790,403</u>	<u>187,132</u>	<u>6,977,535</u>
<b>Liabilities:</b>			
Current and other liabilities	<u>201,657</u>	<u>-</u>	<u>201,657</u>
Total liabilities	<u>201,657</u>	<u>-</u>	<u>201,657</u>
Net assets:			
Invested in capital assets	564,040	-	564,040
Restricted	1,004,719	-	1,004,719
Unrestricted	<u>5,019,987</u>	<u>187,132</u>	<u>5,207,119</u>
<b>Total net assets</b>	<b><u>\$6,588,746</u></b>	<b><u>\$187,132</u></b>	<b><u>\$6,775,878</u></b>

A summary of the government-wide statement of activities follows:

	Governmental Activities	Business Activities	Total Primary Government
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$399,553	\$719,318	\$1,118,871
Operating grants and contributions	183,832	-	183,832
<b>General revenues:</b>			
Property taxes	775,091	-	775,091
Sales taxes	-	-	-
Franchise taxes	15,064	-	15,064
Other taxes	38,387	-	38,387
Motor Vehicle in lieu – unrestricted	158,205	-	158,205
Use of money and property	73,767	-	73,767
Other	<u>44,474</u>	<u>-</u>	<u>44,474</u>
<b>Total revenues</b>	<b>1,688,373</b>	<b>719,318</b>	<b>2,407,691</b>
<b>Expenses</b>			
General government	785,432	-	785,432
Public Safety	302,936	-	302,936
Planning and development	442,248	-	442,248
Recreation	8,205	-	8,205
Public Works	18,131	-	18,131
Refuse Collection Fund	<u>-</u>	<u>717,534</u>	<u>717,534</u>
<b>Total expenses</b>	<b>1,556,952</b>	<b>717,534</b>	<b>2,274,486</b>
Increase (decrease) in net assets	131,421	1,784	133,205
Beginning net assets (as restated)	<u>6,457,325</u>	<u>185,348</u>	<u>6,642,673</u>
<b>Ending net assets</b>	<b><u>\$6,588,746</u></b>	<b><u>\$187,132</u></b>	<b><u>\$6,775,878</u></b>

## **Governmental Activities**

The City's net assets from governmental activities increased by \$131,421. This increase is a result of a COPS allocation received for \$124,894. The cost of all governmental activities for the year was \$973,567. Overall, the City's governmental program revenues were \$583,385; of the remaining "public benefit" governmental activities, \$775,091 were paid with Property Taxes, Motor Vehicle in lieu Taxes of \$158,205 and Use of money and property of \$73,767.

The City's programs for governmental activities include General Government (Elected Officials; City Administration, City Manager, City Clerk and Finance), Public Safety, Planning and Development, Public Works and Recreation.

## **Business-Type Activities**

The program for the business-type activities include refuse collection operations.

The City's net assets from business-type activities increased by \$1,784. Charges for services are the major revenue source for the City's business type activities, accounting for 100% or \$719,318 of total business-type activity revenue. The cost of Proprietary (Business Type) activities this year was \$717,534.

## **Financial Analysis of the Government's Funds**

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

**Governmental Funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of fiscal year 2009/10, the City's governmental funds reported combined ending fund balances of \$5,434,075 an increase of \$201,929 from the previous year. The increase is primarily attributed to a \$33,794 increase in Property Taxes, a \$14,145 increase in Real Estate Transfer Tax, a decrease of \$44,566 of General Government salaries & employee benefits, a decrease of \$29,538 for JPIA Liability Insurance, and a decrease of \$37,621 in LA County Building Inspection expense in Planning & Development. Approximately 98.60% of ending fund balance (\$5,358,195) constitutes unreserved, undesignated fund balance. The unreserved, undesignated fund balance represents amount available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that it is unavailable or has already been committed to prepaid costs of (\$75,880).

There are three major funds on the balance sheet for governmental funds. The first is the general fund, the primary operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance was \$3,146,014 which represents 97.64% of total fund balance of \$3,331,894. As a measure of the general fund's liquidity, it may be useful to compare unreserved, undesignated and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 2.19 times of total general fund expenditures, while total fund balance represents 2.24 times of that same amount.

The City's general fund balance decreased by \$673,855 during the current fiscal year because of transfers to the COPS fund of \$681,522 and the CLEEP fund of \$53,941.

The other two major funds on the City's governmental funds balance sheet are the Supplemental Law Enforcement Funds of Citizens Option for Public Safety Program (COPS) Fund. This fund provides funding for community based law enforcement programs. The COPS Fund has a total fund balance of

\$779,247, which is \$97,725 higher than last year. The other major fund is the Capital Projects – Utility Fund. This fund provides funds for consultant and construction services for underground utilities projects and other infrastructure improvements. The Capital Projects – Utility Fund has a total fund balance of \$1,033,962, which is \$2,074 lower than the prior year’s balance of \$1,036,036.

**Proprietary Funds.** The City’s proprietary funds provide the same type of information found in the government-wide financial statements but in greater detail.

Ending unrestricted net assets for the Refuse Collection - Enterprise Fund is \$187,132. The total change in net assets for the Refuse Collection - Enterprise Fund was a net asset increase of \$1,784.

Ending unrestricted net assets for the Municipal Self Insurance Fund - Internal Service Fund is \$658,675. The total change in net assets for the Municipal Self Insurance Fund - Internal Service Fund was a net asset decrease of \$40,217.

### **General Fund Budgetary Highlights**

The difference between the original general fund budget and the final amended budget was an increase of \$31,400. Property Taxes were increased by \$74,600 for the Proposition 1A Securitization Program, Interest Income was reduced by \$46,200 due to lower than anticipated interest rates and RHCA Public Works Charges were increased by \$3,000 for reimbursement for Three Rail Fence around City Hall campus area.

Actual to budget revenue variances included positive variances for building permit fees of \$57,680 and miscellaneous revenue \$32,174. Total General Fund revenues were \$79,988 more than budget.

General Fund expenditures were approximately \$160,000 less than budget due to savings in personnel costs of \$17,297, JPIA insurance costs of \$38,089, traffic enforcement costs of \$15,273, public works – storm water costs of \$21,729, and transfers to the Traffic Safety fund of \$51,268. Total General Fund expenditures were \$210,919 less than budget.

### **Capital Asset and Debt Administration**

**Capital Assets.** The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2010 amounts to \$564,040. This investment includes land for the City Hall campus, tennis courts, Poppy Trail land, Hesse’s Gap, Hix Ring and Storm Hill Park.

**Long-term Debt.** The City avoids debt financing and has no long term debt. At the end of the current fiscal year, the City’s compensated absences decrease by \$4,243.

### **GASB 45 Implementation**

In FY 2009/10 the City implemented Government Accounting Standards Board Statement 45 (GASB 45), Accounting & Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions. The statement requires public agencies to report costs and obligations for post-employment healthcare and other post-employment benefits. An actuarial report was produced for the City and it states that the City has a total amortized accrued liability for retiree health insurance over 30 years of \$391,029. Since the City does not have an irrevocable trust for the prefunding of retiree health insurance, the unfunded liability is also \$391,029.

In 2009/10, the accrued liability is comprised of \$18,746 paid to CalPERS and \$26,048 as unfunded accrued liability. The combination of the annual cost and the unfunded liability, totaling \$44,794, is also known as the Annual Required Contribution (ARC). See footnote 10 on pages 38 – 40.

### **Economic Factors and Next Year's Budgets**

The City Council adopted the FY 2010/11 budget on June 14, 2010 and the following factors were considered in preparing the budget:

- A conservative approach to revenue projections in light of anticipated downturn in residential real estate market and associated decline in demand for development activity. The FY 2010-2011 budget is virtually the same as the FY 2010/11 budget. This included a slight decrease in budgeted revenue for property taxes, interest income and development related revenue. The budget also includes \$48,750 in revenue for Exchange of Proposition A transportation funds.
- The FY 2010/11 expenditures are budgeted to be \$41,000 less than the FY 2009/10 budget.
- The City's adopted budget relies on \$133,600 from reserves to balance revenues with expenditures.

### **Contacting the City's Financial Department**

This financial report is designed to provide a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Finance Department at the City of Rolling Hills, 2 Portuguese Bend Road, Rolling Hills, California 90274.

**BASIC  
FINANCIAL  
STATEMENTS**

CITY OF ROLLING HILLS

STATEMENT OF NET ASSETS  
JUNE 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and investments	\$ 5,786,434	\$ 158,578	\$ 5,945,012
Receivables:			
Accounts	353,524	28,554	382,078
Accrued interest	2,252	-	2,252
Prepaid costs	75,880	-	75,880
Restricted assets:			
Cash and investments	8,273	-	8,273
Capital assets not being depreciated	564,040	-	564,040
<b>Total Assets</b>	<b>6,790,403</b>	<b>187,132</b>	<b>6,977,535</b>
<b>Liabilities:</b>			
Accounts payable	103,884	-	103,884
Accrued liabilities	21,456	-	21,456
Deposits payable	8,273	-	8,273
Noncurrent liabilities:			
Due within one year	10,499	-	10,499
Due in more than one year	57,545	-	57,545
<b>Total Liabilities</b>	<b>201,657</b>	<b>-</b>	<b>201,657</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	564,040	-	564,040
Restricted for:			
Public safety	833,337	-	833,337
Public works	112,273	-	112,273
Capital projects	-	-	-
Recreation	59,109	-	59,109
Unrestricted	5,019,987	187,132	5,207,119
<b>Total Net Assets</b>	<b>\$ 6,588,746</b>	<b>\$ 187,132</b>	<b>\$ 6,775,878</b>

CITY OF ROLLING HILLS

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
<b>Functions/Programs</b>				
<b>Primary Government:</b>				
Governmental Activities:				
General government	\$ 785,432	\$ 1,848	\$ -	\$ -
Public safety	302,936	10,221	125,555	-
Planning and development	442,248	387,401	-	-
Recreation	8,205	-	-	-
Public works	18,131	83	58,277	-
<b>Total Governmental Activities</b>	<b>1,556,952</b>	<b>399,553</b>	<b>183,832</b>	<b>-</b>
Business-Type Activities:				
Refuse Collection Fund	717,534	719,318	-	-
<b>Total Business-Type Activities</b>	<b>717,534</b>	<b>719,318</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 2,274,486</b>	<b>\$ 1,118,871</b>	<b>\$ 183,832</b>	<b>\$ -</b>

**General Revenues:**

Taxes:

Property taxes, levied for general purpose

Franchise taxes

Other taxes

Motor vehicle in lieu - unrestricted

Use of money and property

Other

**Total General Revenues, Contributions,  
Special Items and Transfers**

Change in Net Assets

Net Assets at Beginning of Year

**Net Assets at End of Year**

**Net (Expenses) Revenues and Changes in Net  
Assets**

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**Primary Government**

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<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (783,584)	\$ -	\$ (783,584)
(167,160)	-	(167,160)
(54,847)	-	(54,847)
(8,205)	-	(8,205)
40,229	-	40,229
<b>(973,567)</b>	-	<b>(973,567)</b>
-	1,784	1,784
-	<b>1,784</b>	<b>1,784</b>
<b>(973,567)</b>	<b>1,784</b>	<b>(971,783)</b>
775,091	-	775,091
15,064	-	15,064
38,387	-	38,387
158,205	-	158,205
73,767	-	73,767
44,474	-	44,474
<b>1,104,988</b>	-	<b>1,104,988</b>
131,421	1,784	133,205
6,457,325	185,348	6,642,673
<b>\$ 6,588,746</b>	<b>\$ 187,132</b>	<b>\$ 6,775,878</b>

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## **MAJOR GOVERNMENTAL FUNDS**

### **GENERAL FUND**

**The General Fund accounts for all financial resources that are not restricted as to their use. These include property taxes, sales tax, real estate transfer tax, motor vehicle in lieu tax, building permits, subdivision fees, variance, planning and zoning fees, franchise fees, animal control license fees, fines and forfeitures, interest earnings, leasehold Rolling Hills Community Association, and other miscellaneous revenues.**

**The General Fund supports General Government (Elected Officials; City Administration, City Manager, City Clerk and Finance), Planning and Development, Public Safety and Public Works.**

### **COPS FUND**

**The Supplemental Law Enforcement Funds of Citizens Option for Public Safety Program (COPS) provides funding for community based law enforcement programs.**

### **CAPITAL PROJECTS FUND – UTILITY FUND**

**The Capital Projects – Utility Fund provides funds for consultant and construction services for underground utilities projects and other infrastructure improvements. This fund is supported by transfers from the General Fund.**

CITY OF ROLLING HILLS

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>
		<u>COPS</u>	<u>Utility Fund</u>	
<b>Assets:</b>				
Cash and investments	\$ 3,123,936	\$ 781,289	\$ 1,033,962	\$ 398,972
Receivables:				
Accounts	123,644	7,548	-	-
Accrued interest	2,252	-	-	-
Prepaid expenses	75,880	-	-	-
Restricted assets:				
Cash and investments	8,273	-	-	-
<b>Total Assets</b>	<b><u>\$ 3,333,985</u></b>	<b><u>\$ 788,837</u></b>	<b><u>\$ 1,033,962</u></b>	<b><u>\$ 398,972</u></b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 82,362	\$ 9,590	\$ -	\$ -
Accrued liabilities	21,456	-	-	-
Deposits payable	8,273	-	-	-
<b>Total Liabilities</b>	<b><u>112,091</u></b>	<b><u>9,590</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Fund Balances:</b>				
Reserved:				
Reserved for prepaid costs	75,880	-	-	-
Unreserved:				
Unreserved, reported in nonmajor:				
Special revenue funds	-	-	-	225,472
Capital projects funds	-	-	-	173,500
Undesignated	3,146,014	779,247	1,033,962	-
<b>Total Fund Balances</b>	<b><u>3,221,894</u></b>	<b><u>779,247</u></b>	<b><u>1,033,962</u></b>	<b><u>398,972</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 3,333,985</u></b>	<b><u>\$ 788,837</u></b>	<b><u>\$ 1,033,962</u></b>	<b><u>\$ 398,972</u></b>

**CITY OF ROLLING HILLS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	<b>Total Governmental Funds</b>
<b>Assets:</b>	
Cash and investments	\$ 5,338,159
Receivables:	
Accounts	131,192
Accrued interest	2,252
Prepaid expenses	75,880
Restricted assets:	
Cash and investments	8,273
<b>Total Assets</b>	<b>\$ 5,555,756</b>
<b>Liabilities and Fund Balances:</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 91,952
Accrued liabilities	21,456
Deposits payable	8,273
<b>Total Liabilities</b>	<b>121,681</b>
<b>Fund Balances:</b>	
Reserved:	
Reserved for prepaid costs	75,880
Unreserved:	
Unreserved, reported in nonmajor:	
Special revenue funds	225,472
Capital projects funds	173,500
Undesignated	4,959,223
<b>Total Fund Balances</b>	<b>5,434,075</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,555,756</b>

CITY OF ROLLING HILLS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2010

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Fund balances of governmental funds	\$ 5,434,075
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	564,040
Net OPEB Liability and compensated absences that have not been included in the governmental fund activity:	
Net OPEB Liability	(26,048)
Compensated Absences	(41,996)
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.	<u>658,675</u>
<b>Net assets of governmental activities</b>	<b><u>\$ 6,588,746</u></b>

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CITY OF ROLLING HILLS

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010

	General	Special Revenue Fund COPS	Capital Projects Fund Utility Fund	Other Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 828,542	\$ -	\$ -	\$ -
Licenses and permits	356,680	-	-	-
Intergovernmental	158,866	124,894	-	58,277
Charges for services	32,569	-	-	-
Use of money and property	71,186	2,024	-	557
Fines and forfeitures	10,221	-	-	83
Miscellaneous	44,474	-	-	-
<b>Total Revenues</b>	<b>1,502,538</b>	<b>126,918</b>	<b>-</b>	<b>58,917</b>
<b>Expenditures:</b>				
Current:				
General government	725,192	-	-	-
Public safety	266,331	29,193	-	-
Planning and development	442,248	-	-	-
Recreation	-	-	-	8,205
Public works	-	-	2,074	3,814
Capital outlay	3,428	-	-	5,959
<b>Total Expenditures</b>	<b>1,437,199</b>	<b>29,193</b>	<b>2,074</b>	<b>17,978</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	65,339	97,725	(2,074)	40,939
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	681,522	-	57,672
Transfers out	(739,194)	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(739,194)</b>	<b>681,522</b>	<b>-</b>	<b>57,672</b>
Net Change in Fund Balances	(673,855)	779,247	(2,074)	98,611
Fund Balances, Beginning of Year	3,895,749	-	1,036,036	300,361
<b>Fund Balances, End of Year</b>	<b>\$ 3,221,894</b>	<b>\$ 779,247</b>	<b>\$ 1,033,962</b>	<b>\$ 398,972</b>

CITY OF ROLLING HILLS

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES N FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010

	<b>Total Governmental Funds</b>
<b>Revenues:</b>	
Taxes	\$ 828,542
Licenses and permits	356,680
Intergovernmental	342,037
Charges for services	32,569
Use of money and property	73,767
Fines and forfeitures	10,304
Miscellaneous	44,474
	<hr/>
<b>Total Revenues</b>	<b>1,688,373</b>
	<hr/>
<b>Expenditures:</b>	
Current:	
General government	725,192
Public safety	295,524
Planning and development	442,248
Recreation	8,205
Public works	5,888
Capital outlay	9,387
	<hr/>
<b>Total Expenditures</b>	<b>1,486,444</b>
	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	201,929
	<hr/>
<b>Other Financing Sources (Uses):</b>	
Transfers in	739,194
Transfers out	(739,194)
	<hr/>
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>
	<hr/>
Net Change in Fund Balances	201,929
	<hr/>
Fund Balances, Beginning of Year	5,232,146
	<hr/>
<b>Fund Balances, End of Year</b>	<b>\$ 5,434,075</b>
	<hr/> <hr/>

**CITY OF ROLLING HILLS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010**

---

Net change in fund balances - total governmental funds	\$ 201,929
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report all contributions in relation to the Annual Required Contribution (ARC) for OPEB expenditures, however in the Statement of Activities only the ARC is an expense.	(26,048)
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(4,243)
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities.	<u>(40,217)</u>
<b>Change in net assets of governmental activities</b>	<b><u><u>\$ 131,421</u></u></b>

CITY OF ROLLING HILLS

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
YEAR ENDED JUNE 30, 2010**

	<b>Budget Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Budgetary Fund Balance, July 1	\$ 3,895,749	\$ 3,895,749	\$ 3,895,749	\$ -
<b>Resources (Inflows):</b>				
Taxes	744,450	819,050	828,542	9,492
Licenses and permits	299,000	299,000	356,680	57,680
Intergovernmental	148,000	148,000	158,866	10,866
Charges for services	43,450	43,450	32,569	(10,881)
Use of money and property	132,950	86,750	71,186	(15,564)
Fines and forfeitures	14,000	14,000	10,221	(3,779)
Miscellaneous	9,300	12,300	44,474	32,174
<b>Amounts Available for Appropriation</b>	<b>5,286,899</b>	<b>5,318,299</b>	<b>5,398,287</b>	<b>79,988</b>
<b>Charges to Appropriation (Outflow):</b>				
General government				
Personnel	503,000	503,000	485,703	17,297
Maintenance & operation	96,300	96,300	82,929	13,371
Professional services	87,000	87,000	84,660	2,340
Insurance	55,000	55,000	16,911	38,089
Animal Control Services	15,000	15,000	10,228	4,772
City Council, conference & community org.	49,100	49,100	41,222	7,878
Allocation of G&A	(35,500)	(35,500)	(35,520)	20
Other	46,600	46,600	39,059	7,541
Public safety				
Law Enforcement	223,600	244,300	235,606	8,694
Traffic enforcement	38,200	38,200	22,927	15,273
Parking citation	250	250	9	241
Other	6,500	6,500	1,516	4,984
Wildlife Management	5,000	5,000	6,273	(1,273)
Planning and development				
Personnel	165,500	165,500	163,829	1,671
Maintenance & operation	19,400	19,400	17,099	2,301
Planning & development	221,700	221,700	219,049	2,651
Public works	64,000	64,000	42,271	21,729
Building and equipment	3,000	3,000	-	3,000
Capital outlay	12,500	12,500	3,428	9,072
Transfers out	55,000	790,462	739,194	51,268
<b>Total Charges to Appropriations</b>	<b>1,631,150</b>	<b>2,387,312</b>	<b>2,176,393</b>	<b>210,919</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 3,655,749</b>	<b>\$ 2,930,987</b>	<b>\$ 3,221,894</b>	<b>\$ 290,907</b>

CITY OF ROLLING HILLS

BUDGETARY COMPARISON STATEMENT  
 COPS  
 YEAR ENDED JUNE 30, 2010

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ -	\$ -	\$ -	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	-	125,000	124,894	(106)
Use of money and property	9,500	3,150	2,024	(1,126)
Transfers in	-	681,521	681,522	1
<b>Amounts Available for Appropriation</b>	<b>9,500</b>	<b>809,671</b>	<b>808,440</b>	<b>(1,231)</b>
<b>Charges to Appropriation (Outflow):</b>				
Public safety	38,100	38,100	29,193	8,907
<b>Total Charges to Appropriations</b>	<b>38,100</b>	<b>38,100</b>	<b>29,193</b>	<b>8,907</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (28,600)</b>	<b>\$ 771,571</b>	<b>\$ 779,247</b>	<b>\$ 7,676</b>

## **PROPRIETARY FUNDS**

### **BUSINESS –TYPE ACTIVITIES**

#### **ENTERPRISE FUND**

#### **REFUSE COLLECTION FUND**

**The Refuse Collection Fund costs are recovered through user charges. Revenue is derived from fees collected to cover the costs paid to a private refuse collection company for trash pick-up and to cover an administrative allocation. These fees are a lien onto the property owner and are collected through the Los Angeles County Tax Assessor.**

### **GOVERNMENTAL ACTIVITIES**

#### **INTERNAL SERVICE FUND**

#### **MUNICIPAL SELF INSURANCE FUND**

**The Municipal Self Insurance Fund was established to build a reserve to deal with possible emergency situations such as landslides, fires, and floods. The reserve is built from transfers from the General Fund.**

CITY OF ROLLING HILLS

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 JUNE 30, 2010

	<u>Business-Type Activities - Enterprise Fund</u>	<u>Governmental Activities - Internal Service Funds</u>
	<u>Refuse Collection Fund</u>	<u>Municipal Self Insurance Fund</u>
<b>Assets:</b>		
Current:		
Cash and investments	\$ 158,578	\$ 448,275
Receivables:		
Accounts	28,554	222,332
<b>Total Current Assets</b>	<u>187,132</u>	<u>670,607</u>
<b>Total Assets</b>	<u>\$ 187,132</u>	<u>\$ 670,607</u>
<b>Liabilities and Net Assets:</b>		
<b>Liabilities:</b>		
Current:		
Accounts payable	\$ -	\$ 11,932
<b>Total Current Liabilities</b>	<u>-</u>	<u>11,932</u>
<b>Total Liabilities</b>	<u>-</u>	<u>11,932</u>
<b>Net Assets:</b>		
Unrestricted	187,132	658,675
<b>Total Net Assets</b>	<u>187,132</u>	<u>658,675</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 187,132</u>	<u>\$ 670,607</u>

CITY OF ROLLING HILLS

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2010

	<b>Business-Type Activities - Enterprise Fund</b>	<b>Governmental Activities - Internal Service Funds</b>
	<b>Refuse Collection Fund</b>	<b>Municipal Self Insurance Fund</b>
<b>Operating Revenues:</b>		
Sales and service charges	\$ 719,318	\$ -
<b>Total Operating Revenues</b>	<b>719,318</b>	<b>-</b>
<b>Operating Expenses:</b>		
Administration and general	35,520	40,217
Refuse collection	682,014	-
<b>Total Operating Expenses</b>	<b>717,534</b>	<b>40,217</b>
Operating Income (Loss)	1,784	(40,217)
Changes in Net Assets	1,784	(40,217)
<b>Net Assets:</b>		
Beginning of Year	185,348	698,892
<b>End of Fiscal Year</b>	<b>\$ 187,132</b>	<b>\$ 658,675</b>

CITY OF ROLLING HILLS

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 YEAR ENDED JUNE 30, 2010

	<b>Business-Type Activities - Enterprise Fund</b>	<b>Governmental Activities - Internal Service Funds</b>
	<b>Refuse Collection Fund</b>	<b>Municipal Self Insurance Fund</b>
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers and users	\$ 712,420	\$ -
Cash paid to suppliers for goods and services	(682,014)	(30,721)
Cash paid to employees for services	(35,520)	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(5,114)</b>	<b>(30,721)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(5,114)</b>	<b>(30,721)</b>
Cash and Cash Equivalents at Beginning of Year	163,692	478,996
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 158,578</b>	<b>\$ 448,275</b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>		
Operating income (loss)	\$ 1,784	\$ (40,217)
<b>Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:</b>		
(Increase) decrease in accounts receivable	(6,898)	-
Increase (decrease) in accounts payable	-	9,496
<b>Total Adjustments</b>	<b>(6,898)</b>	<b>9,496</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (5,114)</b>	<b>\$ (30,721)</b>
<b>Non-Cash Investing, Capital, and Financing Activities:</b>		
There were no non-cash transactions.		

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**I. SIGNIFICANT ACCOUNTING POLICIES**

**Note 1: Organization and Summary of Significant Accounting Policies**

The basic financial statements of the City of Rolling Hills, California (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

**a. Description of Entity**

The accompanying basic financial statements present the financial activity of the City of Rolling Hills. The City is the level of government primarily accountable for activities relevant to the operations of the City of Rolling Hills, California.

The City of Rolling Hills (the City) was incorporated on January 25, 1957, under the provisions of the State of California. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, sanitation, animal control, culture and recreation, public improvement planning and zoning, and general administrative services.

The Rolling Hills Community Association is not a part of the City's reporting entity because the City exercises no oversight responsibility and has no accountability for fiscal matters of the Rolling Hills Community Association.

**b. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF ROLLING HILLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

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**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**c. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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 provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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 compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

The City reports the following major governmental funds:

- The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- The COPS Fund is utilized to track the revenues and expenditures associated with the COPS Grant program.
- The Utility Fund is utilized to facilitate the expenditures necessary to construct the City's underground utility projects.

The City reports the following major proprietary fund:

- The Refuse Collection Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of

**CITY OF ROLLING HILLS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2010**

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**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Additionally, the City reports the following fund types:

- The Internal service fund accounts for the financing of goods and services provided by one department to other departments on a cost reimbursement basis. The City's internal service fund is for self-insurance.

**d. Assets, Liabilities and Net Assets or Equity**

**Cash and Investments**

All cash and investments, except those that are held by fiscal agents, are held in a City pool. These pooled funds are available upon demand and therefore are considered cash and cash equivalents for purposes of the statement of cash flows. Investments held by fiscal agents with an original maturity of three months or less are also considered cash equivalents and are shown as restricted assets for financial statement presentation purposes.

Investments for the City, as well as for its component units, are reported at fair value. The City's policy is generally to hold investments until maturity.

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

**Prepaid Costs**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The fund balances in the governmental fund types have been reserved for amounts equal to the prepaid items in the fund-level statements, since these amounts are not available for appropriation.

**CITY OF ROLLING HILLS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2010**

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**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

**Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, equipment, and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building improvements	7-50
Improvements other than buildings	20
Computer equipment	5-20
Equipment and vehicles	5-20
Furniture and fixtures	20

**Compensated Absences**

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation, which will be paid to employees in the period taken or upon separation from City's service. All vacation pay is accrued when incurred in the government-wide financial statements. In governmental funds, the cost of vacations is recognized when payments are made to employees.

Accumulated sick leave benefits are not recognized as liabilities of the City. The City's policy is to record sick leave as an operational expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent the City Council's plans for the future usage of City resources.

**CITY OF ROLLING HILLS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2010**

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**Note 1: Organization and Summary of Significant Accounting Policies (Continued)**

**Property Tax**

The City's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately October First of each year.

**II. STEWARDSHIP**

**Note 2: Stewardship, Compliance and Accountability**

**a. General Budget Policies**

The City Council is required to adopt an annual budget resolution by July 1 of each fiscal year. Annual budgets are adopted and presented for reporting purposes on a basis consistent with generally accepted accounting principles.

The City Council reviews a tentative budget and adopts a final budget after a public hearing is conducted to receive comments prior to adoption. The City's governing board satisfied these requirements.

Expenditures may not exceed the total annual budgeted amount in any category without the approval of the City Council. Throughout the fiscal year, monthly financial reports comparing actual figures with budgeted figures are prepared and distributed to the City Manager and members of the City Council. As these reports are reviewed, attention is drawn to variations between budgeted amounts and actual amounts and if necessary the City Council considers the need for increases in expenditure categories. The original adopted budgets are revised by the City Council during the year to give consideration to these modified expenditure categories and to unanticipated income. It is this final revised budget including all revisions and amendments approved by the City Council subsequent to the initial budget adoption that is presented in the financial statements.

The level of appropriated budgetary control is the total adopted budget which is defined as the total budget for all funds and divisions. The City Manager may authorize transfers of appropriations within the sub-categories of the major expenditure categories of the adopted budget. Supplemental appropriations during the year must be approved by the City Council.

**CITY OF ROLLING HILLS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2010**

**Note 2: Stewardship, Compliance and Accountability (Continued)**

Unexpended or unencumbered appropriations lapse at the end of the fiscal year. Encumbered appropriations are reappropriated in the subsequent year's budget by action of the City Council.

**b. Fund Balance Deficits**

There were no funds that had fund balance deficits at June 30, 2010.

**c. Excess of Expenditures over Appropriations were as follows:**

Fund	Expenditures	Appropriations	Excess
General Fund:			
Public safety			
Wildlife Management	\$ 6,273	\$ 5,000	\$ 1,273

**III. DETAILED NOTES ON ALL FUNDS**

**Note 3: Cash and Investments**

As of June 30, 2010, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	\$ 5,794,707
Business-type activities	<u>158,578</u>
Total Cash and Investments	<u>\$ 5,953,285</u>

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under provisions of bond indentures. Interest income earned on pooled cash and investments is allocated annually to the various funds based on average daily cash balances. Interest Income from cash and investments with fiscal agents is credited directly to the related fund.

**Deposits**

At June 30, 2010, the carrying amount of the City's deposits was \$54,032 and the bank balance was \$106,544. The \$52,512 difference represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of a City's

**CITY OF ROLLING HILLS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2010**

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

total deposits. The City Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository.

These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

**Investments**

Under provision of the City's investment policy, and in accordance with the California Government Code, the following investments are authorized:

- U.S. Treasury Bonds, Notes and Bills
- Money Market Savings Accounts
- Local Agency Investment Fund (State Pool)
- Deposit of Funds

**Investments Authorized by Debt Agreements**

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy.

**Investments in State Investment Pool**

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

**GASB Statement No. 31**

The City adopted GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

**CITY OF ROLLING HILLS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2010**

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

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The City mitigates its credit risk generally by following its three primary investment objectives, in order, of safety, liquidity and yield. The California Government Code generally limits allowable investments to those classes of investments with lower risk (and therefore lower yields). The City's investment policy further restricts these investments to the highest quality within a category and excludes certain otherwise allowable investments as not meeting the City's liquidity requirement. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization.

All securities were investment grade and were legal under state and City law. Investments in U.S. government securities are not considered to have credit risk and, therefore, their credit quality is not disclosed. As of June 30, 2010, the City's investments in external investment pools and money market mutual funds are unrated.

**Custodial Credit Risk**

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2010, none of the City's deposits or investments were exposed to custodial credit risk.

**Concentration of Credit Risk**

The City is in compliance with restrictions imposed by its investment policy, which limits certain types of investments. As of June 30, 2010, in accordance with GASB Statement No. 40, if the City has invested more than 5% of its total investments in any one issuer then it is exposed to credit risk. The Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this.

As of June 30, 2010, none of the City's deposits or investment were exposed to concentration of credit risk.

**Interest Rate Risk**

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's investment policy establishes a maximum maturity of three years for all individual investments.

**CITY OF ROLLING HILLS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2010**

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

As of June 30, 2010, the City had the following investments and original maturities:

	Investment Maturities (in Years)				Fair Value
	180 days or less	180 days to 270 days	270 days to 3 years	3 - 5 years	
Investments					
Local Agency Investment Fund	\$ 1,208,312	\$ -	\$ -	\$ -	\$ 1,208,312
Money Market Mutual Funds	72,518	-	-	-	72,518
US Treasury Bills	4,618,423	-	-	-	4,618,423
	<u>\$ 5,899,253</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,899,253</u>

**Note 4: Receivables**

Receivables at June 30, 2010, for the City's individual major funds, and non-major and internal service funds in the aggregate, including applicable allowances for uncollectible accounts, are detailed below.

All receivables are expected to be collected within one year, except for delinquent property taxes.

Accounts Receivable	General Fund	COPS	Non-major Governmental Funds	Refuse Collection Fund	Internal Service Fund	Total
Accounts	\$ 56,710	\$ 7,548	\$ -	\$ -	\$ -	\$ 64,258
Property Taxes	60,596	-	-	-	-	60,596
Taxes assessed for rubbish collection	-	-	-	28,554	-	28,554
Interest	2,252	-	-	-	-	2,252
Poppy trail lien	-	-	-	-	222,332	222,332
Rolling Hills Community Association	6,338	-	-	-	-	6,338
Total Receivables	<u>\$ 125,896</u>	<u>\$ 7,548</u>	<u>\$ -</u>	<u>\$ 28,554</u>	<u>\$ 222,332</u>	<u>\$ 384,330</u>

**Note 5: Interfund Transfers**

Individual fund operating transfers for the fiscal year ended June 30, 2010, are as follows:

Funds	Transfers Out
	General Fund
<b>Transfers In:</b>	
COPS Fund	\$ 681,522
Non-major Funds	57,672
Total	<u>\$ 739,194</u>

**CITY OF ROLLING HILLS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010**

**Note 5: Interfund Transfers (Continued)**

The General Fund transferred \$3,731 to non-major funds to cover expenditures for the current year, \$681,521 to separate COPS Funds into a separate special revenue fund, and \$53,941 to separate Cleep Funds into a separate special revenue fund.

**Note 6: Capital Assets**

Capital asset activity for the year ended June 30, 2010, was as follows:

	<u>Balance July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2010</u>
<b><u>Governmental Activities:</u></b>				
Capital assets, not being depreciated:				
Land	\$ 564,040	\$ -	\$ -	\$ 564,040
Total Capital Assets, Not Being Depreciated	564,040	-	-	564,040
Capital assets, being depreciated:				
Land Improvements	176,139	-	-	176,139
Total Capital Assets, Being Depreciated	176,139	-	-	176,139
Less accumulated depreciation:				
Land Improvements	176,139	-	-	176,139
Total Accumulated Depreciation	176,139	-	-	176,139
Total capital assets being depreciated, net	-	-	-	-
Governmental Activities Capital Assets, net	<u>\$ 564,040</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 564,040</u>

During the year ended June 30, 2010, all capital assets with the exception of land were fully depreciated so no depreciation was recorded or allocated.

**Note 7: Long-Term Debt**

The following is a summary of changes in long-term liabilities of the City for the fiscal year ended June 30, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 37,753	\$ 9,596	\$ 5,353	\$ 41,996	\$ 10,499
Net OPEB Liability	-	26,048	-	26,048	-
Total	<u>\$ 37,753</u>	<u>\$ 35,644</u>	<u>\$ 5,353</u>	<u>\$ 68,044</u>	<u>\$ 10,499</u>

CITY OF ROLLING HILLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

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**Note 8: Liability, Insured Programs and Worker' Compensation Protection**

**a. Description of Self-Insured Pool Pursuant to Joint Powers Agreement**

City of Rolling Hills is a member of the CALIFORNIA JOINT POWERS INSURANCE AUTHORITY (Authority). The Authority is composed of 122 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other coverage. The Authority's pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a 9-member Executive Committee.

**b. Self-Insurance Programs of the Authority**

General Liability: Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between police and non-police. Costs are allocated to members by the following methods within each of the four layers of coverage: (1) the first \$30,000 of each occurrence is charged directly to the member's primary deposit; (2.) costs from \$30,000 to \$750,000 and the loss development reserves associated with losses up to \$750,000 are pooled based on the member's share of losses under \$30,000; (3) losses from \$750,000 to \$5,000,000 and the associated loss development reserves are pooled based on payroll; (4a) costs of covered claims from \$5,000,000 to \$10,000,000 are paid under reinsurance policies and are subject to a \$2,500,000 annual aggregate deductible; (4b) costs of covered claims from \$10,000,000 to \$50,000,000 are covered through excess insurance policies; (4c) Costs of covered claims for subsidence losses are paid by excess insurance with a sub-limit of \$25,000,000 per occurrence per member. This \$25,000,000 subsidence sub-limit is composed of \$10,000,000 in reinsurance and \$15,000,000 in excess insurance. The excess insurance layer has a \$15,000,000 annual aggregate. The costs associated with 4a, 4b, and 4c are estimated using actuarial models and pre-funded as part of the primary and retrospective deposits.

The overall policy limit for each member including all layers of coverage is \$50,000,000 per occurrence.

Workers' Compensation: City of Rolling Hills also participates in the workers' compensation pool administered by the Authority. Each member pays a primary deposit to cover estimated losses for a fiscal year (claims year). After the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between public safety and non-public safety. Costs are allocated to members by the following methods within each of the four layers of coverage: (1) the first \$50,000 of each loss is charged directly to the member's primary deposit; (2) losses from \$50,000 to \$100,000 and the loss development reserve associated with losses up to \$100,000 are pooled based on the member's share of losses under \$50,000; (3) losses from \$100,000 to \$2,000,000 and the loss development reserves associated with those losses are pooled based on payroll; (4) losses from \$2,000,000 up to statutory limits are paid under an excess insurance policy. Protection is provided per statutory liability under California Workers' Compensation law.

CITY OF ROLLING HILLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010

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**Note 8: Liability, Insured Programs and Worker' Compensation Protection (Continued)**

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

**c. Purchased Insurance**

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

Property Insurance: City of Rolling Hills participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. City of Rolling Hills property is currently insured according to a schedule of covered property submitted by City of Rolling Hills to the Authority. The City of Rolling Hills currently has all risk property insurance protection in the amount of \$856,373. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

Crime Insurance: City of Rolling Hills purchases crime insurance coverage in the amount of \$100,000 with a \$2,500 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retroactive adjustments.

**d. Adequacy of Protection**

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

**Note 9: Pension Plan Obligations**

Plan Description

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

CITY OF ROLLING HILLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2010

**Note 9: Pension Plan Obligations (Continued)**

Funding Policy

Participants are required to contribute 7% of their annual covered salary. The City makes the contributions required of employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate as a percentage of annual covered payroll is 10.352%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost (APC) and Net Pension Obligation

For the year ended June 30, 2010, the City's annual pension cost of \$53,150 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method.

A summary of principle assumptions and methods used to determine the APC is shown below:

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	5 years as of the Valuation Date
Asset Valuation Method	15-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on age, service and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the Plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the Plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligations
6/30/2008	\$ 45,962	100%	\$ -
6/30/2009	36,752	100%	-
6/30/2010	53,150	100%	-

**CITY OF ROLLING HILLS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2010**

**Note 10: Other Post-Retirement Health Care Benefits**

**Plan Description**

The City provides retiree medical benefits through a single-employer defined benefit healthcare plan which provides medical insurance benefits to eligible retirees. A separate financial report is not available for the plan.

**Eligibility**

Employees are eligible for retiree health benefits if they retire from the City on or after age 60 after 5 years of service and are eligible for a PERS pension. The benefits are available only to employees who retire from the City and have at least 5 years of service. Membership of the plan consisted of 4 eligible active employees and 4 enrolled eligible retirees at June 30, 2010. These amounts do not reflect current retirees not enrolled in the CalPERS health plan who are eligible to enroll in the plan at a later date.

**Funding Policy**

The contribution requirements of plan members and the City are established and may be amended by the City Council. The City must agree to make a defined monthly payment towards the cost of each retiree's coverage. The actual contribution is based on projected pay-as-you-go financing requirements.

*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 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 excess) not to exceed thirty years.

As of June 30, 2010, the most recent actuarial valuation date, the City did not use a trust fund to administer the financing and payment of benefits for its OPEB. Instead the City paid \$18,746 in benefits on a pay-as-you-go basis during the fiscal year. 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:

	<u>June 30, 2010</u>
Annual required contribution (ARC)	\$ 44,794
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	44,794
Contributions made	<u>(18,746)</u>
(Decrease) increase in Net OPEB obligation	26,048
Net OPEB obligation (asset) June 30, 2009	-
Net OPEB obligation (asset) June 30, 2010	<u>\$ 26,048</u>

CITY OF ROLLING HILLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010

**Note 10: Other Post-Retirement Health Care Benefits (Continued)**

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended June 30, 2010, the first in which GASB Statement 45 is required to be implemented, were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	44,794	18,746	42%	26,048

**Funding Status and Progress**

As of June 30, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$391,029, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$391,029 and a funded ratio (actuarial value of assets as a percentage of the actuarial accrued liability) of 0 percent. The annual covered payroll was \$430,211 and UAAL as a % of covered payroll was 90.89%.

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

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Entry Age Actuarial Accrued Liability (a)</u>	<u>Actuarial Asset Value (b)</u>	<u>Unfunded AAL (UAAL) [(a) - (b)]</u>	<u>Funded Ratio [(a)/(b)]</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll [(b)- (a)/(c)]</u>
07/01/09	\$ 391,029	\$ -	\$ 391,029	0%	\$ 430,211	-90.89%

**Actuarial Methods and Assumptions**

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

The actuarial cost method used for determining the benefit obligations is the entry age normal cost method. The actuarial assumptions included a 5.0% investment rate of return, which is based on assumed long-term investment returns on plan assets and on the City's assets, as

CITY OF ROLLING HILLS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2010

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**Note 10: Other Post-Retirement Health Care Benefits (Continued)**

appropriate, and an annual healthcare cost trend rate of 7.0% graded down by 1.0% per year with an ultimate rate of 5.0%. The UAAL is being amortized as a level percentage of projected payroll over 30 years, on a closed amortization period.

**Note 11: Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Pursuant to the IRC 457 subsection (g); all amounts of compensation deferred under the deferred compensation plan, all property, or rights are solely the property and rights of the employee and beneficiaries of the plan. Deferred compensation funds are not subject to the claims of the City's general creditors; consequently, the assets and related liabilities of the plan are not included within the City's financial statements. The ending investment balance of the plan as of June 30, 2010, was \$487,106.

**Note 12: Commitments and Contingencies**

Litigation

Several lawsuits and claims were pending against the City at June 30, 2010. In the opinion of the California Joint Powers Insurance Authority, there are no known claims which would exceed the City's applicable coverage. The City's management does not anticipate any material adverse effects on the financial position of the City from the disposition of these lawsuits and claims.

Grants

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies. While no matters of non-compliance were disclosed by prior year's audits of the financial statements or by a prior year single audit of a Federal grant program; grantor agencies may subject grant programs to additional compliance tests, which may result in disallowed costs. In the opinion of management, future disallowances of current or prior grant expenditures, if any, would not have a material adverse effect on the financial position of the City.

**Note 13: Transactions with the State of California**

**a. Proposition 1A Borrowing by the State of California**

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 State of California borrowed 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 amount of this borrowing pertaining to the City of Rolling Hills was \$74,535.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State

**CITY OF ROLLING HILLS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**JUNE 30, 2010**

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**Note 13: Transactions with the State of California (Continued)**

Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

ADDITIONAL  
FINANCIAL  
INFORMATION

## **SPECIAL REVENUE FUNDS**

**The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.**

### **COMMUNITY FACILITIES FUND**

**The Community Facilities Fund accounts for revenues derived from fees collected by Los Angeles County for a Parks and Recreation Fund Fee when residents pay for Building Permits.**

### **TRANSIT FUND**

**The Transit Fund is made up of Proposition A & C revenue which is derived from the ½% Sales Tax collected by Los Angeles County and returned to the City under Local Return Guidelines. The Proposition A & C monies must be used for transit related expense within three years of receipt. Proposition C differs from Proposition A in that Proposition C funds may be used for actual roadway improvements on heavy carrier routes where Proposition A funds are limited to transit related programs such as Dial-a-Ride.**

### **TRAFFIC SAFETY FUND**

**The Traffic Safety Fund accounts for revenues from fines and forfeitures collected by Torrance and Los Angeles Superior Courts for violations within the City of Rolling Hills. The expenditures are specifically related to traffic safety such as road striping, road signs and traffic engineering. At the end of the fiscal year the fund balance is zeroed out by a transfer to/from the General Fund.**

### **MEASURE R FUND**

**The Measure R Fund accounts for revenues derived from the ½% Sales Tax collected by Los Angeles County and returned to the City under Local Return Guidelines. The Measure R monies must be used for transit related expense within five years of receipt.**

### **CLEEP FUND**

**The California Law Enforcement Equipment Program (CLEEP) provides funding to improve County-wide law enforcement equipment.**

## **NONMAJOR GOVERNMENTAL FUNDS**

### **CAPITAL PROJECTS FUND**

**The Capital Projects Fund is funded by transfers from the General Fund. The expenditures are for specific projects such as City Hall Remodel, Building Improvements, Re-Landscaping, Office Technology Equipment etc.**

CITY OF ROLLING HILLS

COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2010

	<u>Special Revenue Funds</u>			
	<u>Community Facilities Fund</u>	<u>Transit Fund</u>	<u>Traffic Safety Fund</u>	<u>Measure R</u>
<b>Assets:</b>				
Cash and investments	\$ 59,109	\$ 99,769	\$ -	\$ 12,504
<b>Total Assets</b>	<b>\$ 59,109</b>	<b>\$ 99,769</b>	<b>\$ -</b>	<b>\$ 12,504</b>
<b>Fund Balances:</b>				
Undesignated	59,109	99,769	-	12,504
<b>Total Fund Balances</b>	<b>59,109</b>	<b>99,769</b>	<b>-</b>	<b>12,504</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 59,109</b>	<b>\$ 99,769</b>	<b>\$ -</b>	<b>\$ 12,504</b>

CITY OF ROLLING HILLS

COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2010

	<u>Special Revenue Funds</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
	<u>CLEEP</u>	<u>Capital Projects Fund</u>	
<b>Assets:</b>			
Cash and investments	\$ 54,090	\$ 173,500	\$ 398,972
<b>Total Assets</b>	<b>\$ 54,090</b>	<b>\$ 173,500</b>	<b>\$ 398,972</b>
<b>Fund Balances:</b>			
Undesignated	54,090	173,500	398,972
<b>Total Fund Balances</b>	<b>54,090</b>	<b>173,500</b>	<b>398,972</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 54,090</b>	<b>\$ 173,500</b>	<b>\$ 398,972</b>

CITY OF ROLLING HILLS

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010

	<b>Special Revenue Funds</b>			
	<b>Community Facilities Fund</b>	<b>Transit Fund</b>	<b>Traffic Safety Fund</b>	<b>Measure R</b>
<b>Revenues:</b>				
Intergovernmental	\$ -	\$ 45,786	\$ -	\$ 12,491
Use of money and property	179	216	-	13
Fines and forfeitures	-	-	83	-
<b>Total Revenues</b>	<b>179</b>	<b>46,002</b>	<b>83</b>	<b>12,504</b>
<b>Expenditures:</b>				
Current:				
Recreation	8,205	-	-	-
Public works	-	-	3,814	-
Capital outlay	-	-	-	-
<b>Total Expenditures</b>	<b>8,205</b>	<b>-</b>	<b>3,814</b>	<b>-</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,026)	46,002	(3,731)	12,504
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	3,731	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>3,731</b>	<b>-</b>
Net Change in Fund Balances	(8,026)	46,002	-	12,504
Fund Balances, Beginning of Year	67,135	53,767	-	-
<b>Fund Balances, End of Year</b>	<b>\$ 59,109</b>	<b>\$ 99,769</b>	<b>\$ -</b>	<b>\$ 12,504</b>

CITY OF ROLLING HILLS

COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010

	Special Revenue Funds	Capital Projects Fund	Total Governmental Funds
	CLEEP	Capital Projects Fund	
<b>Revenues:</b>			
Intergovernmental	\$ -	\$ -	\$ 58,277
Use of money and property	149	-	557
Fines and forfeitures	-	-	83
<b>Total Revenues</b>	<b>149</b>	<b>-</b>	<b>58,917</b>
<b>Expenditures:</b>			
Current:			
Recreation	-	-	8,205
Public works	-	-	3,814
Capital outlay	-	5,959	5,959
<b>Total Expenditures</b>	<b>-</b>	<b>5,959</b>	<b>17,978</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	149	(5,959)	40,939
<b>Other Financing Sources (Uses):</b>			
Transfers in	53,941	-	57,672
<b>Total Other Financing Sources (Uses)</b>	<b>53,941</b>	<b>-</b>	<b>57,672</b>
Net Change in Fund Balances	54,090	(5,959)	98,611
Fund Balances, Beginning of Year	-	179,459	300,361
<b>Fund Balances, End of Year</b>	<b>\$ 54,090</b>	<b>\$ 173,500</b>	<b>\$ 398,972</b>

CITY OF ROLLING HILLS

BUDGETARY COMPARISON SCHEDULE  
 COMMUNITY FACILITIES FUND  
 YEAR ENDED JUNE 30, 2010

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 67,135	\$ 67,135	\$ 67,135	\$ -
<b>Resources (Inflows):</b>				
Charges for services	5,000	5,000	-	(5,000)
Use of money and property	750	250	179	(71)
<b>Amounts Available for Appropriation</b>	<b>72,885</b>	<b>72,385</b>	<b>67,314</b>	<b>(5,071)</b>
<b>Charges to Appropriation (Outflow):</b>				
Parks and recreation	13,500	13,500	8,205	5,295
<b>Total Charges to Appropriations</b>	<b>13,500</b>	<b>13,500</b>	<b>8,205</b>	<b>5,295</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 59,385</b>	<b>\$ 58,885</b>	<b>\$ 59,109</b>	<b>\$ 224</b>

CITY OF ROLLING HILLS

BUDGETARY COMPARISON SCHEDULE  
 TRANSIT FUND  
 YEAR ENDED JUNE 30, 2010

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 53,767	\$ 53,767	\$ 53,767	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	50,850	50,850	45,786	(5,064)
Use of money and property	1,700	550	216	(334)
<b>Amounts Available for Appropriation</b>	<b>106,317</b>	<b>105,167</b>	<b>99,769</b>	<b>(5,398)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 106,317</b>	<b>\$ 105,167</b>	<b>\$ 99,769</b>	<b>\$ (5,398)</b>

CITY OF ROLLING HILLS

BUDGETARY COMPARISON SCHEDULE  
 TRAFFIC SAFETY FUND  
 YEAR ENDED JUNE 30, 2010

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ -	\$ -	\$ -	\$ -
<b>Resources (Inflows):</b>				
Fines and forfeitures	1,000	1,000	83	(917)
Transfers in	55,000	55,000	3,731	(51,269)
<b>Amounts Available for Appropriation</b>	<b>56,000</b>	<b>56,000</b>	<b>3,814</b>	<b>(52,186)</b>
<b>Charges to Appropriation (Outflow):</b>				
Public works	56,000	56,000	3,814	52,186
<b>Total Charges to Appropriations</b>	<b>56,000</b>	<b>56,000</b>	<b>3,814</b>	<b>52,186</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

CITY OF ROLLING HILLS

**BUDGETARY COMPARISON SCHEDULE  
MEASURE R  
YEAR ENDED JUNE 30, 2010**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ -	\$ -	\$ -	\$ -
<b>Resources (Inflows):</b>				
Intergovernmental	10,130	10,130	12,491	2,361
Use of money and property	250	100	13	(87)
<b>Amounts Available for Appropriation</b>	<b>10,380</b>	<b>10,230</b>	<b>12,504</b>	<b>2,274</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 10,380</b>	<b>\$ 10,230</b>	<b>\$ 12,504</b>	<b>\$ 2,274</b>

CITY OF ROLLING HILLS

BUDGETARY COMPARISON SCHEDULE  
 CLEEP  
 YEAR ENDED JUNE 30, 2010

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ -	\$ -	\$ -	\$ -
<b>Resources (Inflows):</b>				
Use of money and property	500	150	149	(1)
Transfers in	-	53,941	53,941	-
<b>Amounts Available for Appropriation</b>	<b>500</b>	<b>54,091</b>	<b>54,090</b>	<b>(1)</b>
<b>Charges to Appropriation (Outflow):</b>				
Public safety	4,250	4,250	-	4,250
<b>Total Charges to Appropriations</b>	<b>4,250</b>	<b>4,250</b>	<b>-</b>	<b>4,250</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ (3,750)</b>	<b>\$ 49,841</b>	<b>\$ 54,090</b>	<b>\$ 4,249</b>

CITY OF ROLLING HILLS

BUDGETARY COMPARISON SCHEDULE  
 UTILITY FUND  
 YEAR ENDED JUNE 30, 2010

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,036,036	\$ 1,036,036	\$ 1,036,036	\$ -
<b>Resources (Inflows):</b>				
<b>Amounts Available for Appropriation</b>	<b>1,036,036</b>	<b>1,036,036</b>	<b>1,036,036</b>	<b>-</b>
<b>Charges to Appropriation (Outflow):</b>				
Public works	250,000	250,000	2,074	247,926
<b>Total Charges to Appropriations</b>	<b>250,000</b>	<b>250,000</b>	<b>2,074</b>	<b>247,926</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 786,036</b>	<b>\$ 786,036</b>	<b>\$ 1,033,962</b>	<b>\$ 247,926</b>

CITY OF ROLLING HILLS

BUDGETARY COMPARISON SCHEDULE  
 CAPITAL PROJECTS FUND  
 YEAR ENDED JUNE 30, 2010

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 179,459	\$ 179,459	\$ 179,459	\$ -
<b>Resources (Inflows):</b>				
<b>Amounts Available for Appropriation</b>	<b>179,459</b>	<b>179,459</b>	<b>179,459</b>	<b>-</b>
<b>Charges to Appropriation (Outflow):</b>				
Capital outlay	8,000	8,000	5,959	2,041
<b>Total Charges to Appropriations</b>	<b>8,000</b>	<b>8,000</b>	<b>5,959</b>	<b>2,041</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 171,459</b>	<b>\$ 171,459</b>	<b>\$ 173,500</b>	<b>\$ 2,041</b>